

APPENDIX E: CONSOLIDATED ACCOUNTS FOR THE YEAR ENDED 30 SEPTEMBER 2003

***Responsibilities of the Officers of the Local Examinations Syndicate for the preparation of the financial statements
For the year ended 30 September 2003***

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. In order to give a true and fair view of the state of affairs of the Local Examinations Syndicate and of the incoming resources and applications of resources for that period, the officers of the Syndicate have decided that the financial statements will be presented in accordance with the Statement of Recommended Practice (Accounting for Charities). The Syndics, through their Audit Committee, satisfy themselves that the accounting policies selected by the officers are appropriate and Syndics approve the financial statements. The officers are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Local Examination Syndicate.

In preparing the financial statements, the officers have further:

1. Selected suitable accounting policies and then applied them consistently.
2. Made judgements and estimates that are reasonable and prudent.
3. Stated whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.
4. Prepared the financial statements on the going concern basis, unless it is inappropriate to presume that the Local Examinations Syndicate will continue to operate.
5. Ensured that the Local Examinations Syndicate has complied with the University's Statutes and Ordinances.

The officers have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Local Examinations Syndicate and to prevent and detect fraud and other irregularities.

Independent Auditors' report to the Local Examinations Syndicate for the year ended 30 September 2003.

We have audited the accounts on pages 21 to 36 which have been prepared on the basis of the accounting policies set out on pages 24 to 25.

This report is made solely to the Local Examinations Syndicate, as a body. Our audit work has been undertaken so that we might state to the Syndics those matters we are required to state to them 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 officers and auditors

The officers are responsible for preparing the annual report and, as described above, the accounts in accordance with applicable accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by our engagement letter dated 26 June 2002, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts give a true and fair view and have been properly prepared in accordance with applicable accounting standards. We also report to you if, in our opinion, the annual report is not consistent with the accounts, if the officers have not kept proper accounting records, and if we have not received all the information and explanations we require for our audit.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the officers in the preparation of the accounts, and of whether the accounting policies are appropriate to the Local Examinations Syndicate'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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Syndicate and of the Group at 30 September 2003 and of the Group's incoming resources and applications of resources in the year then ended.

KPMG LLP

Chartered Accountants and Registered Auditor

37 Hills Road
Cambridge

27 February 2004

Consolidated Statement of Financial Activities for the year ended 30 September 2003

		<i>Unrestricted Funds 2003 £m</i>	<i>Restricted Funds 2003 £m</i>	<i>Total 2003 £m</i>	<i>2003 £m</i>
Incoming resources	<i>Note</i>				
Activities in furtherance of objects:					
Examination fees	2	126.23	—	126.23	117.57
Other educational and assessment services		13.24	—	13.24	11.61
Realized loss on disposals		(0.01)	—	(0.01)	(0.01)
Investment income	2	3.54	0.63	4.17	4.30
Total incoming resources		<u>143.00</u>	<u>0.63</u>	<u>143.63</u>	<u>133.47</u>
Resources expended					
Charitable expenditure:					
Costs in furtherance of objects	3	106.28	—	106.28	105.49
Management and administration costs	3	22.56	—	22.56	22.27
Staff restructuring costs		0.17	—	0.17	0.19
Transfers to other University funds		4.01	—	4.01	3.92
Total resources expended		<u>133.02</u>	<u>—</u>	<u>133.02</u>	<u>131.87</u>
Net incoming resources	4	9.98	0.63	10.61	1.60
Share of joint venture operating surplus/(deficit)		<u>0.02</u>	<u>—</u>	<u>0.02</u>	<u>(0.02)</u>
Net incoming resources before revaluation and investment asset disposal		10.00	0.63	10.63	1.58
Other recognized gains and losses:					
Unrealized gain/(loss) on revaluations of investment assets		<u>3.49</u>	<u>0.63</u>	<u>4.12</u>	<u>(10.30)</u>
Net movement in funds		<u>13.49</u>	<u>1.26</u>	<u>14.75</u>	<u>(8.72)</u>
Funds brought forward	12	<u>102.74</u>	<u>12.74</u>	<u>115.48</u>	<u>124.20</u>
Funds carried forward	12	<u>116.23</u>	<u>14.00</u>	<u>130.23</u>	<u>115.48</u>

All income and expenditure relate to continuing activities.

The net increase in funds for the period in UCLES was £9.84m (2002: decrease of £11.14m).

There is no difference between the Net Incoming Resources stated above and its historical cost equivalent. The Group has no recognized gains or losses other than those included in the Consolidated Statement of Financial Activities. Therefore no separate statement of recognized gains and losses has been presented.

Balance Sheet as at 30 September 2003

	<i>Note</i>	<i>Group</i>		<i>UCLES</i>	
		<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i> <i>(re-stated)</i>
		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Fixed assets					
Intangible fixed assets	5	2.58	3.19	—	—
Tangible fixed assets	6	37.43	28.36	25.70	16.46
Investments	7	68.40	64.60	81.66	78.05
		<u>108.41</u>	<u>96.15</u>	<u>107.36</u>	<u>94.51</u>
Current assets					
Stock		0.98	0.91	0.57	0.55
Debtors	8	22.94	23.79	18.16	29.99
Short term deposits		31.04	24.23	27.27	16.32
Cash at bank and in hand		1.10	1.21	0.71	0.81
		<u>56.06</u>	<u>50.14</u>	<u>46.71</u>	<u>47.67</u>
Creditors: amounts falling due within one year	9	<u>(33.47)</u>	<u>(29.92)</u>	<u>(26.78)</u>	<u>(24.59)</u>
Net current assets		<u>22.59</u>	<u>20.22</u>	<u>19.93</u>	<u>23.08</u>
Total assets less current liabilities		131.00	116.37	127.29	117.59
Creditors: amounts falling due after one year	10	—	—	(10.59)	(10.59)
Provisions for liabilities and charges	11	<u>(0.77)</u>	<u>(0.89)</u>	<u>(0.50)</u>	<u>(0.64)</u>
Net assets		<u>130.23</u>	<u>115.48</u>	<u>116.20</u>	<u>106.36</u>
Represented by:					
General Reserve	12	115.96	101.89	101.93	92.77
Designated funds	12	0.27	0.85	0.27	0.85
Restricted funds	12	14.00	12.74	14.00	12.74
		<u>130.23</u>	<u>115.48</u>	<u>116.20</u>	<u>106.36</u>

The analysis for the year ended 30 September 2002 has been re-stated to reflect the reclassification of the RSAEB loan from short to long term (see note 10).

The financial statements on pages 21 to 36 were approved by the Syndics on 29 January 2004 and were signed on their behalf by:

Dr K. B. Pretty, *Chairman of the Local Examinations Syndicate*
Mr S. Lebus, *Chief Executive of the Local Examinations Syndicate*

Consolidated Cashflow Statement for the year ended 30 September 2003

		<i>2003</i>		<i>2002</i>	
	<i>Note</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Net cash inflow/(outflow) from operating activities	13a		13.16		(4.89)
Returns on investments and servicing of finance					
Investment income		3.52		5.07	
Interest received		0.70		1.00	
Interest paid		—		(0.01)	
			4.22		6.06
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(10.65)		(3.55)	
Payments to acquire fixed asset investments		(0.03)		(0.03)	
			(10.68)		(3.58)
Cash inflow/(outflow) before use of liquid resources and financing	13b		6.70		(2.41)
Management of liquid resources					
Net movement on money market deposits	13c		(6.81)		(14.26)
Decrease in cash in the period			(0.11)		(16.67)

1. ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting and Reporting by Charities issued by the Charity Commission in October 2000, and 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 the Syndicate's financial statements except as noted below. The Syndicate has adopted Financial Reporting Standard (FRS) 18 'Accounting policies'. The group has followed the transitional arrangements of FRS 17 'Retirement benefits' in these financial statements.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of certain investment assets.

Basis of Consolidation

The Group accounts incorporate the results of UCLES and its subsidiary companies and Joint Ventures.

Joint Venture companies have been accounted for in accordance with the gross equity method.

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

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

Goodwill

Goodwill arises on consolidation and is based on the fair value of the consideration given for the subsidiary and the fair value of its assets at the date of acquisition. Goodwill relating to investments made by the Group is amortized over 10 years on a straight line basis, being its estimated useful economic life. Where there is a permanent diminution in the carrying value of goodwill, the loss is included in the results of the period.

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 Statement of Financial Activities.

Leases

Assets acquired under finance leases are capitalized and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the Statement of Financial Activities on a straight line basis over the period of the lease.

Pensions

The Syndicate participates in three pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Syndicate. Contributions to the schemes are charged to the Statement of Financial Activities so as to spread the cost of pensions over employees' lives with the Syndicate.

For two of the schemes, CPS and USS, the Syndicate 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 'Retirement benefits', accounts for these schemes as if they were defined contribution schemes. As a result, the amount charged to the Statement of Financial Activities represents the contributions payable to each scheme in respect of the accounting period.

Depreciation

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

Buildings:	
Freehold	2% – 5% per annum on a straight line basis;
Leasehold	over the terms of the lease
Plant and equipment, furniture and fittings	15 – 25% per annum on a straight line basis.

Research and Development Expenditure

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

Stocks

Stocks are of finished goods and are stated at the lower of cost and net realizable value.

Income Recognition and Deferral of Incoming Resources

All income is recognized on a receivable basis. Examination fees and other services receivable in respect of examination sessions or courses taking place in subsequent years are deferred to the year in question.

Cost Allocation

Costs (including staff costs) are treated as costs in furtherance of objects where they are used in the operation or support of examination and assessment services. Other costs are treated as management and administration.

Taxation

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

Funds

Funds held by UCLES are either:

Unrestricted general funds (General Reserve) – these are funds which can be used at the discretion of the trustees.

Designated funds – these are funds set aside by the trustees out of unrestricted general funds for specific future purposes or projects.

Restricted funds – these are funds that can only be used for a particular purpose. Details are given in note 12.

Investments

Investments in the University of Cambridge Amalgamated Fund Units are stated at estimated market value.

Investment properties are valued at market value.

Investments in subsidiaries are stated at cost.

Recognition of Liabilities

Provisions are recognized under FRS 12 and are not discounted.

2. INCOMING RESOURCES

- a) Examination fees income represents income from recognizing and certifying educational achievement.
- b) Investment income comprises:

	<i>2003 Group</i> <i>£m</i>	<i>2002 Group</i> <i>£m</i>
Income from University of Cambridge Amalgamated Fund Units	3.46	3.46
Interest Receivable	0.71	0.84
	4.17	4.30

3. STAFF COSTS

The average number of persons employed by the Group during the year was 1,571 (2002: 1,508). These were engaged directly on the Group's furtherance of objects, management, support, and administration functions.

Staff costs for the above persons comprise:	<i>2003</i> <i>Group</i> <i>£m</i>	<i>2002</i> <i>Group</i> <i>£m</i>
Salaries and wages	34.45	30.96
Social Security costs	2.54	2.24
Other pension costs (note 14)	2.40	2.14
	39.39	35.34

Of the above costs £2.70m (2002: £2.64m) was incurred in respect of temporary staff.

Staff emoluments over £50,000:

	<i>2003 Group No. staff</i>	<i>2002 Group No. staff</i>
£50,001 – £60,000	21	21
£60,001 – £70,000	8	7
£70,001 – £80,000	2	1
£80,001 – £90,000	1	2
£90,001 – £100,000	3	4
£100,001 – £110,000	1	–
£150,001 – £160,000	1	1

Of the above staff 34 (2002: 33) are members of defined benefit pension schemes, 2 (2002: 2) were members of a defined contribution scheme. Total contributions in the year to the defined contribution scheme amount to £0.02m (2002: £0.02m).

Information concerning payments to Syndics is given in note 16.

4. NET INCOMING RESOURCES

Net Incoming Resources is stated after charging:		<i>2003 Group £m</i>	<i>2002 Group £m</i>
Auditors' remuneration	– Audit fee	0.08	0.08
	– Consultancy	0.03	0.22
Internal Audit Fee		0.03	0.08
Depreciation		2.37	2.14
Amortisation of goodwill		0.61	0.61
Operating leases	– Land and buildings	0.71	0.58
	– Plant, machinery, and equipment	0.46	0.17
Foreign Exchange losses		0.30	0.14

5. INTANGIBLE FIXED ASSETS

GOODWILL	<i>Group £m</i>
COST	
At 1 October 2002	6.08
At 30 September 2003	<u>6.08</u>
AMORTIZATION	
At 1 October 2002	2.89
Charge for year	0.61
At 30 September 2003	<u>3.50</u>
NET BOOK VALUE	
At 30 September 2003	<u>2.58</u>
At 30 September 2002	<u>3.19</u>

6. TANGIBLE FIXED ASSETS

GROUP

	<i>Land and buildings</i>			<i>Plant and equipment, furniture and fittings</i>	<i>Total</i>
	<i>Freehold £m</i>	<i>Long leasehold £m</i>	<i>Short leasehold £m</i>	<i>£m</i>	<i>£m</i>
COST					
At 1 October 2002	23.77	6.23	0.38	20.85	51.23
Transfer from investment properties	0.37	—	—	—	0.37
Additions	9.42	0.05	0.21	1.40	11.08
Disposals	—	—	—	(4.37)	(4.37)
At 30 September 2003	33.56	6.28	0.59	17.88	58.31
DEPRECIATION					
At 1 October 2002	3.42	1.17	0.18	18.10	22.87
Disposals	—	—	—	(4.36)	(4.36)
Charge for year	0.79	0.12	0.05	1.41	2.37
At 30 September 2003	4.21	1.29	0.23	15.15	20.88
NET BOOK VALUE					
At 30 September 2003	29.35	4.99	0.36	2.73	37.43
At 30 September 2002	20.35	5.06	0.20	2.75	28.36

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	<i>Land and buildings</i>			<i>Plant and equipment, furniture and fittings</i>	<i>Total</i>
	<i>Freehold £m</i>	<i>Long leasehold £m</i>	<i>Short leasehold £m</i>	<i>£m</i>	<i>£m</i>
COST					
At 1 October 2002	16.87	—	0.29	16.78	33.94
Transfer from investment properties	0.37	—	—	—	0.37
Additions	9.42	—	—	1.36	10.78
Disposals	—	—	—	(4.34)	(4.34)
At 30 September 2003	26.66	—	0.29	13.80	40.75
DEPRECIATION					
At 1 October 2002	2.83	—	0.18	14.47	17.48
Disposals	—	—	—	(4.34)	(4.34)
Charge for year	0.63	—	0.01	1.27	1.91
At 30 September 2003	3.46	—	0.19	11.40	15.05
NET BOOK VALUE					
At 30 September 2003	23.20	—	0.10	2.40	25.70
At 30 September 2002	14.04	—	0.11	2.31	16.46

All tangible fixed assets are held for direct charitable purposes.

7. FIXED ASSET INVESTMENTS**GROUP**

	<i>At 1 October 2002 £m</i>	<i>Additions £m</i>	<i>Transfer to Fixed Assets £m</i>	<i>Increase in market value £m</i>	<i>At 30 September 2003 £m</i>
Investments at Market Value	63.08	—	—	4.12	67.20
Investments at cost	0.01	—	—	—	0.01
Investment Properties	1.50	—	(0.37)	—	1.13
Joint Ventures:					
Share of gross assets	0.01	0.07	—	—	0.08
Less share of gross liabilities	(0.03)	(0.05)	—	—	(0.08)
Total share of joint venture	(0.02)	0.02	—	—	(0.00)
Loan to Joint Venture	0.03	0.03	—	—	0.06
Total	<u>64.60</u>	<u>0.05</u>	<u>(0.37)</u>	<u>4.12</u>	<u>68.40</u>

Investments at market value comprise Cambridge University Amalgamated Fund Units. The market value at 30 September 2003 is based on the estimated valuation as at that date provided by the University Finance Division.

The Syndics have reviewed the value of the Investment Properties as at 30 September, and consider that the book value reflected the current market value of the properties. During the year one of the properties comprising 25% of the value was converted for operational use and the corresponding amount has been transferred to fixed assets.

UCLES

	<i>At 1 October 2002 £m</i>	<i>Additions £m</i>	<i>Transfer to Fixed Assets £m</i>	<i>Increase in market value £m</i>	<i>Provisions for Bad Debt £m</i>	<i>At 30 September 2003 £m</i>
Investments at Market Value	61.41	—	—	4.01	—	65.42
Investments at cost	0.01	—	—	—	—	0.01
Investment Properties	1.50	—	(0.37)	—	—	1.13
Loans to Group Undertakings	15.08	0.06	—	—	(0.09)	15.05
Investment in subsidiary undertakings (see note 17)	0.05	—	—	—	—	0.05
Total	<u>78.05</u>	<u>0.06</u>	<u>(0.37)</u>	<u>4.01</u>	<u>(0.09)</u>	<u>81.66</u>

The loans to Group undertakings are unsecured and have no fixed repayment date. No interest has been charged in the year to 30 September 2003. The future interest rate on the OCR loans has yet to be determined.

8. DEBTORS

	Group		UCLES	
	<i>2003 £m</i>	<i>2002 £m</i>	<i>2003 £m</i>	<i>2002 £m</i>
Fee debtors	15.13	16.22	12.51	13.63
Amounts owed by Group undertakings	—	—	0.50	10.72
Other debtors	1.67	1.01	0.85	0.85
Prepayments	6.14	6.56	4.30	4.79
	<u>22.94</u>	<u>23.79</u>	<u>18.16</u>	<u>29.99</u>

9. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	<i>Group</i>		<i>UCLES</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>re-stated</i> <i>£m</i>
Trade creditors	1.47	2.56	0.67	1.82
Amounts due to Group undertakings	—	—	0.89	0.93
Other taxes and social security	4.07	4.27	0.81	1.26
Other creditors	1.66	1.66	1.35	1.40
Accruals and deferred income	26.27	21.43	23.06	19.18
	<u>33.47</u>	<u>29.92</u>	<u>26.78</u>	<u>24.59</u>

Deferred income (see page 24) is analysed as:

At 1 October 2002	17.19	17.31	16.64	16.94
Deferred in current year	19.54	17.19	18.12	16.64
Released from previous year	(17.19)	(17.31)	(16.64)	(16.94)
	<u>19.54</u>	<u>17.19</u>	<u>18.12</u>	<u>16.64</u>
At 30 September 2003				

The analysis for the year ended 30 September 2002 has been re-stated to reflect the reclassification of the RSAEB loan from short to long term (see note 10).

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

	<i>Group</i>		<i>UCLES</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>re-stated</i> <i>£m</i>
Loan from RSAEB	—	—	10.50	10.50
Loan from CUAPTS	—	—	0.09	0.09
	<u>—</u>	<u>—</u>	<u>10.59</u>	<u>10.59</u>

The analysis for the year ended 30 September 2002 has been re-stated to reflect the reclassification of the RSAEB loan from short to long term.

The loans are unsecured and have no fixed repayment date. No interest was charged in the year to 30 September 2003. (2002; nil).

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

	<i>Staffing £m</i>	<i>Rebates or Discounts £m</i>	<i>Other £m</i>	<i>Total £m</i>
At 1 October 2002	0.31	0.16	0.42	0.89
Charges in the year	0.18	—	0.03	0.21
Utilized in the year	(0.09)	(0.09)	(0.02)	(0.20)
Released during the year	(0.13)	—	—	(0.13)
At 30 September 2003	<u>0.27</u>	<u>0.07</u>	<u>0.43</u>	<u>0.77</u>

UCLES

	<i>Staffing £m</i>	<i>Rebates or Discounts £m</i>	<i>Other £m</i>	<i>Total £m</i>
At 1 October 2002	0.14	0.07	0.43	0.64
Charges in the year	—	—	—	—
Utilized in the year	(0.06)	—	(0.02)	(0.08)
Released during the year	(0.06)	—	—	(0.06)
At 30 September 2003	<u>0.02</u>	<u>0.07</u>	<u>0.41</u>	<u>0.50</u>

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

12. FUNDS**GROUP**

	<i>At 1 October 2002 £m</i>	<i>Financial activities £m</i>	<i>Transfers £m</i>	<i>At 30 September 2003 £m</i>
Unrestricted Funds:				
General Reserve	101.89	13.47	0.60	115.96
Designated Funds:				
China Fund (see over)	0.60	—	(0.60)	—
Benevolent Fund	0.25	0.02	—	0.27
	<u>0.85</u>	<u>0.02</u>	<u>(0.60)</u>	<u>0.27</u>
Total Unrestricted Funds	<u>102.74</u>	<u>13.49</u>	<u>—</u>	<u>116.23</u>
Restricted Funds:				
EMREB Fund	4.27	0.45	—	4.72
Scholarship Funds	0.06	—	—	0.06
WMEB Fund	8.41	0.81	—	9.22
	<u>12.74</u>	<u>1.26</u>	<u>—</u>	<u>14.00</u>
Total	<u>115.48</u>	<u>14.75</u>	<u>—</u>	<u>130.23</u>

12. FUNDS (cont.)

UCLES	<i>At 1 October 2002 £m</i>	<i>Financial activities £m</i>	<i>Transfers £m</i>	<i>At 30 September 2003 £m</i>
Unrestricted Funds				
General Reserve	92.77	8.56	0.60	101.93
Designated Funds:				
China Fund (see below)	0.60	–	(0.60)	–
Benevolent Fund	0.25	0.02	–	0.27
	0.85	0.02	(0.60)	0.27
Total Unrestricted Funds	93.62	8.58	–	102.20
Restricted Funds:				
EMREB Fund	4.27	0.45	–	4.72
Scholarship Funds	0.06	–	–	0.06
WMEB Fund	8.41	0.81	–	9.22
	12.74	1.26	–	14.00
Total	106.36	9.84	–	116.20

Restricted Funds

The restricted funds are invested in University of Cambridge Amalgamated Fund Units and in interest bearing deposit accounts.

The EMREB Fund is a trust fund created from assets transferred from the East Midlands Regional Examinations Board ('EMREB').

The WMEB Fund is a trust fund created from assets transferred from The West Midlands Examination Board ('TWMEB').

Scholarship funds are amounts of money left to the Syndicate to give to students for prizes or awards.

The restrictions for the funds are set out in the *Statutes and Ordinances* of the University of Cambridge. Copies may be obtained from the Cambridge University Press Bookshop, 1 Trinity Street, Cambridge, CB2 1SZ.

Sufficient resources are held in an appropriate form to enable each fund to be applied in accordance with any restrictions.

Designated Funds

The China Fund was a designated fund intended to cover commitments made by the Group regarding the construction of a building in China. On 17 December 2002 this requirement was removed and the fund has been transferred into the general reserve.

The Benevolent Fund was set up to provide cover for staff who had been awarded pensions not under the present three pension schemes. No additional pensions have been granted in recent years.

13. NOTES TO CONSOLIDATED CASHFLOW STATEMENT**(a) Reconciliation of changes in resources to net cash inflow/(outflow) from operating activities**

	2003 £m	2002 £m
Net incoming resources before revaluation and investment asset disposals	10.63	1.58
Less: investment income	(4.17)	(4.30)
Interest paid	—	0.01
Depreciation of tangible fixed assets	2.37	2.14
Amortization of goodwill	0.61	0.61
Deficit on disposal of tangible fixed assets	0.01	0.01
Movements in provisions	(0.12)	(0.59)
Increase/(decrease) in creditors	3.60	(0.17)
Decrease/(increase) in debtors	0.32	(4.27)
(Increase)/decrease in stock	(0.07)	0.07
Share of joint venture (surplus)/deficit	(0.02)	0.02
Net cash inflow/(outflow) from operating activities	<u>13.16</u>	<u>(4.89)</u>

(b) Reconciliation of net cashflow to movement in net funds

	2003 £m	2002 £m
Decrease in cash in the year	(0.11)	(16.67)
Cash outflow from increase in money market deposits	6.81	14.26
Change in net funds resulting from cashflows	<u>6.70</u>	<u>(2.41)</u>
Net funds at 1 October 2002	25.44	27.85
Net funds at 30 September 2003	<u>32.14</u>	<u>25.44</u>

(c) Analysis of change in net funds

	At 1 Oct 2002 £m	Cash Flows £m	At 30 Sept 2003 £m
Cash at bank and in hand	1.21	(0.11)	1.10
Money market deposits	24.23	6.81	31.04
Total	<u>25.44</u>	<u>6.70</u>	<u>32.14</u>

14. PENSION COSTS

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

The CPS and USS schemes are not closed, nor is the age profile of their active membership rising significantly. The RSAEB scheme is a closed scheme which has 25 (2002: 27) 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.

The valuations and key assumptions used for SSAP 24 accounting in the financial statements are detailed below, together with the current contribution rate:

	USS	CPS	RSAEB
Latest actuarial valuations	Mar 2002	Jul 2000	Oct 2000
Investment returns per annum	5.0%	9.0%	7.0%
Salary scale increases per annum	3.7%	7.0%	4.0%
Pension increases per annum	2.7%	6.0%	3.0%
Market value of assets at date of last valuation	£19,938m	£265m	£4.5m
Funding level	101%	135%	102%
Employers contribution rate	14%	1%	17.6%

The most recent actuarial valuation for the RSAEB scheme showed that the market value of the scheme's assets was £3.2m at 1 October 2002 and that the actuarial value of those assets represented a funding level of 77%. The contribution rate will be increased from 1 October 2003 to 21.8% of earnings, together with lump sum contributions of £350,000 per annum for the next 10 years to address the under funding.

The total pension cost for the Group was £2.41m (2002 £2.14m).

RSAEB Pension Scheme

Whilst the company continues to account for pension costs in accordance with Statement of Standard Accounting Practice 24 'Accounting for Pension costs', under FRS 17 'Retirement benefits' the following transitional disclosures are required:

A full actuarial valuation of the scheme was carried out at 1 October 2002, in accordance with the requirements under FRS 17 and updated to 30 September 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

	<i>At 30 Sept 2003</i>	<i>At 30 Sept 2002</i>
Discount rate	5.3%	5.4%
Retail price inflation	2.5%	2.2%
Salary increase rate	4.5%	4.2%
Pensions increases (at Limited Price Indexation)	3.2%	3.2%
Deferred pension revaluation	2.5%	2.2%

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

Scheme Assets

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

	<i>Assets 30 Sept 2003 (£m)</i>	<i>Expected Return from 30 Sept 2002</i>	<i>Assets at 30 Sept 2003 (£m)</i>	<i>Expected Return from 30 Sept 2002</i>
Equities	2.74	8.2%	2.50	8%
Bonds	0.43	4.8%	0.49	4.7%
Other	0.56	4.8%	0.25	4.7%
Total assets	3.73		3.24	
Scheme liabilities	(6.18)		(5.62)	
Net pension deficit	(2.45)		(2.38)	

If the pension scheme had been recognized in these financial statements the following assets and liabilities would have appeared in the balance sheet. The assets in the scheme and the expected rates of return were:

	<i>at 30 Sept 2003 (£m)</i>	<i>at 30 Sept 2002 (£m)</i>
<i>Net Assets</i>		
Net Assets excluding pension liability	130.23	115.48
Pension liability	(2.45)	(2.38)
Net Assets including pension liability	127.78	113.10
General Reserve		
General Reserve excluding pension liability	115.96	101.89
Pension reserve	(2.45)	(2.38)
General Reserve	113.51	99.51

Analysis of the amount charged to resources expended:

Costs in furtherance of objects	<i>Year to 30 Sept 2003</i>
	(£m)
Current service cost	0.19
Pension Finance Costs	
Expected return on pension scheme assets	0.24
Interest on pension scheme liabilities	(0.30)
	(0.06)

Analysis of the amount under other recognized gains and losses:

	<i>Year to 30 Sept 2003</i>
	(£m)
Actual return less expected return on pension scheme assets	0.22
Change in assumptions underlying the present value of the scheme liabilities	(0.16)
Actuarial gain/(loss)	0.06

Movement in Deficit during the year

	<i>Year to 30 Sept 2003</i>
	(£m)
Deficit at beginning of the year	(2.38)
Movement in year:	
Current service cost	(0.19)
Contributions	0.12
Net return from other finance income	(0.06)
Actuarial gain	0.06
Deficit at end of the year	(2.45)

History of experience gains and losses

	<i>Year to 30 Sept 2003</i>
	(£m)
Difference between the actual and expected return on scheme assets	0.22
– as % of scheme assets	6%
Experience gains/losses on scheme liabilities	–
– as % of present value of scheme liabilities	0%
Total amount recognized under Other recognized gains and losses	0.06
– as % of present value of scheme liabilities	1%

15. OPERATING LEASES

At 30 September 2003 the Group had annual commitments under non-cancellable operating leases as follows:

	<i>Group</i>		<i>UCLES</i>	
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Amounts payable under operating leases which fall due in the next financial year:				
Land and buildings, commitments expiring:				
In 1 year	—	0.10	—	0.06
Between 2 and 5 years	0.75	0.12	0.53	—
After 5 years	—	0.27	—	0.27
Plant, machinery, and equipment, Commitments expiring:				
In 1 year	0.05	0.07	0.05	0.03
Between 2 and 5 years	0.23	0.14	0.07	0.06
	<u>1.03</u>	<u>0.70</u>	<u>0.65</u>	<u>0.42</u>

16. 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 transactions with Cambridge University Press (CUP), another Syndicate of the University of Cambridge, as follows: purchase of printing services £8.99m (2002: £9.45m), purchase of other services £0.04m (2002: £nil), receipt of royalties £0.21m (2002: £0.20m), sale of services to CUP £0.17m (2002: £0.47m). At 30 September 2003 a balance of £0.62m (2002: £0.44m) was due to CUP.

In addition to the £4.01m (2002: £3.92m) transfer to other University Funds shown on page 21, the group paid £0.25m (2002: £0.19m) to the University of Cambridge in respect of rentals, computers software, and other software and other services. £nil (2002: £0.04m) was due to the University at 30 September 2003.

During the year no fees were paid to Syndics (2002: one Syndic was paid £165 in respect of meeting fees/examination services). Total travel expenses of £3,197 (2002: £3,361) were paid during the year to 6 (2002: 9) Syndics.

During the year a loan was made to IELTS Inc of US \$51,630 (2002: US\$48,022) and a contribution of £56,000 to QualDat's costs was made.

17. ASSOCIATED COMPANIES***Subsidiary Undertakings:***

<i>Name of subsidiary undertaking</i>	<i>Country of registration and operation</i>	<i>Class of share</i>	<i>Proportion held</i>	<i>Nature of business</i>	<i>Note</i>
OCR	England	Member	100%	Examination and assessment services	1
RSA Examinations Board	England	Member	100%	Assessment services	1
The West Midlands Examinations Board	England	Member	100%	Examination services	2
Sandonian Properties Ltd	England	Ordinary	100%	Property Holding	4
Mill Wharf Ltd	England	Ordinary	100%	Training and Consultancy	4
OCR Nationals	England	Member	100%	Dormant	3
Progress House Printers Ltd	England	Ordinary	100%	Dormant	4
CUAPTS Limited	Hong Kong	Ordinary	100%	Dormant	4
World Class Tests Ltd	England	Ordinary	100%	Dormant	4
OCIAS Limited	England	Ordinary	100%	Assessment services	4
Cambridge Examinations Inc	US	Member	100%	Examination services	5

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

17. ASSOCIATED COMPANIES (*cont.*)***Joint Ventures:***

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

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

Note

- 1 Companies Limited by Guarantee and Exempt Charities.
- 2 Company Limited by Guarantee and a Registered Charity.
- 3 Company Limited by Guarantee.
- 4 Companies having Share Capital.
- 5 US Non stock Non profit Corporation.

18. FORWARD CURRENCY CONTRACTS

As at 30 September 2003 the Syndicate had forward currency contracts of €16m (2002: €16m) and in US\$ 3.2m (2002: \$3.2m).

19. CAPITAL COMMITMENTS

There were no capital commitments as at 30 September 2003.

20. CONTINGENT LIABILITIES

There were no contingent liabilities as at 30 September 2003.

21. ULTIMATE PARENT UNDERTAKING

UCLES is a Syndicate of the University of Cambridge. It is governed by the Statutes and Ordinances of the University.