Consolidated Financial Statements for the year ended 30 September 2006

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 of 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 year ended 30 September 2006

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 Cambridge Assessment and the group 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 Cambridge Assessment and the group 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 Cambridge Assessment and the group and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, 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 Cambridge Assessment and the group will continue in operation.

The Syndics have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of Cambridge Assessment and the group 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') of the Local Examinations Syndicate for the year ended 30 September 2006 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 recognised gains and losses, 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 group 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 20.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements 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. We also report to you whether in our opinion the Annual Report is not consistent with the financial statements, if the Group has not kept proper accounting records, or if 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 or material inconsistencies with the financial statements.

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 Cambridge Assessment and the group as at 30 September 2006 and of the Group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- 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 year ended 30 September 2006

	Note	*2006* *£m*	*2005 as restated (see note 2)* *£m*
Income			
Examination fees		159.7	147.5
Other educational and assessment services		14.0	15.4
Endowment and investment income	3	3.4	4.0
Total income		177.1	166.9
Expenditure			
Staff costs	4	52.7	50.0
Other operating expenses	5	110.4	107.1
Depreciation	5	4.4	3.2
Transfer to University	20	3.4	14.5
Total expenditure		170.9	174.8
Surplus/(deficit) after depreciation of tangible fixed assets at valuation		6.2	(7.9)
(Deficit)/surplus on disposal of fixed asset investments	9	(0.5)	1.7
Surplus/(deficit) for the year after depreciation of tangible fixed assets at valuation and disposal of assets	6	5.7	(6.2)
Transfer from accumulated income within specific endowments	15	1.6	2.4
Surplus/(deficit) for the year retained within general reserves		7.3	(3.8)

All income and expenditure relate to continuing activities.

Statement of total recognised gains and losses for the year ended 30 September 2006

		2006 *£m*	*2005 as restated (see note 2)* *£m*
Surplus/(deficit) for the year		5.7	(6.2)
Increase in market value of investment assets		5.5	12.1
Actuarial loss on defined benefit pension scheme	18	(0.4)	(0.1)
Total gains for the year		10.8	5.8

	2006 *£m*	*2005 as restated (see note 2)* *£m*
Reconciliation		
Opening reserves and endowments as previously stated	140.1	134.1
Prior year adjustment (see note 2)	(3.7)	(3.5)
As restated	136.4	130.6
Total recognised gains for the year	10.8	5.8
Closing reserves and endowments	147.2	136.4

Statement of historical cost surpluses and deficits for the year ended 30 September 2006

		2006	2005 as restated (see note 2)
		£m	£m
Surplus/(deficit) for the year		5.7	(6.2)
Realisation of investment revaluation gains of previous years	16	9.9	5.0
Historical cost surplus/(deficit) for the year		15.6	(1.2)

Balance sheet as at 30 September 2006

		Group		Cambridge Assessment	
		2006	*2005 as re-stated (see note 2)*	*2006*	*2005*
	Note	*£m*	*£m*	*£m*	*£m*
Fixed assets					
Intangible fixed assets	7	–	1.4	–	–
Tangible fixed assets	8	61.5	40.1	51.5	31.1
Investments	9	54.5	70.6	67.0	83.3
		116.0	112.1	118.5	114.4
Endowment assets	10	16.7	17.2	16.7	17.2
Current assets					
Stock		1.3	0.9	0.9	0.6
Debtors	11	41.9	39.2	37.4	30.5
Short term deposits		21.3	10.9	5.7	2.2
Cash at bank and in hand		1.2	1.7	0.8	1.3
		65.7	52.7	44.8	34.6
Creditors: amounts falling due within one year	12	(48.7)	(43.0)	(36.8)	(31.7)
Net current assets		17.0	9.7	8.0	2.9
Total assets less current liabilities		149.7	139.0	143.2	134.5
Creditors: amounts falling due after one year	13	–	–	(10.6)	(10.6)
Provisions for liabilities and charges	14	(0.4)	(0.7)	(0.3)	(0.6)
Net assets excl. pension scheme liability		149.3	38.3	132.3	123.3
Pension liability	18	(2.1)	(1.9)	–	–
Total net assets		147.2	136.4	132.3	123.3
Specific endowments	15	16.7	17.2	16.7	17.2
Reserves					
Revaluation reserve	16	20.2	25.9	19.7	25.6
Investment property revaluation reserve	16	0.7	0.5	0.7	0.5
General reserve	16	111.7	94.7	95.2	80.0
Total reserves excluding pension liability		132.6	121.1	115.6	106.1
Pension reserve	16	(2.1)	(1.9)	–	–
Total reserves including pension liability		130.5	119.2	115.6	106.1
		147.2	136.4	132.3	123.3

The financial statements on pages 22 to 38 were approved by the Syndics on 25 January 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 year ended 30 September 2006

		2006		2005	
				as restated (see note 2)	
	Note	*£m*	*£m*	*£m*	*£m*
Net cash inflow/(outflow) from operating activities	17a		8.1		(4.6)
Returns on investments and servicing of finance					
Investment income		2.4		3.4	
Interest received		1.0		0.7	
			3.4		4.1
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(23.2)		(7.8)	
Receipts from sale of tangible fixed assets		–		–	
Proceeds from sale of fixed asset investment		20.0		–	
			(3.2)		(7.8)
Cash inflow/ (outflow) before use of liquid resources			8.3		(8.3)
Management of liquid resources					
Net movement on money market deposits	17c		(8.8)		7.9
Decrease in cash in the year	17b		(0.5)		(0.4)

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.

Basis of consolidation

The Group accounts incorporate the results of Cambridge Assessment and its subsidiary companies and Joint Ventures on a line by line basis.

Joint Venture companies have been accounted for in accordance with the gross equity method. The accounting periods of Joint Venture undertakings are not coterminous with that of the parent undertaking but the effect is not material.

In the individual accounts of Cambridge Assessment, the investments in the subsidiary companies are stated at cost less any permanent diminution in value.

Recognition of income and deferral of incoming resources

All income is recognised on a receivable basis. Examination fees and other income receivable in respect of examination sessions and courses taking place in subsequent financial years are deferred to the year in question. Where course entry is purchased in advance, income is recognised when a named candidate is entered. Income for entries made for which candidates have not been entered is deferred. 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 a named candidate entry is made. Where no exchange is made and no further entries can be made any remaining deferred income is recognised.

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 recognised 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.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. 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 stated at estimated market value.

Investment properties are valued annually on the basis of estimated open market value.

Investments in subsidiaries are stated at cost.

Stocks

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

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. Subsidiary companies have polices to gift aid any profits to Cambridge Assessment. Consequently, there are no corporation tax charges in those companies.

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

Recognition of liabilities

Provisions are recognised 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 amortised over 10 years on a straight line basis, being its estimated useful economic life.

OCR has given notice to the trustees of RSAEB that it intends to cease the agency arrangement with RSAEB at 30 September 2006. The trade will continue in OCR. Therefore the balance of Goodwill arising on consolidation of RSAEB has been reduced to Nil at that date.

Research and development expenditure

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

2. PRIOR YEAR ADJUSTMENT

During the year, management undertook a review of income in relation to CLAIT exams, as the level of income, in relation to the proportion of exams taken, was lower than expected. (CLAIT, Computer Literacy and Information Technology, is a nationally recognised qualification in using computers.)

Income had been recognised at point of invoicing, and exams were taken by candidates over time. It has been realised that candidates have retained the right to take the exam for much longer than previously assumed. However the income should only have been recognised when the assessment service had been substantially rendered. This has now been corrected to be consistent with the policy for recognising revenue, giving rise to an adjustment to the prior year's financial statements.

The effect of the adjustment to the 2005 figures was to decrease net income for the year by £165,000, increase accruals and deferred income by £3,694,000, and decrease brought forward reserves by £3,529,000.

3. ENDOWMENT AND INVESTMENT INCOME

	2006 Group £m	*2005 Group £m*
Income from specific endowment asset investments	0.6	0.7
Other investment income	1.9	2.8
Other interest receivable	0.9	0.5
	3.4	4.0

4. STAFF COSTS

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

	2006 Group No.	*2005 Group No.*
Examination services	1,260	1,277
Administration and central services	428	424
Premises	103	83
	1,791	1,784

Staff costs for the above persons comprise:	*2006 Group £m*	*2005 Group £m*
Salaries and wages	43.3	41.4
Social security costs	3.5	3.4
Other pension costs (note 18)	5.9	5.2
	52.7	50.0

	2006 Group £m	*2005 Group £m*
Examination services	35.9	34.2
Administration and central services	14.7	13.9
Premises	2.1	1.9
	52.7	50.0

Staff emoluments over £70,000:

	2006 Group No. staff	*2005 Group No. staff*
£70,001 – £80,000	9	9
£80,001 – £90,000	2	2
£90,001 – £100,000	3	1
£100,001 – £110,000	1	1
£110,001 – £120,000	2	4
£120,001 – £130,000	1	–
£130,001 – £140,000	1	1
£210,001 – £220,000	–	1
£240,001 – £250,000	1	–

5. OTHER OPERATING EXPENSES

	2006 Group £m	*2005 Group £m*
Examination services	87.5	83.1
Administration and central services	16.1	18.5
Premises	6.8	5.5
	110.4	107.1

		2006 Group £m	*2005 Group £m*
Other operating expenses include:			
Auditors' remuneration	– audit fee	0.1	0.1
Internal audit fee		–	0.1
Depreciation		4.4	3.2
Amortisation of goodwill		1.4	0.6
Operating leases	– land and buildings	1.5	1.1
	– plant, machinery, and equipment	0.7	0.5
Foreign exchange losses		0.2	–

6. SURPLUS/ (DEFICIT) ON CONTINUING OPERATIONS FOR THE YEAR

	2006 £m	*2005 £m*
Cambridge Assessment's surplus/(deficit) for the year	3.7	(11.4)
Group level adjustments re transfer to WMEB fund	–	3.0
Group level adjustments re defined benefit schemes	0.2	0.2
Surplus retained in subsidiary undertakings	1.8	2.0
	5.7	(6.2)

7. INTANGIBLE FIXED ASSETS

GOODWILL	*Group* *£m*
COST	
At 1 October 2005	6.1
At 30 September 2006	6.1
AMORTISATION	
At 1 October 2005	4.7
Charge for year	1.4
At 30 September 2006	6.1
NET BOOK VALUE	
At 30 September 2006	–
At 30 September 2005	1.4

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.

8. TANGIBLE FIXED ASSETS

GROUP

	Land and buildings			Plant and equipment, furniture and fittings	
	Freehold *£m*	*Long leasehold* *£m*	*Short leasehold* *£m*	*£m*	*Total* *£m*
COST					
At 1 October 2005	38.0	6.7	1.2	22.3	68.2
Additions	21.0	1.5	0.1	3.3	25.9
Disposals	–	–	–	(0.2)	(0.2)
At 30 September 2006	59.0	8.2	1.3	25.4	93.9
DEPRECIATION					
At 1 October 2005	8.6	1.5	0.4	17.6	28.1
Disposals	–	–	–	(0.1)	(0.1)
Charge for the year	1.5	0.2	0.2	2.5	4.4
At 30 September 2006	10.1	1.7	0.6	20.0	32.4
NET BOOK VALUE					
At 30 September 2006	48.9	6.5	0.7	5.4	61.5
At 30 September 2005	29.4	5.2	0.8	4.7	40.1

CAMBRIDGE ASSESSMENT

	Land and buildings			Plant and equipment, furniture and fittings	
	Freehold *£m*	*Long leasehold* *£m*	*Short leasehold* *£m*	*£m*	*Total* *£m*
COST					
At 1 October 2005	31.1	–	0.6	19.0	50.7
Additions	21.0	–	0.1	3.2	24.3
Transfer	–	–	–	–	
Disposals	–	–	–	(0.1)	(0.1)
At 30 September 2006	52.1	–	0.7	22.1	74.9
DEPRECIATION					
At 1 October 2005	4.9	–	0.1	14.6	19.6
Disposals	–	–	–	(0.1)	(0.1)
Charge for the year	1.3		0.2	2.4	3.9
At 30 September 2006	6.2	–	0.3	16.9	23.4
NET BOOK VALUE					
At 30 September 2006	45.9	–	0.4	5.2	51.5
At 30 September 2005	26.2	–	0.5	4.4	31.1

9. FIXED ASSET INVESTMENTS

	Group		Cambridge Assessment	
	2006 £m	2005 £m	2006 £m	2005 £m
Balance at 1 October 2005	70.6	73.3	83.3	86.4
Additions	–	–	–	–
Disposals	(20.5)	(12.9)	(20.5)	(12.9)
Increase in market value of investments	4.4	10.2	4.2	9.8
Balance at 30 September 2006	54.5	70.6	67.0	83.3
Represented by:				
University Endowment Fund units	52.6	68.8	50.1	66.5
Investment properties	1.8	1.7	1.8	1.7
Investment in subsidiary undertakings	–	–	0.1	0.1
Loans to Group undertakings	–	–	15.0	15.0
Loan to Joint Venture	0.1	0.1	–	–
	54.5	70.6	67.0	83.3

Investments at market value comprise Cambridge University Endowment Fund (Amalgamated Fund) units. The market value at 30 September 2006 is based on the estimated valuation as at that date provided by the University Finance Division.

The loans to Group undertakings are unsecured and have no fixed repayment date. No interest has been charged in the year to 30 September 2006. Loans to Group undertakings includes a £15.0m loan to OCR, the future interest rate on which has yet to be determined.

Subsidiary undertakings:

Name of subsidiary undertaking	*Country of registration and operation*	*Class of share*	*Proportion held*	*Nature of business*	*Note*
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

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

IELTS Inc is a joint venture between OCIAS Limited, the British Council, and IDP Australia to promote the IELTS examination in the US.

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.

10. ENDOWMENT ASSETS

	Group		*Cambridge Assessment*	
	2006 *£m*	*2005* *£m*	*2006* *£m*	*2005* *£m*
Balance at 1 October 2005	17.2	14.7	17.2	14.7
Increase in market value of University Endowment Fund units	1.1	1.9	1.1	1.9
(Decrease)/increase in short term deposit balances	(1.6)	0.6	(1.6)	0.6
Balance at 30 September 2006	16.7	17.2	16.7	17.2
Represented by:				
University Endowment Fund units	14.1	13.0	14.1	13.0
Short term deposits	2.6	4.2	2.6	4.2
	16.7	17.2	16.7	17.2

11. DEBTORS

	Group		*Cambridge Assessment*	
	2006 *£m*	*2005* *£m*	*2006* *£m*	*2005* *£m*
Fee debtors	31.0	29.3	27.8	24.2
Amounts owed by Group undertakings	–	–	2.3	0.3
Other debtors	2.2	2.3	1.1	0.7
Prepayments and accrued income	8.7	7.6	6.2	5.3
	41.9	39.2	37.4	30.5

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		*Cambridge Assessment*	
	2006	*2005 as restated (see note 2)*	*2006*	*2005*
	£m	*£m*	*£m*	*£m*
Trade creditors	5.3	3.5	4.0	2.9
Amounts due to Group undertakings	–	–	–	1.1
Other taxes and social security	5.9	5.6	1.7	1.6
Other creditors	0.8	1.4	0.3	1.1
Accruals and deferred income (see below)	36.7	32.5	30.8	25.0
	48.7	43.0	36.8	31.7
Deferred income (see page 10) is analysed as:				
At 1 October 2005	25.5	24.6	20.5	19.7
Deferred in current year	24.3	22.0	22.8	20.5
Released from previous year	(23.4)	(21.1)	(20.5)	(19.7)
At 30 September 2006	26.4	25.5	22.8	20.5

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 recognised as Income but has been Deferred until later years.

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		*Cambridge Assessment*	
	2006 *£m*	*2005* *£m*	*2006* *£m*	*2005* *£m*
Loan from RSAEB	–	–	10.5	10.5
Loan from CUAPTS	–	–	0.1	0.1
	–	–	10.6	10.6

The loans are unsecured and have no fixed repayment date. No interest was charged in the year to 30 September 2006 (2005: nil).

14. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP

	Staffing *£m*	*Rebates or discounts* *£m*	*Other* *£m*	*Total* *£m*
At 1 October 2005	0.2	0.1	0.4	0.7
Charges in the year	0.2	–	–	0.2
Utilised in the year	(0.1)	–	(0.1)	(0.2)
Released during the year	(0.1)	(0.1)	(0.1)	(0.3)
At 30 September 2006	0.2	–	0.2	0.4

CAMBRIDGE ASSESSMENT

	Staffing *£m*	*Rebates or discounts* *£m*	*Other* *£m*	*Total* *£m*
At 1 October 2005	0.1	0.1	0.4	0.6
Charges in the year	–	–	–	–
Utilised in the year	(0.1)	–	–	(0.1)
Released during the year	–	(0.1)	(0.1)	(0.2)
At 30 September 2006	–	–	0.3	0.3

Provisions were made in respect of property related claims and legal fees, payments regarding employment matters, contractual disputes, and rebates and discounts.

15. SPECIFIC ENDOWMENTS

GROUP and CAMBRIDGE ASSESSMENT	*2006*	*2005*
	£m	*£m*
Balance at 1 October 2005	17.2	14.7
Income receivable from endowment asset investments	0.6	0.7
Expenditure	(2.2)	(3.1)
	(1.6)	(2.4)
Transfer from TWMEB reserves	–	3.0
Increase in market value of investments	1.1	1.9
Balance at 30 September 2006	16.7	17.2
Representing		
EMREB Fund	3.6	4.9
WMEB Fund	13.0	12.2
Scholarship Funds	0.1	0.1
	16.7	17.2

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.

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.

16. RESERVES

GROUP	*General reserves*	*Revaluation reserve*	*Investment property revaluation*	*Total excl. pension*	*Pension reserve*	*Total*
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Balance at 1 October 2005 (as previously stated)	98.4	25.9	0.5	124.8	(1.9)	122.9
Prior year adjustment (see note 2)	(3.7)	–	–	(3.7)	–	(3.7)
Balance at 1 October 2005 (as re-stated):	94.7	25.9	0.5	121.1	(1.9)	119.2
Surplus retained for the year	7.1	–	–	7.1	0.2	7.3
Increase in market value of investments	–	4.2	0.2	4.4	–	4.4
Realisation of gains	9.9	(9.9)	–	–	–	–
Actuarial loss	–	–	–	–	(0.4)	(0.4)
At 30 September 2006	111.7	20.2	0.7	132.6	(2.1)	130.5

CAMBRIDGE ASSESSMENT	*General reserves*	*Revaluation reserve*	*Investment property revaluation*	*Total*
	£m	*£m*	*£m*	*£m*
Balance at 1 October 2005:	80.0	25.6	0.5	106.1
Surplus retained for the year	5.3	–	–	5.3
Increase in market value of investments	–	4.0	0.2	4.2
Realisation of gains	9.9	(9.9)	–	–
At 30 September 2006	95.2	19.7	0.7	115.6

17. NOTES TO CONSOLIDATED CASHFLOW STATEMENT

(*a*) ***Reconciliation of operating surplus/(deficit) to net cash inflow/(outflow) from operating activities***

	2006 *£m*	*2005* *As restated* *(see note 2)* *£m*
Surplus/(deficit) on continuing operations	5.7	(6.2)
Investment income	(3.4)	(4.0)
Depreciation of tangible fixed assets	4.4	3.2
Amortisation of goodwill	1.4	0.6
Deficit/(Surplus) on disposal of investments/tangible fixed assets	0.5	(1.7)
Movements in provisions	(0.3)	(0.5)
Increase in creditors	3.1	1.5
(Increase) in debtors	(2.7)	(12.1)
(Increase)/decrease in stock	(0.4)	0.3
Transfer to University (non cash)	–	14.5
Pension costs (FRS17)	(0.2)	(0.2)
Net cash inflow/ (outflow) from operating activities	8.1	(4.6)

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

	2006 *£m*	*2005* *£m*
Decrease in cash in the year	(0.5)	(0.4)
Cash inflow/(outflow) from money market deposits	8.8	(7.9)
Change in net funds resulting from cashflows	8.3	(8.3)
Net funds at 1 October 2005	16.8	25.1
Net funds at 30 September 2006	25.1	16.8

(*c*) ***Analysis of change in net funds***

	At 1 Oct 2005 *£m*	*Cash Flows* *£m*	*At 30 Sept 2006* *£m*
Cash at bank and in hand	1.7	(0.5)	1.2
Money market deposits	15.1	8.8	23.9
Total	16.8	8.3	25.1

18. 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 profile of their active membership rising significantly. The RSAEB scheme is a closed scheme which has 14 (2005: 20) 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:

USS and CPS Latest actuarial valuations	*USS* *Mar 2005*	*CPS* *Jul 2003*
Investment returns per annum	4.5%	7.0%
Salary scale increases per annum	3.9%	4.5%
Pension increases per annum	2.9%	3.5%
Market value of assets at date of last valuation	£21,740m	£216m
Funding level	77%	92%
Employer's contribution rate	14%	16.5%

The employer's contribution rate for the CPS scheme was increased to 19.7% from 1 August 2005.

RSAEB Pension Scheme

A full actuarial valuation of the scheme was carried out at 1 October 2003, in accordance with the requirements under FRS 17 and updated to 30 September 2006 by a qualified independent actuary.

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:

	At 30 Sept 2006	*At 30 Sept 2005*	*At 30 Sept 2004*
Discount rate	4.9%	5.0%	5.5%
Retail price inflation	3.0%	2.7%	2.8%
Salary increase rate	5.0%	4.7%	4.8%
Pensions increases (at Limited Price Indexation)	3.2%	3.2%	3.2%
Deferred pension revaluation	3.0%	2.7%	2.8%

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 realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

Assets	*Assets at 30 Sept 2006 £m*	*Assets at 30 Sept 2005 £m*	*Assets at 30 Sept 2004 £m*
Equities	3.0	3.1	3.1
Bonds	2.4	2.3	0.4
Cash/other	0.1	0.1	0.9
Total assets	5.5	5.5	4.4
Scheme liabilities	(7.6)	(7.4)	(6.4)
Net pension deficit	(2.1)	(1.9)	(2.0)

	Expected Return from 30 Sept 2006	*Expected Return from 30 Sept 2005*	*Expected Return from 30 Sept 2004*
Equities	7.4%	7.3%	7.9%
Bonds	4.7%	4.4%	5.0%
Cash/Other	4.8%	4.5%	5.0%

Movement in deficit during the year

	Year to 30 Sept 2006 £m	*Year to 30 Sept 2005 £m*
Deficit at beginning of the year	(1.9)	(2.0)
Movement in year:		
Current service cost	(0.2)	(0.2)
Contributions	0.5	0.4
Net return from other finance income	(0.1)	–
Actuarial loss recognised in statement of total recognised gains and losses	(0.4)	(0.1)
Deficit at end of the year	(2.1)	(1.9)

Analysis of amount recognised in statement of total recognised gains and losses:

	Year to 30 Sept 2006	*Year to 30 Sept 2005*

	£m	*£m*
Actual return less expected return on pension scheme assets	0.1	0.6
Experience (losses) on the liabilities	(0.1)	(0.1)
Change in assumptions underlying the present value of the scheme liabilities	(0.4)	(0.6)
Actuarial (loss)	(0.4)	(0.1)

Analysis of the amount charged to income and expenditure account:

	Year to 30 Sept 2006 £m	*Year to 30 Sept 2005 £m*
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	(0.4)	(0.3)
	(0.1)	–

History of experience gains and losses

	Year to 30 Sept 2006 £m	*Year to 30 Sept 2005 £m*	*Year to 30 Sept 2004 £m*	*Year to 30 Sept 2003 £m*
Difference between the actual and expected return on scheme assets	0.1	0.6	0.1	0.2
– as % of scheme assets	2%	10%	2%	6%
Experience gains/losses on scheme liabilities	(0.1)	(0.1)	0.4	–
– as % of present value of scheme liabilities	(1%)	(1%)	7%	0%
Total amount recognised in statement of total recognised gains and losses	(0.4)	(0.1)	0.3	0.1
– as % of present value of scheme liabilities	(5%)	(2%)	4%	1%

Total Group pension cost for the year

	2006 £m	*2005 £m*
USS	3.0	2.7
CPS	2.7	2.3
RSAEB	0.2	0.2
	5.9	5.2

19. OPERATING LEASES

At 30 September 2006 the Group had annual commitments under non-cancellable operating leases as follows:

	Group		*Cambridge Assessment*	
Amounts payable under operating leases which fall due in the next financial year:	*2006 £m*	*2005 £m*	*2006 £m*	*2005 £m*
Land and buildings, commitments expiring:				
In 1 year	0.2	–	0.2	–
Between 2 and 5 years	0.6	1.2	0.6	1.3
After 5 years	0.2	0.2	0.2	0.2
Plant, machinery, and equipment, commitments expiring:				
In 1 year	0.1	0.1		–
Between 2 and 5 years	0.3	0.2	0.2	0.1
	1.4	1.7	1.2	1.6

20. 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 £9.01m (2005: £8.28m), purchase of other services £0.41m (2005: £0.35m), receipt of royalties £0.31m (2005: £0.25m), sale of services to CUP £0.18m (2005: £0.23m). At 30 September 2006 a balance of £1.06m (2005: £0.61m) was due to CUP.

The total transfer to the University of Cambridge in respect of 2005/06 was £3.4m of which a balance of £0.07m was due at 30 September (2005: total £14.5m, in addition £0.15m was paid in respect of 2005/06).

The group paid £0.22m (2005: £0.28m) to the University in respect of rentals and other services. Examination fees of £0.01m (2005: £0.02m) were charged to the University. At 30 September 2006 no balance was due to or from the University in respect of these transactions (2005: £0.09m due from the University).

A total of £0.54m (2005: £0.36m) was paid to Colleges of the University in respect of venue hire and scholarships. Property rental of £0.05m (2005: £0.05m) was receivable from Downing College. At 30 September 2006 £0.04m was owed to Colleges (2005: £0.01m was due from Colleges).

£0.08m (2005: £0.08m) was paid to the Cambridge Overseas Trust in respect of scholarships.

£8,000 was paid to one Syndic in respect of consultancy services and £882 to another in respect of examination services; no other remuneration was paid to Syndics or to any connected persons (2005: nil). Total travel expenses of £1,836 (2005: £2,041) were reimbursed during the year to 4 (2005: 5) Syndics.

No loan was made to IELTS Inc during the year (2005: US $30,000).

21. FORWARD CURRENCY CONTRACTS

As at 30 September 2006 the Syndicate had forward exchange contracts for the sale of €13.2m (2005: €8.0m) and US $7.3m (2005: US $3.6m).

22. CAPITAL COMMITMENTS

There were £0.6m (2005: £1.22m) capital commitments for the Group and £0.3m (2005: £1.22m) for Cambridge Assessment as at 30 September 2006 in respect of building work.

23. CONTINGENT LIABILITIES

There were no (2005: £nil) contingent liabilities as at 30 September 2006.

24. 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.