About the financial statements

Income statement (revenues and expenses)

The income statement serves to show the comparison of revenues to expenses for the year. In prior years this was called the statement of financial performance.

Approximately 97 per cent of the CMC's revenue is derived from government grants. For the year ended 30 June 2008, the CMC recorded a balanced budget position with expenses equalling revenue.

Statement of changes in equity

The statement of changes in equity (new statement this year) highlights the movement in the equity of the agency. Equity is the net worth of the agency and is simply represented by total assets less total liabilities in the balance sheet. The normal entries affecting this statement include: the operating outcome (either surplus or deficit); accounting policy changes; equity injections or withdrawals; and asset revaluations. For 2007-08 the CMC's total equity movement is due to the equity injection to assist with the fitout costs of the CMC's new leasehold premises at Green Square.

Balance sheet

The balance sheet (formerly referred to as the statement of financial position) is the best guide to the financial health of an organisation. It is a snapshot taken at the end of the reporting period, showing what assets were held, what amounts were owing to creditors and staff, and the surplus of assets over liabilities — in other words, the equity of the CMC.

Assets. Assets are things controlled by an organisation, and are generally divided into 'current assets' such as cash and debtors or 'fixed assets' such as property, plant and equipment.

Current assets are those assets that can be readily converted into cash within the next 12 months. In the CMC's case, current assets include cash, receivables/debtors and prepayments.

- *Cash* is the closing balance of all the CMC's bank accounts as at 30 June.
- *Receivables/debtors* represent the amounts of cash the CMC was owed at 30 June and is confident of receiving. The Australian Taxation Office is the CMC's biggest debtor, owing it $477 061 (of the total receivables $672 000 at 30 June) for GST input tax credits — that is, the refund of GST that has been paid to suppliers and government departments.
- *Prepayments* occur when payments are made in advance of receiving the services or goods. Examples would be annual memberships, vehicle registrations, or maintenance agreements that still have effect after 30 June. The proportion of these payments in advance that relate to periods after 30 June, becomes the prepayment. (This year it was $359 000.) Prepayment amounts are expensed in the following financial year.

Non-current assets are those assets that an organisation does not plan to convert into cash within the next 12 months. In the CMC's case, non-current assets of $12 316 000 include property, plant and equipment, and leasehold improvements. The CMC leases its accommodation.

- *Plant and equipment* are those tangible things that are needed to help employees do their work, such as vehicles, electronic equipment, cameras and computers that have an individual value greater than $5000.
- *Leasehold improvements* are building works performed in leased premises. Initially, leasehold improvements are capitalised and then amortised (or liquidated) over the remaining life of the lease. The value of property, plant and equipment and leasehold improvements in the statement of financial position is a net figure derived by subtracting an allowance that represents wear and tear or obsolescence from the original cost of the asset. This allowance is called depreciation (relating to property, plant and equipment and leasehold improvements).

Liabilities. Liabilities are the amounts owed by the CMC to others. They are divided into 'current' and 'non-current', depending on how soon the debt is to be repaid.

- *Current liabilities* are debts that an organisation plans to repay within the next 12 months. In the CMC's case, $3 708 000 in current liabilities relate to payables (creditors), provisions and lease incentives.

- *Payables or creditors* are debts accrued by purchasing goods and services on credit. The CMC policy is to pay all invoices before their due date, to take advantage of any benefits such as discounts for prompt payment. Suppliers are actively encouraged to accept electronic funds transfers (EFT) instead of cheque payments, to reduce the CMC's administrative overheads.
- *Provisions* of $2 304 000 have been set aside to cover the first four weeks of employees' accumulated annual leave entitlements as at 30 June. The CMC does not need to provide for its employees' long-service leave entitlements because long-service leave is catered for within the QSuper fund, which is administered by Queensland Treasury and funded by a levy each fortnight on the payroll.
- *Lease incentive liability.* During 2007–08, the CMC received a total of $3 872 000 as an incentive to lease premises at Green Square. This incentive was used to pay for part of the fitout of the new premises. In accordance with Australian Accounting Standard AAS17, the organisation is required to treat this incentive as a liability (borrowing). This liability is then reduced each year by treating part of the lease instalments payable as a repayment. The amount of $295 000 shown as a current liability represents that part of the liability or borrowing that will be reduced by lease instalments during 2008–09.

Non-current liabilities are those liabilities where an organisation has no legal requirement to repay the debt within the next 12 months. In the CMC's case, non-current liabilities of $3 922 000 relate to non-current employee leave provisions of $345 000 and $3 577 000 for the non-current part of the lease incentive liability. This represents that part of the liability or borrowing that will still be outstanding at 30 June 2009 (that is, will not be extinguished in the next 12 months).

Net assets. The figure for the CMC's net assets of $14 639 000 ($4 932 000 last year) is the difference between total assets and total liabilities. The difference between years is due to an equity injection to assist with our leasehold fitout expenses and an increased cash holding at 30 June to pay creditors.

The CMC's assets value exceeds its liabilities. Further, a good test of an organisation's financial health is its liquidity ratio (also known as the current ratio, because it compares current assets to current liabilities), for which the CMC has a ratio of 2.68 to 1 (2.31 last year).

Equity. Equity balances are made up of initial start-up balances, prior year's surpluses (or deficits) and reserves. Equipment reserves occur when, in any year, the amount of depreciation is greater than the new capital, plant and equipment purchases.

The capital/equity contributions of $13 943 000 relate to the closing equity balances of the Criminal Justice Commission and the Queensland Crime Commission as at 31 December 2001 together with an equity injection of $9 707 000 for our leasehold fitout. The closing balances of those organisations became the opening balances of the CMC.

The accumulated surplus of $696 000 is derived from the prior year's operating results.

Statement of cash flows

This statement represents the CMC's actual movements of cash during the 12-month period to 30 June 2008.

Note: The cash at the end of the reporting period, as shown in the cash flow statement, must always be equal to the cash at bank in the Balance Sheet.

Notes to and forming part of the financial statements

The notes explain in more detail particular line item amounts from the financial statements. They also disclose other matters such as events after balance date (30 June) and accounting policies. The notes should be read together with the other parts of the financial statements.