

# Cambridge Assessment Group Annual Report 2005-2006



CAMBRIDGE ASSESSMENT

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## **Cambridge Assessment**

### **Annual Report, 2005/2006**

This is the one hundred and forty-ninth Annual Report of Cambridge Assessment to the Council of the University of Cambridge. It covers the events of the financial year 2005/2006.

#### **Introduction**

It is clear that in our first full year of operating under the Cambridge Assessment corporate brand we have been able to establish a clearer identity and have been able to promote ourselves more effectively as independent experts on a range of assessment issues. Throughout this report the Cambridge Assessment brand is used except for matters of a technical or legal nature which continue to refer to the Local Examinations Syndicate.

The year has also been one of considerable organisational change including the creation of a single division in OCR to meet the challenges posed by 14-19 educational reforms, and the addition of a new resource in the form of the Psychometrics Centre. There have, furthermore, been significant changes in the group's logistical capabilities following the acquisition of a warehouse near Duxford which will consolidate all of the Cambridge warehouse-based activities along with some other functions in a single site.

This year has again seen considerable focus on two main areas of IM, the modernisation programme and the continued improvement in our back office infrastructure and operations building on the establishment of the Data Centre. The Electronic Script Management (ESM) systems were launched successfully to over 4,000 examiners for the collection of marks for over 1.5 million live scripts, and activity in this area continues to be a major priority for the Group with the volume of scripts processed in this way expected to double next year. More resources have also been allocated to computer-based testing with an extension of the in-house Connect system to support a range of qualifications across business streams.

#### **Group History and Structure**

Cambridge Assessment was established in 1858 as the Local Examinations Syndicate to administer examinations for persons who were not members of the University and to inspect schools, with the aim of raising standards in education. Examining overseas began in 1863 and this aspect of the Group's work grew quickly. In 1888, the organisation was empowered to hold examinations for commercial certificates. The Certificate of Proficiency in English, Cambridge Assessment's first examination in the field of English as a foreign language, was introduced in 1913. Thus, the foundations for our work today were laid by 1914. From the mid 1980s, as successive UK Governments moved to exert greater control over the school curriculum and examinations at ages 16 and 18, the number of English examination boards was reduced by a process of consolidation. Cambridge Assessment acquired the Oxford Delegacy of Local Examinations, the Oxford and Cambridge Schools Examination Board, the Midland Examining Group and the RSA Examinations Board, amongst others.

The Cambridge Assessment Group is now organised into three externally-trading business streams - Oxford, Cambridge and RSA Examinations (OCR), University of Cambridge International Examinations (CIE) and Cambridge ESOL (English for Speakers of Other Languages) - each of which has a distinct product range and group of customers. OCR is responsible for examinations and other assessment activity for both general and vocational qualifications in the UK; CIE is responsible for international school examinations and international vocational awards; and Cambridge ESOL is responsible for examinations in English for speakers of other languages and qualifications for language teachers throughout

the world. The work of the three business streams is supported by the following corporate services: Finance, Human Resources, and Infrastructure Services (comprising Distribution, Information Management, and Premises and Services). In addition, the Assessment, Research and Development (ARD) division brings together corporate research and innovation activities, as well as investigating and developing new business opportunities which may fall outside the remit of the business streams.

### **The Cambridge Assessment Group and the University**

Cambridge Assessment is a constituent part of the University and therefore falls within the University's status as an exempt charity. OCR is a company limited by guarantee with the University as its sole member. It is also an exempt charity, under Schedule 2(w) of the Charities Act 1993, on the grounds that it is administered on behalf of the University. Cambridge Assessment and OCR are the two principal operating entities of the Cambridge Assessment Group.

The Group plays an important part in supporting the University's educational outreach. Our aim is to be a world-leading assessment organisation. To accomplish this we offer a comprehensive range of qualifications – both academic and vocational. By ensuring that these are designed to encourage positive educational experiences and the development of relevant knowledge, skills and abilities, we enable the University, through our work, to deliver practical benefits to millions of people who would otherwise never come into contact with it. In this way we provide recognition of individual learners' achievements, thereby assisting them to achieve their own educational and career objectives, giving them access to further progress in education (including entry to universities) and in the workplace. The Group's activities contribute in a tangible way to the needs and development of countries across the world.

The Group values the involvement of the University in its work, through the participation of University staff as members of its committees or as examiners, and through participation in the outreach activities of departments, of which the Millennium Mathematics project is a leading example.

### **Regulation and standards**

OCR's general qualifications are closely regulated by the Qualifications and Curriculum Authority (QCA) in England, the Department of Education, Lifelong Learning and Skills in Wales, and the Northern Ireland Council for the Curriculum Examination and Assessment. This regulation covers the subjects and the number of syllabuses that can be offered, syllabus content, schemes of assessment and many aspects of administration. Notwithstanding this regulatory framework, the maintenance of awarding standards remains the responsibility of OCR, through its Chief Executive and Director of Quality and Standards, the latter of whom is the Accountable Officer; this responsibility is subject to regular public scrutiny and audit. Regulation of OCR's vocational qualifications, although not yet so complete, is also exercised by QCA.

CIE is responsible for the definition and maintenance of standards for all of the Group's international qualifications, although where general qualifications are administered in partnership with a ministry of education, that ministry is increasingly involved in standard setting and in the administrative aspects of regulation.

ESOL is fully responsible for the regulation of its work and for the setting and maintenance of standards. In this it must look to competition from the USA, unlike OCR and CIE, whose competition is essentially based on the British approach to education. ESOL has achieved formal accreditation for its examinations in the UK, which allows further education institutions

to gain funding for courses leading to the exams.

## **Influencing Thinking**

### Research

The ARD's Research Division continued to be active in a number of different areas and implements a strategic research programme through consultation with the business streams via mechanisms such as the Research Programmes Board. The division won a QCA contract to investigate the comparability of vocational GCSEs and has been exploring opportunities with other organisations such as the British Dyslexia Association and the Institute of Public Policy Research (a partner on a project entitled Curriculum, Assessment and Pedagogy – A New Agenda for Schools).

All of Cambridge ESOL's exam developments – including new exams, reviews and modifications – are supported by extensive research. With the introduction this year of the International Legal English Certificate (ILEC) and the development of the International Certificate in Financial English (ICFE), the Research and Validation team has undertaken studies to analyse the language needs of particular occupational groups.

Empirical studies of the underlying language proficiency needs of FCE and CAE candidates were central to the FCE/CAE Review process. The impact of this research will have a positive effect on the teaching community; broadening the understanding of the true nature of the writing ability of learners of a second language will help teachers to teach writing skills in a different or more enlightened way. For the YLE review – in addition to the test task trials – an in-depth study of primary course books was undertaken to check that wordlists and topics are up to date and reflect current classroom practice.

On average about 70 validity studies are conducted annually on existing and proposed exams as well as on assessment approaches and theories to assist test production. Validity studies include impact studies, trial analyses, viability investigations and reliability studies which examine test items to ensure they are fit for purpose. This year, numerous studies were undertaken for BULATS (for example, research into marker reliability to determine whether there are variances in interpretation of mark schemes by the markers of the exam papers), BEC (grading methods among other areas of investigation), YLE and IELTS.

Research into the post launch phases of two computer-based products (CB IELTS and CB PET) continued during the year with performance monitoring of exam materials and candidate responses particularly focusing on comparability between paper-and-pencil and computer-based responses. There was also investigation into test technology that could support automated test assembly and item cloning.

The Asset Languages scheme includes over 20 languages, three contexts (primary, secondary and post-16), four skills (reading, writing, listening and speaking), and A1 to C2 levels of proficiency. The basis of this complex framework is the notion of functional equivalence of levels across languages, skills and contexts. A comprehensive Research Agenda managed by Cambridge ESOL Research & Validation division focuses on this and other fundamental issues associated with the development of a new qualification system. The Research Agenda is based on the division's VRIP (Validity, Reliability, Impact, Practicality) model and sets out important research areas and research questions for Asset Languages. Current areas of work include comparability across skills, comparability across languages, the relationship of Asset Languages assessments to existing UK qualifications, and the impact of Asset Languages assessments on teaching and the motivation of learners.

## Sharing Knowledge

Cambridge ESOL is taking a leading role in the English Profile Project, which aims to provide tools that will help learners and teachers understand what real English language use actually looks like at each level of the influential Common European Framework of Reference. The English Profile project is a collaboration with the British Council, Cambridge University Press, English UK, the Research Centre for English and Applied Linguistics (University of Cambridge), University of Cambridge ESOL Examinations and the Centre for Research in English Language Learning and Assessment (University of Bedfordshire).

Cambridge ESOL published (with Cambridge University Press) four volumes of the academic series *Studies in Language Testing* during the year. These covered subjects such as testing of language for specific purposes, the impact of high-stakes testing on classroom teaching and the effects of the powerful influence of language teaching and testing programmes exerted on a wide range of stakeholder groups.

Specialists from Cambridge ESOL's Research and Validation Group delivered papers on a broad range of assessment subjects at 50 conferences around the world during the year as part of its commitment to share its knowledge and insights. Members of the Group also published a number of papers in refereed journals, and in two specialist encyclopaedias.

This year, the quarterly *Research Notes* included generic assessment subjects; for example, setting and monitoring professional standards, assessment systems (conceptual, human, technological), evaluating the impact of word processed text on writing quality, and items on specific product research.

Cambridge ESOL and its centres organised around 600 seminars for teachers and other stakeholders during the year, also attended well over 100 ELT conferences and exhibitions plus some 50 academic conferences. Major events were held in Greece and Switzerland in collaboration with our ALTE partners to mark the European Day of Languages in September.

CIE is a world leader in international education - and committed to sharing its knowledge worldwide. We are building capability with ministries of education; sharing global best practice in teaching through seminar programmes, and offering formal professional development courses worldwide.

CIE is building capability in many government ministries of education. We have on-going large scale projects to develop national systems in Southern Africa, including Namibia, Botswana, Lesotho and Swaziland. CIE continues to be involved in many other local capability building projects – for example, item writer training in Malaysia, examinations administration training in Mauritius, quality assurance procedures in Hong Kong and developing on-line teacher support for UNICEF in the Maldives. In addition, CIE is providing advice and assistance in several national curriculum reform programmes, including primary, lower and upper secondary education, A level, vocational and moving to broader access educational systems.

Global Best Practice has proved a popular theme with international schools. CIE has drawn hundreds of teachers to seminars on educational best practice in international education. The most recent seminar was in Delhi in September, attended by nearly 400 teachers. Cambridge acts both as an expert – in sharing its findings and experience with teachers; and as a facilitator – in holding workshops and providing a forum for excellent teachers to share their work through case studies. We staged more professional development courses than ever before. Professional development covers both subject-specific training and wider

pedagogical development. CIE subsidises this part of its work because our aim is to make the courses accessible to as many teachers as possible. We provided thousands of skills transfer days and ran hundreds of sessions, both face to face and online.

OCR contributed through the year to a continuing debate between awarding bodies, regulators and governments about the national qualifications frameworks in England, Wales and Northern Ireland. OCR's analysis, drawing on the global experiences of the Group, helped to shape a two-year trial of a new approach in England which tries to embed greater employer input with greater choice for learners whilst ensuring qualifications are fit-for-purpose.

OCR engaged extensively during the year with government, regulators and teachers over the 14-19 White Paper reforms. It successfully argued for the retention of coursework where it is appropriate; shaped a programme of pilots for functional skills assessments; and helped QCA to turn the work of employer-led Diploma Development Partnerships into a workable framework for developing the new diplomas.

The ARD's Research Division produced three issues of *Research Matters*, one of which was a special issue reporting on the Aspects of Writing Research which was the focus of a House of Commons seminar chaired by Barry Sheerman (Chairman of the Commons Select Committee on Education).

New conferencing guidelines have been implemented within ARD with the introduction of pre-conference co-ordination meetings and post-conference feedback. Papers were presented at the AEA and IAEA conferences, among others, and the Director of the Research Division presented the keynote address at the 10<sup>th</sup> Annual Roundtable Assessment Conference in Melbourne.

The Cambridge Assessment Network has run a programme of in-house seminars and courses and has been supporting the Group's aim of promoting itself as a centre for those seeking high quality advice and teaching on assessment. A two week international study programme was run for assessment specialists from Malaysia, Bhutan and Egypt in collaboration with the business streams. The first international Cambridge Assessment Conference was held at Robinson College, Cambridge. A panel of world-class speakers helped to ensure that this event made a significant contribution to thinking on the theme of trust in public examination systems.

### New Developments

Cambridge ESOL carried out a major benchmarking study for the Colombian government, to assess levels of English across school and university students. This has attracted media attention internationally, and will form the basis of further collaborative projects with the Colombian Ministry of Education.

Cambridge ESOL introduced its On-line results service during the year. This innovative service allows candidates to access their results online as soon as they are issued. It has proved extremely popular, and will be rolled out across the full range of exams during the coming year.

ILEC has been introduced in partnership with lawyer-linguists Translegal, and interest is growing following the first examinations in May 2006. This is the first exam which Cambridge ESOL has provided for a specific profession and is complemented by the textbook Legal English Course published by Cambridge University Press. ILEC will be followed by ICFE in 2007. ICFE has been developed in collaboration with the Association of Chartered Certified Accountants (ACCA). Cambridge ESOL and ACCA are working with CUP to pilot a blended



learning course.

An interactive blended-learning course for Italian university students was developed through a unique partnership between Cambridge ESOL, Cambridge University Press and the association of Italian university rectors, CRUI (*Conferenza dei Rettori delle Università Italiane*) during the year. A blended course combines several methods of tuition; in this case self-access study and online tuition. Its purpose is to help Italian universities meet government requirements to increase the number of students reaching level B1 (CEFR) in English.

To support teachers with their own professional development, the Cambridge Teacher Portfolio was launched this year. It is a secure, free online portfolio that enables teachers anywhere in the world to store materials, lesson plans, teaching reflections and their career details. An online newsletter was also launched to help teachers to make the most of the Teaching Resources website. Computer-based PET was launched in some countries in Europe this year. The shorter lead-in times between entry and exam and faster results turnaround time have proven particularly attractive in Italy and Switzerland. There is also considerable interest from centres in Latin America and other parts of the world.

CIE has begun development of Cambridge Pre-U, a major new initiative in post-16 education. Cambridge Pre-U will give students excellent preparation for university and is an alternative to A/AS Level. Schools in the UK and overseas are showing very strong interest in offering Cambridge Pre-U and have been taking part in CIE's consultation on the overall qualification and its component parts – subject syllabuses, curriculum extension and Global Perspectives course. Cambridge Pre-U will be available for first teaching in September 2008 and for first full examination in June 2010.

Cambridge IGCSE is the world's most popular international qualification for 14-16 year olds – and still growing. Not only are entries increasing internationally, but also in the UK, where over 200 UK independent schools offer IGCSE. Its success has led the UK government to launch a consultation to see how IGCSE should be offered to state schools.

This year saw a major milestone passed in CIE's Computer Based Testing strategy with the sitting of the first all-electronic component. IGCSE Geography Alternative to Practical was taken in May by over 250 students in 20 Centres, entirely on computer. CIE also piloted a computer-based version of its Checkpoint mathematics diagnostic test in April, involving five Centres.

In November CIE launched CIEDirect, a new secure Centre extranet which is designed to replace most paper-and-post administrative transactions. Use of the site has been widespread, with more than 2,000 Centres using it to receive their results in January and August. Development also started this year on a new version of CIE's public website, CIEOnline, which is due for launch in March 2007. The new site is designed to make it easier for different user groups to find relevant content, and to improve the recruitment of Centres online.

OCR's ground-breaking new GCSE Science specifications aroused tremendous interest from teachers. In particular, the 21st Century Science suite, with its emphasis on placing scientific understanding in real-world contexts, attracted controversy in some quarters, though many scientists saw this as a positive step towards increasing young people's engagement with the sciences.

In support of a general drive to reduce the burden of assessment on learners, OCR launched its first 4-unit A levels in place of their 6-unit predecessors. Plans are in place to re-develop other A levels along similar lines.

OCR launched the UK's first "e-GCSE". The Environmental and A Land-Base Science specifications allow learners to complete the whole qualification through on-screen examinations and the use of a digital portfolio for coursework.

Anticipating the 14-19 reforms, and recognising that a growing number of schools and colleges are now mixing general and vocational offerings, OCR brought together its two assessment (i.e. qualifications) divisions to form a single new division. We believe this will enable us to engage more effectively and flexibly with schools and colleges as they tailor their provision to their particular learners.

The Group signed a joint venture agreement with the Australian Council for Educational Research (ACER) to develop and pilot the generic university admissions test, uniTEST. ARD is working with the support of several universities to validate the test using applicants to these institutions. ARD has also revised the admissions test used by the English Faculty at Oxford University and will be administering a pilot of the test.

The Cambridge Assessment Network had developed a Certificate in the Principles and Practice of Assessment in conjunction with the Institute of Continuing Education at the University which is open to staff, teachers, trainers and the general public.

The Psychometrics Centre joined Cambridge Assessment in November, having originally been established at City University, London in May 2003 under the direction of Professor John Rust, the UK's only Professor of Psychometrics. The centre is now fully established and receives income from commercial test publishing contracts. It provides a resource to be used by the Group to increase internal levels of psychometric expertise, and will continue to explore external opportunities.

### **Delivering Assessment Services**

Cambridge ESOL's business continues to flourish, with excellent growth worldwide across the entire range of examinations and services. IELTS has continued the recent trend of rapid growth in numbers of candidates worldwide. It remains the test of choice for immigration to many English speaking countries and is now recognised by more than 4,000 universities and other educational institutions. Growing recognition in the USA – where nearly 900 institutions recognise the test, including 7 of the 8 Ivy League schools – has helped to fuel this growth. During the year, IELTS was given a new brand identity, and a number of new services were introduced to help sustain the rapid growth.

The Young Learners English Tests have also sustained particularly high levels of growth worldwide, particularly in Asia. A comprehensive review of the tests has led to minor updates which will be introduced in 2007. In the UK, Cambridge ESOL's UK ESOL Skills for Life provision has been extremely successful and entries continue to grow rapidly, thanks to the exceptionally high level of support that Cambridge ESOL provides for teachers. The innovative Teaching Knowledge Test has grown rapidly and has attracted recognition from ministries of education and other official bodies in several countries. This test continues to attract a high level of media attention worldwide.

The worldwide network of Cambridge ESOL offices and staff continues to increase, with new offices in Mexico and Vietnam and expanded teams in China and Spain.

Cambridge ESOL carried out a thorough review of the FCE and CAE examinations, two of the world's best known and most widely recognised qualifications for learners of English. The review will lead to a number of enhancements, including a reduction in the overall length of each exam of approximately one hour, which should make the exams more appealing to

candidates.

Cambridge Assessment has a contract with the DfES to deliver the national languages recognition scheme for England. The scheme is based on the Languages Ladder - a series of simple motivational "can do" statements and in order to do this the Asset Languages scheme has been created. This year saw the new qualifications offered for the first time on a national scale. Ten thousand candidates made entries across eight languages - French, German, Spanish, Italian, Mandarin Chinese, Japanese, Panjabi and Urdu. News of the development is spreading rapidly and by the end of the year over 1,000 centres had registered an interest in taking the qualifications in 2006/7 when a further thirteen languages will be available.

The Languages Ladder on which the Asset Languages programme is based is an English interpretation of the Common European Framework. Staff from Cambridge ESOL, together with the DfES have attended a number of international conferences and made presentations on the Languages Ladder and Asset Languages. Work has been undertaken to establish common standards with our European partners through assessment of student performance against the Common European Framework.

CIE is the world's largest provider of international school qualifications for 14-19 year olds. As such it is committed to its mission to extend access to the benefits of education around the world. Greater student and worker mobility through globalisation creates new demand for international qualifications. CIE's assessment provision is designed to meet the needs of two segments of education – that of international and independent schools operating individually or as consortia of schools, and national examination systems operated through a number of government contracts.

In 2005-2006 over 400,000 candidates entered for University of Cambridge International Examinations (CIE) syllabuses in 150 countries through 9,000 schools, centres and distributors. The examinations taken included IGCSE, O Level, International AS and A Levels. CIE also provided qualifications for the professional development of teachers. Particularly growth was experienced in India and the Middle East. Their scripts were marked by around 4,000 examiners. While the majority were marked using traditional paper-based methods of marking, a small proportion of the overall total were marked using the new electronic script marking processes operated by the Group.

In their second year, OCR Nationals were taken up by a growing number of schools and colleges. For some, this offered a replacement for GNVQs, for many others OCR Nationals presented an opportunity to incorporate vocational programmes for the first time. Many more schools and colleges were preparing to adopt Nationals in 2006-7.

Critical Thinking became OCR's most popular A level. Critical Thinking is highly valued by some universities, and by a growing number of teachers who feel that, as well as offering a challenge to learners in its own right, it helps them develop generic skills which enhance their achievement in other subjects.

OCR became the leading provider of adult Basic Skills tests, and was particularly active in supporting Basic Skills testing in prisons. By the end of the year, the majority of tests were being taken on-screen.

## People

The Group is heavily reliant on the knowledge and experience of its staff and external examiners and great attention is paid to their further training and development. The Group also depends upon the services of a number of contractors and consultants. Syndics wish to record their appreciation of the work of all those who have contributed to the Group's activities over the past year.

## Finance and Reserves

The consolidated financial statements show that the Cambridge Assessment Group reported a surplus of £3.6 million for the financial year ended 30 September 2006. Each of the three business streams recorded an operating surplus.

Income from examination fees and other educational and assessment services increased from £166.9 million to £177.1 million due to increased demand across all three Business Streams.

Overall expenditure in providing examination services increased, partly because of extra volume, and partly because of higher staff, information system and other costs. Expenditure for the year also includes a transfer of £3.3m to the University compared with £14.5m for the previous year.

Although continuing growth is forecast in the number of examination entries, fee rates are subject to external pressures particularly from customers who are billed in Euros, and from those which suffer from economic difficulties or where they find it difficult to raise foreign currency to pay in sterling.

As a result, the Group is committed to maintaining a strong balance sheet in order to ensure financial stability in a risky business environment and to provide a cushion against adverse circumstances. Reserves are also required to fund investment in the development of the Group's infrastructure and business, including research, and to ensure that no financial liability will ever fall on general University funds. Syndics consider that it would be imprudent for the Group to rely on loans to fund any of these requirements and that the University is unlikely to wish to divert general resources to support the Group's work. The Group must therefore maintain sufficient reserves to meet all its funding requirements, in bad as well as good times. The available reserves provide the necessary buffer to meet the Group's investment needs and cover for contingencies. Syndics have reviewed the level of reserves with the University and believe that the levels held are reasonable given the issues faced by the Group. It has been the Group's policy to invest the available reserves in the University's Endowment Fund (Amalgamated Fund). This policy has served the Group (and the University) well over the years, enabling substantial support to be given to a range of general University purposes and to scholarship schemes for students from the Commonwealth and other countries. However, the policy introduces its own risk when, from time to time, stock markets fall. By 30 September 2002 the accounts had shown an accumulated unrealised loss over two years of £21.6m. Over the last four years these unrealised losses have all been recovered.

During the year £3.3 million was transferred to the University, which is a return to the normal pattern of transfers. In addition, the Group has given financial assistance on a small scale to a number of University activities that relate closely to the Group's mission such as the Millennium Mathematics Project, an outreach activity to schools run jointly by the Departments of Education and of Applied Mathematics and Theoretical Physics; and grants

to some of the less well endowed colleges to support overseas students, in recognition of the importance of international work to the Group. These grants will be continued next year.

Since 1981 the Group has transferred £146 million from its reserves and investment income - £125 million to general University funds; £18 million to the Cambridge Commonwealth and Overseas Trusts; and £3 million to establish the Research Centre for English and Applied Linguistics.

During the year the Group purchased a new warehouse outside Cambridge. Refurbishment of the first phase of this will be completed during 2007.

The Group has adopted FRS17 'Retirement Benefits' in these financial statements. As a result, the liability in respect of the RSAEB Retirement Benefits Scheme is included. The liability relating to the CPS Scheme is not recognised in the Group's accounts as the Group's share of assets and liabilities cannot be separately identified.

### **Risk Management**

The major risks to which the Cambridge Assessment Group is exposed, as identified by the Syndics, have been reviewed and systems have been established to manage those risks.

a. Policies and Procedures

Policies underpin the internal control process. These policies are set by the Corporate Board and written procedures support the policies where appropriate. There is an annual review as to whether changes or improvements to processes and procedures are necessary.

b. Risk Register

A Risk Register is maintained at a corporate level and helps to identify, assess, and monitor significant risks. Senior management review the risks for which they are responsible. Emerging risks are added as required, and improvement actions are monitored regularly.

Signed:

Professor A J Badger (Chairman) .....

Professor J M Gray .....

Dr J J Guy .....

Ms D Hall .....

Professor J Hawkins .....

Miss P M Kelleher .....

Dr J A Leake .....

Mr R M Martineau .....

Mr B G Picking .....

Dr K B Pretty .....

Mr A Reid .....

Professor R Taylor .....

25 January 2007. Syndicate Buildings, 1 Hills Road, Cambridge, CB1 2EU

**Auditors**

KPMG LLP  
37 Hills Road, Cambridge CB2 1XL

**Bankers**

Barclays Bank plc  
15 Bene't Street, Cambridge, CB3 3PZ

**Appendix A: The Local Examinations Syndicate**

|                                     |  |                     |
|-------------------------------------|--|---------------------|
| Professor Tony Badger<br>(Chairman) | Master of Clare College  |                     |
| Mrs Valerie Bragg                   | Chief Executive of 3E's Federation of Schools  | (Retired 31.12.05)  |
| Professor John Gray                 | Professor of Education in the Faculty of Education, University of Cambridge            |                     |
| Dr John Guy                         | Principal of Farnborough Sixth Form College  |                     |
| Ms Denise Hall                      | Director of Marketing and Sales, SpecialSteps  |                     |
| Professor John Hawkins              | Director, Research Centre for English and Applied Linguistics, University of Cambridge |                     |
| Miss Patricia Kelleher              | Headmistress, the Perse School for Girls, Cambridge                                    |                     |
| Dr John Leake                       | President of St John's College   |                     |
| Mr Richard Martineau                | Former Chairman of RSA   |                     |
| Mr Bruce Picking                    | Chairman of Governors of Havering College of Further and Higher Education              |                     |
| Dr Kate Pretty                      | Principal of Homerton College and Pro-Vice-Chancellor, University of Cambridge         |                     |
| Mr Andrew Reid                      | Director of Finance, University of Cambridge   |                     |
| Professor Richard Taylor            | Director of Institute of Continuing Education, University of Cambridge                 | (From 22.06.06)     |
| Mrs Joanna Womack                   | Bursar, Clare Hall   | (Resigned 30.09.06) |

**Appendix B: The OCR Board**

|                              |  |                     |
|------------------------------|--|---------------------|
| Mr Simon Lebus<br>(Chairman) | UCLES Group Chief Executive  |                     |
| Professor Tony Badger        | Master of Clare College  |                     |
| Ms Valerie Bragg             | Chief Executive of 3E's Federation of Schools  | (Retired 31.12.05)  |
| Professor John Gray          | Professor of Education in the Faculty of Education, University of Cambridge            |                     |
| Dr John Guy                  | Principal of Farnborough Sixth Form College  |                     |
| Professor John Hawkins       | Director, Research Centre for English and Applied Linguistics, University of Cambridge |                     |
| Miss Patricia Kelleher       | Headmistress, the Perse School for Girls, Cambridge                                    |                     |
| Ms Denise Hall               | Director of Marketing and Sales, SpecialSteps  |                     |
| Dr John Leake                | President of St John's College   |                     |
| Mr Richard Martineau         | Former Chairman of RSA   |                     |
| Mr Bruce Picking             | Chairman of Governors of Havering College of Further and Higher Education              |                     |
| Dr Kate Pretty               | Principal of Homerton College and Pro-Vice-Chancellor, University of Cambridge         |                     |
| Mr Andrew Reid               | Director of Finance, University of Cambridge   | (From 18.05.06)     |
| Professor Richard Taylor     | Director of Institute of Continuing Education, University of Cambridge                 | (From 22.06.06)     |
| Mrs Joanna Womack            | Bursar, Clare Hall   | (Resigned 30.09.06) |



**Appendix C: Cambridge Assessment Group Corporate Board**

|                    |   |                    |
|--------------------|---|--------------------|
| Mr Simon Lebus     | Group Chief Executive                             |                    |
| Mrs Sue Durham     | Group HR Director                                 |                    |
| Mr Mark Lovell     | Group Infrastructure Services Director            |                    |
| Dr Ron McLone      | Director-General of Assessment                    | (Retired 31.12.05) |
| Dr Mike Milanovic  | Chief Executive, ESOL                             |                    |
| Mr Tim Oates       | Group Director, Assessment Research & Development | (From 30.05.06)    |
| Mrs Ann Puntis     | Chief Executive, CIE                              |                    |
| Mrs Jackie Rippeth | Group Finance Director                            |                    |
| Mr Gregor Watson   | Chief Executive, OCR                              |                    |

**Appendix D: List of Acronyms**

|        |   |
|--------|---|
| ACCA   | Association of Chartered & Certified Accountants                    |
| ACER   | Australian Council for Education Research                           |
| AEA    | Association for Educational Assessment                              |
| ALTE   | Association of Language Testers in Europe                           |
| ARD    | Assessment, Research and Development                                |
| BEC    | Business English Certificate  |
| BULATS | Business Language Testing Service                                   |
| CAE    | Certificate of Advance English                                      |
| CBT    | Computer Based Testing  |
| CEFR   | Common European Framework Reference (for modern languages)          |
| CIE    | Cambridge International Examinations                                |
| CUP    | Cambridge University Press  |
| DfES   | Department for Education and Skills                                 |
| ESM    | Electronic Script Management  |
| ESOL   | English for Speakers of Other Languages                             |
| FCE    | First Certificate in English  |
| GCSE   | General Certificate of Secondary Education                          |
| GNVQ   | General National Vocational Qualification                           |
| IAEA   | International Association for Educational Assessment                |
| ICFE   | International Certificate in Financial English                      |
| IELTS  | International English Language testing System                       |
| IGCSE  | International General Certificate of Secondary Education            |
| ILEC   | International Legal English Certificate                             |
| IM     | Information Management  |
| OCR    | Oxford, Cambridge and RSA Examinations                              |
| PET    | Preliminary English Test  |
| QCA    | Qualifications and Curriculum Authority                             |
| RSA    | Royal Society for the Encouragement of Arts Manufactures & Commerce |
| UCLES  | University of Cambridge Local Examinations Syndicate                |
| UNICEF | The United Nations Children's Fund                                  |
| YLE    | Young Learners English  |

**UNIVERSITY OF CAMBRIDGE  
LOCAL EXAMINATIONS SYNDICATE**

**CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 SEPTEMBER 2006**

## **CAMBRIDGE ASSESSMENT**

### **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.

## **CAMBRIDGE ASSESSMENT**

### **RESPONSIBILITIES OF THE SYNDICS FOR THE PREPARATION OF THE FINANCIAL STATEMENTS**

#### **FOR THE YEAR ENDED 30 SEPTEMBER 2006**

Statute F11.4 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:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

## CAMBRIDGE ASSESSMENT

### 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 3.

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**

Date

*Chartered Accountants and Registered Auditor*

37 Hills Road

Cambridge

**CAMBRIDGE ASSESSMENT**

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 30 SEPTEMBER 2006**

|   | Note | 2006<br>£m   | 2005<br>as restated<br>(see note 2)<br>£m |
|---|------|--------------|---|
| <b>Income</b>   |      |              |   |
| Examination fees  |      | 159.7        | 147.5                                     |
| Other educational & assessment services   |      | 14.0         | 15.4                                      |
| Endowment and investment income   | 3    | 3.4          | 4.0                                       |
| <b>Total income</b>   |      | <u>177.1</u> | <u>166.9</u>                              |
| <b>Expenditure</b>  |      |              |   |
| 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                                      |
| <b>Total expenditure</b>  |      | <u>170.9</u> | <u>174.8</u>                              |
| 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                                       |
| <b>Surplus/(deficit) for the year after depreciation of tangible fixed assets at valuation and disposal of assets</b> | 6    | 5.7          | (6.2)                                     |
| Transfer from accumulated income within specific endowments   | 15   | 1.6          | 2.4                                       |
| <b>Surplus/(deficit) for the year retained within general reserves</b>  |      | <u>7.3</u>   | <u>(3.8)</u>                              |

All income and expenditure relate to continuing activities.

## CAMBRIDGE ASSESSMENT

### STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 30 SEPTEMBER 2006

|  |    | 2006        | 2005<br>as restated<br>(see note 2) |
|--|----|-------------|-------------------------------------|
|  |    | £m          | £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                         |    | <u>10.8</u> | <u>5.8</u>                          |

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

### STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE YEAR ENDED 30 SEPTEMBER 2006

|   |    | 2006               | 2005<br>as restated<br>(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                |    | <u><u>15.6</u></u> | <u><u>(1.2)</u></u>                 |



**CAMBRIDGE ASSESSMENT**

**BALANCE SHEET AS AT 30 SEPTEMBER 2006**

|   |      | Group        |                              | Cambridge Assessment |              |
|---|------|--------------|------------------------------|----------------------|--------------|
|   |      | 2006         | 2005                         | 2006                 | 2005         |
|   |      |              | as re-stated<br>(see note 2) |                      |              |
|   | Note | £m           | £m                           | £m                   | £m           |
| <b>Fixed assets</b>                                   |      |              |                              |                      |              |
| 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         |
|   |      | <u>116.0</u> | <u>112.1</u>                 | <u>118.5</u>         | <u>114.4</u> |
| <b>Endowment assets</b>                               | 10   | 16.7         | 17.2                         | 16.7                 | 17.2         |
| <b>Current assets</b>                                 |      |              |                              |                      |              |
| 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          |
|   |      | <u>65.7</u>  | <u>52.7</u>                  | <u>44.8</u>          | <u>34.6</u>  |
| <b>Creditors: amounts falling due within one year</b> | 12   | (48.7)       | (43.0)                       | (36.8)               | (31.7)       |
| <b>Net current assets</b>                             |      | <u>17.0</u>  | <u>9.7</u>                   | <u>8.0</u>           | <u>2.9</u>   |
| <b>Total assets less current liabilities</b>          |      | 149.7        | 139.0                        | 143.2                | 134.5        |
| <b>Creditors: amounts falling due after one year</b>  | 13   | -            | -                            | (10.6)               | (10.6)       |
| <b>Provisions for liabilities and charges</b>         | 14   | (0.4)        | (0.7)                        | (0.3)                | (0.6)        |
| <b>Net assets excl. pension scheme liability</b>      |      | <u>149.3</u> | <u>138.3</u>                 | <u>132.3</u>         | <u>123.3</u> |
| <b>Pension liability</b>                              | 18   | (2.1)        | (1.9)                        | -                    | -            |
| <b>Total net assets</b>                               |      | <u>147.2</u> | <u>136.4</u>                 | <u>132.3</u>         | <u>123.3</u> |
| <b>Specific endowments</b>                            | 15   | 16.7         | 17.2                         | 16.7                 | 17.2         |
| <b>Reserves</b>                                       |      |              |                              |                      |              |
| 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         |
| <b>Total reserves excluding pension liability</b>     |      | <u>132.6</u> | <u>121.1</u>                 | <u>115.6</u>         | <u>106.1</u> |
| Pension reserve                                       | 16   | (2.1)        | (1.9)                        | -                    | -            |
| <b>Total reserves including pension liability</b>     |      | <u>130.5</u> | <u>119.2</u>                 | <u>115.6</u>         | <u>106.1</u> |
|   |      | <u>147.2</u> | <u>136.4</u>                 | <u>132.3</u>         | <u>123.3</u> |

**CAMBRIDGE ASSESSMENT**

**BALANCE SHEET AS AT 30 SEPTEMBER 2006**

The financial statements on pages 5 to 26 were approved by the Syndics on 25 January 2007 and were signed on their behalf by:

Professor A J Badger

Mr S Lebus

*Chairman of the Local  
Examinations Syndicate*

*Chief Executive of the Local  
Examinations Syndicate*

**CAMBRIDGE ASSESSMENT**

**CONSOLIDATED CASHFLOW STATEMENT  
FOR THE YEAR ENDED 30 SEPTEMBER 2006**

|  | Note | 2006        |                     | 2005<br>as restated<br>(see note 2) |                     |
|--|------|-------------|---------------------|-------------------------------------|---------------------|
|  |      | £m          | £m                  | £m                                  | £m                  |
| <b>Net cash inflow/(outflow) from operating activities</b> | 17a  |             | 8.1                 |                                     | (4.6)               |
| Returns on investments and servicing of finance            |      |             |                     |                                     |                     |
| Investment income  |      | 2.4         |                     | 3.4                                 |                     |
| Interest received  |      | <u>1.0</u>  |                     | <u>0.7</u>                          |                     |
|  |      |             | 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               |      | <u>20.0</u> |                     | <u>-</u>                            |                     |
|  |      |             | (3.2)               |                                     | (7.8)               |
| Cash inflow/ (outflow) before use of liquid resources      |      |             | <u>8.3</u>          |                                     | <u>(8.3)</u>        |
| Management of liquid resources                             |      |             |                     |                                     |                     |
| Net movement on money market deposits                      | 17c  |             | (8.8)               |                                     | 7.9                 |
| <b>Decrease in cash in the year</b>                        | 17b  |             | <u><u>(0.5)</u></u> |                                     | <u><u>(0.4)</u></u> |

**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.

## CAMBRIDGE ASSESSMENT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

#### 1. ACCOUNTING POLICIES (continued)

##### 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 & 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 policies 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.

## CAMBRIDGE ASSESSMENT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

#### 1. ACCOUNTING POLICIES (continued)

##### 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

|  | <b>2006<br/>Group<br/>£m</b> | <b>2005<br/>Group<br/>£m</b> |
|--|------------------------------|------------------------------|
| Income from specific endowment asset investments | 0.6                          | 0.7                          |
| Other investment income                          | 1.9                          | 2.8                          |
| Other interest receivable                        | 0.9                          | 0.5                          |
|  | <u>3.4</u>                   | <u>4.0</u>                   |

#### 4. STAFF COSTS

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

|                                     | <b>2006<br/>Group<br/>No.</b> | <b>2005<br/>Group<br/>No.</b> |
|-------------------------------------|-------------------------------|-------------------------------|
| Examination services                | 1,260                         | 1,277                         |
| Administration and central services | 428                           | 424                           |
| Premises                            | 103                           | 83                            |
|                                     | <u>1,791</u>                  | <u>1,784</u>                  |

Staff costs for the above persons comprise:

|                               | <b>2006<br/>Group<br/>£m</b> | <b>2005<br/>Group<br/>£m</b> |
|-------------------------------|------------------------------|------------------------------|
| Salaries and wages            | 43.3                         | 41.4                         |
| Social security costs         | 3.5                          | 3.4                          |
| Other pension costs (note 18) | 5.9                          | 5.2                          |
|                               | <u>52.7</u>                  | <u>50.0</u>                  |

**CAMBRIDGE ASSESSMENT**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006**

**4. STAFF COSTS (continued)**

|                                     | <b>2006<br/>Group<br/>£m</b> | <b>2005<br/>Group<br/>£m</b> |
|-------------------------------------|------------------------------|------------------------------|
| Examination services                | 35.9                         | 34.2                         |
| Administration and central services | 14.7                         | 13.9                         |
| Premises                            | 2.1                          | 1.9                          |
|                                     | <u>52.7</u>                  | <u>50.0</u>                  |

**Staff emoluments over £70,000:**

|                     | <b>2006<br/>Group<br/>No. staff</b> | <b>2005<br/>Group<br/>No. staff</b> |
|---------------------|-------------------------------------|-------------------------------------|
| £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**

|                                     | <b>2006<br/>Group<br/>£m</b> | <b>2005<br/>Group<br/>£m</b> |
|-------------------------------------|------------------------------|------------------------------|
| Examination services                | 87.5                         | 83.1                         |
| Administration and central services | 16.1                         | 18.5                         |
| Premises                            | 6.8                          | 5.5                          |
|                                     | <u>110.4</u>                 | <u>107.1</u>                 |

|                                     | <b>2006<br/>Group<br/>£m</b> | <b>2005<br/>Group<br/>£m</b> |
|-------------------------------------|------------------------------|------------------------------|
| 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 & buildings | 1.5                          | 1.1                          |
| - plant, machinery & equipment      | 0.7                          | 0.5                          |
| Foreign exchange losses             | <u>0.2</u>                   | <u>-</u>                     |

**CAMBRIDGE ASSESSMENT****NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006****6. SURPLUS/ (DEFICIT) ON CONTINUING OPERATIONS FOR THE YEAR**

|   | <b>2006<br/>£m</b> | <b>2005<br/>£m</b> |
|---|--------------------|--------------------|
| 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                |
|   | <u>5.7</u>         | <u>(6.2)</u>       |

**7. INTANGIBLE FIXED ASSETS**

| <b>GOODWILL</b>       | <b>Group<br/>£m</b> |
|-----------------------|---------------------|
| <b>COST</b>           |                     |
| At 1 October 2005     | 6.1                 |
| At 30 September 2006  | <u>6.1</u>          |
| <b>AMORTISATION</b>   |                     |
| At 1 October 2005     | 4.7                 |
| Charge for year       | <u>1.4</u>          |
| At 30 September 2006  | <u>6.1</u>          |
| <b>NET BOOK VALUE</b> |                     |
| At 30 September 2006  | <u>-</u>            |
| At 30 September 2005  | <u>1.4</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.



**CAMBRIDGE ASSESSMENT**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006**

**8. TANGIBLE FIXED ASSETS**

**GROUP**

|                       | Freehold<br>£m | Land Buildings<br>Long<br>leasehold<br>£m | Short<br>leasehold<br>£m | Plant & Equip<br>Furniture &<br>Fittings<br>£m | Total<br>£m |
|-----------------------|----------------|---|--------------------------|--|-------------|
| <b>COST</b>           |                |   |                          |  |             |
| 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  | <u>59.0</u>    | <u>8.2</u>                                | <u>1.3</u>               | <u>25.4</u>                                    | <u>93.9</u> |
| <b>DEPRECIATION</b>   |                |   |                          |  |             |
| 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  | <u>10.1</u>    | <u>1.7</u>                                | <u>0.6</u>               | <u>20.0</u>                                    | <u>32.4</u> |
| <b>NET BOOK VALUE</b> |                |   |                          |  |             |
| At 30 September 2006  | <u>48.9</u>    | <u>6.5</u>                                | <u>0.7</u>               | <u>5.4</u>                                     | <u>61.5</u> |
| At 30 September 2005  | <u>29.4</u>    | <u>5.2</u>                                | <u>0.8</u>               | <u>4.7</u>                                     | <u>40.1</u> |

**CAMBRIDGE ASSESSMENT**

|                       | Freehold<br>£m | Land Buildings<br>Long<br>leasehold<br>£m | Short<br>leasehold<br>£m | Plant & Equip<br>Furniture &<br>Fittings<br>£m | Total<br>£m |
|-----------------------|----------------|---|--------------------------|--|-------------|
| <b>COST</b>           |                |   |                          |  |             |
| 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  | <u>52.1</u>    | <u>-</u>                                  | <u>0.7</u>               | <u>22.1</u>                                    | <u>74.9</u> |
| <b>DEPRECIATION</b>   |                |   |                          |  |             |
| 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  | <u>6.2</u>     | <u>-</u>                                  | <u>0.3</u>               | <u>16.9</u>                                    | <u>23.4</u> |
| <b>NET BOOK VALUE</b> |                |   |                          |  |             |
| At 30 September 2006  | <u>45.9</u>    | <u>-</u>                                  | <u>0.4</u>               | <u>5.2</u>                                     | <u>51.5</u> |
| At 30 September 2005  | <u>26.2</u>    | <u>-</u>                                  | <u>0.5</u>               | <u>4.4</u>                                     | <u>31.1</u> |

**CAMBRIDGE ASSESSMENT**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006**

**9. FIXED ASSET INVESTMENTS**

|   | <b>Group</b>       |                    | <b>Cambridge Assessment</b> |                    |
|---|--------------------|--------------------|-----------------------------|--------------------|
|   | <b>2006<br/>£m</b> | <b>2005<br/>£m</b> | <b>2006<br/>£m</b>          | <b>2005<br/>£m</b> |
| 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            | <u>54.5</u>        | <u>70.6</u>        | <u>67.0</u>                 | <u>83.3</u>        |
| 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                | -                           | -                  |
|   | <u>54.5</u>        | <u>70.6</u>        | <u>67.0</u>                 | <u>83.3</u>        |

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:**

| <b>Name of Subsidiary undertaking</b> | <b>Country of registration and operation</b> | <b>Class of share</b> | <b>Proportion held</b> | <b>Nature of business</b>         | <b>Note</b> |
|---------------------------------------|--|-----------------------|------------------------|-----------------------------------|-------------|
| OCR                                   | England                                      | Member                | 100%                   | Examination & 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           |

## CAMBRIDGE ASSESSMENT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

#### 9. FIXED ASSET INVESTMENTS (continued)

| Name of Subsidiary undertaking | Country of registration and operation | Class of share | Proportion held | Nature of business  | Note |
|--------------------------------|---------------------------------------|----------------|-----------------|---------------------|------|
| 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<br>£m   | 2005<br>£m  | 2006<br>£m           | 2005<br>£m  |
| Balance at 1 October 2005  | 17.2         | 14.7        | 17.2                 | 14.7        |
| Increase in market value of University Endowment Fund units (Decrease)/increase in short term deposit balances | 1.1<br>(1.6) | 1.9<br>0.6  | 1.1<br>(1.6)         | 1.9<br>0.6  |
| Balance at 30 September 2006   | <u>16.7</u>  | <u>17.2</u> | <u>16.7</u>          | <u>17.2</u> |
| 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         |
|  | <u>16.7</u>  | <u>17.2</u> | <u>16.7</u>          | <u>17.2</u> |

**CAMBRIDGE ASSESSMENT**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006**

**11. DEBTORS**

|                                    | Group       |             | Cambridge Assessment |             |
|------------------------------------|-------------|-------------|----------------------|-------------|
|                                    | 2006<br>£m  | 2005<br>£m  | 2006<br>£m           | 2005<br>£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         |
|                                    | <u>41.9</u> | <u>39.2</u> | <u>37.4</u>          | <u>30.5</u> |

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

|  | Group       |   | Cambridge Assessment |             |
|--|-------------|---|----------------------|-------------|
|  | 2006<br>£m  | 2005<br>as restated<br>(see note 2)<br>£m | 2006<br>£m           | 2005<br>£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        |
|  | <u>48.7</u> | <u>43.0</u>                               | <u>36.8</u>          | <u>31.7</u> |

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        | <u>26.4</u> | <u>25.5</u> | <u>22.8</u> | <u>20.5</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 recognised as Income but has been Deferred until later years.

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

|                  | Group      |            | Cambridge Assessment |             |
|------------------|------------|------------|----------------------|-------------|
|                  | 2006<br>£m | 2005<br>£m | 2006<br>£m           | 2005<br>£m  |
| 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 30 September 2006 (2005: nil).

**CAMBRIDGE ASSESSMENT**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006**

**14. PROVISIONS FOR LIABILITIES AND CHARGES**

| <b>GROUP</b>             | <b>Staffing</b> | <b>Rebates or Discounts</b> | <b>Other</b> | <b>Total</b> |
|--------------------------|-----------------|-----------------------------|--------------|--------------|
|                          | <b>£m</b>       | <b>£m</b>                   | <b>£m</b>    | <b>£m</b>    |
| 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 | <u>(0.1)</u>    | <u>(0.1)</u>                | <u>(0.1)</u> | <u>(0.3)</u> |
| At 30 September 2006     | <u>0.2</u>      | <u>-</u>                    | <u>0.2</u>   | <u>0.4</u>   |

| <b>CAMBRIDGE ASSESSMENT</b> | <b>Staffing</b> | <b>Rebates or Discounts</b> | <b>Other</b> | <b>Total</b> |
|-----------------------------|-----------------|-----------------------------|--------------|--------------|
|                             | <b>£m</b>       | <b>£m</b>                   | <b>£m</b>    | <b>£m</b>    |
| 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    | <u>-</u>        | <u>(0.1)</u>                | <u>(0.1)</u> | <u>(0.2)</u> |
| At 30 September 2006        | <u>-</u>        | <u>-</u>                    | <u>0.3</u>   | <u>0.3</u>   |

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**

| <b>GROUP and CAMBRIDGE ASSESSMENT</b>              | <b>2006</b>  | <b>2005</b>  |
|--|--------------|--------------|
|  | <b>£m</b>    | <b>£m</b>    |
| Balance at 1 October 2005                          | 17.2         | 14.7         |
| Income receivable from endowment asset investments | 0.6          | 0.7          |
| Expenditure  | <u>(2.2)</u> | <u>(3.1)</u> |
|  | (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                       | <u>16.7</u>  | <u>17.2</u>  |
| <b>Representing</b>                                |              |              |
| EMREB Fund   | 3.6          | 4.9          |
| WMEB Fund  | 13.0         | 12.2         |
| Scholarship Funds                                  | 0.1          | 0.1          |
|  | <u>16.7</u>  | <u>17.2</u>  |

## CAMBRIDGE ASSESSMENT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

#### 15. SPECIFIC ENDOWMENTS (continued)

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<br>£m | Revaluation reserve<br>£m | Investment property revaluation<br>£m | Total excl. pension<br>£m | Pension reserve<br>£m | Total<br>£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                             | <u>111.7</u>           | <u>20.2</u>               | <u>0.7</u>                            | <u>132.6</u>              | <u>(2.1)</u>          | <u>130.5</u> |

#### CAMBRIDGE ASSESSMENT

|   | General reserves<br>£m | Revaluation reserve<br>£m | Investment property revaluation<br>£m | Total<br>£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                    | <u>95.2</u>            | <u>19.7</u>               | <u>0.7</u>                            | <u>115.6</u> |

**CAMBRIDGE ASSESSMENT**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006**

**17. NOTES TO CONSOLIDATED CASHFLOW STATEMENT**

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

|   | <b>2006</b> | <b>2005</b>                         |
|---|-------------|-------------------------------------|
|   |             | <b>As restated<br/>(see note 2)</b> |
|   | <b>£m</b>   | <b>£m</b>                           |
| 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                | <u>8.1</u>  | <u>(4.6)</u>                        |

**b. Reconciliation of net cash flow to movement in net funds**

|  | <b>2006</b> | <b>2005</b>  |
|--|-------------|--------------|
|  | <b>£m</b>   | <b>£m</b>    |
| Decrease in cash in the year                     | (0.5)       | (0.4)        |
| Cash inflow/(outflow) from money market deposits | <u>8.8</u>  | <u>(7.9)</u> |
| 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                   | <u>25.1</u> | <u>16.8</u>  |

**c. Analysis of change in net funds**

|                          | <b>At 1 Oct<br/>2005<br/>£m</b> | <b>Cash<br/>Flows<br/>£m</b> | <b>At 30 Sept<br/>2006<br/>£m</b> |
|--------------------------|---------------------------------|------------------------------|-----------------------------------|
| Cash at bank and in hand | 1.7                             | (0.5)                        | 1.2                               |
| Money market deposits    | 15.1                            | 8.8                          | 23.9                              |
| Total                    | <u>16.8</u>                     | <u>8.3</u>                   | <u>25.1</u>                       |

## CAMBRIDGE ASSESSMENT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

#### 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:

| <b>USS and CPS</b>                               | <b>USS</b> | <b>CPS</b> |
|--|------------|------------|
| Latest actuarial valuations                      | Mar 2005   | 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:

|  | <b>At 30 Sept<br/>2006</b> | <b>At 30 Sept<br/>2005</b> | <b>At 30 Sept<br/>2004</b> |
|--|----------------------------|----------------------------|----------------------------|
| 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:



**CAMBRIDGE ASSESSMENT**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006**

**18. PENSION COSTS (continued)**

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

  

|            | <b>Expected<br/>Return from<br/>30 Sept<br/>2006</b> | <b>Expected<br/>Return from<br/>30 Sept<br/>2005</b> | <b>Expected<br/>Return from<br/>30 Sept<br/>2004</b> |
|------------|--|--|--|
| 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**

|   | <b>Year to<br/>30 Sept<br/>2006<br/>£m</b> | <b>Year to<br/>30 Sept<br/>2005<br/>£m</b> |
|---|--|--|
| 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  | <u>(2.1)</u>                               | <u>(1.9)</u>                               |

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

|  | <b>Year to<br/>30 Sept<br/>2006<br/>£m</b> | <b>Year to<br/>30 Sept<br/>2005<br/>£m</b> |
|--|--|--|
| 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 | <u>(0.4)</u>                               | <u>(0.6)</u>                               |
| Actuarial (loss)   | <u>(0.4)</u>                               | <u>(0.1)</u>                               |

**CAMBRIDGE ASSESSMENT**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED  
30 SEPTEMBER 2006**

**18. PENSION COSTS (continued)**

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

|  | <b>Year to<br/>30 Sept<br/>2006<br/>£m</b> | <b>Year to<br/>30 Sept<br/>2005<br/>£m</b> |
|--|--|--|
| Staff costs:                             |  |  |
| Current service cost                     | <u>0.2</u>                                 | <u>0.2</u>                                 |
| Pension finance costs:                   |  |  |
| Expected return on pension scheme assets | 0.3  | 0.3  |
| Interest on pension scheme liabilities   | <u>(0.4)</u>                               | <u>(0.3)</u>                               |
|  | <u>(0.1)</u>                               | <u>-</u>                                   |

**History of experience gains and losses**

|   | <b>Year to<br/>30 Sept<br/>2006<br/>£m</b> | <b>Year to<br/>30 Sept<br/>2005<br/>£m</b> | <b>Year to<br/>30 Sept<br/>2004<br/>£m</b> | <b>Year to<br/>30 Sept<br/>2003<br/>£m</b> |
|---|--|--|--|--|
| 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**

|       | <b>2006<br/>£m</b> | <b>2005<br/>£m</b> |
|-------|--------------------|--------------------|
| USS   | 3.0                | 2.7                |
| CPS   | 2.7                | 2.3                |
| RSAEB | <u>0.2</u>         | <u>0.2</u>         |
|       | <u>5.9</u>         | <u>5.2</u>         |

## CAMBRIDGE ASSESSMENT

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006

#### 19. OPERATING LEASES

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

| Amounts payable under operating leases<br>Which fall due in the next financial year: | Group      |            | Cambridge Assessment |            |
|--|------------|------------|----------------------|------------|
|  | 2006<br>£m | 2005<br>£m | 2006<br>£m           | 2005<br>£m |
| Land and buildings, commitments expiring:  |            |            |                      |            |
| In 1 year  | 0.2        | -          | 0.2                  | -          |
| Between 2 & 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,<br>commitments expiring:                             |            |            |                      |            |
| In 1 year  | 0.1        | 0.1        | -                    | -          |
| Between 2 & 5 years  | 0.3        | 0.2        | 0.2                  | 0.1        |
|  | <u>1.4</u> | <u>1.7</u> | <u>1.2</u>           | <u>1.6</u> |

#### 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).

## **CAMBRIDGE ASSESSMENT**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2006**

#### **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 Reporter, Cambridge University Press Bookshop, 1 Trinity Street, Cambridge, CB2 1SZ.