



CAMBRIDGE ASSESSMENT

Cambridge Assessment Group

Annual Report and Accounts, 2006-2007

Table of Contents

Introduction	1
Group History and Structure	1
The Cambridge Assessment Group and the University	2
Regulation and standards	2
Achievements and Performance	3
Highlights of 2006-2007	10
People	14
Finance and Reserves	15
Risk Management	16
Appendix A: The Local Examinations Syndicate	18
Appendix B: The OCR Board	19
Appendix C: Cambridge Assessment Group Corporate Board	20
Appendix D: List of Acronyms	21
UCLES Consolidated Accounts for the period ended 31 July 2007	
• Corporate Governance and Internal Control Statement	2
• Responsibilities of the Syndics	3
• Independent Auditors' Report	4
• Consolidated Income and Expenditure Account	5
• Statement of Total Recognised Gains and Losses	6
• Statement of Historical Cost Surpluses and Deficits	6
• Balance sheet as at 31 July 2007	7
• Consolidated Cashflow Statement	9
• Accounting Policies	10
• Endowment and Investment Income	12
• Staff Costs	12
• Other Operating Expenses	13
• Surplus on Continuing Operations for the Period	14
• Intangible Fixed Assets	14
• Tangible Fixed Assets	15
• Investments	16
• Endowment Assets	17
• Debtors	18
• Creditors: Amounts falling due within one year	18
• Creditors: Amounts falling due after more than one year	18
• Provisions for liabilities and charges	19
• Specific Endowments	19
• Reserves	20

• Notes to Consolidated Cashflow Statement	21
• Pension Costs	22
• Operating Leases	25
• Forward Currency Contracts	25
• Capital Commitments	25
• Contingent Liabilities	25
• Related Party Transactions	26
• Ultimate Parent Undertaking	26

Cambridge Assessment

Annual Report, 2006/2007

This is the one hundred and fiftieth Annual Report of Cambridge Assessment to the Council of the University of Cambridge. It covers the events of the period to 31 July 2007.

Introduction

This is our first report following the move of our financial year end from 30 September to 31 July which brings us in line with the University's reporting cycle. Therefore, this report covers a 10 month period rather than a full year.

We have also changed the structure of the report this year to show how the work we have been doing relates to our main strategic objectives, and we have added a chronological list focusing on some of the main highlights of the year.

The last year has been one of change and challenge. In the political arena one of the key changes we faced was the creation of the Department for Children, Schools and Families and the Department for Innovation, Universities and Skills to replace the Department for Education and Skills – inevitably bringing with it a new set of stakeholders.

The impact of technological change has also been felt and on-screen marking has now become an integral part of the way we provide our services world-wide.

In 2008 we will be celebrating our 150th year of providing examinations to students around the world. Such an anniversary inevitably leads us to reflect on the roots from which our work has grown and we will report on the various activities associated with this significant event in next year's Annual Report.

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 Printing & Operations, Development, and Service Delivery). 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.

Achievements and Performance

Group Aim: To become more widely recognised as a leading world authority on assessment

We have made good progress during the last 10 months toward achieving this ambition.

We created a seminar series designed to bring together policy makers and education researchers. These were done in collaboration with Barry Sheerman MP – Chair of the Education and Skills Select Committee – and held at the House of Commons. Topics so far have included the standards over time of teenagers' written English and a review of the national testing system for Key Stage Three students.

We contributed to national debate on the further development of National Curriculum assessment arrangements, through seminars and conference activity and the production of a 'three possible options' paper. We also gave written and oral evidence to the Education Select Committee's three inquiries on Diplomas, Skills and Assessment & Testing.

In the spring of 2007 we launched a book, published by the think tank DEMOS, called "As you like it – catching up in an age of global English". It looked at the future of English as it spreads around the world and at the opportunities and threats this poses for Britain.

Overseas, one of our chief executives was a speaker at the 16th Conference of Commonwealth Education Ministers in Cape Town, South Africa. Delegates were told that "traditional skills are still the best preparation for young people in a fast moving world - not a return to basics but a springboard to the future".

Research papers have been presented at 26 conferences in nine countries and the views of the Group have been sought by ministries, governments and media as an independent, authoritative commentator. We have also had 19 articles submitted to refereed journals, such as the British Educational Research Journal.

Research Matters – a biannual synthesis of output from our research team with additional contributions from others is now in its fourth issue and establishing itself as a key reference tool for leading edge research on assessment and qualifications. Meanwhile *Research Notes* and *Studies in Language Testing* continue to showcase our international research in language assessment.

Case study

Members of the Group's Assessment Research and Development division worked with the Institute of Public Policy Research, a political think tank, to produce a set of radical alternatives to current arrangements for national assessment – attending to the vital purposes of the national system: intelligence on underlying educational standards in the system (for Government and the public); feedback on individual learner attainment (for learners, parents and teachers); and accountability of schools (for learners and the public good).

In an attempt to address the problems of 'multipurpose testing', the Cambridge Assessment paper conceptualises a number of possible models for consideration.

This paper seeks to highlight different directions which could be taken in developing revised arrangements which both address known problems of existing arrangements and deliver on the following key objectives:

- producing high quality information on trends in underlying attainment of pupils, in

- order to inform effective policy and action at national policy level;
- encouraging a relationship between assessment and learning whereby learning is enhanced through the operation of assessment;
- supporting school improvement processes.

Group aim: To deploy the use of modern technology effectively

One of the areas of greatest change is technology. The use of the internet and multi-media will undoubtedly transform the nature of assessment over the next ten years. Projects such as Electronic Script Management and Computer-Based Tests are therefore crucial in keeping us at the forefront of technological developments.

We have already had significant success and will continue to invest in this area to maintain our ambitious programme of activity. As the level of demand from education institutions grows and we begin to take advantage of new opportunities in other areas, so the demand for IT systems within Cambridge Assessment has increased. This trend is set to continue.

However, our technological advances are not made simply for technology's sake. They have been introduced to serve the needs of learners and teachers.

We signed a five-year contract with RM, a leading provider of educational products, to provide on-screen marking services – significantly increasing the number of scripts marked on-screen and providing benefits to our examiners and to the speed and accuracy of the delivery of results to candidates.

The new service, built around RM's e-marking system scoris®, will transform a number of our key assessment activities, offering: scanning and online hosting of original examinations scripts; electronic distribution of exam scripts to markers; on-screen marking; electronic return of marks; and workflow across the whole process.

Over the last year, we marked more than 1.5 million scripts on screen – enabling us to spare many examiners the inconvenience of managing large volumes involved in a paper-based process and giving them access to the many advantages of a digitised environment.

Both e-assessment and e-portfolios are also becoming a fundamental part of modern education. They are essential for personalised learning providing benefits for learners, teachers and those involved with the administration of assessment within schools, colleges and training providers.

We continued to develop electronic transactions with schools and colleges in the UK via our extranet services, OCR's Interchange and CIE Direct. Over the past year several new developments were made to both. Schools are now able to view Statements of Entry online and make their estimated entries electronically rather than ticking endless boxes on never ending sheets of paper. In addition to reducing the amount of paper based reports, the new functionality improved the accuracy of estimated entries and gave centres the option of customising their own reports at the touch of a button.

Most re-mark requests were submitted online using Interchange, enabling faster turnaround times, and less than 1% of exam entries and results are now paper-based.

In the UK, we also launched the first e-portfolio-only qualification. It is the first of our exam board's qualifications to be assessed entirely electronically. E-portfolios enable learners to create media-rich portfolios with images, sound and video. The content of an e-portfolio can then be shared with others. They can be searched and viewed from different perspectives and enable learners to access their work at any time.

Overseas, we launched a new range of computer-based exams for English learners. These were offered as a choice for test-takers alongside the 'paper and pen' versions at exam centres throughout the world. Computer-based versions included BEC (Business English Certificate) at Preliminary and Vantage levels, KET (Key English Test) and TKT (Teaching Knowledge Test).

'Computers in the Cambridge Classroom' was the theme for the Third International Teachers' Conference, held in Dubai, bringing together teachers from around the world to reflect on technology's impact on their best practice.

Teacher Support and our websites now employ a shared content management system (developed internally) to manage the upload and maintenance of at least 11,000 documents for access by external teachers and trainers in different countries. This has also led to major savings on hosting and support charges as both sites and their shared content management systems are now hosted internally.

Our online results service introduced last year for English test takers continues to grow in popularity. Centres around the world are encouraging candidates to register their details on our secure website so that they can receive their Cambridge exam results the moment they are released. There was a 25% rise in candidate visits from August to the February date of results release. The trend is likely to grow as more and more centres are promoting this useful service to their supplier schools and candidates.

Case study

Following its launch last year, OCR's first ever fully e-assessed GCSE – which means candidates can complete all assessments electronically – was successfully piloted in the UK.

Environment and Land-based Science (ELBS) offers on-screen exams in parallel with paper-based ones, and allows candidates to produce digital coursework rather than a printed portfolio. The first on-screen ELBS exams ran in January and were marked on-screen. Its full potential will be realised in summer 2008 when schools will be able to use an online submission portal to upload their digital coursework evidence. This will see the completion of the UK's first totally digital GCSE experience.

Group aim: To deliver a broad, attractive and innovative portfolio of assessments and qualifications, and related services.

We develop and deliver qualifications and tests for learners of all ages across a full range of subjects. We are committed to the informed development and delivery of educational resources, innovative approaches to the measurement of learning and 'fit for purpose' exploitation of technology.

At a time of intense reform in qualifications in the UK, we made unprecedented efforts to provide information, support and guidance to schools and colleges with regular newsletters about Diplomas, a field-team of support managers and an extensive programme of free training events for teachers and senior managers.

Our two new suites of GCSE Science specifications caught the eye of many schools, offering a refreshing and stimulating approach to teaching Science. The 21st Century Science suite offered a radically different approach, setting scientific knowledge in the context of the everyday world, with the intention of bringing science to life and re-engaging learners who might find a drier, more theoretical approach de-motivating.

Drafts of 47 new UK A level specifications were published in March, giving teachers an extended opportunity to provide feedback before the final versions were submitted for accreditation. Around three quarters of our UK A levels moved to a new 4 unit structure, rather than the previous 6 units, reducing the number of assessments for each learner and bringing them into line with our original advice to Government back in 2000. All new A levels also incorporated a new “stretch and challenge” dimension, offering the highest-achieving candidates greater scope to demonstrate the breadth and depth of their understanding of the subject, which will lead to the award of a new A* grade from 2010.

Take-up of the newly launched Nationals grew rapidly as many more schools began to offer an attractive vocational alternative to their learners. Some 60,000 learners completed a National during the period.

Over the last 10 months, alternatives to A level, such as the Diplomas, Nationals and Cambridge Pre-U, have attracted much interest. We announced that our UK exam board would be launching the Principal Learning components for three of the initial five Diploma lines of learning. These are Information Technology, Creative and Media, and Engineering.

Phase II of the Cambridge Pre-U consultation process started in April 2007 with the publication of revised drafts of the original subject syllabuses, and first drafts of a further eleven subject syllabuses. The syllabuses were sent to schools in the UK and internationally for consultation.

Syllabuses for new Cambridge IGCSEs in Bangladesh Studies and Pakistan Studies were developed in consultation with teachers in Bangladesh and Pakistan. These introduce students to the country's history, culture, geography, environment and development. Through their studies, students are now also able to gain a deeper understanding of underlying skills and concepts, and examine different interpretations of historical events.

First examinations for Cambridge IGCSE Bangladesh and Pakistan Studies take place in 2008. Cambridge IGCSE India Studies is being developed in consultation with teachers in India during October 2007, and will be available for first teaching in 2011.

We collaborated with the University of Cambridge's Faculty of Education to enhance, extend and transform international teacher education. The professional development qualifications for teachers will now be accredited within the Faculty's Practitioner Professional Development framework as stages towards a Masters degree. These will draw on our shared expertise in providing blended learning programmes. This collaboration strengthens the Group's capability to help ministries of education and other public authorities in education reform projects, through the development of teachers and teaching. Joint research into critical international education issues will be another important facet of our work together.

We have carefully managed consolidation of our suite of admissions tests administered by the Assessment Research and Development division, to develop a 'family' of admissions tests to meet different subject requirements in Higher Education.

During the year, new adaptations of the tests were created in response to admission tutors who are struggling to decide which applicants to call for interview. The English Literature Admissions Test (ELAT) and Philosophy, Politics and Economics (PPE) Admissions Test were produced for Oxford University.

The Faculty of Biological Sciences at the University of South Bohemia in the Czech Republic planned to use a Czech language version of one of our admissions tests on 500 expected applicants in June 2007.

We introduced diversity training and consultancy for managers and professionals who lead and develop diverse groups of people to deliver organisational outputs. Also launched were psychometrics training and consultancy activities in the Middle East and North Africa (MENA) region – repeating last year’s very successful Level A and B Dubai training courses. Our aim is not to transport the UK model overseas but to reflect the specific needs and culture of the region.

Case study

Cambridge ESOL is working with the Colombian government to ensure every pupil leaves state education with a good level of English language proficiency. The new international standard testing comes as part of the bid by Colombia’s Ministerio de Educación Nacional to equip the population with English skills for work and higher study. All the exams are linked to the Council of Europe’s Common European Framework of Reference for Language (CEFR).

The exams are part of a long-term project to provide training and support so that, in the future, Colombia will be able to produce its own language tests incorporating CEFR standards and levels. Until then, school pupils will need to demonstrate their English language skills by passing a Cambridge ESOL written exam as part of their Examen de Estado.

The development of the new English component of the Examen de Estado is just one element of the collaboration with Cambridge ESOL. The test for final year Colombian university students also includes an English language component from Cambridge ESOL. Meanwhile, trainee English teachers have recently been entered for the FCE (First Certificate in English), fully sponsored by the Ministry of Education, and a new project has just been launched for the re-training of in-service English teachers which uses TKT as the final assessment.

Group aim: To support world-wide delivery of examinations.

We are committed to being inclusive, working and consulting with partners and stakeholders around the world. Our exam boards’ relationships with exam centres are extremely valuable, and we take every opportunity to improve this communication channel as well as the processes of exam administration and candidate data transmissions.

In response to candidate demand and increased collaboration with governments, new offices were opened in India, Mexico, Russia and Vietnam. New staff were also recruited to develop our activities in Argentina and Brazil.

Over the last year, we became the first overseas assessment organisation to partner with a state education authority to administer exams in Vietnam. Following an agreement signed with Ho Chi Minh City education department, our English language exams will be offered through more than a hundred state schools in the city.

Internationally, we held 198 training workshops, 15 conferences, 19 award ceremonies and 31 exhibitions.

During the last year, we also launched several new online resources. This included an online approval form for schools in the UK wishing to run our Nationals – giving schools the option of registering via the internet as well as the traditional paper form.

We hosted the first Global Best Practice conference for teachers and head teacher across South Asia. Over 350 delegates from schools attended the event. The conference included

a series of workshop feature case studies presented by international curriculum experts from the Group, British Council and other leading practitioners. During the conference, the first ever Cambridge Inspirational Teacher Awards were also presented. The award recognises the achievements of teachers in Cambridge Centres across India.

We held our first international video conference across five cities, at locations in Cambridge, Bangalore, Delhi, Kolkata and Mumbai. The conference marked the launch of the Cambridge International Certificate for Teachers and Trainers in India.

Over 100 staff have successfully moved into DC10, our purpose built warehouse designed to meet our warehousing needs. This means that warehousing, despatch, logistics, OMR and script management functions are now located on a single site, enabling us to provide a more efficient, joined-up service to the whole organisation and to our customers. The sites in Cambridge that formerly hosted these operations are being vacated and we were able to sell Simpers, Combine House and Mercers Row as a result.

The move to DC10 gives us the opportunity to modernise many of our operational processes with the introduction of a new script handling area and warehouse management system. Other improvements include the recent installation of a new question paper counting and bagging system to improve quality and turnaround times in the confidential despatch area.

The migration to DC10 was undertaken with minimal disruption to our day to day business. Further development of the building is planned for later this year to enable us to make optimum use of the space and facilities on offer.

Case study

CIE celebrated the first anniversary of CIE Direct, a secure extranet designed to help schools with the administration of examinations. Over 2,000 centres logged on to the site to view results and entries, receive secure messages, download base data and other support material.

During this time improvements were also made to the site enabling schools to choose whether to receive certain documents electronically. Other changes include online timetable deviation, special arrangements and special considerations forms, and access to change CIE Direct passwords. Improvements will also streamline the uploaded files management system and provide schools with a wider range of materials.

Group aim: To pursue internal synergies to achieve economies of scale and maximise educational impact.

Many structural changes have successfully taken place within our organisation to prepare us for the future.

This included reviewing the structure of Group Infrastructure Services, which now consists of three principal divisions – Development, Service Delivery (which includes IM customer services and Premises and Services, reflecting the close functional linkage between these areas) and Printing & Operations.

The past year has been incredibly busy for IM and it has made some real progress. Its achievements include delivering upgrades to our infrastructure, including the Data Centre, at the same time as developing and delivering significant new applications such as ESM and Connect. It also gained a BSI certificate of registration for Cambridge Assessment, covering Data Centre operation, secure printing and IM Helpdesk Administration.

Drawing on the combined expertise across our Group, Asset Languages made impressive progress. Asset Languages supports and complements our other language qualifications.

The number of entries for Asset Language exams increased by 227% from the previous year to over 85,000. Centres making entries also increased by 171% from the previous year to over 355 – including growing numbers of primary schools and adult education colleges.

Asset Languages continues to evolve and reach out into the community through strategies to apply the assessment material to the world of work.

Case study

External consultants carried out a study to help the Corporate Board determine how Cambridge Assessment's deployment of IM can become a source of competitive advantage for the future. The study highlighted the benefits of a new way of working between IM and our exam boards. This will enable us to achieve maximum benefit from our investment in IT.

The programme contains two bodies of work – 'Framework', which covers organisational structure and 'Advantage', which covers ways of working. The 'Framework' programme is well underway and scheduled for completion at the end of October 2007 when the 'Advantage' programme will commence.

Our vision is that by driving IM development directly from business priorities, reducing systems support and maintenance costs, creating a leaner and more agile interface between business sponsors and IM, and using a flexible mix of in-house and bought-in skills, we will deliver higher quality systems and more value to ourselves and our customers for less total cost to the Group.

Group aim: to ensure that staff have the right skills and to provide training and development opportunities.

We are always keen to share our expertise and to assist with the continuing professional development of all those involved in the process of assessment and the last year has been no exception.

Over the last year the Customer Contact Centre embarked on a programme of training to help advisors become multi skilled across both general and vocational qualifications. This training has utilised a variety of different methods including training using experts from other Group departments, computer based training, job shadowing, workshops and external training events.

The Cambridge Assessment Network has developed a suite of qualifications and courses on assessment which are increasingly being taken up by national and international educationalists and agencies, marking us as a leading provider of professional development on assessment and measurement. We ran three quarterly, 15 monthly, seven annual and two yearly day-long seminars, one major conference and an annual two-week international study programme.

The Human Resources Division offers a wide selection of courses to improve staff knowledge and performance. These range from understanding processes (such as the Performance Management System from the point of view of both appraiser and those appraised), via improving skills (such as writing) and self-improvement (such as Assertiveness and Emotional Intelligence training) to more wide-ranging courses such as the Senior Executive Programme and Understanding Commercial Contracts. A total of 343 courses/qualifications were organised and attended by 1,415 staff.

Over the year the Information Management Division created an internal IM Training team dedicated to ensuring staff have the right IT skills. The useful 'IT Skills Analysis' checks current knowledge and performance on Microsoft applications while half day workshops on Microsoft applications exist to cover everything from basic skills to programming. At a more complex level there were full one, two, three and five day sessions in Crystal report writing, Adobe products and Project Management. IM also ran surgeries for quick response 'challenge to solution' one to one sessions and made agreements with external suppliers for technical courses. A total of 460 sessions managed 868 individual training requests spread across the Group.

Cambridge Assessment believes in supporting those who need to undertake a period of formal study to enable them to become fully competent in their current job role. Throughout the organisation, many individuals are working to achieve a qualification, ranging from Certificates in Marketing and GCSEs to MBAs.

Case study

The 2006-2007 development programme provided a rich resource for assessment professionals, including seminars, conferences and courses.

Over the last year, The Cambridge Assessment Network offered a range of professional development, knowledge sharing and networking opportunities. Its aim is to focus on generic issues concerning the principles and practice of assessment, as well as the broader educational, political and social contexts in which we work.

Last year 54 members of staff enrolled on the Certificate in the Principles and Practice of Assessment which is offered by the University of Cambridge Institute of Continuing Education with Cambridge Assessment. Each module is worth 20 credits and participants may choose to do any or all of the four modules. Each stands as a discrete course while successful completion of all three modules (60 credits) leads to the award of the Certificate of Continuing Education (Principles and Practice of Assessment) from the University of Cambridge.

Highlights of 2006-2007

October 2006

- Cambridge Assessment welcomes the Government's decision to hold a consultation on the possibility of using the International GCSE (IGCSE) in state-maintained schools in England.
- Winners of the Cambridge IGCSE 20th Birthday Essay Competition are announced. The essay competition was part of the celebrations that highlighted CIE as the first exam board to develop the IGCSE qualification 20 years ago.
- In October the Beijing Municipal Government announced a new initiative to improve English and enhance Beijing's image as an international city in the run-up to the 29th Olympic Games. The Beijing English Testing System (BETS) was developed on behalf of the government by Cambridge ESOL.

November 2006

- Cambridge Assessment urged UK educators to look beyond the QCA comparability study which reviewed four IGCSE and GCSE subjects.

- CIE appointed a new Regional Manager for Middle East and North Africa (MENA) in response to new partnerships.
- Cambridge ESOL became the first overseas assessment organisation to partner with a state education authority to administer exams in Vietnam. Following an agreement signed with the Ho Chi Minh City education department, Cambridge ESOL exams will be offered through more than a hundred state schools in the city.
- ELBS, GCSE Environment and Land Based Science, OCR's first wholly e-assessed GCSE qualification, was launched designed to motivate candidates to take charge of their own learning and to develop practical skills in Environmental and Land-Based Science.

December 2006

- Almost 150 people from across the globe gathered to hear Professor James Flynn's theories of intelligence concerning very significant increases in IQ from one generation to the next – otherwise known as “the Flynn effect” – at a seminar hosted by The Psychometrics Centre in Cambridge on 15 December.
- Ann Puntis CIE Chief Executive spoke at the 16th Conference of Commonwealth Education Ministers in Cape Town, South Africa. “Traditional skills are still the best preparation for young people in a fast moving world - not a return to basics but a springboard to the future,” Ann told delegates.
- OCR welcomed the Dearing interim report and commented both on the Languages Ladder and GCSEs.
- The Association of Language Testers in Europe (ALTE) announced it is holding its 3rd International Conference at the University of Cambridge, hosted by the University of Cambridge ESOL Examinations. The theme of the conference is the Social and Educational Impact of Language Assessment.
- As part of a unique, government-led scheme, the Dominican Republic began a project to prepare its university students for careers in international business. Around 4,200 students enrolled onto the ‘English Immersion Program to Meet the Competition’ and sat Cambridge ESOL's BULATS (Business Language Testing System) to assess their ability to deal with the demands of a global business environment.

January 2007

- In a response to the Government's consultation on IGCSE, CIE noted that in line with that policy, IGCSE should be available for teaching in state schools. Both the Prime Minister and the Secretary of State made strong statements in support of enabling students to study for a range of qualifications such as Cambridge IGCSE.
- The number of universities recognising the International English Language Testing System (IELTS) in the US reached over 1000 in January 2007. IELTS has recognition from US Ivy League universities such as Harvard, Princeton and Yale and other select schools ranked as ‘Top Schools’ in the US News and World Reports and America's Best Colleges 2007, such as Columbia University and Texas A&M University.

- Over two years, Cambridge ESOL carried out a thorough review of FCE and CAE examinations. As a result a number of changes were made to both exams and announced in January. The new specifications will be introduced in December 2008.

February 2007

- Cambridge Assessment awarded a six-month secondment to a student from the University of Wales Institute in Cardiff (UWIC), as a result of the Innovate to Educate Awards.
- Phase II of the Cambridge Pre-U consultation with schools across the UK and abroad was launched. In the consultation document, CIE outlined its new proposals for the Diploma-style qualification and set out that for the full Cambridge Pre-U Diploma students will take a course in Global Perspectives.
- IGCSE could help UK Government achieve its aims, says CIE in response to IGCSE consultation.
- The Ministry of Education in Colombia has partnered with Cambridge ESOL to include internationally-recognised English language assessment as part of the state school-leaving exams. From October 2007 school pupils in Colombia will need to demonstrate their English language skills by passing a University of Cambridge ESOL Examinations exam as part of the Prueba de Estado school-leaving certificate.

March 2007

- The Cambridge Assessment Network – which provides professional development activities for all individuals involved in assessment – organised its second Excellence in Assessment seminar on 23 March 2007, on the subject of Assessment for Learning.
- OCR welcomed Lord Dearing's Languages Review.
- CIE appoints a new regional representative for Spain as Cambridge is at the forefront of Spain's growing interest in international education and the role will be vital in supporting Cambridge schools.
- A group of 50 head teachers from across the UK gathered in Cambridge to tackle some of the key issues concerning the future of assessment. They sought, and found, common ground between the teaching profession and exam boards.
- A report from think tank Demos on the impact of English language varieties drew on Cambridge ESOL expertise and support in March. *As You Like It: Catching up in an age of Global English* calls for radical changes in Government policy in response to the challenges of the rise of Global English and the lack of language skills in the UK.
- A new range of Cambridge ESOL computer-based exams were announced. These were to be offered as a choice for test-takers alongside the 'paper and pen' versions at exam centres throughout the world. Computer-based versions included BEC (Business English Certificate) at Preliminary and Vantage levels, KET (Key English Test) and TKT (Teaching Knowledge Test).

April 2007

- The first in a series of education research seminars takes place in the UK House of Commons on 25 April.
- CIE unveiled its new IGCSE Global Perspectives. Kevin Stannard, CIE Director, International Curriculum & Development, said: "It's about preparing students to become global citizens. Not only does it raise awareness of global themes and issues but also encourages skills such as independent thought and reasoning - invaluable in further study and employment."
- Volume 19 of SILT - IELTS Collected Papers: Research in speaking and writing assessment was published. It brought together ten research studies conducted between 1995 and 2001 under the auspices of the British Council/ IELTS Australia joint-funded research programme.
- Three students from China won a chance-in-a-lifetime opportunity to study in Cambridge after getting the top scores in the BEC tests in China. Chai Liang of Beijing, Duan Zhixiang of Xi'an and Xin Zhang of Harbin won a two week course at Embassy CES, Cambridge, in a competition organised by Cambridge ESOL and sponsored by Embassy CES and Cambridge University Press.

May 2007

- International delegates had the chance to debate the role and responsibilities of public examinations providers in today's society, at a tailored study programme in May.
- For the first time The Faculty of Education at Vietnam National University Hanoi offers the Cambridge International Certificate for Teachers and Trainers and the Cambridge International Diploma for Teachers and Trainers to Vietnamese teachers.
- Cambridge Assessment's Thinking Skills Assessment (TSA) – a non subject-specific aptitude test, normally associated with Cambridge University admissions – is taken by Czech students, in Czech, this summer.
- Help is on the way for Oxford admission tutors who are struggling to decide which applicants to call for interview. Cambridge Assessment develops the English Literature Admissions Test (ELAT) for Oxford University.
- The first candidates sit for the International Certificate in Financial English (ICFE) from Cambridge ESOL. The qualification was developed with the ACCA, the world's largest professional international accountancy body and was designed specifically to meet the needs of accounting and finance professionals.
- In response to candidate demand and increased collaboration with governments, Cambridge ESOL opened offices in India, Mexico, Russia and Vietnam, and recruited new staff to develop its activities in Argentina and Brazil.

June 2007

- Tougher laws on religious belief, gender and sexual preference have prompted a big growth in diversity training according to The Psychometrics Centre at Cambridge Assessment.

- The UK Government's exam watchdog for England officially accredited a range of Cambridge ESOL's qualifications in June. The accreditation by the government's Qualifications and Curriculum Authority (QCA) covers the Cambridge ESOL certificates including the First Certificate in English (FCE), Business English Certificate (BEC) and the International English Language Testing System (IELTS).
- Cambridge ESOL's suite of ESOL for Work qualifications were accredited by QCA in June. These new qualifications will attract Learning and Skills Council funding for eligible learners. In order to ensure relevance and reliability, Cambridge ESOL is basing its ESOL for Work provision on a well established, work-related ESOL assessment which has already had thousands of successful candidates and hundreds of satisfied providers around the world.
- New Cambridge IGCSE Bangladesh Studies and Pakistan Studies syllabuses were developed by CIE in consultation with teachers in Bangladesh and Pakistan. They introduce students to the country's history, culture, geography, environment and development.

First examinations for Cambridge IGCSE Bangladesh and Pakistan Studies take place next year. Cambridge IGCSE India Studies is being developed in consultation with teachers in India during October 2007, and will be available for first teaching in 2011.

- OCR launched its e-portfolio method of assessment for its iMedia qualification, providing an innovative platform for learners and centres alike.

July 2007

- OCR announced that it is launching the Principal Learning components for three of the initial five Diploma lines of learning.
- The first Cambridge Pre-U syllabuses were submitted to QCA for accreditation, which will clear the way for maintained schools to draw down funding for them.
- OCR's online and interactive fees list was launched to ensure customers have access to up-to-date information.
- The number of words on the Cambridge Learner Corpus (CLC) reached 25 million. The corpus, jointly owned by Cambridge ESOL and Cambridge University Press, is a database of language that has been used in examinations by Cambridge ESOL candidates. The corpus is being put together as a basis for providing empirical analysis of what language learners actually know and how they use language.

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

Cambridge Assessment is part of the University of Cambridge, which has 31 July as its year end. In agreement with the University, and to facilitate the production of overall financial information for the University Group, Syndics agreed to change the year end of Cambridge Assessment and all of its subsidiary companies to 31 July. This has been implemented in this set of accounts which are, consequently, for a 10 month period.

At the end of July virtually all of the work on the June examination sessions for OCR and CIE has been completed and, therefore, all of the income for these examinations (and all the associated direct costs) have been recognised in this set of financial statements. This means that the financial statements for the 10 month period contain virtually all of the income that the Cambridge Assessment Group would usually recognise in a 12 month period but only contain the overhead costs for the 10 month period. This has given rise to a larger than usual surplus. Syndics do not expect this to be repeated in future periods when Cambridge Assessment will revert to a 12 month accounting period.

The consolidated financial statements show that the Cambridge Assessment Group reported a surplus of £24.4 million for the financial period ended 31 July 2007. Each of the three business streams recorded an operating surplus.

Income from examination fees and other educational and assessment services increased from £177.1 million to £188.3 million due to increased demand across all three business streams.

As explained above, the overall expenditure includes only 10 months of overheads and therefore the overall costs for the period were very slightly lower at £166.7 million than for the preceding 12 month period (£170.9 million). Expenditure is incurred in maintaining and developing qualifications, registration and certification of candidates, together with the quality control of examined and assessed schemes. In this period, significant expenditure has been incurred on development activities related to UK A Levels and Diplomas as well as CIE's Pre-U qualification. Expenditure has also been incurred on changes to systems including electronic script management. Expenditure for the period includes a transfer of £9.3 million to the University compared with £3.4 million for the previous year, due to the higher level of surplus generated for the 10 month period.

We continue to forecast an increase in the number of examination entries. The Group continues to provide services to customers in around 160 countries. This brings with it challenges related to exchange rate exposures and economic difficulties which are reviewed and managed by the Corporate Board.

Syndics believe that the Group's reserves are at a level which is suitable to ensure financial stability, to provide protection against unforeseen contingencies and the risks to which the Group is exposed. Reserves are also maintained to ensure that the Group is able 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. 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.

During the year £9.3 million was transferred to the University. 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. Support for the Millennium Mathematics Project will be continued next year.

Since 1981 the Group has transferred £155 million from its reserves and investment income - £134 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.

In the previous year the Group purchased a new warehouse outside Cambridge. Initial refurbishment of the first phase of this was completed during 2007 and further developments are continuing to make full use of the space available.

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 R Partington

Mr B G Picking

Dr K B Pretty

Mr A Reid

Professor R Taylor

Handwritten signatures of the board members, each on a dotted line:

- 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 R Partington
- Mr B G Picking
- Dr K B Pretty
- Mr A Reid
- Professor R Taylor

29 November 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 (Chairman)	Master of Clare College	
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 Richard Partington	Senior Tutor, Churchill College	(From 19.07.07)
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	

Appendix B: The OCR Board

Mr Simon Lebus (Chairman)	Cambridge Assessment Group Chief Executive
Professor Tony Badger	Master of Clare College
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 Richard Partington	Senior Tutor, Churchill College
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

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 Mike Milanovic	Chief Executive, ESOL
Mr Tim Oates	Group Director, Assessment Research & Development
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
ALTE	Association of Language Testers in Europe
ARD	Assessment, Research and Development
BEC	Business English Certificate
BETS	Beijing English Testing System
BSI	British Standards Institute
BULATS	Business Language Testing Service
CAE	Certificate of Advance English
CEFR	Common European Framework Reference (for modern languages)
CIE	Cambridge International Examinations
CLC	Cambridge Learner Corpus
ELAT	English Literature Admissions Test
ELBS	Environment and Land-based Science
ESM	Electronic Script Management
ESOL	English for Speakers of Other Languages
FCE	First Certificate in English
GCSE	General Certificate of Secondary Education
ICFE	International Certificate in Financial English
IELTS	International English Language testing System
IGCSE	International General Certificate of Secondary Education
IM	Information Management
IT	Information Technology
KET	Key English Test
OCR	Oxford, Cambridge and RSA Examinations
OMR	Optical Mark Recognition
QCA	Qualifications and Curriculum Authority
RSA	Royal Society for the Encouragement of Arts Manufactures & Commerce
TKT	Teaching Knowledge Test
TSA	Thinking Skills Assessment

**UNIVERSITY OF CAMBRIDGE
LOCAL EXAMINATIONS SYNDICATE**

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

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 PERIOD ENDED 31 JULY 2007

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

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

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

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

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

- 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 the Group and Cambridge Assessment will continue in operation.

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

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

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

Respective Responsibilities of the Syndics and the auditors

The Syndics' responsibilities for preparing the financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 3.

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

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

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

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

Basis of Opinion

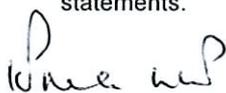
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the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

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

Opinion

In our opinion:

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



KPMG LLP

Date 6 December 2007

Chartered Accountants and Registered Auditor

37 Hills Road, Cambridge

CAMBRIDGE ASSESSMENT

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE PERIOD ENDED 31 JULY 2007**

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

All income and expenditure relates to continuing activities.

CAMBRIDGE ASSESSMENT

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE PERIOD ENDED 31 JULY 2007

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

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

STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS FOR THE PERIOD ENDED 31 JULY 2007

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

CAMBRIDGE ASSESSMENT

BALANCE SHEET AS AT 31 JULY 2007

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

CAMBRIDGE ASSESSMENT

BALANCE SHEET AS AT 31 JULY 2007 (continued)

The financial statements on pages 5 to 26 were approved by the Syndics on 29th November 2007 and were signed on their behalf by:

Professor A J Badger



*Chairman of the Local
Examinations Syndicate*

Mr S Lebus



*Chief Executive of the Local
Examinations Syndicate*

CAMBRIDGE ASSESSMENT

**CONSOLIDATED CASHFLOW STATEMENT
FOR THE PERIOD ENDED 31 JULY 2007**

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

The ultimate parent body is the University of Cambridge which has 31 July as its year end. In agreement with the University and to facilitate the production of overall financial information for the University Group the Syndicate agreed to change the year end of Cambridge Assessment to 31 July. This has been implemented in this set of financial statements which are, consequently for a 10 month period.

Basis of consolidation

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

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

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

Recognition of income and deferral of incoming resources

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

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

1. ACCOUNTING POLICIES (continued)

Pension schemes (continued)

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

Fixed assets and depreciation

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

Freehold - buildings	2% - 5% per annum on a straight line basis;
Leasehold - buildings	over the term of the lease
Plant & equipment, furniture and fittings and computer software	15% – 25% per annum on a straight line basis.

Freehold land is not amortised.

Leases

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

Investments

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

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

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

Stocks

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

Short term deposits

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

Foreign currencies

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

Taxation

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

1. ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Research and development expenditure

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

2. ENDOWMENT AND INVESTMENT INCOME

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

3. STAFF COSTS

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

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

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

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

3. STAFF COSTS (continued)

Staff costs charged to the Income and Expenditure Account

	10 months ended July 2007 Group £m	Year ended Sept 2006 Group £m
Examination services	30.1	35.9
Administration and central services	11.7	14.7
Premises	1.8	2.1
	<u>43.6</u>	<u>52.7</u>

Staff emoluments over £70,000:

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

4. OTHER OPERATING EXPENSES

	10 months ended July 2007 Group £m	Year ended Sept 2006 Group £m
Examination services	91.3	87.5
Administration and central services	12.4	16.1
Premises	5.7	6.8
	<u>109.4</u>	<u>110.4</u>

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

5. SURPLUS ON CONTINUING OPERATIONS FOR THE PERIOD

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

6. INTANGIBLE FIXED ASSETS

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

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

7. TANGIBLE FIXED ASSETS

GROUP

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

CAMBRIDGE ASSESSMENT

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

8. INVESTMENTS

	Group		Cambridge Assessment	
	July 2007 £m	Sept 2006 £m	July 2007 £m	Sept 2006 £m
Balance at 1 October 2006	54.5	70.6	67.0	83.3
Additions	11.4	-	11.4	-
Disposals	-	(20.5)	-	(20.5)
Increase in market value of investments	3.8	4.4	3.7	4.2
Balance at 31 July 2007	<u>69.7</u>	<u>54.5</u>	<u>82.1</u>	<u>67.0</u>
Represented by:				
University Endowment Fund units	67.6	52.6	65.0	50.1
Investment properties	2.0	1.8	2.0	1.8
Investment in subsidiary undertakings	-	-	0.1	0.1
Loan to OCR	-	-	15.0	15.0
Loan to Joint Venture	0.1	0.1	-	-
	<u>69.7</u>	<u>54.5</u>	<u>82.1</u>	<u>67.0</u>

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

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

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

Subsidiary undertakings:

Name of Subsidiary undertaking	Country of registration and operation	Class of share	Proportion held	Nature of business	Note
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 PERIOD ENDED 31 JULY 2007

8. 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
Cambridge Assessment Overseas Ltd	England	Ordinary	100%	Overseas office services	4

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

Joint Ventures:

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

Note

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

9. ENDOWMENT ASSETS

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

10. DEBTORS

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

11. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Cambridge Assessment	
	July 2007 £m	Sept 2006 £m	July 2007 £m	Sept 2006 £m
Trade creditors	4.3	5.3	2.0	4.0
Amounts due to Group undertakings	-	-	3.2	-
Other taxes and social security	5.0	5.9	1.6	1.7
Other creditors	1.2	0.8	0.5	0.3
Accruals and deferred income (see below)	46.6	36.7	33.7	30.8
	<u>57.1</u>	<u>48.7</u>	<u>41.0</u>	<u>36.8</u>

Deferred income is analysed as:

At 1 October 2006	26.4	25.5	22.8	20.5
Deferred in current period	17.6	24.3	15.6	22.8
Released from previous period	(25.5)	(23.4)	(22.8)	(20.5)
At 31 July 2007	<u>18.5</u>	<u>26.4</u>	<u>15.6</u>	<u>22.8</u>

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

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

	Group		Cambridge Assessment	
	July 2007 £m	Sept 2006 £m	July 2007 £m	Sept 2006 £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 31 July 2007 (2006: nil).

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

13. PROVISIONS FOR LIABILITIES AND CHARGES

GROUP

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

CAMBRIDGE ASSESSMENT

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

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

14. SPECIFIC ENDOWMENTS

GROUP and CAMBRIDGE ASSESSMENT

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

14. 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. During the period, the entire remaining balance of the fund was utilised to cover qualifying development projects in OCR.

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

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

15. RESERVES

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

CAMBRIDGE ASSESSMENT

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

16. NOTES TO CONSOLIDATED CASHFLOW STATEMENT

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

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

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

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

c. Analysis of change in net funds

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

17. PENSION COSTS

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

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

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

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

RSAEB Pension Scheme

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

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

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

The major assumptions used by the actuary were:

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

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

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:

17. PENSION COSTS (continued)

	Assets at 31 July 2007 £m	Assets at 30 Sept 2006 £m	Assets at 30 Sept 2005 £m
Equities	3.0	3.0	3.1
Bonds	2.7	2.4	2.3
Cash/other	0.1	0.1	0.1
Total assets	<u>5.8</u>	<u>5.5</u>	<u>5.5</u>
Scheme liabilities	<u>(7.2)</u>	<u>(7.6)</u>	<u>(7.4)</u>
Net pension deficit	<u>(1.4)</u>	<u>(2.1)</u>	<u>(1.9)</u>

	Expected Return from 31 July 2007	Expected Return from 30 Sept 2006	Expected Return from 30 Sept 2005
Equities	8.1%	7.4%	7.3%
Bonds	5.4%	4.7%	4.4%
Cash/Other	5.8%	4.8%	4.5%

Movement in deficit during the period

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

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

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

17. PENSION COSTS (continued)**Analysis of the amount charged to Income and Expenditure account:**

	10 months ended July 2007 £m	Year ended Sept 2006 £m
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>(0.3)</u>	<u>(0.4)</u>
	<u>-</u>	<u>(0.1)</u>

History of experience gains and losses

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

Total Group pension cost for the period

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

18. OPERATING LEASES

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

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

19. FORWARD CURRENCY CONTRACTS

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

20. CAPITAL COMMITMENTS

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

21. CONTINGENT LIABILITIES

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

CAMBRIDGE ASSESSMENT

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31 JULY 2007

22. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

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

23. ULTIMATE PARENT UNDERTAKING

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