Consumer Reports

**CONSUMER REPORTS, INC.**

Consolidated Financial Statements

May 31, 2018 and 2017

(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, 2018 and 2017, 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, 2018 and 2017, 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, 2018

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**CONSUMER REPORTS, INC.**

Consolidated Balance Sheets

May 31, 2018 and 2017

| Assets | 2018 | 2017 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 10,350,000 | 10,443,000 |
| Investments (note 6) | 302,696,000 | 305,063,000 |
| Trade receivables, net | 6,894,000 | 6,125,000 |
| Inventories (note 4) | 1,678,000 | 1,458,000 |
| Auto test inventory | 1,924,000 | 2,010,000 |
| Grants and other receivables | 480,000 | 2,896,000 |
| Deferred promotion cost (note 2) | — | 15,580,000 |
| Prepaid expenses and other current assets (note 2) | 9,812,000 | 7,474,000 |
| Receivable from insurance recovery (note 8) | 16,375,000 | — |
| Total current assets | 350,209,000 | 351,049,000 |
| Property and equipment, net (note 5) | 64,340,000 | 61,487,000 |
| Deferred promotion cost – long term (note 2) | — | 1,808,000 |
| Other assets (notes 3 and 9) | 2,686,000 | 2,753,000 |
| Grants receivable – long term (note 3) | 150,000 | 300,000 |
| Total assets | $ 417,385,000 | 417,397,000 |
| **Liabilities and Net Assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 17,158,000 | 14,558,000 |
| Accrued compensation | 9,383,000 | 10,220,000 |
| Deferred revenue (note 2) | 100,675,000 | 99,315,000 |
| Current portion of long-term debt (note 9) | 1,450,000 | 1,400,000 |
| Claim settlement liability (note 8) | 16,375,000 | — |
| Total current liabilities | 145,041,000 | 125,493,000 |
| Deferred revenue – long term (note 2) | 23,334,000 | 30,068,000 |
| Liability under derivative instrument (note 11) | 4,116,000 | 5,823,000 |
| Long-term debt (note 9) | 37,050,000 | 38,500,000 |
| Pension obligation (note 7) | 24,927,000 | 28,950,000 |
| Other liabilities (note 12) | 14,468,000 | 14,120,000 |
| Total liabilities | 248,936,000 | 242,954,000 |
| Net assets: | | |
| Unrestricted | 164,854,000 | 167,062,000 |
| Temporarily restricted (note 3) | 3,595,000 | 7,381,000 |
| Total net assets | 168,449,000 | 174,443,000 |
| Total liabilities and net assets | $ 417,385,000 | 417,397,000 |

See accompanying notes to consolidated financial statements.

**CONSUMER REPORTS, INC.**

Consolidated Statements of Activities

Years ended May 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Change in unrestricted net assets: | | |
| Operating: | | |
| Revenue and support: | | |
| Subscriptions, newsstand, and other sales (note 2) | $ 206,553,000 | 205,992,000 |
| Contributions | 28,038,000 | 31,841,000 |
| Net assets released from restrictions | 4,377,000 | 3,911,000 |
| Total revenue and support | 238,968,000 | 241,744,000 |
| Operating expenses: | | |
| Publication, promotion, and marketing expenses: | | |
| Content development | 87,229,000 | 83,138,000 |
| Production and distribution | 43,730,000 | 46,036,000 |
| Promotion and marketing | 68,378,000 | 68,047,000 |
| | 199,337,000 | 197,221,000 |
| Consumer advocacy and education | 16,187,000 | 14,796,000 |
| General and administrative (notes 5, 9 and 13) | 25,624,000 | 25,235,000 |
| Fundraising | 11,625,000 | 9,917,000 |
| Total operating and other expenses | 252,773,000 | 247,169,000 |
| Total operating loss | (13,805,000) | (5,425,000) |
| Nonoperating: | | |
| Investment return, net (note 6) | 23,371,000 | 29,212,000 |
| Unrealized gain on interest rate swap (note 11) | 1,707,000 | 1,558,000 |
| Change in value of split-interest agreements (note 12) | (410,000) | 713,000 |
| Pension-related changes other than net periodic pension cost (note 7) | 4,317,000 | 5,677,000 |
| Total nonoperating gain | 28,985,000 | 37,160,000 |
| Increase in unrestricted net assets | 15,180,000 | 31,735,000 |
| Change in temporarily restricted net assets: | | |
| Grants received (note 3) | 511,000 | 3,475,000 |
| Net assets released from restrictions | (4,377,000) | (3,911,000) |
| Contribution revenue – other | 100,000 | 100,000 |
| Change in value of split-interest agreements (note 3) | (20,000) | 60,000 |
| Decrease in temporarily restricted net assets | (3,786,000) | (276,000) |
| Increase in net assets | 11,394,000 | 31,459,000 |
| Net assets at beginning of year, as reported | 174,443,000 | 142,984,000 |
| Impact of change of accounting policies (note 2a) | (17,388,000) | — |
| Balance as of beginning of year | 157,055,000 | 142,984,000 |
| Net assets at end of year | $ 168,449,000 | 174,443,000 |

See accompanying notes to consolidated financial statements.

**CONSUMER REPORTS, INC.**

Consolidated Statements of Functional Expenses

Years ended May 31, 2018 and 2017

| | 2018 | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 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 | $ 73,061,000 | 9,800,000 | 14,128,000 | 3,176,000 | 100,165,000 | 70,624,000 | 7,912,000 | 13,913,000 | 2,250,000 | 94,699,000 |
| Printing and publications | 25,418,000 | 57,000 | 25,000 | 2,753,000 | 28,253,000 | 26,983,000 | 161,000 | 41,000 | 2,565,000 | 29,750,000 |
| Postage and shipping | 29,087,000 | 73,000 | 33,000 | 4,357,000 | 33,550,000 | 30,942,000 | 141,000 | 70,000 | 3,982,000 | 35,135,000 |
| Sales and marketing | 30,526,000 | 465,000 | 34,000 | 623,000 | 31,648,000 | 29,515,000 | 745,000 | 48,000 | 720,000 | 31,028,000 |
| Product testing | 4,076,000 | — | — | — | 4,076,000 | 3,507,000 | — | — | — | 3,507,000 |
| Professional fees | 11,699,000 | 1,254,000 | 2,905,000 | 349,000 | 16,207,000 | 11,678,000 | 2,032,000 | 3,346,000 | 98,000 | 17,154,000 |
| IT hosting and maintenance | 5,646,000 | 411,000 | 874,000 | 22,000 | 6,953,000 | 3,601,000 | 343,000 | 765,000 | 8,000 | 4,717,000 |
| Insurance | — | — | 893,000 | — | 893,000 | — | — | 981,000 | — | 981,000 |
| Fees, licenses, and permits | 2,066,000 | 10,000 | 39,000 | 3,000 | 2,118,000 | 1,931,000 | 16,000 | 36,000 | 4,000 | 1,987,000 |
| Occupancy | 2,002,000 | 982,000 | 256,000 | 20,000 | 3,260,000 | 2,162,000 | 912,000 | 316,000 | 14,000 | 3,404,000 |
| Grants and awards | — | 220,000 | — | — | 220,000 | — | 185,000 | — | — | 185,000 |
| Supplies | 502,000 | 40,000 | 422,000 | 6,000 | 970,000 | 598,000 | 64,000 | 462,000 | 7,000 | 1,131,000 |
| Telephone | 488,000 | 45,000 | 79,000 | 5,000 | 617,000 | 688,000 | 64,000 | 85,000 | 3,000 | 840,000 |
| Travel | 872,000 | 496,000 | 192,000 | 85,000 | 1,645,000 | 1,014,000 | 544,000 | 194,000 | 51,000 | 1,803,000 |
| Meetings and conferences | 211,000 | 65,000 | 175,000 | 14,000 | 465,000 | 248,000 | 61,000 | 164,000 | 16,000 | 489,000 |
| Dues and subscriptions | 434,000 | 736,000 | 51,000 | 3,000 | 1,224,000 | 391,000 | 863,000 | 44,000 | 1,000 | 1,299,000 |
| Interest (note 9) | — | — | 1,391,000 | — | 1,391,000 | — | — | 1,414,000 | — | 1,414,000 |
| Depreciation and amortization (note 5) | 12,070,000 | 273,000 | 634,000 | 50,000 | 13,027,000 | 11,166,000 | 309,000 | 702,000 | 31,000 | 12,208,000 |
| Sales tax | 81,000 | — | — | — | 81,000 | 68,000 | — | — | — | 68,000 |
| Severance (note 13) | — | — | 2,745,000 | — | 2,745,000 | — | — | 1,706,000 | — | 1,706,000 |
| Other expenses | 1,098,000 | 1,260,000 | 748,000 | 159,000 | 3,265,000 | 2,105,000 | 444,000 | 948,000 | 167,000 | 3,664,000 |
| Total | $ 199,337,000 | 16,187,000 | 25,624,000 | 11,625,000 | 252,773,000 | 197,221,000 | 14,796,000 | 25,235,000 | 9,917,000 | 247,169,000 |

See accompanying notes to consolidated financial statements.

**CONSUMER REPORTS, INC.**

Consolidated Statements of Cash Flows

Years ended May 31, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| Cash flows from operating activities: | | |
| Increase in net assets | $ 11,394,000 | 31,459,000 |
| Adjustments to reconcile increase net assets to net cash used in operating activities: | | |
| Depreciation and amortization | 13,027,000 | 12,208,000 |
| Amortization of bond issuance costs | 19,000 | 20,000 |
| Pension-related changes other than net periodic pension cost | (4,317,000) | (5,677,000) |
| Net unrealized gain on investments | (10,374,000) | (21,577,000) |
| Net realized gain on investments | (12,355,000) | (6,848,000) |
| Unrealized gain on interest rate swap | (1,707,000) | (1,558,000) |
| Change in value of split-interest agreements | 20,000 | (60,000) |
| Change in allowance for doubtful accounts | 952,000 | 1,214,000 |
| Pension expense | 4,165,000 | 4,342,000 |
| Loss on disposal of property and equipment | 78,000 | 171,000 |
| Other noncash items | (124,000) | (46,000) |
| Actuarial change in charitable gift annuity obligations | (410,000) | 713,000 |
| Pension contributions | (3,870,000) | (3,586,000) |
| Other changes in assets and liabilities: | | |
| Trade receivable | (1,721,000) | (1,252,000) |
| Inventories and auto test inventory | (134,000) | (190,000) |
| Grants and other receivables | 2,566,000 | 1,300,000 |
| Deferred promotion cost | — | 450,000 |
| Prepaid expenses and other current assets | (2,338,000) | (80,000) |
| Other noncurrent assets | 39,000 | 233,000 |
| Receivable from insurance recovery | (16,375,000) | — |
| Claim settlement liability | 16,375,000 | — |
| Accounts payable and accrued liabilities | 2,581,000 | 1,830,000 |
| Accrued compensation | (837,000) | (5,025,000) |
| Deferred revenue | (5,374,000) | (8,161,000) |
| Other liabilities | 889,000 | (2,927,000) |
| Net cash used in operating activities | (7,831,000) | (3,047,000) |
| Cash flows from capital investments and other investing activities: | | |
| Purchases of property and equipment | (3,747,000) | (3,527,000) |
| Payments for computer software and development | (12,211,000) | (12,045,000) |
| Purchase of investments | (4,124,000) | (4,363,000) |
| Proceeds from sales of investments | 29,220,000 | 19,288,000 |
| Net cash provided by (used in) capital investments and other investing activities | 9,138,000 | (647,000) |
| Cash flows from financing activities: | | |
| Repayment of long-term debt | (1,400,000) | (1,350,000) |
| Net cash used in financing activities | (1,400,000) | (1,350,000) |
| Net decrease in cash and cash equivalents | (93,000) | (5,044,000) |
| Cash and cash equivalents at beginning of year | 10,443,000 | 15,487,000 |
| Cash and cash equivalents at end of year | $ 10,350,000 | 10,443,000 |
| Supplemental data: | | |
| Cash paid for interest | $ 1,372,000 | 1,394,000 |
| Cash paid for taxes | 687,000 | 609,000 |
| Donated securities | 78,000 | 124,000 |

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 focus 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 is 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 is 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. As of May 31, 2018, both TAFI and CML have ceased operations and the companies were dissolved.

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 – or grant-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

*Unrestricted net assets* – Net assets that are not subject to donor – or grant-imposed stipulations.

*Temporarily restricted net assets* – Net assets subject to donor – or grant-imposed stipulations that will be met either by actions of CR or by the passage of time.

Nonoperating items have been segregated in the accompanying consolidated statements of activities and include net investment return, unrealized gain 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, 2018 and 2017, 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.

Amounts have been rounded to the nearest thousand for presentation purposes.



(Continued)

## (2) Significant Accounting Policies

### *(a) Changes in Accounting Policy*

Except for the changes below, the Organization has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

CR adopted ASC Topic, *Revenue from Contracts with Customers* (ASC 606) with a date of initial application of June 1, 2017. As a result, CR changed its accounting policy for revenue recognition as detailed below.

CR applied ASC 606 modified retrospective method, by recognizing the cumulative effect of initially applying ASC 606 to the opening net assets balance at June 1, 2017. The cumulative effect of the adoption results in a reduction of $17,388,000 to the beginning net asset balance. Therefore financial results for 2018 are presented in accordance with ASC 606, while 2017 is reported in accordance with the Company’s pre-adoption accounting policies and therefore have not been adjusted to conform to ASC 606. Details of the significant changes and the quantitative impact are below.

*(i) Digital and Print Products*

Prior to adopting ASC 606, proceeds from subscriptions were recorded as unearned subscription revenue when received and recognized as revenue over the applicable terms of the subscription services, generally one to two years for print and one to twelve months for online products. Subscription services to be provided within one year were included as deferred revenue, and the portion of the subscription services in excess of one year is classified as deferred revenue – long term. Upon adoption of ASC 606, CR allocated the transaction price of the remaining performance obligations that will be satisfied in the future. As of May 31, 2018, performance obligations of $100,675,000 estimated to be satisfied within one-year are included in the accompanying consolidated balance sheets as deferred revenue and $23,334,000 of performance obligations estimated to be satisfied beyond one-year are included in the accompanying consolidated balance sheets as deferred revenue – long-term.

*(ii) Deferred Promotion Cost*

Prior to the adoption of ASC 606, CR deferred certain promotion costs, which were primarily printing, list rental, and mailing costs, on most direct mail promotions for its applicable publications in accordance with ASC Subtopic 340 20, *Capitalized Advertising Costs*. These costs were amortized over the periods of the subscriptions generated from these promotions, not to exceed 20 months. At May 31, 2017, $17,388,000 of promotion costs were deferred as assets. All other advertising and promotion expenses except these direct mail promotions are expensed at the time the advertising takes place. Amortization of deferred promotion costs, included in promotion and marketing expenses in the accompanying consolidated statements of activities, was $23,563,000 in 2017.

On June 1, 2017, $17,388,000 was written off as an adjustment to net assets and all advertising and promotion expenses are expensed at the time the advertising takes place in 2018.

Total promotion and marketing expenses recognized are $68,378,000 and $68,047,000 in 2018 and 2017, respectively. Such amounts represent management and general activities of CR.

*(iii) Quantitative Impact of Adoption of ASC 606*

The cumulative effect of the changes made to the Organization's consolidated balance sheets as of June 1, 2017 for the adoption of ASC 606 were as follows:

| | | Balance at May 31, 2017 | Adjustments due to ASC 606 | Balance at June 1, 2017 |
|---|---|---|---|---|
| Assets: | | | | |
| Current assets: | | | | |
| Deferred promotion cost | $ | 15,580,000 | (15,580,000) | — |
| Deferred promotion cost – long term | | 1,808,000 | (1,808,000) | — |
| Liabilities and net assets: | | | | |
| Net assets: | | | | |
| Unrestricted | $ | 167,062,000 | (17,388,000) | 149,674,000 |

There was no impact to the timing or measurement of revenues as a result of the adoption of ASC 606.

***(b) Revenue Recognition***

In accordance with 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 principle activities from which CR generates its revenue.

| **Products and services** | **Nature, timing of satisfaction of performance obligations, and significant payment terms** |
|---|---|
| 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 straight-line 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 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. Revenue is recognized over the respective term of the contract. |
| 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 straight-line 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. Revenue is recognized over the respective term of the contract. |
| Other Revenue | Other revenue primarily consists of referral fees received from a contract with a 3rd party 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*

In the following table, revenue from contracts with customers is disaggregated by major product line, across timing of revenue recognition and sales channels.

| | Major product categories May 31, 2018 | | | |
|---|---|---|---|---|
| | Digital products | Print products | Other revenue | Total |
| Timing of revenue recognition: | | | | |
| Transferred over time | $ 89,176,000 | 99,175,000 | 562,000 | 188,913,000 |
| Point in time | 5,693,000 | 2,007,000 | 9,940,000 | 17,640,000 |
| Total | $ 94,869,000 | 101,182,000 | 10,502,000 | 206,553,000 |

*(iii) Transaction Price Allocated to the Remaining Performance Obligations*

The following table includes estimated deferred revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of May 31, 2018.

| | 2019 | 2020 | 2021 | 2022 | 2023 to 2027 | Total |
|---|---|---|---|---|---|---|
| Digital products | $ 36,454,000 | — | — | — | — | 36,454,000 |
| Print products | 64,221,000 | 15,154,000 | 4,850,000 | 1,817,000 | 1,513,000 | 87,555,000 |
| Total | $ 100,675,000 | 15,154,000 | 4,850,000 | 1,817,000 | 1,513,000 | 124,009,000 |

*(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 in the amounts of $2,287,000 as of May 31, 2018. 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. In 2018, $2,552,000 of commission fees were amortized into promotion and marketing expense and there was no impairment loss in relation to the costs capitalized. The accounting treatment of incremental commission expense is consistent with CR's accounting prior to the adoption of ASC 606.

As of May 31, 2018, expected amortization of contract costs is as follows:

| | 2019 | 2020 | 2021 | 2022 | 2023 to 2027 | Total |
|---|---|---|---|---|---|---|
| Contract costs | $ 1,518,000 | 329,000 | 157,000 | 88,000 | 195,000 | 2,287,000 |



(Continued)

***(c) 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 $6,547.000 and $5,595,000 at May 31, 2018 and 2017, respectively. As of May 31, 2018, trade receivables primarily consist of receivables from subscriptions (64%), newsstand sales (9%), referral fees (15%), and other sales (12%). The Organization does not have any off-balance-sheet credit exposure related to its customers.

***(d) 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.

***(e) 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.

***(f) 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 1(o). Unrealized gains and losses are included in the accompanying consolidated statements of activities.

***(g) 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.

***(h) 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.

***(i) Property and Equipment***

Property and equipment 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



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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.

***(j) 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 available for unrestricted 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 temporarily restricted. However, if a restriction is fulfilled in the same fiscal year in which the contribution is received, the Organization records the contribution as unrestricted.

***(k) 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 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


(Continued)

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 temporarily restricted revenue 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 temporarily restricted revenue 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 temporarily restricted net assets in the accompanying consolidated statements of activities. The funds are classified as temporarily restricted until the termination of the trust when they become unrestricted.

***(l) 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 2018 and 2017.

***(m) 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, amortization periods for deferred promotion costs, valuation of deferred promotion costs, 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.

***(n) 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.



(Continued)

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 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.

### *(o) 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, 2018 and 2017, provisions for income taxes were $889,000 and $745,000, 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, 2015, 2016, and 2017 are subject to examination by federal, state, and local authorities.

### *(p) Reclassifications*

Certain reclassifications have been made to the 2017 reported amounts to conform to the 2018 presentation.

### *(q) Recent Accounting Pronouncements*

The FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which provides several qualitative and quantitative changes to the financial statements of not-for-profit entities. Which among other things, changes how not-for-profit entities report net asset classes, expenses, and liquidity in their financial statements. CR plans to adopt ASU 2016-14 for the year ending May 31, 2019.

## (3) Temporarily Restricted Net Assets

Temporarily restricted net assets were $3,595,000 and $7,381,000 as of May 31, 2018 and 2017, respectively, and consist of the following:

| | 2018 | 2017 |
|---|---|---|
| Split-interest agreements | $ 623,000 | 643,000 |
| Donor-imposed purpose restrictions | — | 351,000 |
| Grantor-imposed purpose restrictions | 2,972,000 | 6,387,000 |
| | $ 3,595,000 | 7,381,000 |

As of May 31, 2018 and 2017, there were $1,660,000 and $1,669,000, 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 2018 and 2017.

Temporarily restricted net assets due to donor-imposed stipulations are for food safety and sustainability-related projects, including testing, research, and public education.

Temporarily restricted net assets due to grant-imposed stipulations at May 31, 2018 and 2017 are available for the following purposes:

| | | 2018 | 2017 |
|---|---|---|---|
| Organic marketing and labeling (a) | $ | 895,000 | 1,358,000 |
| Ford Foundation Build Grant (b) | | 851,000 | 1,488,000 |
| Cyber Privacy (c) | | 555,000 | 982,000 |
| Best Buy Drugs (d) | | — | 633,000 |
| Heath Care Value Hub (e) | | — | 69,000 |
| Other grants outstanding less than $500,000 individually | | 671,000 | 1,857,000 |
| Total | $ | 2,972,000 | 6,387,000 |

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

(b) 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, 2018, $150,000 will be received after 12 months after May 31, 2018 and is recognized as grants receivable – long term in the accompanying consolidated balance sheets.

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

(d) Represents an unexpended grant received for the support and enhancement of Consumer Reports Best Buy Drugs. The project was to build a social marketing campaign, intended to reach millions of consumers with unbiased content about prescription drug effectiveness, cost safety, and off-label use and was completed in 2018.

(e) Represents an unexpended grant received to enhance the Health Care Value Hub for consumer advocates to continue the evidence-based effort to contain health costs and promote value and was completed in 2018.

## (4) Inventories

Inventories at May 31, 2018 and 2017 consist of the following:

| | | 2018 | 2017 |
|---|---|---|---|
| Paper | $ | 1,202,000 | 998,000 |
| Published books and periodicals | | 476,000 | 460,000 |
| | $ | 1,678,000 | 1,458,000 |

## (5) Property and Equipment

Property and equipment at May 31, 2018 and 2017 consist of the following:

| | | 2018 | 2017 |
|---|---|---|---|
| Land | $ | 11,935,000 | 11,935,000 |
| Buildings and improvements | | 70,072,000 | 68,615,000 |
| Furniture, fixtures, and equipment | | 23,697,000 | 21,541,000 |
| Capitalized computer software | | 86,633,000 | 74,422,000 |
| | | 192,337,000 | 176,513,000 |
| Less accumulated depreciation and amortization | | 127,997,000 | 115,026,000 |
| Net property and equipment | $ | 64,340,000 | 61,487,000 |

Depreciation and amortization expense for the years ended May 31, 2018 and 2017 was $13,027,000 and $12,208,000, respectively. At May 31, 2018 and 2017, capitalized computer software was $20,927,000 and $16,532,000, respectively, net of accumulated amortization of $65,706,000 and $57,890,000, respectively. Amortization expense for capitalized computer software was $7,872,000 and $7,289,000 in 2018 and 2017, respectively.

CR performs reviews of fixed assets to determine if there are assets no longer in service. During the years ended May 31, 2018 and 2017, CR recognized a net loss of $78,000 and $123,000, respectively, for retired assets no longer in service in the consolidated statements of activities in general and administrative expenses.

On February 14, 2018, CR replaced its e-commerce system with a new solution which improves data security, enhances system flexibility, and reduces maintenance costs. The useful life of the replacement system has been estimated at 6 years at a cost of $6,970,000.

## (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, 2018, 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, 2018. No investments were valued using Level 3 inputs.

The fair value of investments as of May 31, 2018 and 2017 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 |
|---|---|---|---|---|---|
| May 31, 2018: | | | | | |
| Equity funds: | | | | | |
| Domestic | $ | 94,420,000 | — | — | 94,420,000 |
| International | | 769,000 | — | 71,879,000 | 72,648,000 |
| Fixed income funds: | | | | | |
| Bonds | | 70,774,000 | — | — | 70,774,000 |
| U.S. Treasury | | 32,022,000 | — | — | 32,022,000 |
| Commodities fund | | 15,949,000 | — | — | 15,949,000 |
| Real estate fund | | — | — | 15,989,000 | 15,989,000 |
| U.S. government agency bonds | | — | 894,000 | — | 894,000 |
| Total | $ | 213,934,000 | 894,000 | 87,868,000 | 302,696,000 |

| | | Level 1 | Level 2 | Investments reported at NAV[1] | Total |
|---|---|---|---|---|---|
| May 31, 2017: | | | | | |
| Equity funds: | | | | | |
| Domestic | $ | 97,331,000 | — | — | 97,331,000 |
| International | | 759,000 | — | 72,910,000 | 73,669,000 |
| Fixed income funds: | | | | | |
| Bonds | | 71,886,000 | — | — | 71,886,000 |
| U.S. Treasury | | 31,915,000 | — | — | 31,915,000 |
| Commodities fund | | 14,335,000 | — | — | 14,335,000 |
| Real estate fund | | — | — | 15,006,000 | 15,006,000 |
| U.S. government agency bonds | | — | 921,000 | — | 921,000 |
| Total | $ | 216,226,000 | 921,000 | 87,916,000 | 305,063,000 |

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, 2018 and 2017 was composed of the following:

| | 2018 | 2017 |
|---|---|---|
| Interest and dividend income | $ 1,089,000 | 1,177,000 |
| Net unrealized gains | 10,374,000 | 21,577,000 |
| Net realized gains | 12,355,000 | 6,848,000 |
| Investment expenses | (447,000) | (390,000) |
| | $ 23,371,000 | 29,212,000 |

## (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 $81,000 and $74,000 in 2018 and 2017, 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, 2018.

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 new, 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 2018 | Pension benefits 2017 |
|---|---|---|
| Change in projected benefit obligation: | | |
| Benefit obligation at the beginning of year | $ 117,058,000 | 117,760,000 |
| Service cost | 1,950,000 | 2,004,000 |
| Interest cost | 4,391,000 | 4,370,000 |
| Actuarial loss | 76,000 | 573,000 |
| Benefits and administrative expenses paid | (4,604,000) | (5,839,000) |
| Change in assumptions | (1,213,000) | 538,000 |
| Settlement of Management Plan | (3,492,000) | (2,348,000) |
| Projected benefit obligation at the end of year | 114,166,000 | 117,058,000 |
| Change in plan assets: | | |
| Fair value of plan assets at the beginning of year | 88,108,000 | 83,889,000 |
| Actual return on plan assets | 5,357,000 | 8,820,000 |
| Employer contributions | 3,870,000 | 3,586,000 |
| Benefits and administrative expenses paid | (4,604,000) | (5,839,000) |
| Settlement of Management Plan | (3,492,000) | (2,348,000) |
| Fair value of assets at the end of year | 89,239,000 | 88,108,000 |
| Funded status | $ (24,927,000) | (28,950,000) |

The accumulated benefit obligation for all defined-benefit pension plans was $114,166,000 and $117,058,000 at May 31, 2018 and 2017, 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, 2018 and 2017, as provided by CR's actuaries, were as follows:

| | 2018 | 2017 |
|---|---|---|
| Funded status: | | |
| Accumulated benefit obligation | $ 114,166,000 | 117,058,000 |
| Projected benefit obligation | 114,166,000 | 117,058,000 |
| Fair value of plan assets available for benefits | 89,239,000 | 88,108,000 |
| Funded status | $ (24,927,000) | (28,950,000) |

| | Management Frozen Plan | |
|---|---|---|
| | **2018** | **2017** |
| Funded status: | | |
| Accumulated benefit obligation | $ 32,954,000 | 34,599,000 |
| Projected benefit obligation | 32,954,000 | 34,599,000 |
| Fair value of plan assets available for benefits | 29,449,000 | 30,238,000 |
| Funded status | $ (3,505,000) | (4,361,000) |

| | Union Frozen Plan | |
|---|---|---|
| | **2018** | **2017** |
| Funded status: | | |
| Accumulated benefit obligation | $ 73,030,000 | 75,539,000 |
| Projected benefit obligation | 73,030,000 | 75,539,000 |
| Fair value of plan assets available for benefits | 52,488,000 | 51,773,000 |
| Funded status | $ (20,542,000) | (23,766,000) |

| | Union Adjustable Plan | |
|---|---|---|
| | **2018** | **2017** |
| Funded status: | | |
| Accumulated benefit obligation | $ 8,182,000 | 6,920,000 |
| Projected benefit obligation | 8,182,000 | 6,920,000 |
| Fair value of plan assets available for benefits | 7,302,000 | 6,097,000 |
| Funded status | $ (880,000) | (823,000) |

The amounts recognized in the consolidated balance sheets and as an adjustment to unrestricted net assets for the Management Frozen Plan, Union Frozen Plan, and Union Adjustable Plan on a combined basis as of May 31, 2018 and 2017, as provided by CR's actuaries, were as follows:

| | 2018 | 2017 |
|---|---|---|
| Amounts recognized in the consolidated balance sheets consist of: | | |
| Noncurrent liabilities | $ (24,927,000) | (28,950,000) |
| Total | $ (24,927,000) | (28,950,000) |
| Total amounts recognized as an adjustment to unrestricted net assets consist of: | | |
| Unrecognized actuarial loss | $ 24,647,000 | 28,964,000 |
| Total adjustment to unrestricted net assets | $ 24,647,000 | 28,964,000 |

The amount in the adjustment to unrestricted net assets as of May 31, 2018 that is expected to be recognized as a component of net periodic benefit cost during the next fiscal year consisted of a $1,239,000 actuarial loss.

The change of the adjustment to unrestricted net assets of the plans resulted in an increase of $4,317,000 and an increase of $5,677,000 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, 2018 and 2017, respectively.

The weighted average assumptions used to determine the benefit obligations in the actuarial valuations at May 31, 2018 and 2017 measurement dates were as follows:

| | 2018 | 2017 |
|---|---|---|
| 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 |
| 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, 2018, 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 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Service cost | $ 1,950,000 | 2,004,000 |
| Interest cost | 4,391,000 | 4,370,000 |
| Expected return on plan assets | (4,790,000) | (4,750,000) |
| Amortization of net loss | 1,566,000 | 1,987,000 |
| Settlement loss | 1,048,000 | 731,000 |
| Net periodic benefit cost | $ 4,165,000 | 4,342,000 |

Due to significant lump-sum distributions exceeding service and interest costs in the Management Frozen Plan, a $1,048,000 and $731,000 settlement loss was recognized and is included in pension expense for the years ended May 31, 2018 and 2017, respectively.

The weighted average assumptions used to determine net periodic benefit cost for the years 2018 and 2017 were as follows:

| | 2018 | 2017 |
|---|---|---|
| Discount rate: | | |
| Management Frozen Plan (preretirement and postretirement) | 3.75 % | 3.70 % |
| Union Frozen Plan (preretirement and postretirement) | 3.95 | 3.90 |
| Union Adjustable Plan (preretirement and postretirement) | 4.05 | 4.10 |
| Expected return on plan assets: | | |
| Management Frozen Plan | 5.75 % | 6.00 % |
| Union Frozen Plan | 5.75 | 6.00 |
| Union Adjustable Plan | 5.00 | 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 % |



(Continued)

The Organization's overall expected long-term rate of return on plan assets is 5.75% for the Management Frozen Plan and Union Frozen Plan. 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 5.00%.

### *(c) Plan Assets*

The weighted average asset allocation of the Management Frozen Plan's assets at May 31, 2018 and 2017 was as follows:

| | Management Frozen Plan's assets | |
|---|---|---|
| | **2018** | **2017** |
| Asset category: | | |
| Domestic equities | 31.3 % | 29.8 % |
| International equities | 25.2 | 26.4 |
| Fixed income | 43.3 | 43.1 |
| Other (money market) | 0.2 | 0.7 |
| Total | 100.0 % | 100.0 % |

The target allocation for assets of the Management Frozen Plan is 45% fixed income securities, 30% domestic equity securities, and 25% 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, 2018, 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, 2018. The Management Frozen Plan's assets were fair valued as of May 31, 2018 and 2017 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 |
| May 31, 2018: | | | |
| Domestic equity – commingled funds | $ 9,236,000 | — | 9,236,000 |
| International equity – commingled funds | — | 7,427,000 | 7,427,000 |
| Fixed income – commingled bond funds | 12,767,000 | — | 12,767,000 |
| Other (money market) | 19,000 | — | 19,000 |
| Total | $ 22,022,000 | 7,427,000 | 29,449,000 |

| | Management Frozen Plan's assets | | |
|---|---|---|---|
| | Level 1 | Investments reported at NAV[1] | Total |
| May 31, 2017: | | | |
| Domestic equity – commingled funds | $ 9,006,000 | — | 9,006,000 |
| International equity – commingled funds | — | 7,978,000 | 7,978,000 |
| Fixed income – commingled bond funds | 13,038,000 | — | 13,038,000 |
| Other (money market) | 216,000 | — | 216,000 |
| Total | $ 22,260,000 | 7,978,000 | 30,238,000 |

[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, 2018 and 2017 was as follows:

| | Union Frozen Plan's assets | |
|---|---|---|
| | **2018** | **2017** |
| Asset category: | | |
| Domestic equities | 35.8 % | 34.9 % |
| International equities | 10.0 | 8.7 |
| Fixed income | 32.7 | 33.6 |
| Multialternative funds | 13.7 | 16.8 |
| Real estate equities | 5.4 | 5.3 |
| Other (money market) | 2.4 | 0.7 |
| 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, 2018, 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, 2018. The Union Frozen Plan's assets were fair valued as of May 31, 2018 and 2017 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** |
| May 31, 2018: | | | |
| Domestic equity – commingled funds | $ 18,747,000 | — | 18,747,000 |
| International equity funds | 2,427,000 | — | 2,427,000 |
| International equity – commingled funds | — | 2,842,000 | 2,842,000 |
| Multialternative funds | 7,190,000 | — | 7,190,000 |
| Real estate fund | — | 2,835,000 | 2,835,000 |
| Fixed income funds | 17,188,000 | — | 17,188,000 |
| Other (money market) | 1,259,000 | — | 1,259,000 |
| Total | $ 46,811,000 | 5,677,000 | 52,488,000 |

| | Union Frozen Plan's assets | | |
|---|---|---|---|
| | Level 1 | Investments reported at NAV[1] | Total |
| May 31, 2017: | | | |
| Domestic equity – commingled funds | $ 18,040,000 | — | 18,040,000 |
| International equity funds | 1,942,000 | — | 1,942,000 |
| International equity – commingled funds | — | 2,587,000 | 2,587,000 |
| Multialternative funds | 8,699,000 | — | 8,699,000 |
| Real estate fund | — | 2,718,000 | 2,718,000 |
| Fixed income funds | 17,408,000 | — | 17,408,000 |
| Other (money market) | 379,000 | — | 379,000 |
| Total | $ 46,468,000 | 5,305,000 | 51,773,000 |

The weighted average asset allocation of the Union Adjustable Plan's assets at May 31, 2018 and 2017 was as follows:

| | Union Adjustable Plan's assets | |
|---|---|---|
| | 2018 | 2017 |
| Asset category: | | |
| Domestic commingled equities | 18.7 % | 17.0 % |
| International commingled equities | 7.9 | 7.6 |
| Fixed income – commingled bonds | 44.9 | 49.5 |
| Multialternative funds | 24.5 | 24.2 |
| Other (money market) | 4.0 | 1.7 |
| 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.

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.

All of the Union Adjustable Plan's assets were fair valued as of May 31, 2018 and 2017 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 | |
|---|---|---|
| | **2018** | **2017** |
| Domestic equity – commingled funds | $ 1,192,000 | 1,035,000 |
| International equity – commingled funds | 506,000 | 462,000 |
| Fixed income – commingled bond funds | 3,693,000 | 3,018,000 |
| Multialternative funds | 1,654,000 | 1,476,000 |
| Other (money market) | 257,000 | 106,000 |
| Total | $ 7,302,000 | 6,097,000 |

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 $1,310,000 to the Management Frozen Plan, $2,125,000 to the Union Frozen Plan, and $1,334,000 to the Union Adjustable Plan for the fiscal year ending May 31, 2019.

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:

| | **Management Frozen Plan** | **Union Frozen Plan** | **Union Adjustable Plan** |
|---|---|---|---|
| Years ending May 31: | | | |
| 2019 | $ 3,243,000 | 4,486,000 | 93,000 |
| 2020 | 2,875,000 | 6,360,000 | 156,000 |
| 2021 | 5,684,000 | 9,766,000 | 212,000 |
| 2022 | 3,560,000 | 10,650,000 | 258,000 |
| 2023 | 3,853,000 | 8,553,000 | 323,000 |
| 2024–2028 | 9,543,000 | 21,614,000 | 2,629,000 |

The expected benefits are based on the same assumptions used to measure CR's benefit obligation at May 31, 2018 and include estimated future employee service.



(Continued)

### *(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% 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 $4,371,000 and $4,100,000 in 2018 and 2017, 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 $88,000 and $68,000 in 2018 and 2017, respectively.

## (8) Commitments, Contingencies, and Concentrations

### *(a) Leases*

CR leases office facilities for which rental expense was $723,000 and $703,000 in 2018 and 2017, 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 six 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.

Future minimum cash payments under noncancelable leases are as follows:

| | | |
|---|---|---|
| Years ending May 31: | | |
| 2019 | $ | 743,000 |
| 2020 | | 756,000 |
| 2021 | | 767,000 |
| 2022 | | 583,000 |
| 2023 | | 474,000 |
| 2024 and thereafter | | 241,000 |
| | $ | 3,564,000 |

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:

| | | |
|---|---|---|
| Year ending May 31: | | |
| 2019 | $ | 118,000 |
| 2020 | | 121,000 |
| 2021 | | 124,000 |
| 2022 | | 105,000 |
| | $ | 468,000 |

### *(b) Legal Proceedings*

Various claims and legal threats are made against the Organization during 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 $16,375,000 settlement was agreed to by the parties and approved by the Judge in the case. Accordingly, a $16,375,000 liability was recognized and is included as a claim settlement liability in the accompanying consolidated balance sheets as of May 31, 2018.

The Organization maintains insurance to cover this liability and has an approved claim on file with its insurers. The insurance coverage provides for a $100,000 retention, which was met by the Organization in 2017. The insurers have covered the litigation costs above the retention and have agreed to cover the settlement amount. The insurers' financial strength is highly rated by reputable external agencies and the Organization believes that the full amount of the settlement will be collected from the insurers. The settlement amount of $16,375,000 is recognized as a receivable from insurance recovery in the accompanying consolidated balance sheets as of May 31, 2018.

In September 2018, CR entered into a settlement agreement related to the termination of a contract. The liability of the contract termination costs was adjusted as of May 31, 2018 based on the terms of the settlement agreement.

It is management's opinion that the ultimate disposition of these 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 expired on June 30, 2018. CR continues to operate under the terms of the existing agreement while negotiations with the union continue. As of May 31, 2018, CR had a total of 583 employees of which 257 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 $47,300,000 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 $34,750,000 (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 $9,980,000, 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 2018 and 2017 was 1.09% and 0.66%, 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 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 $1,350,000 and $1,400,000 were made in June 2016 and 2017, respectively. Total long-term annual sinking fund requirements for the revenue bonds are as follows:

| | | |
|---|---|---|
| Years ending May 31: | | |
| 2019 | $ | 1,450,000 |
| 2020 | | 1,500,000 |
| 2021 | | 1,550,000 |
| 2022 | | 1,600,000 |
| 2023 | | 1,675,000 |
| 2024–2040 | | 30,725,000 |
| | $ | 38,500,000 |

The issuance costs related to the mode change amounted to $416,000 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 amounts are included in other assets on the accompanying consolidated balance sheets as of May 31, 2018 and 2017.

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 2018 and 2017 was $1,391,000 and $1,414,000, 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 3.6% and 3.5% for the years ended May 31, 2018 and 2017, respectively.

### (10) Bank Borrowings

CR has an unused line of credit totaling $10,000,000 at May 31, 2018. Terms of this line allow CR to draw down on the line with interest at LIBOR plus 0.5% or the prime rate. At May 31, 2018 and 2017, CR has 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 $38,930,000. Amendments have been executed extending the term of the letter of credit through May 31, 2019. 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 $38,500,000 balance of the bonds in addition to $430,000 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, 2018 and 2017, there was no amount outstanding under the letter-of-credit agreement.



(Continued)

## (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 $32,900,000. 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 $47,300,000 debt issue coincide with the scheduled proportional reductions in the notional principal amount of the Swap. As of May 31, 2018, the notional principal amount of the Swap is $26,740,000.

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, 2018 and 2017, the fair value of the Swap using Level 2 inputs under the fair value hierarchy under ASC Topic 820, including the amendment, is $(4,116,000) and $(5,823,000), respectively. These amounts are reflected on the accompanying consolidated balance sheets, and the associated loss is included in the accompanying consolidated statements of activities as unrealized loss on interest rate swap.

## (12) Charitable Gift Annuities

As discussed in note 2, the Organization maintains a CGA program. The Organization’s cash and investments pertaining to the CGA program were valued at $15,298,000 and $15,027,000 at May 31, 2018 and 2017, respectively. The Organization’s liability associated with CGAs was $10,457,000 and $10,667,000, utilizing the discount rate at the date in which the gift was established at May 31, 2018 and 2017, respectively. During 2018 and 2017, respectively, CR recognized $154,000 and $72,000 in net unrestricted contribution revenue attributable to new CGAs. Additionally, principally because of changes in the mortality table and the discount rate used to present value the liability, the liability increased by $410,000 and decreased by $713,000 in 2018 and 2017, 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

In March 2016, a Voluntary Separation Plan (VSP) was approved. The VSP offered enhanced severance benefits to 233 employees who met certain eligibility requirements. Employees were required to submit an application prior to May 23, 2016 to be considered for participation in the VSP. Although management had the ability to accept or reject applications based on the needs of the business and other factors, management elected to accept all 50 VSP applications submitted, resulting in $7,176,000 of severance expense that is included in general and administrative expenses in the accompanying consolidated statements of activities.

Other severance of $2,745,000 and $1,489,000 represents separation benefits for employees terminated during the normal course of business during 2018 and 2017, respectively. The charge is included in general and administrative expenses in the accompanying consolidated statements of activities.

As of May 31, 2018 and 2017, there are unpaid severance benefits of $967,000 and $1,577,000, respectively, included in accrued compensation in the accompanying consolidated balance sheets.

Changes in severance liability are presented below:

| | | Employee termination costs |
|---|---|---|
| Severance liability as of May 31, 2016 | $ | 7,216,000 |
| Voluntary separation plan costs | | 217,000 |
| Other severance | | 1,489,000 |
| Cash and benefits paid | | (7,345,000) |
| Severance liability as of May 31, 2017 | | 1,577,000 |
| Other severance | | 2,745,000 |
| Cash and benefits paid | | (3,355,000) |
| Severance liability as of May 31, 2018 | $ | 967,000 |

## (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 $600,000 and $750,000 for the years ended May 31, 2018 and 2017, 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 2018, CR's investment in ICRT was $93,000 for two capital shares. CR also paid ICRT membership fees of $121,000 and 108,000 in 2018 and 2017, respectively. In 2018 and 2017, CR made payments of $331,000 and $211,000, respectively, for certain product testing results. Additionally, CR received $302,000 and $351,000 during 2018 and 2017, 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.



(Continued)

## (15) Subsequent Events

The Organization has evaluated subsequent events from the balance sheet date through September 30, 2018, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose.