

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

***Corporate Governance and Internal Control Statement***

The following Statement is provided by the Syndicate to enable readers of the financial statements to obtain a better understanding of Cambridge Assessment's governance and legal structure.

Cambridge Assessment (which is the brand name of the University of Cambridge Local Examinations Syndicate) is a constituent part of the University of Cambridge established under the Statutes and Ordinances of the University.

The governing body of Cambridge Assessment is the Syndicate (the Syndics), which comprises six members of the Regent House and six external members, along with a Chairman appointed by the Vice-Chancellor and a University officer appointed by the Council. Members from the Regent House are appointed by the Council, while external members are appointed by the Council on the nomination of Cambridge Assessment.

The Syndics are responsible for the oversight of the work of Cambridge Assessment and its subsidiary undertakings (the Group), for its system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve Cambridge Assessment's objectives, and can only provide reasonable, and not absolute assurance against material misstatement or loss. The Syndics are of the view that there is an ongoing process for identifying, evaluating, and managing the significant risks to which Cambridge Assessment is exposed.

The Syndics meet about six times during the year, and are advised in carrying out their duties by a number of committees, including a Corporate Board, an Audit Committee, and a Remuneration Committee.

The Audit Committee is chaired by an external member of the Syndicate. It meets at least four times during the year with the Syndicate's senior officers and the external and internal auditors in attendance as required. Its principal role is to review the adequacy and effectiveness of the Group's systems of internal financial control, financial reporting, and risk management in consultation with internal and external auditors. Its review of the system of internal control is informed by the work of the internal auditors, who also make a report to the University Audit Committee. The Audit Committee advises the Syndicate on the appointment of internal and external auditors. The Syndicate receives minutes of all meetings of the Audit Committee.

The Group Remuneration Committee meets at least once during the year to review the remuneration of the Group's senior executives and to consider matters of general remuneration policy. The salary of the Group Chief Executive is determined by the full Syndicate.

The Syndicate has in place an agreed statement of the powers delegated to the Group Chief Executive. The day-to-day management of the Group is the responsibility of the Group Chief Executive and the Corporate Board, whose other members comprise the Chief Executives of the three business streams, the Group Director Assessment, Research and Development, and the Group Directors of Finance, Infrastructure Services, and Human Resources.

Cambridge Assessment maintains a formal register of trustees' interests. It is available for viewing on application to the Secretary to the Syndicate.

The Syndics certify that so far as they are aware, there is no relevant audit information of Cambridge Assessment of which the auditors are unaware; and have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that Cambridge Assessment's auditors are aware of that information.

***Responsibilities of the Syndics for the preparation of the Financial Statements for the period ended 31 July 2007***

Statute F, II, 4 of the University of Cambridge provides that the accounts of the Local Examinations Syndicate shall be audited annually by one or more qualified accountants appointed by the Council.

The Local Examinations Syndicate uses the brand name of Cambridge Assessment.

The Syndics are responsible for the administration and management of the affairs of the Group and Cambridge Assessment and are required to present audited financial statements for each financial year.

They are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Cambridge Assessment and to enable them to ensure that the financial statements are prepared in accordance with the Statement of Recommended Practice on Accounting in Higher Education Institutions and relevant accounting standards. They are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Cambridge Assessment and of the surplus or deficit and cash flows for that year.

In the course of preparing the financial statements, the Syndics have ensured that:

1. suitable accounting policies are selected and applied consistently;
2. judgements and estimates are made that are reasonable and prudent;
3. applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
4. financial statements are prepared on a going concern basis unless it is inappropriate to presume that the Group and Cambridge Assessment will continue in operation.

The Syndics have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and Cambridge Assessment and prevent and detect fraud and other irregularities.

***Report of the Independent Auditors to the University of Cambridge Local Examinations Syndicate ('Local Examinations Syndicate')***

We have audited the Group and Cambridge Assessment financial statements (the 'financial statements') for the period ended 31 July 2007 which comprise the Group Income and Expenditure Account, the Group and Cambridge Assessment Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognized Gains and Losses, the Group Statement of Historical Cost Surpluses and Deficits, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Local Examinations Syndicate, as a body of Syndics, in accordance with the Statutes of the University of Cambridge. Our audit work has been undertaken so that we might state to the Local Examinations Syndicate those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Local Examinations Syndicate and the Syndics as a body, for our audit work, for this report, or for the opinions we have formed.

***Respective responsibilities of the Syndics and the auditors***

The Syndics' responsibilities for preparing the financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 97.

Our responsibility is to audit the financial statements in accordance with the terms of our engagement letter dated 9 October 2007 and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and applicable UK Accounting Standards.

In addition we also report to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the Annual Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them.

***Basis of opinion***

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Syndics in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and Cambridge Assessment's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

***Opinion***

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the Group and Cambridge Assessment as at 31 July 2007 and of the Group's surplus of income over expenditure for the period then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education; and
- the information in the Annual Report and the Corporate Governance Statement is consistent with the financial statements.

**KPMG LLP**

*Chartered Accountants and Registered Auditor*  
37 Hills Road, Cambridge

**Consolidated Income and Expenditure Account for the period ended 31 July 2007**

	<i>Note</i>	<i>10 months ended July 2007 £m</i>	<i>Year ended Sept 2006 £m</i>
<b>Income</b>			
Examination fees		173.0	159.7
Other educational and assessment services		11.8	14.0
Endowment and investment income	2	3.5	3.4
<b>Total income</b>		<b>188.3</b>	<b>177.1</b>
<b>Expenditure</b>			
Staff costs	3	43.6	52.7
Other operating expenses	4	109.4	110.4
Depreciation	4	4.4	4.4
Transfer to University	22	9.3	3.4
<b>Total expenditure</b>		<b>166.7</b>	<b>170.9</b>
Surplus after depreciation of tangible fixed assets		21.6	6.2
Surplus/(deficit) on disposal of assets		2.8	(0.5)
<b>Surplus for the period after depreciation of tangible fixed assets and disposal of assets</b>	5	<b>24.4</b>	<b>5.7</b>
Transfer from accumulated income within specific endowments	14	5.3	1.6
<b>Surplus for the period retained within general reserves</b>		<b>29.7</b>	<b>7.3</b>

All income and expenditure relates to continuing activities.

**Statement of total recognized gains and losses for the period ended 31 July 2007**

		<i>10 months ended July 2007 £m</i>	<i>Year ended Sept 2006 £m</i>
Surplus for the period		24.4	5.7
Increase in market value of investment assets		4.7	5.5
Actuarial gain/(loss) on defined benefit pension scheme	17	0.5	(0.4)
<b>Total gains for the period</b>		<b>29.6</b>	<b>10.8</b>

		<i>10 months ended July 2007 £m</i>	<i>Year ended Sept 2006 £m</i>
<b>Reconciliation</b>			
Opening reserves and endowments		147.2	136.4
Total recognized gains for the period		29.6	10.8
Closing reserves and endowments		176.8	147.2

**Statement of historical cost surpluses and deficits for the period ended 31 July 2007**

		<i>10 months ended July 2007 £m</i>	<i>Year ended Sept 2006 £m</i>
Surplus for the period		24.4	5.7
Realization of investment revaluation gains of previous years		–	9.9
<b>Historical cost surplus for the period</b>		<b>24.4</b>	<b>15.6</b>

*Balance sheet as at 31 July 2007*

	Note	Group		Cambridge Assessment	
		July 2007 £m	Sept 2006 £m	July 2007 £m	Sept 2006 £m
<b>Fixed assets</b>					
Tangible fixed assets	7	61.2	61.5	53.2	51.5
Investments	8	69.7	54.5	82.1	67.0
		130.9	116.0	135.3	118.5
<b>Endowment assets</b>	9	12.3	16.7	12.3	16.7
<b>Current assets</b>					
Stock		–	1.3	–	0.9
Debtors	10	43.7	41.9	34.9	37.4
Short term deposits		45.5	21.3	9.1	5.7
Cash at bank and in hand		3.5	1.2	2.7	0.8
		92.7	65.7	46.7	44.8
<b>Creditors: amounts falling due within one year</b>	11	(57.1)	(48.7)	(41.0)	(36.8)
<b>Net current assets</b>		35.6	17.0	5.7	8.0
<b>Total assets less current liabilities</b>		178.8	149.7	153.3	143.2
<b>Creditors: amounts falling due after one year</b>	12	–	–	(10.6)	(10.6)
<b>Provisions for liabilities and charges</b>	13	(0.6)	(0.4)	(0.6)	(0.3)
<b>Net assets excluding pension scheme liability</b>		178.2	149.3	142.1	132.3
<b>Pension liability</b>	17	(1.4)	(2.1)	–	–
<b>Total net assets</b>		176.8	147.2	142.1	132.3
<b>Specific endowments</b>	14	12.3	16.7	12.3	16.7
<b>Reserves</b>					
Revaluation reserve	15	23.8	20.2	23.2	19.7
Investment property revaluation reserve	15	0.9	0.7	0.9	0.7
General reserve	15	141.2	111.7	105.7	95.2
<b>Total reserves excluding pension reserve</b>		165.9	132.6	129.8	115.6
Pension reserve	15	(1.4)	(2.1)	–	–
<b>Total reserves including pension reserve</b>		164.5	130.5	129.8	115.6
		176.8	147.2	142.1	132.3

The financial statements on pages 99 to 114 were approved by the Syndics on 29 November 2007 and were signed on their behalf by:

Professor A. J. BADGER

*Chairman of the Local  
Examinations Syndicate*

Mr S. LEBUS

*Chief Executive of the Local  
Examinations Syndicate*

**Consolidated Cashflow Statement for the period ended 31 July 2007**

		<i>10 months ended July 2007</i>		<i>Year ended Sept 2006</i>	
	<i>Note</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>Net cash inflow from operating activities</b>	16a		35.0		8.1
Returns on investments and servicing of finance					
Investment income		1.2		2.4	
Interest received		0.6		1.0	
			1.8		3.4
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(10.3)		(23.2)	
Payments to acquire investments		(6.0)		–	
Receipt from sale of tangible fixed assets		6.0		–	
Proceeds from sale of investments		–		20.0	
			(10.3)		(3.2)
Cash inflow before use of liquid resources			26.5		8.3
Management of liquid resources					
Net movement on money market deposits	16c		(24.2)		(8.8)
<b>Increase/(decrease) in cash in the period</b>	16b		2.3		(0.5)

## 1. ACCOUNTING POLICIES

### Basis of accounting

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education issued in July 2003, and in accordance with applicable Accounting Standards in the United Kingdom.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to Cambridge Assessment's financial statements except as noted below.

The financial statements have been prepared in accordance with the historical cost convention as modified by the revaluation of certain fixed assets.

The ultimate parent body is the University of Cambridge which has 31 July as its year end. In agreement with the University and to facilitate the production of overall financial information for the University Group the Syndicate agreed to change the year end of Cambridge Assessment to 31 July. This has been implemented in this set of financial statements which are, consequently, for a ten-month period.

### Basis of consolidation

The Group financial statements incorporate the results of Cambridge Assessment and its subsidiary undertakings. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal.

A joint venture is an undertaking in which the Group has a long-term interest and over which it exercises joint control. The Group's share of the profits less losses of joint ventures is included in the consolidated income and expenditure account and its interest in their net assets is included in investments in the consolidated balance sheet.

The accounting periods of Joint Venture undertakings are not coterminous with that of the parent undertaking but the effect is not material.

### Recognition of income and deferral of incoming resources

Income is recognized when services are rendered and substantially completed at the reporting date. Income received in advance of services being rendered is deferred and recognized in subsequent financial periods when the respective examination sessions or courses take place.

Where course entry is purchased in advance for which candidates have not been entered, income is deferred and recognized when a named candidate is entered and the service rendered. Where a product is replaced, the entries may (in some cases) be exchanged for entries for replacement products, in which case the income continues to be deferred until the conditions for recognition are met. Where no such exchange is made and no further entries can be made, any remaining deferred income is immediately recognized.

### Pension schemes

Cambridge Assessment has fully adopted FRS 17 'Retirement benefits'. Cambridge Assessment participates in three pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of Cambridge Assessment.

For two of the schemes, CPS and USS, Cambridge Assessment is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17, accounts for these schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to each scheme in respect of the accounting period.

The RSAEB scheme has two employers, Cambridge Assessment and OCR. As both are within the Cambridge Assessment Group, the scheme is accounted for as a defined benefit scheme in accordance with FRS 17 in the Group accounts with the consequence that any surplus or deficit in the scheme is recognized as an asset or liability in the balance sheet. In the individual accounts of Cambridge Assessment and OCR, the scheme is accounted for as a defined contribution scheme in the same way as the USS and CPS schemes above.

### Fixed assets and depreciation

Depreciation is charged to write off the cost of tangible fixed assets over their estimated useful economic lives:

Freehold – buildings	2% – 5% per annum on a straight line basis;
Leasehold – buildings	over the term of the lease
Plant and equipment, furniture and fittings, and computer software	15% – 25% per annum on a straight line basis.
Freehold land is not amortized.	

### Leases

Operating lease rentals are charged to the income and expenditure account on a straight line basis over the period of the lease.

### Investments

Investments in Cambridge University Endowment Fund (Amalgamated Fund) units are valued at market value at the reporting date.

Investment properties are properties held for their investment potential and are measured at fair value. Surpluses

arising from revaluation are dealt with in the Investment Property Revaluation Reserve. Any deficit arising is offset against the revaluation reserve to the extent of a previous increase for the same property. In all other cases a decrease in carrying amount is charged to the income and expenditure account.

Investments in subsidiary undertakings are stated at cost in Cambridge Assessment, less impairment loss where applicable, in accordance with FRS 11 requirements.

### Stocks

Stocks of finished goods are stated at the lower of cost and net realizable value. Where necessary, provision is made for obsolete, slow moving, and defective stocks.

### Short-term deposits

Short-term deposits consist of deposits with banks; these deposits have an insignificant risk of changes in value.

### Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains and losses on translation are included in the income and expenditure account.

### Taxation

Cambridge Assessment is a constituent part of the University of Cambridge, which is an exempt charity. Cambridge Assessment therefore claims exemption from Corporation Tax under the provisions of section 505 of the Income and Corporation Taxes Act 1988.

Cambridge Assessment receives no similar exemption in respect of Value Added Tax.

### Recognition of liabilities

Provisions are recognized under FRS 12 and are not discounted.

### Goodwill

Goodwill arises on consolidation and is based on the fair value of the consideration given for the subsidiary and the fair value of its assets at the date of acquisition. Goodwill relating to investments made by the Group is amortized over ten years on a straight line basis, being its estimated useful economic life.

### Research and development expenditure

Expenditure on research and development is written off in the year in which it is incurred.

## 2. ENDOWMENT AND INVESTMENT INCOME

	<i>10 months ended</i> <i>July 2007</i> <i>Group</i>	<i>Year ended</i> <i>Sept 2006</i> <i>Group</i>
	<i>£m</i>	<i>£m</i>
Income from specific endowment asset investments	0.6	0.6
Other investment income	1.6	1.9
Other interest receivable	1.3	0.9
	<hr/>	<hr/>
	3.5	3.4
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## 3. STAFF COSTS

The average number of persons employed by the Group during the period, expressed as full-time equivalents, was:

	<i>10 months ended</i> <i>July 2007</i> <i>Group</i> <i>No.</i>	<i>Year ended</i> <i>Sept 2006</i> <i>Group</i> <i>No.</i>
Examination services	1,207	1,260
Administration and central services	425	428
Premises	103	103
	<hr/>	<hr/>
	1,735	1,791
	<hr/>	<hr/>

Staff costs for the above persons comprise:

	<i>10 months ended July 2007 Group £m</i>	<i>Year ended Sept 2006 Group £m</i>
Salaries and wages	36.7	43.3
Social security costs	3.0	3.5
Other pension costs (note 17)	5.0	5.9
	<u>44.7</u>	<u>52.7</u>

Of the above costs £1.1m was capitalized as internally developed software.

**Staff costs charged to the Income and Expenditure Account**

	<i>10 months ended July 2007 Group £m</i>	<i>Year ended Sept 2006 Group £m</i>
Examination services	30.1	35.9
Administration and central services	11.7	14.7
Premises	1.8	.1
	<u>43.6</u>	<u>52.7</u>

**Staff emoluments over £70,000:**

	<i>10 months ended July 2007 Group No. staff</i>	<i>Year ended Sept 2006 Group No. staff</i>
£70,001 – £80,000	3	9
£80,001 – £90,000	6	2
£90,001 – £100,000	1	3
£100,001 – £110,000	2	1
£110,001 – £120,000	1	2
£120,001 – £130,000	–	1
£130,001 – £140,000	–	1
£200,001 – £210,000	1	–
£240,001 – £250,000	–	1

**4. OTHER OPERATING EXPENSES**

	<i>10 months ended July 2007 Group £m</i>	<i>Year ended Sept 2006 Group £m</i>
Examination services	91.3	7.5
Administration and central services	12.4	16.1
Premises	5.7	6.8
	<u>109.4</u>	<u>110.4</u>

	<i>10 months ended July 2007 Group £m</i>	<i>Year ended Sept 2006 Group £m</i>
Other operating expenses include:		
Auditors' remuneration – audit fee	0.1	0.1
Internal audit fee	–	–
Depreciation	4.4	4.4
Amortization of goodwill	–	1.4
Operating leases – land and buildings	1.1	1.5
– plant, machinery, and equipment	0.5	0.7
Foreign exchange losses	0.1	0.2



**5. SURPLUS ON CONTINUING OPERATIONS FOR THE PERIOD**

	<i>10 months ended July 2007</i>	<i>Year ended Sept 2006</i>
	<i>£m</i>	<i>£m</i>
Cambridge Assessment's surplus for the period	5.2	3.7
Group level adjustments re: defined benefit schemes	0.2	0.2
Surplus retained in subsidiary undertakings	19.0	1.8
	<u>24.4</u>	<u>5.7</u>

**6. INTANGIBLE FIXED ASSETS**

	<i>Group £m</i>
<b>GOODWILL</b>	
<b>COST</b>	
At 1 October 2006	6.1
At 31 July 2007	<u>6.1</u>
<b>AMORTIZATION</b>	
At 1 October 2006	6.1
Charge for year	–
At 30 July 2007	6.1
<b>NET BOOK VALUE</b>	
At 30 July 2007	–
At 30 September 2006	<u>–</u>

The goodwill arose on acquisition of the RSA Examinations Board by OCR, being the difference between the purchase consideration and the fair value of the net assets acquired.

**7. TANGIBLE FIXED ASSETS****GROUP**

	<i>Land and buildings</i>			<i>Plant and equipment, furniture and fittings</i>	<i>Total</i>
	<i>Freehold</i>	<i>Long-term leasehold</i>	<i>Short-term leasehold</i>		
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>COST</b>					
At 1 October 2006	59.0	8.2	1.3	25.4	93.9
Additions	3.2	0.1	–	5.1	8.4
Disposals	(6.0)	–	(0.8)	(0.6)	(7.4)
At 31 July 2007	56.2	8.3	0.5	29.9	94.9
<b>DEPRECIATION</b>					
At 1 October 2006	10.1	1.7	0.6	20.0	32.4
Disposals	(2.2)	–	(0.5)	(0.4)	(3.1)
Charge for the period	1.4	0.1	0.1	2.8	4.4
At 31 July 2007	9.3	1.8	0.2	22.4	33.7
<b>NET BOOK VALUE</b>					
At 31 July 2007	46.9	6.5	0.3	7.5	61.2
At 30 September 2006	48.9	6.5	0.7	5.4	61.5

**CAMBRIDGE ASSESSMENT**

	<i>Land and buildings</i>			<i>Plant and equipment, furniture and fittings</i>	<i>Total</i>
	<i>Freehold</i>	<i>Long-term leasehold</i>	<i>Short-term leasehold</i>		
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
<b>COST</b>					
At 1 October 2006	52.1	–	0.7	22.1	74.9
Additions	3.1	–	–	4.8	7.9
Disposals	(2.6)	–	(0.6)	(0.5)	(3.7)
At 31 July 2007	52.6	–	0.1	26.4	79.1
<b>DEPRECIATION</b>					
At 1 October 2006	6.2	–	0.3	16.9	23.4
Disposals	(0.9)	–	(0.3)	(0.3)	(1.5)
Charge for the period	1.3	–	–	2.7	4.0
At 31 July 2007	6.6	–	–	19.3	25.9
<b>NET BOOK VALUE</b>					
At 31 July 2007	46.0	–	0.1	7.1	53.2
At 30 September 2006	45.9	–	0.4	5.2	51.5

**8. INVESTMENTS**

	<i>Group</i>		<i>Cambridge Assessment</i>	
	<i>July 2007</i>	<i>Sept 2006</i>	<i>July 2007</i>	<i>Sept 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance at 1 October 2006	54.5	70.6	67.0	83.3
Additions	11.4	–	11.4	
Disposals	–	(20.5)	–	(20.5)
Increase in market value of investments	3.8	4.4	3.7	4.2
	<u>69.7</u>	<u>54.5</u>	<u>82.1</u>	<u>67.0</u>
Represented by:				
University Endowment Fund units	67.6	52.6	65.0	50.1
Investment properties	2.0	1.8	2.0	1.8
Investment in subsidiary undertakings	–	–	0.1	0.1
Loan to OCR	–	–	15.0	15.0
Loan to Joint Venture	0.1	0.1	–	–
	<u>69.7</u>	<u>54.5</u>	<u>82.1</u>	<u>67.0</u>

Investments at market value comprise Cambridge University Endowment Fund (Amalgamated Fund) units. The market value at 31 July 2007 is based on the valuation as at that date provided by the Finance Division of the University of Cambridge.

Investment properties are stated at estimated fair value at 31 July 2007. The valuation was provided by the Group Finance Director, based on local property indices and comparative data.

The loan to OCR is unsecured and has no fixed repayment date. No interest has been charged in the period to 31 July 2007 and the future interest rate has yet to be determined.

**Subsidiary undertakings:**

<i>Name of subsidiary undertaking</i>	<i>Country of registration and operation</i>	<i>Class of share</i>	<i>Proportion held</i>	<i>Nature of business</i>	<i>Note</i>
OCR	England	Member	100%	Examination and assessment services	1
RSA Examinations Board	England	Member	100%	Assessment services	1
The West Midlands Examinations Board	England	Member	100%	Examination services	2
Sandonian Properties Ltd	England	Ordinary	100%	Property Holding	4
Mill Wharf Ltd	England	Ordinary	100%	Not trading	4
OCR Nationals	England	Member	100%	Dormant	3
Progress House Printers Ltd	England	Ordinary	100%	Dormant	4
CUAPTS Limited	Hong Kong	Ordinary	100%	Dormant	4
World Class Tests Ltd	England	Ordinary	100%	Dormant	4
OCIAS Limited	England	Ordinary	100%	Assessment services	4
Quick Placement Tests Ltd	England	Ordinary	100%	Dormant	4
Cambridge Assessment	England	Member	100%	Dormant	3
Cambridge Assessment Overseas Ltd	England	Ordinary	100%	Overseas office services	4

All of the subsidiary undertakings have been included in the consolidation.

**Joint Ventures:**

IELTS Inc	US	Member	33%	Examination services	5
QualDat	England	Member	33%	General Education	2

**Note**

- 1 Companies limited by guarantee and exempt charities.
- 2 Company limited by guarantee and a registered charity.
- 3 Company limited by guarantee.
- 4 Companies having share capital.
- 5 US Non stock non profit corporation.

**9. ENDOWMENT ASSETS**

	<i>Group</i>		<i>Cambridge Assessment</i>	
	<i>July 2007</i>	<i>Sept 2006</i>	<i>July 2007</i>	<i>Sept 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance at 1 October 2006	16.7	17.2	16.7	17.2
Increase in market value of University Endowment Fund units	0.9	1.1	0.9	1.1
Disposal of assets to support expenditure (note 14)	(5.3)	(1.6)	(5.3)	(1.6)
	<u>12.3</u>	<u>16.7</u>	<u>12.3</u>	<u>16.7</u>
Balance at 31 July 2007				
Represented by:				
University Endowment Fund units	9.6	14.1	9.6	14.1
Short-term deposits	2.7	2.6	2.7	2.6
	<u>12.3</u>	<u>16.7</u>	<u>12.3</u>	<u>16.7</u>

**10. DEBTORS**

	<i>Group</i>		<i>Cambridge Assessment</i>	
	<i>July 2007</i>	<i>Sept 2006</i>	<i>July 2007</i>	<i>Sept 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Fee debtors	30.2	31.0	25.9	27.8
Amounts owed by Group undertakings	–	–	0.1	2.3
Other debtors	2.4	2.2	0.1	1.1
Prepayments and accrued income	11.1	8.7	8.8	6.2
	<u>43.7</u>	<u>41.9</u>	<u>34.9</u>	<u>37.4</u>

**11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<i>Group</i>		<i>Cambridge Assessment</i>	
	<i>July 2007</i>	<i>Sept 2006</i>	<i>July 2007</i>	<i>Sept 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Trade creditors	4.3	5.3	2.0	4.0
Amounts due to Group undertakings	–	–	3.2	–
Other taxes and social security	5.0	5.9	1.6	1.7
Other creditors	1.2	0.8	0.5	0.3
Accruals and deferred income (see below)	46.6	36.7	33.7	30.8
	<u>57.1</u>	<u>48.7</u>	<u>41.0</u>	<u>36.8</u>
Deferred income is analysed as:				
At 1 October 2006	26.4	25.5	22.8	20.5
Deferred in current period	17.6	24.3	15.6	22.8
Released from previous period	(25.5)	(23.4)	(22.8)	(20.5)
	<u>18.5</u>	<u>26.4</u>	<u>15.6</u>	<u>22.8</u>

In accordance with the Income Recognition Policy (see note 1), where the assessment service has not been substantially rendered, revenue from invoicing has not been recognized as Income but has been deferred until later years.

**12. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	<i>Group</i>		<i>Cambridge Assessment</i>	
	<i>July 2007</i>	<i>Sept 2006</i>	<i>July 2007</i>	<i>Sept 2006</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Loan from RSAEB	–	–	10.5	10.5
Loan from CUAPTS	–	–	0.1	0.1
	<u>–</u>	<u>–</u>	<u>10.6</u>	<u>10.6</u>

The loans are unsecured and have no fixed repayment date. No interest was charged in the year to 31 July 2007 (2006: nil).

**13. PROVISIONS FOR LIABILITIES AND CHARGES****GROUP**

	<i>Staffing</i>	<i>Other</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1 October 2006	0.2	0.2	0.4
Charges in the period	0.3	0.1	0.4
Utilised in the period	(0.2)	–	(0.2)
Released during the period	–	–	–
At 31 July 2007	<u>0.3</u>	<u>0.3</u>	<u>0.6</u>

**CAMBRIDGE ASSESSMENT**

	<i>Staffing</i>	<i>Other</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
At 1 October 2006	–	0.3	0.3
Charges in the period	0.3	–	0.3
Utilised in the period	–	–	–
Released during the period	–	–	–
At 31 July 2007	<u>0.3</u>	<u>0.3</u>	<u>0.6</u>

Provisions were made in respect of payments regarding employment matters and contractual disputes.

**14. SPECIFIC ENDOWMENTS****GROUP and CAMBRIDGE ASSESSMENT**

	<i>July 2007</i>	<i>Sept 2006</i>
	<i>£m</i>	<i>£m</i>
Balance at 1 October 2006	16.7	17.2
Income receivable from endowment asset investments	0.6	0.6
Expenditure	(5.9)	(2.2)
	<u>(5.3)</u>	<u>(1.6)</u>
Increase in market value of investments	0.9	1.1
Balance at 31 July 2007	<u>12.3</u>	<u>16.7</u>
<b>Representing</b>		
EMREB Fund	–	3.6
WMEB Fund	12.2	13.0
Scholarship Funds	0.1	0.1
	<u>12.3</u>	<u>16.7</u>

The EMREB Fund is a trust fund created from assets transferred from the East Midlands Regional Examinations Board ('EMREB'). The fund was created to promote and develop GCSEs administered by OCR. During the period, the entire remaining balance of the fund was utilized to cover qualifying development projects in OCR.

The WMEB Fund is a trust fund created from assets transferred from The West Midlands Examination Board ('TWMEB'). The fund was created to promote and develop examinations administered by OCR and to provide bursaries and prizes in the West Midlands area.

Scholarship funds are amounts of money left to Cambridge Assessment to give to students for prizes or awards.

**15. RESERVES  
GROUP**

	<i>General reserves</i>	<i>Revaluation reserve</i>	<i>Investment property revaluation reserve</i>	<i>Total excluding pension reserve</i>	<i>Pension reserve</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance at 1 October 2006	111.7	20.2	0.7	132.6	(2.1)	130.5
Surplus retained for the period	29.5	–	–	29.5	0.2	29.7
Increase in market value of investments	–	3.6	0.2	3.8	–	3.8
Actuarial gain	–	–	–	–	0.5	0.5
At 31 July 2007	<u>141.2</u>	<u>23.8</u>	<u>0.9</u>	<u>165.9</u>	<u>(1.4)</u>	<u>164.5</u>

**CAMBRIDGE ASSESSMENT**

	<i>General reserves</i>	<i>Revaluation reserve</i>	<i>Investment property revaluation reserve</i>	<i>Total</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Balance at 1 October 2006	95.2	19.7	0.7	115.6
Surplus retained for the period	10.5	–	–	10.5
Increase in market value of investments	–	3.5	0.2	3.7
At 31 July 2007	<u>105.7</u>	<u>23.2</u>	<u>0.9</u>	<u>129.8</u>

**16. NOTES TO CONSOLIDATED CASHFLOW STATEMENT**
**(a) Reconciliation of operating surplus/(deficit) to net cash inflow/(outflow) from operating activities**

	<i>10 months ended July 2007</i>	<i>Year ended Sept 2006</i>
	<i>£m</i>	<i>£m</i>
Surplus on continuing operations	24.4	5.7
Endowment and investment income	(3.5)	(3.4)
Depreciation of tangible fixed assets	4.4	4.4
Amortization of goodwill	–	1.4
(Surplus)/deficit on disposal of investments/ tangible fixed assets	(2.8)	0.5
Movements in provisions	0.2	(0.3)
Increase in creditors	10.2	3.1
Decrease/(increase) in debtors	1.0	(2.7)
Decrease/(increase) in stock	1.3	(0.4)
Pension costs (FRS17)	(0.2)	(0.2)
Net cash inflow from operating activities	<u>35.0</u>	<u>8.1</u>

**(b) Reconciliation of net cash flow to movement in net funds**

	<i>10 months ended July 2007</i>	<i>Year ended Sept 2006</i>
	<i>£m</i>	<i>£m</i>
Increase/(decrease) in cash in the year	2.3	(0.5)
Cash inflow/(outflow) from money market deposits	24.2	8.8
Change in net funds resulting from cashflows	<u>26.5</u>	<u>8.3</u>
Net funds at 1 October 2006	<u>25.1</u>	<u>16.8</u>
Net funds at 31 July 2007	<u>51.6</u>	<u>25.1</u>

**16. NOTES TO CONSOLIDATED CASHFLOW STATEMENT (continued)***(e) Analysis of change in net funds*

	<i>At 1 Oct 2006</i>	<i>Cash flows</i>	<i>At 30 July 2007</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>
Cash at bank and in hand	1.2	2.3	3.5
Money market deposits	23.9	24.2	48.1
Total	<u>25.1</u>	<u>26.5</u>	<u>51.6</u>

**17. PENSION COSTS**

The Group participates in three defined benefit pension schemes. Each scheme is valued every three years by professionally qualified independent actuaries who are not employees or officers of the Group. The pension costs are assessed using the projected unit method.

The CPS and USS schemes are not closed, nor is the age profiles of their active membership rising significantly. The RSAEB scheme is a closed scheme which has 12 (2006: 14) active members. The rates of contribution payable are determined by the trustees on the advice of the actuaries.

The Group's contributions to the CPS and USS schemes are affected by a surplus or deficit in these schemes. It is not possible to identify the Group's share of underlying assets and liabilities of the schemes and therefore contributions are accounted for as if they were defined contribution schemes in accordance with FRS 17. The assumptions and other data that have the most significant effect on the determination of contribution levels are as follows:

<b>USS and CPS</b>	<i>USS</i>	<i>CPS</i>
Latest actuarial valuations	Mar 2005	Jul 2006
Investment returns per annum	4.5%	6.9%
Salary scale increases per annum	3.9%	4.5%
Pension increases per annum	2.9%	3.0%
Market value of assets at date of last valuation	£21,740m	£276m
Funding level	77%	97%
Employer's contribution rate	14%	19.7%

**RSAEB Pension Scheme**

A full actuarial valuation of the scheme was carried out at 1 October 2004, in accordance with the requirements under FRS 17 and updated to 31 July 2007 by a qualified independent actuary.

The next full independent actuarial valuation of the scheme as at 31 July 2007 is due to be conducted after the end of the period. The results are not yet available.

It has been agreed that an employer contribution rate of 24.6% of pensionable pay will apply in future years.

**The major assumptions used by the actuary were:**

	<i>At 31 July 2007</i>	<i>At 30 Sept 2006</i>	<i>At 30 Sept 2005</i>
Discount rate	5.7%	4.9%	5.0%
Retail price inflation	3.2%	3.0%	2.7%
Salary increase rate	5.2%	5.0%	4.7%
Pensions increases (at Limited Price Indexation)	3.4%	3.2%	3.2%
Deferred pension revaluation	3.2%	3.0%	2.7%

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

**Scheme assets**

The fair value of the scheme's assets, which are not intended to be realized in the short term and may be subject to significant change before they are realized, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	<i>Assets at 31 July 2007 £m</i>	<i>Assets at 30 Sept 2006 £m</i>	<i>Assets at 30 Sept 2005 £m</i>
Equities	3.0	3.0	3.1
Bonds	2.7	2.4	2.3
Cash/other	0.1	0.1	0.1
<b>Total assets</b>	<b>5.8</b>	<b>5.5</b>	<b>5.5</b>
<b>Scheme liabilities</b>	<b>(7.2)</b>	<b>(7.6)</b>	<b>(7.4)</b>
<b>Net pension deficit</b>	<b>(1.4)</b>	<b>(2.1)</b>	<b>(1.9)</b>
	<i>Expected return from 31 July 2007</i>	<i>Expected return from 30 Sept 2006</i>	<i>Expected return from 30 Sept 2005</i>
Equities	8.1%	7.4%	7.3%
Bonds	5.4%	4.7%	4.4%
Cash/Other	5.8%	4.8%	4.5%

**Movement in deficit during the period**

	<i>10 months ended July 2007 £m</i>	<i>Year ended Sept 2006 £m</i>
Deficit at beginning of the period	(2.1)	(1.9)
Movement in period:		
Current service cost	(0.2)	(0.2)
Contributions	0.4	0.5
Net return from other finance income	–	(0.1)
Actuarial gain recognized in statement of total recognized gains and losses	0.5	(0.4)
<b>Deficit at end of the period</b>	<b>(1.4)</b>	<b>(2.1)</b>

**Analysis of amount recognized in statement of total recognized gains and losses:**

	<i>10 months ended July 2007 £m</i>	<i>Year ended Sept 2006 £m</i>
Actual return less expected return on pension scheme assets	(0.1)	0.1
Experience losses on the liabilities	–	(0.1)
Change in assumptions underlying the present value of the scheme liabilities	0.6	(0.4)
<b>Actuarial gain/(loss)</b>	<b>0.5</b>	<b>(0.4)</b>

**Analysis of the amount charged to income and expenditure account:**

	<i>10 months ended July 2007 £m</i>	<i>Year ended Sept 2006 £m</i>
Staff costs:		
Current service cost	0.2	0.2
Pension finance costs:		
Expected return on pension scheme assets	0.3	0.3
Interest on pension scheme liabilities	(0.3)	(0.4)
	–	(0.1)



**History of experience gains and losses**

	<i>10 months to July 2007 £m</i>	<i>Year to Sept 2006 £m</i>	<i>Year to Sept 2005 £m</i>	<i>Year to Sept 2004 £m</i>	<i>Year to Sept 2003 £m</i>
Difference between the actual and expected return on scheme assets	(0.1)	0.1	0.6	0.1	0.2
– as % of scheme assets	(1%)	2%	10%	2%	6%
Experience gains/(losses) on scheme liabilities	–	(0.1)	(0.1)	0.4	–
– as % of present value of scheme liabilities	0%	(1%)	(1%)	7%	0%
Total amount recognized in statement of total recognized gains and losses	0.5	(0.4)	(0.1)	0.3	0.1
– as % of present value of scheme liabilities	7%	(5%)	(2%)	4%	1%

**Total Group pension cost for the period**

	<i>10 months ended July 2007 £m</i>	<i>Year ended Sept 2006 £m</i>
USS	2.6	3.0
CPS	2.2	2.7
RSAEB	0.2	0.2
	<u>5.0</u>	<u>5.9</u>

**18. OPERATING LEASES**

At 31 July 2007 the Group had annual commitments under non-cancellable operating leases as follows:

	<i>Group</i>		<i>Cambridge Assessment</i>	
	<i>July 2007 £m</i>	<i>Sept 2006 £m</i>	<i>July 2007 £m</i>	<i>Sept 2006 £m</i>
Amounts payable under operating leases which fall due in the next financial year:				
Land and buildings, commitments expiring:				
In 1 year	0.2	0.2	0.2	0.2
Between 2 & 5 years	0.1	0.6	0.2	0.6
After 5 years	0.3	0.2	0.3	0.2
Plant, machinery, and equipment, commitments expiring:				
In 1 year	0.1	0.1	0.1	–
Between 2 and 5 years	0.4	0.3	0.1	0.2
	<u>1.1</u>	<u>1.4</u>	<u>0.9</u>	<u>1.2</u>

**19. FORWARD CURRENCY CONTRACTS**

As at 31 July 2007 the Syndicate had forward exchange contracts for the sale of €17.5m (2006: €13.2m) and US \$6.6m (2006: US \$7.3m).

**20. CAPITAL COMMITMENTS**

There were £1m (2006: £0.6m) capital commitments for the Group and £1m (2006: £0.3m) for Cambridge Assessment as at 31 July 2007 in respect of building work.

**21. CONTINGENT LIABILITIES**

There were no (2006: £nil) contingent liabilities as at 31 July 2007.

**22. RELATED PARTY TRANSACTIONS**

The Group has taken advantage of the exemption in Financial Reporting Standard 8 not to disclose transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties).

During the year, the Group entered into the following transactions with related parties:

Transactions with Cambridge University Press ('CUP') and its subsidiaries, another Syndicate of the University of Cambridge were as follows: purchase of printing services £8.28m (2006: £9.01m), purchase of other services £0.19m (2006: £0.41m), receipt of royalties £0.32m (2006: £0.31m), sale of services to CUP £0.22m (2006: £0.19m). At 31 July 2007 a balance of £0.89m (2006: £1.05m) was due to CUP.

The total transfer to the University of Cambridge in respect of 2006–07 was £9.26m. The balance due at 31 July was £9.33m including £0.07m in respect of 2005–06 (2006: total £3.4m, of which a balance of £0.07m was due at 30 September 2006).

The group paid £0.21m (2006: £0.22m) to the University in respect of rentals and other services. Examination fees of £0.04m (2006: £0.01m) were charged to the University. At 31 July 2007 £0.05m (2006: £0.01m) was due to the University in respect of these transactions.

A total of £0.48m (2006: £0.53m) was paid to Colleges of the University in respect of venue hire and scholarships. Property rental of £0.06m (2006: £0.05m) was receivable from Downing College and sundry income of £1,740 in total was received from seven Colleges (2006: £nil). At 31 July 2007 £0.17m (2006: £0.06m) was owed to Colleges.

£0.08m (2006: £0.08m) was paid to the Cambridge Overseas Trust in respect of scholarships.

£7,250 (2006: £8,000) was paid to one Syndic in respect of consultancy services, £271 (2006: £nil) and £505 (2006: £882) to two Syndics respectively in respect of examination services; no other remuneration was paid to Syndics or to any connected persons (2006: nil). Total travel expenses of £1,740 (2006: £1,836) were reimbursed during the year to 6 (2006: 4) Syndics.

**23. ULTIMATE PARENT UNDERTAKING**

Cambridge Assessment is a constituent part of the University of Cambridge. It is governed by the Statutes and Ordinances of the University. The results of Cambridge Assessment are consolidated into the accounts of the University of Cambridge, which may be obtained from the Cambridge University Press Bookshop, 1 Trinity Street, Cambridge, CB2 1SZ.