CONSUMER REPORTS, INC.

Consolidated Financial Statements

May 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

KPMG LLP
345 Park Avenue
New York, NY 10154-0102

Independent Auditors' Report

The Board of Directors
Consumer Reports, Inc.:

We have audited the accompanying consolidated financial statements of Consumer Reports, Inc., which comprise the consolidated balance sheets as of May 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Consumer Reports, Inc. as of May 31, 2019 and 2018, and the changes in their net assets and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG LLP

September 30, 2019

CONSUMER REPORTS, INC.

Consolidated Balance Sheets

May 31, 2019 and 2018

(Amounts in thousands)

Assets		**2019**	**2018**
Current assets:			
Cash and cash equivalents	$	16,173	10,350
Investments (note 6)		288,167	302,696
Trade receivables, net		6,665	6,894
Inventories (note 4)		1,890	1,678
Auto test inventory		2,001	1,924
Grants and other receivables		460	480
Prepaid expenses and other current assets (note 2)		7,762	9,812
Receivable from insurance recovery (note 8)		—	16,375
Total current assets		323,118	350,209
Property, equipment and software, net (note 5)		62,458	64,340
Other assets (notes 2 and 9)		2,154	2,491
Grants receivable – long term (note 3)		50	150
Total assets	$	387,780	417,190
Liabilities and Net Assets			
Current liabilities:			
Accounts payable and accrued liabilities	$	15,144	17,158
Accrued compensation		8,177	9,383
Deferred revenue (note 2)		98,177	100,675
Current portion of long-term debt (note 9)		1,500	1,450
Claim settlement liability (note 8)		—	16,375
Total current liabilities		122,998	145,041
Deferred revenue – long term (note 2)		17,943	23,334
Liability under derivative instrument (note 11)		5,029	4,116
Long-term debt (note 9)		35,374	36,855
Pension obligations (note 7)		24,886	24,927
Other liabilities (note 12)		13,601	14,468
Total liabilities		219,831	248,741
Net assets:			
Without donor restrictions		159,797	164,854
With donor restrictions (note 3)		8,152	3,595
Total net assets		167,949	168,449
Total liabilities and net assets	$	387,780	417,190

See accompanying notes to consolidated financial statements.

CONSUMER REPORTS, INC.

Consolidated Statements of Activities

Years ended May 31, 2019 and 2018

(Amounts in thousands)

		2019	2018
Change in net assets without donor restrictions:			
Operating:			
Revenue and support:			
Subscriptions, newsstand, and other sales (note 2)	$	211,302	206,553
Contributions		27,244	28,038
Net assets released from restrictions		3,183	4,377
Total revenue and support		241,729	238,968
Operating expenses:			
Publication, promotion, and marketing expenses:			
Content development		85,577	87,229
Production and distribution		46,326	43,730
Promotion and marketing		63,163	68,378
		195,066	199,337
Consumer advocacy and education		15,407	16,187
General and administrative (notes 5, 9 and 13)		22,984	25,624
Fundraising		11,748	11,625
Total operating and other expenses		245,205	252,773
Total operating loss		(3,476)	(13,805)
Nonoperating:			
Investment return, net (note 6)		1,554	23,371
Unrealized (loss) gain on interest rate swap (note 11)		(913)	1,707
Change in value of split-interest agreements (note 12)		77	(410)
Pension-related changes other than net periodic pension cost (note 7)		(2,299)	4,317
Total nonoperating (loss) gain		(1,581)	28,985
(Decrease) increase in net assets without donor restrictions		(5,057)	15,180
Change in net assets with donor restrictions:			
Grants received (note 3)		7,582	511
Net assets released from restrictions		(3,183)	(4,377)
Contribution revenue – other		102	100
Change in value of split-interest agreements (note 3)		56	(20)
Increase (decrease) in net assets with donor restrictions		4,557	(3,786)
(Decrease) increase in net assets		(500)	11,394
Net assets at beginning of year		168,449	157,055
Net assets at end of year	$	167,949	168,449

See accompanying notes to consolidated financial statements.

CONSUMER REPORTS, INC.

Consolidated Statements of Functional Expenses

Years ended May 31, 2019 and 2018

(Amounts in thousands)

	2019					2018				
	Publication, promotion, and marketing	Consumer advocacy and education	General and administrative	Fundraising	Total	Publication, promotion, and marketing	Consumer advocacy and education	General and administrative	Fundraising	Total
Salaries, employee benefits, and payroll taxes	$ 71,112	9,226	12,644	2,963	95,945	73,061	9,800	14,128	3,176	100,165
Printing and publications	24,619	8	20	2,879	27,526	25,418	57	25	2,753	28,253
Postage and shipping	28,628	23	5	4,719	33,375	29,073	31	33	4,357	33,494
Sales and marketing	31,423	646	27	598	32,694	30,541	508	34	623	31,706
Product testing	3,586	—	—	—	3,586	4,076	—	—	—	4,076
Professional fees	8,572	1,180	2,737	275	12,764	11,699	1,254	2,905	349	16,207
IT Hosting and Maintenance	4,703	298	947	19	5,967	5,646	411	874	22	6,953
Insurance	—	—	994	—	994	—	—	893	—	893
Fees, licenses, and permits	2,815	19	64	2	2,900	2,067	10	39	3	2,119
Occupancy	2,083	974	274	19	3,350	2,004	982	261	20	3,267
Grants and awards	—	161	—	—	161	—	220	—	—	220
Supplies	734	27	87	7	855	502	40	422	6	970
Telephone	508	39	79	4	630	487	45	80	5	617
Travel	837	358	192	66	1,453	872	496	192	85	1,645
Meetings and conferences	163	45	121	5	334	211	65	175	14	465
Dues and subscriptions	352	619	28	3	1,002	434	736	51	3	1,224
Interest (note 9)	—	—	1,358	—	1,358	—	—	1,391	—	1,391
Depreciation and amortization (note 5)	14,109	361	583	42	15,095	12,070	273	634	50	13,027
Sales tax	77	—	—	—	77	81	—	—	—	81
Severance (note 13)	—	—	1,962	—	1,962	—	—	2,745	—	2,745
Other expenses	745	1,423	862	147	3,177	1,095	1,259	742	159	3,255
Total	$ 195,066	15,407	22,984	11,748	245,205	199,337	16,187	25,624	11,625	252,773

See accompanying notes to consolidated financial statements.

CONSUMER REPORTS, INC.

Consolidated Statements of Cash Flows

Years ended May 31, 2019 and 2018

(Amounts in thousands)

		2019	2018
Cash flows from operating activities:			
Change in net assets	$	(500)	11,394
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:			
Depreciation and amortization		15,095	13,027
Amortization of bond issuance costs		19	19
Pension-related changes other than net periodic pension cost		2,299	(4,317)
Net unrealized loss (gain) on investments		6,495	(10,374)
Net realized gain on investments		(6,931)	(12,355)
Unrealized loss (gain) on interest rate swap		913	(1,707)
Change in value of split-interest agreements		(56)	20
Change in allowance for doubtful accounts		(781)	952
Pension expense		2,884	4,165
Loss on disposal of property and equipment		217	78
Other noncash items		131	(124)
Actuarial change in charitable gift annuity obligations		(77)	410
Pension contributions		(5,224)	(3,870)
Other changes in assets and liabilities:			
Trade receivable		1,010	(1,721)
Inventories and auto test inventory		(289)	(134)
Grants and other receivables		120	2,566
Prepaid expenses and other current assets		2,050	(2,338)
Other noncurrent assets		265	39
Receivable from insurance recovery		16,375	(16,375)
Claim settlement liability		(16,375)	16,375
Accounts payable and accrued liabilities		(1,897)	2,581
Accrued compensation		(1,206)	(837)
Deferred revenue		(7,889)	(5,374)
Other liabilities		(910)	69
Net cash provided by (used in) operating activities		5,738	(7,831)
Cash flows from capital investments and other investing activities:			
Purchases of property and equipment		(2,716)	(1,764)
Payments for computer software and development		(10,714)	(14,194)
Purchase of investments		(2,649)	(4,124)
Proceeds from sales of investments		17,614	29,220
Net cash provided by capital investments and other investing activities		1,535	9,138
Cash flows from financing activities:			
Repayment of long-term debt		(1,450)	(1,400)
Net cash used in financing activities		(1,450)	(1,400)
Net increase (decrease) in cash and cash equivalents		5,823	(93)
Cash and cash equivalents at beginning of year		10,350	10,443
Cash and cash equivalents at end of year	$	16,173	10,350
Supplemental data:			
Cash paid for interest	$	1,340	1,372
Cash paid for taxes		846	687
Donated securities		307	78

See accompanying notes to consolidated financial statements.

(1) Organization and Presentation of Financial Statements

(a) Organization

Consumer Reports, Inc. (CR or the Organization) is the publisher of *Consumer Reports* and ConsumerReports.org, as well as other periodicals, publications, and consumer services. CR is a not-for-profit organization under Section 501(c)(3) of the Internal Revenue Code (the Code).

The Organization follows the standards of accounting and financial reporting for not-for-profit organizations as prescribed by the American Institute of Certified Public Accountants. The following significant accounting policies are in accordance with U.S. generally accepted accounting principles.

(b) Basis of Presentation

These consolidated financial statements are prepared on the accrual basis of accounting and include the accounts of CR and that of Consumers Union Action Fund, Inc. (CUAF), The Truman Avenue Foundation, Inc. (TAFI), and Consumer Media LLC (CML). CUAF is an affiliated organization incorporated in April 2006 as a nonmembership Delaware not-for-profit corporation. CUAF's operations focused on consumer-related grassroots legislative campaigns, and it is recognized by the Internal Revenue Service (IRS) as a tax-exempt organization under Section 501(c)(4) of the Code. TAFI was an affiliated Section 501(c)(3) not-for-profit corporation. It was incorporated in Delaware in September 2006 and is a supporting organization under Section 509(a)(3) of the Code; its sole member and "supported organization" is CR. TAFI's operations focus on holding contributed investment property. CML was a not-for-profit Delaware limited liability company whose sole member is CR. CML owns a consumer education Web site, Consumerist.com, which was discontinued in 2018. Both TAFI and CML ceased operations and the companies were dissolved in 2018 and CUAF ceased operations and the company was dissolved in 2019. As a result, the balance sheet as of May 31, 2019 solely represents the assets, liabilities, and net assets of Consumer Reports, Inc.

All intercompany balances and transactions have been eliminated in consolidation.

Net assets, revenue, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use for general operations and not subject to donor-imposed restrictions. All revenues, gains, losses that are not restricted by the donor are included in this classification.

Net Assets With Donor Restrictions – Net assets subject to donor-imposed restrictions that will be met by either by actions of CR or the passage of time.

Nonoperating items have been segregated in the accompanying consolidated statements of activities and include net investment return, unrealized gain (loss) on interest rate swap, change in value of split-interest agreements, and adjustments to pension liability other than net periodic pension costs.

In the consolidated statements of functional expenses for the years ended May 31, 2019 and 2018, information technology and facilities costs are allocated in the functional expense categories based on a percentage of the square foot usage of the Organization's facilities. All other costs are directly charged.

(2) Significant Accounting Policies

(a) Revenue Recognition

In accordance with ASC Topic 606, *Revenue from Contracts with Customers* (ASC 606), CR accounts for a customer contract when both parties have approved the contract and are committed to perform their respective obligations, each party's rights can be identified, payment terms can be identified, the contract has commercial substance, and it is probable CR will collect substantially all of the consideration to which it is entitled.

Revenue is measured based on a consideration specified in a contract with a customer. CR recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer.

Shipping costs associated with the distribution of print products after control over the products has transferred to a customer are accounted for as a fulfillment cost and are included in production and distribution costs in the accompanying consolidated statements of activities.

(i) Nature of Goods and Services

The following is a description of principal activities from which CR generates its revenue.

Products and services	Nature, timing of satisfaction of performance obligations, significant payment terms and revenue recognition methods
Digital Products	Digital products consist of subscriptions to Consumerreports.org, access to other digital content on a tablet, and video content. CR recognizes subscription sales revenue on a ratable basis over the contract (subscription) period as the customer has access to the product for a specified length of time, at least monthly, but not exceeding one year. Payment occurs up front prior to obtaining access. Certain digital products are recognized at a point in time as access is granted to the customer through 3rd parties such as the App store. Digital products contain a portion of bundled transactions of digital and print products allocated based on stand alone selling prices.

Products and services	**Nature, timing of satisfaction of performance obligations, significant payment terms and revenue recognition methods**
Print Products	Print products consist of subscription or newsstand sales of Consumer Reports Magazine, a Health based newsletter, and special interest publications. CR recognizes subscription sales revenue on a ratable basis over the contract (subscription) period as the customer receives issues of the product via USPS. Subscriptions can be for multiple years. Payment for the total order occurs either up front with the order, or is billed shortly after the order process at the customer's discretion. Revenue for newsstand sales is recognized at a point in time when the magazines are shipped to the wholesaler. Print products contain a portion of bundled transactions of digital and print products allocated based on stand alone selling prices.
Other Revenue	Other revenue primarily consists of referral fees received from contracts with a 3rd parties to remit a portion of revenue based on consummated transactions by customers directed to their products from our digital products. This category also contains revenue associated with the licensing of CR's content. Other revenue is typically recognized at a point in time when delivery of the content to the customer occurs, or the referral fees are earned based on the date of the underlying sale.

(ii) Disaggregation of Revenue

Revenue from contracts with customers as disaggregated by major product line across timing of revenue recognition is presented in the following tables:

		Major product categories May 31, 2019			
		Digital products	**Print products**	**Other revenue**	**Total**
		(In thousands)			
Timing of revenue recognition:					
Transferred over time	$	101,487	89,757	232	191,476
Point in time		1,895	5,130	12,801	19,826
Total	$	103,382	94,887	13,033	211,302

		Major product categories May 31, 2018			
		Digital products	Print products	Other revenue	Total
		(In thousands)			
Timing of revenue recognition:					
Transferred over time	$	99,175	89,176	562	188,913
Point in time		2,007	5,693	9,940	17,640
Total	$	101,182	94,869	10,502	206,553

(iii) Transaction Price Allocated to the Remaining Performance Obligations

Estimated deferred revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) is presented in the below tables:

		Expected recognition of deferred revenue May 31, 2019					
		2020	2021	2022	2023	2024 to 2029	Total
		(In thousands)					
Digital products	$	37,048	—	—			37,048
Print products		61,129	12,723	3,073	944	1,203	79,072
Total	$	98,177	12,723	3,073	944	1,203	116,120

		Expected recognition of deferred revenue May 31, 2018					
		2019	2020	2021	2022	2023 to 2027	Total
		(In thousands)					
Digital products	$	36,454	—	—	—	—	36,454
Print products		64,221	15,154	4,850	1,817	1,513	87,555
Total	$	100,675	15,154	4,850	1,817	1,513	124,009

(iv) Contract Costs

CR expects that incremental commission fees paid to sales agents as a result of obtaining contracts for subscriptions with customers are recoverable and therefore CR capitalized them as contract costs. Unamortized capitalized contract costs were $2,160 thousand and $2,287 thousand as of May 31, 2019 and 2018, respectively. Amounts expected to amortize in less than a year are included in prepaid expenses and other assets and amounts expected to amortize beyond one-year are included in other assets in the accompanying consolidated balance sheets. Capitalized commission fees are amortized based on the transfer of goods to which the assets relate. Commission fees of $2,383 thousand and $2,552 thousand were amortized into promotion and marketing expense in 2019 and 2018, respectively. There were no impairment losses in relation to the costs capitalized.

Expected amortization of capitalized contract costs is presented in the following tables:

		May 31, 2019					
		2020	2021	2022	2023	2024 to 2028	Total
		(In thousands)					
Contract costs	$	1,442	315	145	78	180	2,160

		May 31, 2018					
		2019	2020	2021	2022	2023 to 2027	Total
		(In thousands)					
Contract costs	$	1,518	329	157	88	195	2,287

(b) Accounts Receivable

Trade receivables are based on invoiced amounts, net of an estimated allowance for cancellations and nonpayment. This allowance is based on historical experience and was approximately $5,766 thousand and $6,547 thousand at May 31, 2019 and 2018, respectively. As of May 31, 2019, trade receivables primarily consist of receivables from subscriptions (56%), newsstand sales (9%), referral fees (20%), and other sales (15%). The Organization does not have any off-balance-sheet credit exposure related to its customers.

(c) Cash and Cash Equivalents

CR considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

(d) Investments

Investments are stated at fair value based upon published market prices or readily determined published prices, except for the fair values of certain commingled trust and real estate funds, which, as a practical expedient, are based on net asset values (NAVs) provided by the fund managers and general partners, respectively, based upon the underlying net assets of the funds. These values are reviewed and evaluated by management for reasonableness. Gains and losses, including unrealized amounts, are included in the accompanying consolidated statements of activities.

(e) Derivative Instruments

CR follows the provisions of FASB ASC Topic 815, *Derivatives and Hedging*, which requires that all derivative financial instruments be recognized in the consolidated financial statements and measured at fair value regardless of the purpose or intent for holding them. CR uses an interest-rate-related derivative instrument to manage its exposure to rising interest rates on long-term debt. The fair value of the derivative instrument held is based upon values provided by a third-party financial institution, which is reviewed by management for reasonableness and is valued based upon the present value of the discounted expected future cash flows with the swap counterparty according to FASB ASC Topic 820, *Fair Value Measurement*, as discussed in note 2(m). Unrealized gains and losses are included in the accompanying consolidated statements of activities.

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(f) Inventories

Inventories, consisting primarily of paper for magazine production and books manufactured for resale, are stated at the lower of cost or market. Cost is determined using the first-in, first-out method.

(g) Auto Test Inventory

Auto test inventory represents automobiles used in CR's testing processes, reported at the lower of cost less depreciation or their estimated recoverable value. Costs for other test projects are charged to expense when incurred.

(h) Property, Equipment and Software

Property, equipment and software are stated at cost less depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Generally, the estimated useful life of buildings is 30 years; furniture, fixtures, and equipment is 3 to 5 years; and capitalized computer software is 3 years. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life of the asset. Building improvements are depreciated over the shorter of 30 years or the estimated useful life of the asset. Individually significant capital purchases are evaluated to determine if the respective estimated useful life differs from the aforementioned asset class estimates.

In accordance with the subsections of FASB ASC Subtopic 350-40, *Intangibles – Goodwill and Other Internal-Use Software*, and FASB ASC Subtopic 350-50, *Intangibles – Goodwill and Other Website Development Costs*, CR capitalizes certain computer software costs and enhancements for internal use and for products and services (primarily Web-based) provided to subscribers. Costs such as coding, testing, and documentation are capitalized after the establishment of technological feasibility.

(i) Contributions

CR does not knowingly accept contributions from corporations or businesses that present a real or perceived conflict of interest. The Organization accepts individual gifts and gifts from foundations that are not directly or indirectly connected with a corporation, the donation does not raise a conflict of interest, and the mission of the foundation is consistent with the core values of CR. The Organization will accept grants from governmental agencies and other nonprofit organizations with a mission consistent with that of CR.

Contributions are recognized as revenue in the period received. All contributions are considered to be without donor restrictions and available for use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes, are reported as with donor restrictions. However, if a restriction is fulfilled in the same fiscal year in which the contribution is received, the Organization records the contribution as without donor restrictions.

(j) Split-Interest Agreements

The Organization receives contributions of various types of split-interest agreements, including charitable gift annuities (CGA) and charitable remainder unitrusts (CRUTs). Under the CGA program, donors contribute cash to CR in exchange for a promise by CR to pay an annuity for the life of the donor or other beneficiaries. CR recognizes the agreement with the donor in the period in which the contract is executed. Cash received is subsequently invested in fixed income and equity mutual funds and recorded at fair value. Based on requirements under various state laws, CGA investments within

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certain states have limitations on the amount of equities contained in the respective portfolio. The Organization's CGA investments are in compliance with all states' requirements. Gains and losses, including unrealized amounts, under this program are reported within investment return, net in the accompanying consolidated statements of activities. The annuity payment liability, which is considered Level 3 in the fair value hierarchy, is recognized and subsequently revalued at the actuarially determined present value of future cash flows expected to be paid to the donor. The Applicable Federal Rate, also known as the IRS Discount Rate, is the discount rate used in determining the present value. Contribution revenue, which is the difference between these two amounts, is reported within contributions in CR's accompanying consolidated statements of activities. Amounts recognized relating to the CGA program are further discussed in note 12.

CRUTs are arrangements in which a donor establishes and funds a trust with specified distributions to be made to a designated beneficiary or beneficiaries over the trust's term. Upon termination of the trust, CR will receive the assets remaining in the trust. The distributions to the beneficiaries are for a specified percentage of the trust's fair value as determined annually. Obligations to the beneficiaries are limited to the trust's assets. For CRUTs where CR is designated as trustee, the trust assets are recorded at the fair value on the date of the contribution along with the recognition of a liability to the beneficiaries, which represents the present value of the estimated future cash payments to the beneficiaries. The CRUT liabilities are discounted to present value at the prevailing published IRS Discount Rate and the life expectancy of the donors. The difference is recorded as contribution revenue with donor restrictions in CR's accompanying consolidated statements of activities. For CRUTs where CR is not the trustee, the beneficial interest in the trust is recorded as a long-term receivable and revenue with donor restrictions in CR's accompanying consolidated statements of activities. CRUT assets are adjusted to fair value at each subsequent consolidated balance sheet date, and they consist of equity and debt securities, which are measured using quoted market prices. Subsequent changes in the fair value of the trust assets or the present value of the liability to beneficiaries are recorded as changes in value of split-interest agreements in net assets with donor restrictions in the accompanying consolidated statements of activities. The funds are classified as with donor restrictions until the termination of the trust when they become unrestricted.

(k) Impairment of Long-Lived Assets

In accordance with impairment or disposal of long-lived assets subsections of FASB ASC Subtopic 360-10, *Property, Plant, and Equipment – Overall*, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. There were no impairments in 2019 and 2018.

(l) Use of Estimates

Consolidated financial statement preparation requires management to make a number of estimates and assumptions, particularly as it relates to reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and reported amounts of revenue and expenses. Significant estimates that affect the consolidated financial statements include, but are not limited to, collectability of trade receivables and grants, estimated useful lives of property and equipment, valuation of other long-lived assets, valuation of pension liabilities, valuation of derivatives, and valuation of CRUT and CGA liabilities. Actual results could vary from the estimates and assumptions used in the preparation of the accompanying consolidated financial statements.

(m) Fair Value Measurements

CR follows the provisions of ASC Topic 820 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the consolidated financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements.

ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted or published prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- Level 2 inputs are inputs other than published prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest-level input that is significant to the fair value measurement in its entirety. Investments that are measured at fair value using the NAV practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the “Investments reported at NAV” column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The fair values of the financial instruments represent management’s best estimates of the amounts that would be received to sell those assets or that would be paid to transfer those liabilities in an orderly transaction between market participants at that date. Those fair value measurements maximize the use of observable inputs.

The estimated fair value for specific groups of financial instruments is presented within the notes applicable to such items. The fair value of financial instruments for which estimated fair value amounts have not been specifically presented is estimated to approximate the related carrying value.

Effective June 1, 2008, the Organization adopted the provisions of the subsections of FASB ASC Subtopic 825-10, *Financial Instruments – Overall.* ASC Subtopic 825-10 permits entities to elect to measure many financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected will be recognized in earnings at each subsequent reporting date. As permitted by ASC Subtopic 825-10 implementation options, the

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Organization chose not to elect the fair value option for its financial assets and liabilities that had not been previously measured at fair value. Therefore, material financial assets and liabilities, such as the Organization's long-term debt obligations, are reported at their historical carrying amounts.

(n) Income Taxes

Under the provisions of Section 501(c)(3) of the Code, CR is exempt from taxes on income, except for unrelated business income. For the years ended May 31, 2019 and 2018, provisions for income taxes were $639 thousand and $889 thousand respectively.

In accordance with ASC Topic 740, *Income Taxes*, CR evaluated its tax positions and determined that all are more likely than not to be sustained upon examination. Accordingly, CR believes that there are no unrecognized benefits or applicable interest and penalties that should be recorded.

CR's tax returns for the fiscal years ended May 31, 2016, 2017, and 2018 are subject to examination by federal, state, and local authorities.

(o) Reclassifications

Certain reclassifications have been made to the 2018 reported amounts to conform to the 2019 presentation.

(p) Recent Accounting Pronouncements

- During 2019, CR adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities.* ASU 2016-14 changed the reporting of CR's net asset classes: net assets without donor restrictions, previously reported as unrestricted net assets, and net assets with donor restrictions, previously reported as temporarily restricted net assets. Additionally, it increases the quantitative and qualitative disclosures regarding liquidity and availability of resources (note 15, Liquidity and Availability of Financial Assets). The Organization applied the changes retrospectively herein.
- In June 2018, the FASB issued ASU 2018-08, *Not-For-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, which clarifies how entities will determine whether to account for a transfer of assets as exchange transaction or contribution. The distinction is important because contributions are accounted for under Accounting Standards Codification (ASC) 958-605, *Not-For-Profit Entities – Revenue Recognition*, while exchange transactions are accounted for under other guidance such as ASC 606, *Revenue from Contracts with Customers*. The guidance also clarifies how entities will determine whether a contribution is conditional. The timing of revenue and expense recognition depends upon whether a contribution is conditional or unconditional. The new standard is effective for CR as of year-end May 31, 2020, and management is in the process of evaluating the impact on the Organization's consolidated financial statements.
- In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments in ASU 2016-02 create the FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for all leases, including operation leases, with a term greater than 12 months. Under the guidance of ASU 216-02, a lessee should recognize in the balance sheet, a liability to make lease payments (lease liability) and a right–of-use asset representing its right

to use the underlying asset for the lease term. The ASU is effective for the CR for the year ended May 31, 2020. CR is currently in the process of evaluating the impact of the new standard on its consolidated financial statements.

- In March 2017, the FASB issued ASU 2017-07, *Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs*. ASU 2017-07 changes how employers that sponsor defined benefit pension and/or other postretirement plans present the cost of the benefits on the income statement. The FASB developed the new guidance as part of its effort to improve employers' financial reporting for defined benefit plans. It amends Accounting Standards Codification (ASC) 715, *Compensation – Retirement Benefits*, which requires employers to aggregate the various components for presentation purposes but does not prescribe where they should be presented in the statement of activities. The ASU is effective for the CR for the year ended May 31, 2020. CR is currently in the process of evaluating the impact of the new standard on its consolidated financial statements.

(3) Net Assets With Donor Restrictions

Net assets with donor restrictions were $8,152 thousand and $3,595 thousand as of May 31, 2019 and 2018, respectively, and consist of the following:

	2019	**2018**
	(In thousands)	
Split-interest agreements	$ 440	623
Donor-imposed purpose restrictions	7,712	2,972
	$ 8,152	3,595

As of May 31, 2019 and 2018, there were $1,347 thousand and $1,660 thousand, respectively, in CRUT assets that were presented at fair value using Level 1 inputs according to the fair value hierarchy of ASC Topic 820. CR did not enter into any new CRUT agreements with donors in 2019 and 2018. However, $240 thousand was released from restrictions due to the termination of a CRUT in September 2018.

Donor restricted net assets due to donor-imposed stipulations at May 31, 2019 and 2018 are available for the following purposes:

		2019	2018
		(In thousands)	
Digital Privacy (a)	$	6,000	—
Clean Energy Transporation (b)		356	—
Ford Foundation Build Grant (c)		260	851
Organic marketing and labeling (d)		201	895
Cyber Privacy (e)		117	555
Other donor-restricted funds outstanding less than $350 individually		778	671
Total	$	7,712	2,972

(a) Represents an unexpended grant received by CR to launch a digital lab to conduct market analysis, establish new science and research capacity, and build the tools and infrastructure required to drive consumer voice and agency in the digital market.

(b) Represents an unexpended grant received by CR to protect and strengthen current fuel economy and emission standards.

(c) Represents an unexpended grant received by CR for support of privacy, security, and data practices in the digital marketplace. The grant spans over a five-year period and as of May 31, 2019, $50 thousand will be received more than 12 months after May 31, 2019 and is classified as grants receivable – long term in the accompanying consolidated balance sheets.

(d) Represents unexpended amounts received by CR to help protect consumers from false and misleading marketing, advertising, and labeling of organic products.

(e) Represents unexpended amounts received by CR to promote consumer interest in relation to privacy, security, and data practices in the digital marketplace.

(4) Inventories

Inventories at May 31, 2019 and 2018 consist of the following:

		2019	2018
		(In thousands)	
Paper	$	1,242	1,202
Published books and periodicals		648	476
	$	1,890	1,678

(5) Property, Equipment and Software

Property, equipment and software at May 31, 2019 and 2018 consist of the following:

	2019	2018
	(In thousands)	
Land	$ 11,935	11,935
Buildings and improvements	71,196	70,072
Furniture, fixtures, and equipment	24,884	23,697
Capitalized computer software	95,804	86,633
	203,819	192,337
Less accumulated depreciation and amortization	141,361	127,997
Net property and equipment	$ 62,458	64,340

Depreciation and amortization expense for the years ended May 31, 2019 and 2018 was $15,095 thousand and $13,027 thousand respectively. At May 31, 2019 and 2018, capitalized computer software was $21,107 thousand and $20,927 thousand respectively, net of accumulated amortization of $74,697 thousand and $65,706 thousand respectively. Amortization expense for capitalized computer software was $10,362 thousand and $7,872 thousand in 2019 and 2018, respectively.

CR performs reviews of fixed assets to determine if there are assets no longer in service. During the years ended May 31, 2019 and 2018, CR recognized a net loss of $217 thousand and $78 thousand respectively, for retired assets no longer in service in the consolidated statements of activities in general and administrative expenses.

(6) Investments

CR's investment policies restrict CR's investments to those issued, collateralized, insured, or guaranteed by the U.S. government, U.S. agencies, or U.S. instrumentalities and other respective branches, as well as debt, equity, real estate, and commodity commingled trust funds. The investment policy statement governing CR's corporate investment portfolio is reviewed periodically. The current policy reflects a target asset allocation of 25% fixed income, 30% domestic equity, 25% international equity, 10% Treasury Inflation-Protected Securities, 5% real estate, and 5% commodities within a range of 5% of the target percentage. CR's investments are generally invested in broadly diversified commingled trust funds that employ an index replication approach. Commingled funds give the investors the right, subject to predetermined redemption procedures, to redeem their investment at NAV per share. As of May 31, 2019, CR's international equity – commingled funds have thrice-monthly redemption frequencies and require a redemption notice of 6 days, the real estate fund has quarterly redemption frequencies, and the remaining commingled funds have daily redemption frequencies, with redemption periods of two days or less. There are no redemption restrictions as of May 31, 2019. No investments were valued using Level 3 inputs.

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The fair value of investments as of May 31, 2019 and 2018 consists of Level 1 investments (funds traded on an active exchange) and Level 2 investments and investments reported at NAV as follows:

	Level 1	Level 2	Investments reported at NAV[1]	Total
		(In thousands)		
May 31, 2019:				
Equity funds:				
Domestic	$ 86,599	—	—	86,599
International	705	—	64,524	65,229
Fixed income funds:				
Bonds	73,934	—	—	73,934
U.S. Treasury	32,344	—	—	32,344
Commodities fund	12,365	—	—	12,365
Real estate fund	—	—	17,047	17,047
U.S. government agency bonds	—	649	—	649
Total	$ 205,947	649	81,571	288,167

	Level 1	Level 2	Investments reported at NAV[1]	Total
		(In thousands)		
May 31, 2018:				
Equity funds:				
Domestic	$ 94,420	—	—	94,420
International	769	—	71,879	72,648
Fixed income funds:				
Bonds	70,774	—	—	70,774
U.S. Treasury	32,022	—	—	32,022
Commodities fund	15,949	—	—	15,949
Real estate fund	—	—	15,989	15,989
U.S. government agency bonds	—	894	—	894
Total	$ 213,934	894	87,868	302,696

[1] Investments that are measured at fair value using the NAV practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the “Investments reported at NAV” column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Investment returns, net included in nonoperating in the accompanying consolidated statements of activities for the years ended May 31, 2019 and 2018 was composed of the following:

		2019	2018
		(In thousands)	
Interest and dividend income	$	1,438	1,089
Net unrealized gains		(6,495)	10,374
Net realized gains		6,931	12,355
Investment expenses		(320)	(447)
	$	1,554	23,371

(7) Employee Benefits

(a) Defined-Benefit Plans

CR maintains four defined-benefit plans for its employees. Three of these plans are noncontributory defined-benefit plans: one plan is administered by CR (the Management Frozen Plan) and the other two plans are administered jointly by CR and the NewsGuild of New York (the Union Frozen Plan and Union Adjustable Plan). The fourth plan is a noncontributory multiemployer pension plan providing supplemental pension benefits for all guild-represented employees (the Multiemployer Plan). Contributions to the Multiemployer Plan and the related expense recognized were $71 thousand and $81 thousand in 2019 and 2018, respectively.

The measurement date used to determine pension benefit measures for the Management Frozen Plan, the Union Frozen Plan, and the Union Adjustable Plan is May 31, 2019.

On May 15, 2009, CR's board of directors approved a resolution suspending benefit accruals for all participants of the Management Frozen Plan, effective July 31, 2009. CR intends to continue to make contributions to the Management Frozen Plan in amounts sufficient to meet applicable funding requirements.

On April 5, 2013, CR and the NewsGuild of New York entered into an agreement, which suspended benefit accruals for all participants of the Union Frozen Plan, effective May 31, 2013. CR intends to continue to make contributions to the Union Frozen Plan in amounts sufficient to meet applicable funding requirements.

On June 1, 2013, as part of the collective bargaining agreement, CR adopted a low-volatility, defined-benefit pension plan (the Union Adjustable Plan), and began accruing benefits for Union-represented employees. Beginning in 2016, CR's contributions to the plan were equal to 5% of eligible participant salaries. Based on the amount of investment returns from plan assets, the benefit rate is adjusted in subsequent years to maintain the same level of employer contributions.

(b) Obligations and Funded Status

At May 31:

	Pension benefits	
	2019	2018
	(In thousands)	
Change in projected benefit obligation:		
Benefit obligation at the beginning of year	$ 114,166	117,058
Service cost	1,798	1,950
Interest cost	4,380	4,391
Actuarial loss	578	76
Benefits and administrative expenses paid	(6,633)	(4,604)
Change in assumptions	1,000	(1,213)
Settlement of Management Plan	—	(3,492)
Projected benefit obligation at the end of year	115,289	114,166
Change in plan assets:		
Fair value of plan assets at the beginning of year	89,239	88,108
Actual return on plan assets	2,573	5,357
Employer contributions	5,224	3,870
Benefits and administrative expenses paid	(6,633)	(4,604)
Settlement of Management Plan	—	(3,492)
Fair value of assets at the end of year	90,403	89,239
Funded status	$ (24,886)	(24,927)

The accumulated benefit obligation for all defined-benefit pension plans was $115,289 thousand and $114,166 thousand at May 31, 2019 and 2018, respectively. The actuarial present value of the benefit obligations and the funded status of the Management Frozen Plan, Union Frozen Plan, and Union Adjustable Plan on a combined basis as of May 31, 2019 and 2018, as provided by CR’s actuaries, were as follows:

	2019	2018
	(In thousands)	
Funded status:		
Accumulated benefit obligation	$ 115,289	114,166
Projected benefit obligation	115,289	114,166
Fair value of plan assets available for benefits	90,403	89,239
Funded status	$ (24,886)	(24,927)

	Management Frozen Plan	
	2019	**2018**
	(In thousands)	
Funded status:		
Accumulated benefit obligation	$ 33,087	32,954
Projected benefit obligation	33,087	32,954
Fair value of plan assets available for benefits	29,958	29,449
Funded status	$ (3,129)	(3,505)

	Union Frozen Plan	
	2019	**2018**
	(In thousands)	
Funded status:		
Accumulated benefit obligation	$ 72,315,000	73,030,000
Projected benefit obligation	72,315,000	73,030,000
Fair value of plan assets available for benefits	51,678,000	52,488,000
Funded status	$ (20,637,000)	(20,542,000)

	Union Adjustable Plan	
	2019	**2018**
	(In thousands)	
Funded status:		
Accumulated benefit obligation	$ 9,887	8,182
Projected benefit obligation	9,887	8,182
Fair value of plan assets available for benefits	8,767	7,302
Funded status	$ (1,120)	(880)

The amounts recognized in the consolidated balance sheets and as an adjustment to net assets without donor restrictions for the Management Frozen Plan, Union Frozen Plan, and Union Adjustable

Plan on a combined basis as of May 31, 2019 and 2018, as provided by CR's actuaries, were as follows:

	2019	2018
	(In thousands)	
Amounts recognized in the consolidated balance sheets consist of:		
Noncurrent liabilities	$ (24,886)	(24,927)
Total	$ (24,886)	(24,927)
Total amounts recognized as an adjustment to net assets without donor restrictions consist of:		
Unrecognized actuarial loss	$ 26,946	24,647
Total adjustment to net assets without donor restrictions	$ 26,946	24,647

The amount in the adjustment to assets without donor restrictions as of May 31, 2019 that is expected to be recognized as a component of net periodic benefit cost during the next fiscal year consisted of a $1,537 thousand actuarial loss.

The change of the adjustment to assets without donor restrictions of the plans resulted in a decrease of $2,299 thousand and an increase of $4,317 thousand in net assets and is recorded as pension-related changes other than net periodic pension cost in the nonoperating section on the accompanying consolidated statements of activities for the years ended May 31, 2019 and 2018, respectively.

The weighted average assumptions used to determine the benefit obligations in the actuarial valuations at May 31, 2019 and 2018 measurement dates were as follows:

	2019	2018
Discount rate:		
Management Frozen Plan (preretirement and postretirement)	3.55 %	3.95 %
Union Frozen Plan (preretirement and postretirement)	3.70	4.05
Union Adjustable Plan (preretirement and postretirement)	3.80	4.10
Future salary increases:		
Management Frozen Plan	N/A	N/A
Union Frozen Plan	N/A	N/A
Union Adjustable Plan	3.00	3.00

The discount rate is determined using a method that attempts to match the timing of the pension plan's benefit payouts with the appropriate maturity of the bonds in the Citigroup "Above Median" Yield Curve as of the end of the fiscal year. The individual interest rates in the yield curve are then converted to a single equivalent interest rate that would yield the same discounted value of the benefit payouts. This single equivalent interest rate, subject to rounding to the nearest 0.05%, is the year-end discount rate. As of May 31, 2019, future salary increases are not applicable for the calculation of the projected benefit obligation for both the Management Frozen Plan and the Union Frozen Plan because benefits are frozen in both plans.

Components for net periodic benefit cost for the Management Frozen Plan, Union Frozen Plan, and Union Adjustable Plan on a combined basis for the years 2019 and 2018 were as follows:

		2019	2018
		(In thousands)	
Service cost	$	1,798	1,950
Interest cost		4,380	4,391
Expected return on plan assets		(4,535)	(4,790)
Amortization of net loss		1,241	1,566
Settlement loss		—	1,048
Net periodic benefit cost	$	2,884	4,165

Due to significant lump-sum distributions exceeding service and interest costs in the Management Frozen Plan, a $1,048 thousand settlement loss was recognized and is included in pension expense for the year ended May 31, 2018. There was no settlement loss in 2019.

The weighted average assumptions used to determine net periodic benefit cost for the years 2019 and 2018 were as follows:

	2019	2018
Discount rate:		
Management Frozen Plan (preretirement and postretirement)	3.95 %	3.75 %
Union Frozen Plan (preretirement and postretirement)	4.05	3.95
Union Adjustable Plan (preretirement and postretirement)	4.10	4.05

	2019	2018
Expected return on plan assets:		
Management Frozen Plan	5.30 %	5.75 %
Union Frozen Plan	5.40	5.75
Union Adjustable Plan	4.90	5.00
Future salary increases:		
Management Frozen Plan	N/A	N/A
Union Frozen Plan	N/A	N/A
Union Adjustable Plan	3.00	3.00

The Organization's overall expected long-term rate of return on plan assets is 5.30% and 5.40% for the Management Frozen Plan and Union Frozen Plan, respectively. The returns are based exclusively on historical returns for the asset classes for the holdings of each respective plan, without adjustments. The Union Adjustable Plan has a more conservative investment strategy and the expected rate of return is 4.90%.

(c) Plan Assets

The weighted average asset allocation of the Management Frozen Plan's assets at May 31, 2019 and 2018 was as follows:

	Management Frozen Plan's assets	
	2019	2018
Asset category:		
Domestic equities	15.3 %	31.3 %
International equities	17.7	25.2
Fixed income	64.9	43.3
Other (money market)	2.1	0.2
Total	100.0 %	100.0 %

The target allocation for assets of the Management Frozen Plan were changed during 2019 to 65% fixed income securities, 20% domestic equity securities, and 15% international equity securities, within a range of 5% of the target percentage. An investment policy statement was implemented during 2011 to take into consideration that benefit accruals were suspended for all participants in the Management Frozen Plan. The new policy uses an approach, which sets the target asset allocation based upon interest rates and the funded status of the plan. The policy is designed to systematically derisk the portfolio by gradually matching the duration of fixed income plan assets to plan liabilities.

As of May 31, 2019, the Management Frozen Plan's international equity – commingled funds have thrice-monthly redemption frequencies and require a redemption notice of 6 days, and the remaining commingled funds have daily redemption frequencies, with redemption periods of two days or less.

There are no redemption restrictions as of May 31, 2019. The Management Frozen Plan's assets were fair valued as of May 31, 2019 and 2018 using Level 1 inputs in the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 2 or Level 3 inputs.

	Management Frozen Plan's assets		
	Level 1	**Investments reported at NAV[1]**	**Total**
		(In thousands)	
May 31, 2019:			
Domestic equity – commingled funds	$ 4,575	—	4,575
International equity – commingled funds	—	5,320	5,320
Fixed income – commingled bond funds	19,445	—	19,445
Other (money market)	618	—	618
Total	$ 24,638	5,320	29,958

	Management Frozen Plan's assets		
	Level 1	**Investments reported at NAV[1]**	**Total**
		(In thousands)	
May 31, 2018:			
Domestic equity – commingled funds	$ 9,236	—	9,236
International equity – commingled funds	—	7,427	7,427
Fixed income – commingled bond funds	12,767	—	12,767
Other (money market)	19	—	19
Total	$ 22,022	7,427	29,449

[1] Investments that are measured at fair value using the NAV practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the "Investments reported at NAV" column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The weighted average asset allocation of the Union Frozen Plan's assets at May 31, 2019 and 2018 was as follows:

	Union Frozen Plan's assets	
	2019	**2018**
Asset category:		
Domestic equities	38.2 %	35.8 %
International equities	9.5	10.0
Fixed income	33.1	32.7
Multialternative funds	9.7	13.7
Real estate equities	5.8	5.4
Other (money market)	3.7	2.4
Total	100.0 %	100.0 %

The target allocation for assets of the Union Frozen Plan is 35% fixed income securities, 35% U.S. equity securities, 15% multialternative funds, 10% international equity securities, and 5% real estate equity securities, within a range of 5% of the target percentage.

As of May 31, 2019, the Union Frozen Plan's international equity – commingled funds have thrice-monthly redemption frequencies and require a redemption notice of 6 days, the real estate fund has quarterly redemption frequencies, and the remaining commingled funds have daily redemption frequencies, with redemption periods of two days or less and are readily determined Level 1 fair value assets. There are no redemption restrictions as of May 31, 2019. The Union Frozen Plan's assets were fair valued as of May 31, 2019 and 2018 using Level 1 inputs in the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 2 or Level 3 inputs.

		Union Frozen Plan's assets	
	Level 1	Investments reported at NAV[1]	Total
		(In thousands)	
May 31, 2019:			
Domestic equity – commingled funds	$ 19,735	—	19,735
International equity funds	2,225	—	2,225
International equity – commingled funds	—	2,670	2,670
Fixed income funds	17,101	—	17,101
Multialternative funds	4,993	—	4,993
Real estate fund	—	3,013	3,013
Other (money market)	1,941	—	1,941
Total	$ 45,995	5,683	51,678

		Union Frozen Plan's assets	
	Level 1	Investments reported at NAV[1]	Total
		(In thousands)	
May 31, 2018:			
Domestic equity – commingled funds	$ 18,747	—	18,747
International equity funds	2,427	—	2,427
International equity – commingled funds	—	2,842	2,842
Fixed income funds	17,188	—	17,188
Multialternative funds	7,190	—	7,190
Real estate fund	—	2,835	2,835
Other (money market)	1,259	—	1,259
Total	$ 46,811	5,677	52,488

[1] Investments that are measured at fair value using the NAV practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the "Investments reported at NAV" column are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

The weighted average asset allocation of the Union Adjustable Plan's assets at May 31, 2019 and 2018 was as follows:

	Union Adjustable Plan's assets	
	2019	**2018**
Asset category:		
Domestic commingled equities	16.4 %	16.3 %
International commingled equities	6.7	6.9
Fixed income – commingled bonds	50.7	50.6
Multialternative funds	24.4	22.7
Other (money market)	1.8	3.5
Total	100.0 %	100.0 %

The target allocation for assets of the Union Adjustable Plan is 17.5% domestic equity securities, 7.5% international equity securities, 50% fixed income securities, and 25% multialternative funds, within a range of 10% of the target percentage.

All of the Union Adjustable Plan's assets were fair valued as of May 31, 2019 and 2018 using Level 1 inputs in the fair value hierarchy according to ASC Topic 820. No investments were valued using Level 2 or Level 3 inputs.

		Union Adjustable Plan's assets	
		2019	**2018**
		(In thousands)	
Domestic equity – commingled funds	$	1,437	1,192
International equity – commingled funds		584	506
Fixed income – commingled bond funds		4,448	3,693
Multialternative funds		2,141	1,654
Other (money market)		157	257
Total	$	8,767	7,302

CR's investment goal is to prudently maximize the return on investments while maintaining the preservation of capital, consistent with Employee Retirement Income Security Act requirements and the terms of the respective trust agreements and the plans. The investment policies prohibit direct investment in individual equity securities and fixed income obligations of individual companies. Pension assets are diversified by the use of mutual funds and commingled trust funds whose underlying investments are in readily marketable domestic fixed income and equity securities. These funds can be liquidated to fund benefit payments obligations as they become payable.

(d) Cash Flows

CR expects to contribute $1,100 thousand to the Management Frozen Plan, $2,565 thousand to the Union Frozen Plan, and $1,321 thousand to the Union Adjustable Plan for the fiscal year ending May 31, 2020.

The benefits, primarily in the form of lump sums, expected to be paid out from the pension plans if all active participants were to retire at their assumed retirement age are as follows (in thousands):

		Management Frozen Plan	Union Frozen Plan	Union Adjustable Plan
Years ending May 31:				
2020	$	2,854	6,103	162
2021		5,967	9,136	219
2022		4,047	9,963	251
2023		3,972	8,037	345
2024		3,670	5,421	347
2025–2029		7,973	19,724	2,795

The expected benefits are based on the same assumptions used to measure CR’s benefit obligation at May 31, 2019 and include estimated future employee service.

(e) Other Benefit Plans

CR administers 401(k) plans for guild-represented and management/exempt employees that allow participants to make pretax contributions to their accounts, which are invested in investments from several alternatives selected by the trustees of the plans. For both plans, CR matches employee contributions up to 2% of the employee’s salary, subject to certain maximum limitations. Employees vest immediately in the employer matching contribution. Since July 31, 2009, all management/exempt employees receive an 8% employer nonmatching contribution in lieu of ongoing benefit accruals in the Management Frozen Plan. Beginning on June 1, 2015, guild-represented employees receive a 1% employer nonmatching contribution. These contributions to an employee’s account vest 20% per annum over a five-year period. CR’s total employer contributions to the 401(k) plans were $4,883 thousand and $4,604 thousand in 2019 and 2018, respectively.

Additionally, CR’s board of directors adopted a Supplemental Executive Retirement Plan for certain executive employees effective January 1, 2003 that would qualify under Section 457(b) of the Code. Employer contributions relating to this plan were $102 thousand and $88 thousand in 2019 and 2018, respectively.

(8) Commitments, Contingencies, and Concentrations

(a) Leases

CR leases office facilities for which rental expense was $805 thousand and $723 thousand in 2019 and 2018, respectively. Certain leases obligate CR to reimburse the owners of the office facilities for increases in real estate taxes. The leases have remaining terms of up to five years. Minimum lease payments under operating leases are recognized on a straight-line basis over the term of the lease, including any periods of free rent.

In May 2019, CR entered into a lease termination agreement for office space in San Francisco and paid an $85 thousand termination fee. CR relocated the office to a shared space location within San Francisco with a short-term agreement ending October 2019, with options for renewal.

Future minimum cash payments under noncancelable leases are as follows (in thousands):

Years ending May 31:		
2020	$	629
2021		575
2022		567
2023		474
2024		241
	$	2,486

In February 2017, the Organization entered into a sublease agreement for an office facility. Future minimum rentals to be received under a noncancelable sublease are as follows (in thousands):

Year ending May 31:		
2020	$	121
2021		124
2022		105
	$	350

(b) Legal Proceedings

Various claims and legal threats are made against the Organization in the ordinary course of business. CR establishes an accrued liability for specific matters, such as a legal claim, when it determines both that a loss is probable and the amount of the loss can be reasonably estimated. Once established, accruals are adjusted as appropriate. The amount of any loss ultimately incurred in relation to matters for which an accrual has been established may be higher or lower than the amounts accrued for such matters.

On April 1, 2016, a class action complaint was filed against CR in the Southern District of New York alleging that CR violated a state-based privacy statute. CR filed a motion to dismiss which was denied by the court and the case proceeded to discovery. On April 9, 2018, a $16,375 thousand settlement was agreed to by the parties and approved by the Court. Accordingly, a $16,375 thousand liability was recognized and is included as a claim settlement liability in the accompanying consolidated balance sheets as of May 31, 2018.

(Continued)

The Organization has insurance coverage and the insurers approved a claim to cover the settlement amount and litigation costs above the $100 thousand retention provided for in the insurance coverage. Accordingly, the settlement amount of $16,375 thousand is recognized as a receivable from insurance recovery in the accompanying consolidated balance sheets as of May 31, 2018. In December 2018, the insurers paid the $16,375 thousand settlement directly and the corresponding liability and receivable were released.

It is management's opinion that the ultimate disposition of any open matters will not have a material adverse effect on the Organization's consolidated changes in net assets or liquidity.

(c) Concentration of Business Activity

CR has a concentration of labor subject to a collective bargaining agreement, which expires on December 31, 2019. As of May 31, 2019, CR had a total of 558 employees of which 254 employees are represented by the union.

(9) Long-Term Debt

On December 22, 2005, CR and the City of Yonkers Industrial Development Agency (IDA) issued $47,300 thousand Series 2005 Multi-Modal Civic Facility Revenue Bonds (2005 Revenue Bonds). The 2005 Revenue Bonds were issued for the purpose of providing funds for the refunding of the prior bonds, which was $34,750 thousand (1989, 1991, and 1994 Revenue Bonds), financing certain costs associated with the reconstructing, renovating, and equipping CR's National Research and Testing Center and headquarters and financing of capital expenditures, including the acquisition and installation of various items of machinery, equipment, and other tangible personal property totaling $9,980 thousand, and paying certain costs and expenses incidental to the issuance of the 2005 Revenue Bonds.

The 2005 Revenue Bonds were initially issued as auction rate securities. These bonds were continuously remarketed and the rate was reset weekly. Since these bonds were variable rate debt, they exposed CR to interest rate risk. In order to mitigate this risk, CR entered into an interest rate swap agreement on approximately 70.0% of the bonds at a fixed interest rate. Additional information regarding the interest rate swap is in note 11.

On May 29, 2008, the Second Amendment to the Indenture of Trust was entered into between City of Yonkers IDA and The Bank of New York, as trustee. The Amendment provides for a mode change from the weekly auction rate mode to a variable rate demand bond mode. The average variable rate for the demand bonds for 2019 and 2018 was 1.56% and 1.09%, respectively. The Amendment provides for additional credit enhancement as security for the bonds through a direct-pay letter of credit issued on May 29, 2008 by JPMorgan Chase Bank (JPMorgan). This letter of credit is discussed in more detail in note 10.

CR also entered into a Remarketing Agreement with Merrill Lynch Pierce, Fenner & Smith Incorporated (Merrill Lynch). As the remarketing agent, Merrill Lynch markets CR's bonds on a weekly basis. The rate of interest CR pays on its debt is reset weekly based upon market conditions.

The 2005 Revenue Bonds are subject to mandatory sinking fund requirements, which began in 2012. Principal payments of $1,400,000 thousand and $1,450,000 thousand were made in June 2017 and 2018, respectively. Total long-term annual sinking fund requirements for the revenue bonds are as follows (in thousands):

Years ending May 31:		
2020	$	1,500
2021		1,550
2022		1,600
2023		1,675
2024		1,725
2025–2036		29,000
	$	37,050

The issuance costs related to the mode change amounted to $416 thousand and were paid out of cash from operations. The issuance costs related to the mode change will continue to be amortized into interest expense using the effective-interest method over the remaining life of the bond. The unamortized issuance costs of $176 thousand and $195 thousand are presented as a reduction of long-term debt on the accompanying consolidated balance sheets as of May 31, 2019 and 2018.

CR is in compliance with certain financial ratios, as well as other financial and operational requirements, in accordance with the applicable bond documents and insurance policy.

Interest expense, including the letter-of-credit fees (note 10) and the net interest rate swap activity (note 11) for long-term debt for 2019 and 2018 was $1,358 thousand and $1,391 thousand, respectively, and is included in general and administrative expenses in the accompanying consolidated statements of activities. The average rate of debt costs on all outstanding debt was 3.7% and 3.6% for the years ended May 31, 2019 and 2018, respectively.

(10) Bank Borrowings

CR has an unused line of credit totaling $10,000 thousand at May 31, 2019. Terms of this line allow CR to draw down on the line with interest at LIBOR plus 0.5% or the prime rate. For the years ending May 31, 2019 and 2018, CR had no amount outstanding under the line-of-credit agreement.

As part of the May 29, 2008 modification of the bond from auction rate securities to variable rate demand bonds, CR entered into a three-year letter of credit in the amount of $37,464 thousand. Amendments have been executed extending the term of the letter of credit through May 31, 2022. A fee of 0.5% on the letter of credit is included in interest expense for long-term debt included in general and administrative expenses in the accompanying consolidated statements of activities. The terms of the letter of credit allow it to be drawn upon only if CR were to default on the existing bonds and represents coverage for the $37,050 thousand balance of the bonds in addition to $414 thousand representing 34 days of interest at the highest rate (12.0%) allowable by the indenture. The applicable rate of any amount drawn upon would be based on the higher of the JPMorgan’s prime rate or the Federal Funds Rate plus 0.5% in addition to 1.0% to 4.0% based on the length of time the letter of credit contained an outstanding balance. As of May 31, 2019 and 2018, there was no amount outstanding under the letter-of-credit agreement.

(11) Derivative Instruments and Hedging Activities

CR entered into an Interest Rate Swap Agreement (the Swap) in order to manage its interest-rate-related exposure on its debt. The Swap is pursuant to an International Swaps and Derivatives Association, Inc. Master Agreement with Morgan Stanley Capital Services, Inc. (Swap Provider) dated November 14, 2005 in a notional principal amount of $32,900 thousand. The hedge agreement extends for the period from January 19, 2006 to June 1, 2036 (subject to prior sinking fund redemption). Sinking fund redemptions scheduled for the $47,300 thousand debt issue coincide with the scheduled proportional reductions in the notional principal amount of the Swap. As of May 31, 2019, the notional principal amount of the Swap is $25,743 thousand.

The municipal bond insurance policy, which guarantees the payment of principal and interest on the 2005 Revenue Bonds, also insured payments to the Swap Provider. The Swap requires the insurer to maintain certain financial ratings. On November 5, 2008, Moody's downgraded the insurer from Aa3 to Baa1, which is below the threshold required by the Swap. In order to avoid a forced termination of the Swap, CR and the Swap Provider amended the Swap to terminate the insurance and increase the fixed rate payable under the Swap from 3.65% to 3.67%, payable monthly effective December 1, 2008, on the first day of each month until the termination date. The floating rate payable under the Swap by the Swap Provider remains unchanged and is equal to 68.00% of weekly resets of the one-month LIBOR index, payable weekly to CR on each Friday commencing January 27, 2006 through the termination date.

As of May 31, 2019 and 2018, the fair value of the Swap using Level 2 inputs under the fair value hierarchy under ASC Topic 820, including the amendment, is $(5,029) and $(4,116), respectively. These amounts are reflected in the accompanying consolidated balance sheets, and the associated gain or loss is included in the accompanying consolidated statements of activities as unrealized (loss) gain on interest rate swap.

(12) Charitable Gift Annuities

As discussed in note 2(j), the Organization maintains a CGA program. The Organization's cash and investments pertaining to the CGA program were valued at $14,560 thousand and $15,298 thousand at May 31, 2019 and 2018, respectively. The Organization's liability associated with CGAs was $9,715 thousand and $10,457 thousand, utilizing the discount rate at the date in which the gift was established at May 31, 2019 and 2018, respectively. During 2019 and 2018, respectively, CR recognized $71 thousand and $154 thousand in net contribution revenue without donor restrictions attributable to new CGAs. Additionally, principally because of changes in the mortality table, the liability decreased by $77 thousand and increased by $410 thousand in 2019 and 2018, respectively. These amounts are reflected as a change in value of split-interest agreements in the nonoperating section of the accompanying consolidated statements of activities.

(13) Restructuring

Other severance of $1,962 thousand and $2,745 thousand represents separation benefits for employees terminated during the normal course of business during 2019 and 2018, respectively. The charge is included in general and administrative expenses in the accompanying consolidated statements of activities.

As of May 31, 2019 and 2018, there are unpaid severance benefits of $414 thousand and $967 thousand, respectively, included in accrued compensation in the accompanying consolidated balance sheets.

(Continued)

Changes in severance liability are presented below:

		Employee termination costs
		(In thousands)
Severance liability as of May 31, 2017	$	1,577
Other severance		2,745
Cash and benefits paid		(3,355)
Severance liability as of May 31, 2018		967
Other severance		1,962
Cash and benefits paid		(2,515)
Severance liability as of May 31, 2019	$	414

(14) Other Relationships

The Organization is a member of Consumers International (CI), a nonprofit organization headquartered in the United Kingdom, which focuses on global consumer concerns. Acting as the member's representative, an officer of the Organization serves, without compensation, on the board of directors of CI. Membership payments and expense were $508 thousand and $600 thousand for the years ended May 31, 2019 and 2018, respectively, and were included in consumer advocacy and education on the accompanying consolidated statements of activities.

In May 2005, CR became a member shareholder of International Consumer Research and Testing Limited (ICRT), a United Kingdom company. ICRT is an association of international testing organizations that promotes cooperation in areas such as the regulation of research and testing consumer products, services, and other consumer issues, and the promotion of assistance in joint comparative product testing of its member organizations. Through 2019, CR's investment in ICRT was $93 thousand for two capital shares. CR also paid ICRT membership fees of $116 thousand and $121 thousand in 2019 and 2018, respectively. In 2019 and 2018, CR made payments of $349 thousand and $331 thousand respectively, for certain product testing results. Additionally, CR received $319 thousand and $302 thousand during 2019 and 2018, respectively, from sales of certain product testing results, and this is included in revenue and support in the accompanying consolidated statements of activities. Acting as the shareholder's representative, an officer of CR serves, without compensation, on the board of directors of ICRT.

(15) Liquidity and Availability of Financial Assets for General Expenditures

As part of CR's liquidity management, the Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. General expenditures include operating expenses incurred in carrying out the Organization's day-to-day activities. CR meets a majority of its liquidity needs from cash received from operations but maintains liquid investments that it can draw upon when needed. Except for $844 thousand of cash and $13,716 thousand of investments included in the CGA program, and $7,530 thousand of donor-restricted cash, there are no other cash or investments included on the balance sheet that are subject to donor or other contractual restrictions that make them unavailable for general expenditures within one year of the balance sheet date. To help manage unanticipated liquidity needs, CR maintains an unused $10,000 thousand line of credit. The line of credit is discussed in greater detail in note 10.

CR's financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprised of the following (in thousands):

Financial assets available within one year:		
Cash and cash equivalents	$	7,799
Investments		274,451
Trade receivables, net		6,665
	$	288,915
Liquidity Resources:		
Line of credit	$	10,000

(16) Subsequent Events

The Organization has evaluated subsequent events from the balance sheet date through September 30, 2019, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose.