



Government
of South Australia

HomeStart

FINANCE

Annual Report 2006 - 2007



OUR MISSION IS TO BE:
**THE LEADING
PROVIDER**
OF AFFORDABLE HOME FINANCE AND HOUSING
SOLUTIONS FOR SOUTH AUSTRALIANS



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Auditor-General of South Australia

Financial statements

The financial statements in this annual report have been extracted from the full accounts which have been submitted to the Auditor-General.

Acknowledgements

HomeStart would like to thank all the customers who are featured in our Annual Report - they put smiles on our faces!

**For information
on the annual report:**

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*Cover photo: HomeStart customers
Leigh and Theresa Ridder with their daughter*



Letter of Transmittal

3 October 2007

The Hon. Jay Weatherill MP
Minister for Housing
Parliament House
North Terrace
Adelaide SA 5000

Dear Minister

On behalf of the Board and Management of HomeStart Finance, I am pleased to present the HomeStart Finance Annual Report for the year ended 30 June 2007.

The report summarises the activities and successes that HomeStart Finance has had over the past 12 months. On behalf of all staff at HomeStart, I commend the report for presentation to Parliament.

The Annual Report complies with the requirements of the *Housing Urban Development (Administrative Arrangements) Act 1995 (SA)*, the *Public Finance and Audit Act 1987 (SA)*, the *Public Sector Management Act 1995 (SA)* and the Department of Premier and Cabinet Annual Reporting Requirements.

Yours sincerely

Gary Storkey
Chief Executive Officer
HomeStart Finance

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HomeStart customer Carla Tongun



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ABOUT US

HomeStart customer Rajkumar Kishna





Our mission

To be the leading provider of affordable home finance and housing solutions for South Australians.

Our vision

HomeStart's vision is a future where all South Australians have the opportunity to access affordable, sustainable housing and where HomeStart leads the market in delivering innovative and affordable home finance and housing solutions.

Our values

Empathy in delivery

Leaders in our field

Ethical in action

Commercial in thinking

Team player at heart



YEAR IN REVIEW



'In the past 12 months, we have seen the frustration on a day-to-day basis of potential home buyers priced out of the market. We see customers who have the desire to own their own home, but their borrowing power limits their choices. The need to address this affordability gap is what drives our product development'.

Gary Storkey CEO, HomeStart Finance



YEAR IN REVIEW



2006-07 has again been a noteworthy year for HomeStart. Over the past 12 months we have achieved solid financial and socially responsible results, as well as making further advancements towards achieving our mission of providing affordable housing solutions for South Australians.

Driven by the directions that have been established in South Australia's Strategic Plan, as well as our own strategic plan, HomeStart has focused on pursuing opportunities for innovative housing solutions through continuing product development, community support, sound financial management and a dedicated workforce of professionals.

At the core of these plans and a key element to our future activities is our commitment to ensuring that, in a tightening housing market, our customers can access the financial, social and personal benefits that innovative housing solutions offer.

Affordable housing solutions

HomeStart assisted many customers in the past year, positive evidence that our approach to home finance is successful in making a tangible difference, particularly for low to moderate income earners who face growing difficulties in entering the housing market.

Our overall lending for the year was \$278.8 million and we assisted 1938 new customers with their lending needs, demonstrating our ongoing commitment to creating affordable housing solutions for South Australians.

Our customer base originates from a wide range of demographics, with 51% of new loans settled this year for low income customers, and 46% relying on Centrelink benefits as their main income source.

We are pleased to report that last year we reached the 300th settlement of our Nunga Loan, which is further verification of the success of this product which was specifically developed to assist Indigenous South Australians with the transition into a home of their own.

In January 2007, HomeStart launched an innovative new product, the Breakthrough Loan. The Breakthrough Loan boosts the borrowing capacity of customers by up to 35% without the added burden of increased repayments through a 'shared appreciation' arrangement. It has been developed over the past two years as a result of intensive research and discussions with focus groups. This new product is a further demonstration our ongoing commitment to addressing the issue of housing affordability.

A unique collaboration between HomeStart and Fairmont Homes Group has led to the development of a new affordable housing project at Salisbury East. The pilot project included the development of ten new properties to help increase the supply of affordable houses in South Australia. With the assistance of Salisbury Council, it was possible to keep costs down but not sacrifice quality. Prices ranged from \$207 700 to \$217 207, well below the median house price in Adelaide. HomeStart is now looking to the future to expand on this project and create even more affordable housing prospects.



Last year, we also undertook a review of our distribution network; as a result, HomeStart decided to reassign resources from the Murray Bridge region and increase our presence in other regional areas in South Australia. The expansion of the mortgage broker channel has continued and is expected to grow even further over the coming years. HomeStart recognises the appeal of shopping for home loans this way and we will continue to improve our delivery via this channel.

We launched a new eMarketing strategy in order to better utilise web technology to enhance our relationship with customers, increase our sales at minimal cost and create a culture of ongoing improvement for the website. The successful redesign of the website has resulted in creating a more user-friendly site with even more relevant information now available regarding HomeStart products, the home loan procedure, and other information relevant to customers.

Community connection

This year saw the continued growth of the EquityStart initiative, a key component of the Housing Plan for South Australia. Our EquityStart seminars have been very successful, with some seminars attracting more than 400 people. Since its inception, this initiative has assisted over 600 public housing tenants in shifting into home ownership with the support of HomeStart, Housing SA and the state government.

Our association with the community continued to flourish in several areas important to HomeStart's social charter, including the environment, community housing, assisting people with disabilities and Aboriginal reconciliation.

HomeStart's newest department, Community Lending, was created to provide lending products for community housing associations. The Community Lending team aims to increase the number of affordable rental housing made available to tenants through community housing associations. This is accomplished by working closely with the community housing sector, developers, government agencies and local councils to increase the supply of rental properties.

HomeStart remains committed to supporting local communities through a targeted sponsorship program. In 2006-07, we continued to sponsor a wide range of events and organisations across the state including the City of Salisbury's family community event 'Living Loud', the Hutt St Centre for the homeless' Portavin Touchwine and Angel for a Day Program, The Young Achiever Awards, Black Nite and UniSA's Network Now Program.

We also continued to provide free information sessions about home buying through the HomeStart Women's Unit, EquityStart seminars for public housing tenants, free housing seminars for skilled migrants at OneSteel in Whyalla and the Migrant Centre in Adelaide, and continued with the development of our soon to be launched Money Management Education Program.



Effective and sustainable business practices

It was another excellent financial year for HomeStart, as yet again our blend of social and commercial objectives were met through sustainable financial and sound risk management practices.

In summary:

- an operating profit of \$11.9 million (before tax)
- contributions to government of \$15.9 million
- a capital base of \$150 million
- bad debts remained low
- RTV investments returned 13.9% against the performance benchmark of 6.5%

Our success can be directly attributed to our buoyant organisational culture and outstanding group of staff, whose high level of satisfaction with their jobs was again evident in the positive results we received from our recent internal staff survey.

HomeStart has also benefited from our knowledgeable and experienced Board of Management, who provided positive guidance on issues such as corporate accountability, strategic planning, monitoring and policy development.

Towards the future

With confidence in the results we have achieved during 2006-07, HomeStart is well-placed to continue providing a unique and vital service to South Australians, particularly those on low to moderate incomes.

Led by the strategic vision of our Minister, the Hon. Jay Weatherill MP, we will continue to work diligently toward addressing the issues that hinder access to suitable housing solutions by building upon the solid foundation of our current suite of innovative loan products, further developing our community finance capacity and undertaking new affordable housing initiatives.

We will utilise our strong financial position, enviable skills set and customer-centric focus in order to meet the challenges of the housing market. As the affordability gap gets wider, we will endeavour to develop more innovative product solutions to ensure that South Australia remains a leader in the provision of affordable home ownership opportunities for its citizens.

Financial indicators		Balance sheet strength	
Return on equity	8.07%	Capital	\$150 million
Operating profit before tax	\$11.9 million	Net loan losses	\$0.02 million
Cost of subsidy provided	\$2.5 million	Loan assets	\$1.22 billion
Payments to government	\$15.9 million	Capital adequacy ratio	17.06%



AFFORDABLE HOUSING CHOICES

IP.H.C.S

HomeStart customer Eileen Bloomfield and her family



AFFORDABLE HOUSING CHOICES



HomeStart customer Eileen Bloomfield with her granddaughter



Our role

HomeStart's core purpose is to help more South Australians enjoy the security and range of benefits that home ownership provides. At our core, we believe that owning a home delivers real value: value for the individual, the community, and the state. HomeStart's mission is to be the leading provider of affordable home finance and housing solutions for South Australians.

Suitable and affordable housing is an essential component of a fully functioning community. Appropriate housing options remain a key element for personal wellbeing and security, promoting a sense of connection that is valuable for people across all age and gender demographics.

Home ownership is an important life achievement for most Australians, requiring financial discipline and commitment to repaying a substantial loan over time. However, whilst it remains a highly desirable goal, breaking into the housing market and living a comfortable life once this journey has commenced is becoming increasingly difficult for some sectors of our community.

The biggest barrier to home ownership is affordability, with a lack of suitable housing supply posing significant problems for new market entrants. While property prices in South Australia are, on average, lower than in the eastern states, the median house price in Adelaide continues to increase. Over the past decade, the median house price has risen from \$112 400 (March quarter 1997) to \$302 000 (March quarter 2007). For low to moderate income earners, affordability issues are having a significant impact on their ability to purchase a home that is suited to their needs in the location of their choosing.

Unfortunately, renting no longer provides either a satisfactory, or affordable, option. While the latest figures from the Real Estate Institute of Australia (REIA) show the rental market has eased slightly in recent months, the vacancy rate is still at an historically low level, which is maintaining pressure on both rental prices and the availability of affordable accommodation.

This means that while South Australia is enjoying a period of economic strength and optimism, housing continues to be a vital issue, particularly for those on low to moderate incomes - people for whom the challenges in accessing sustainable and affordable long-term housing options can seem overwhelming and, in some cases, impossible.

HomeStart plays a major role in providing innovative product solutions specifically designed to address key barriers facing low to moderate income earners. A combination of leadership and innovation enables us to meet the needs of both our target customers and our stakeholders.

HomeStart is committed to providing education to the community through our money management website as well as regular educational seminars that are held with the aim of increasing people's chances of being able to purchase a home in the future.



Within the framework of strong housing policy and the Housing Plan for South Australia, HomeStart will continue to deliver a careful balance of financial return and socially responsible solutions. Across all of our activities, our operations will continue to be underpinned by good governance principles and processes, as well as a dedicated and committed workforce.

About HomeStart

HomeStart was established in 1989 in an effort to overcome two substantial barriers to home ownership at that time: high interest rates and a lack of affordable home loans for the less wealthy households in our state.

As a statutory corporation established under the *Housing and Urban Development (Administrative Arrangements) Act 1995*, we are empowered to:

- facilitate home ownership in South Australia by lending and providing other forms of financial assistance, including concessional loan terms, for low to moderate income earners
- provide, market, and manage home finance products and facilitate alternative schemes to encourage home ownership, including mortgage relief schemes, as well as facilitating finance for the development of aged care facilities and rental accommodation in regional areas.



'HomeStart Finance is a key institution in driving the South Australian Government's affordable housing agenda. This past year has been one of innovation in product development and exciting new partnerships directed towards increasing the range of affordable housing opportunities for South Australians.'

Minister for Housing, the Hon. Jay Weatherill MP

HomeStart reports to the Minister for Housing, the Hon. Jay Weatherill MP, and works closely with the Department for Families and Communities to coordinate and deliver affordable housing services to the community.

HomeStart liaises regularly with Housing SA (located within the Department for Families and Communities) to coordinate housing activities and responses, including through our Chief Executive Officer's participation in the Housing Leadership Group and through our close involvement with other consultative, service delivery and housing policy development groups.



As in previous years, it is our innovative range of products and services that have enabled us to assist people for whom traditional lending structures may not work. By providing this type of assistance, we are also making a significant contribution to achieving the objectives outlined in South Australia's Strategic Plan, which serves to move South Australia towards a more prosperous future for all.

HomeStart contributes to South Australia's Strategic Plan primarily through the provision of affordable home finance to eligible customers in South Australia. Our lending program contributes to achieving Target 6.7 (Affordable Housing), Target 6.8 (Housing Stress) and Target 6.9 (Aboriginal Housing). HomeStart's activities also contribute indirectly to achieving other targets identified in South Australia's Strategic Plan, including, for example, environmental targets and public sector employment targets for Aboriginal workers.

Led by our primary product, the HomeStart Home Loan, we have continued to address barriers to home ownership such as affordability, saving capacity, loan serviceability and credit commitments, by providing opportunities for more people to achieve their dreams of home ownership.

Through variations to this flagship loan, we have encouraged young professionals to stay in the state, developed initiatives to attract skilled migrants, provide more than 300 home loans to Indigenous South Australians and helped more than 600 social housing tenants to become home owners thanks to our EquityStart initiative.

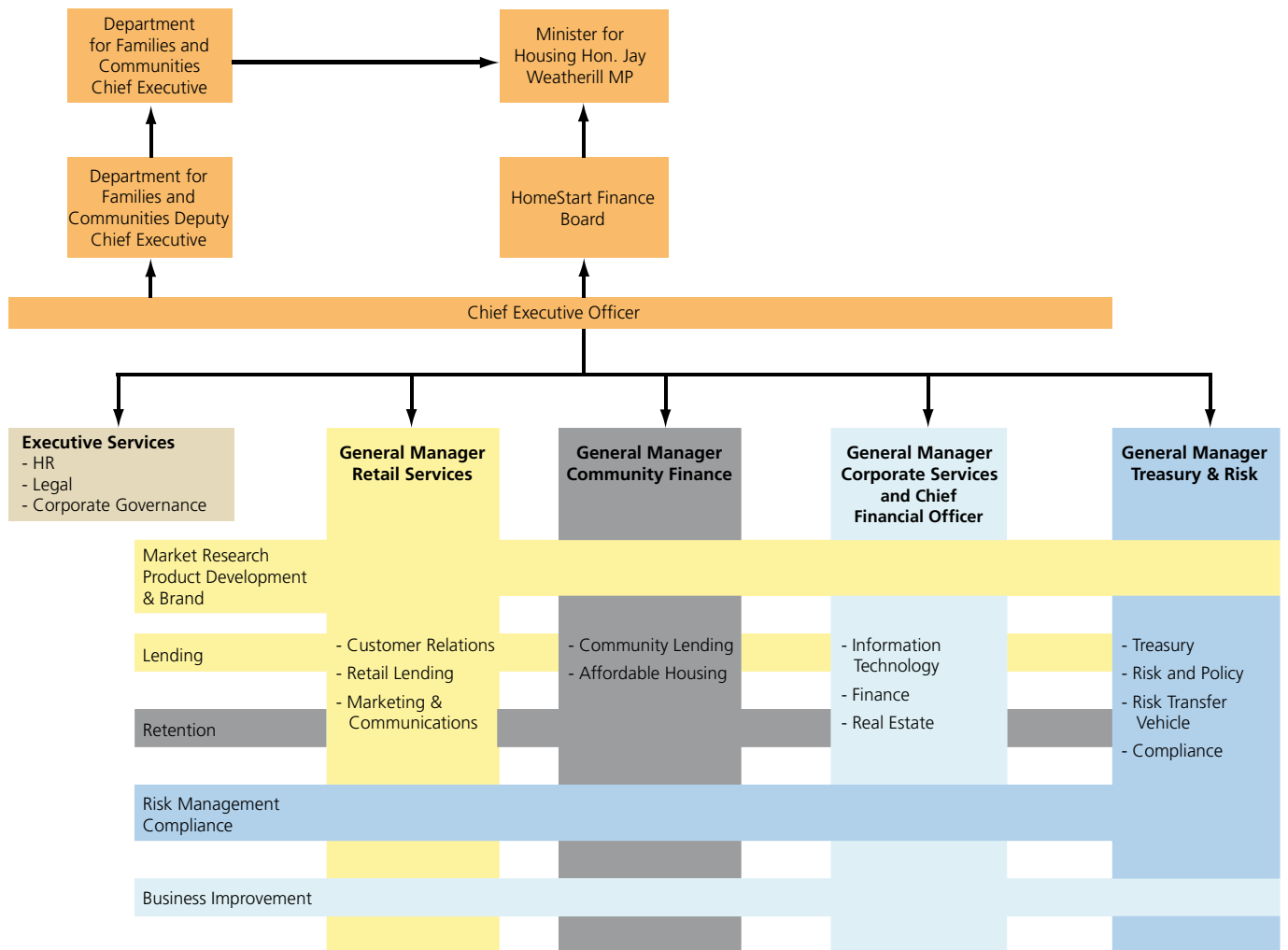
Over the past year we have responded to new challenges in the ever-tightening property market with the introduction of our new Breakthrough Loan, which allows eligible customers to borrow up to 35% more to assist with the purchase of a home without increasing monthly repayments.

We have also made a strong commitment to supporting the community through targeted sponsorship programs, providing financial and in-kind support to a wide range of individual, group, and industry causes. This dedication to contributing to our state's vibrant culture is indicative of the careful balance we strike between commercial drive, financial imperatives and social responsibility.

As we look towards the future, we will continue to evolve and expand to overcome the obstacles of affordability that continue to present themselves. We believe that HomeStart is well positioned within the marketplace to continue to address the issues surrounding home ownership in South Australia, thus ensuring more people in our state can enjoy the full benefits of the journey into home ownership.



HomeStart Organisational Chart





**AFFORDABLE
HOUSING
CHOICES**

HomeStart customers Leigh and Theresa Ridder with their daughter

Delivering housing solutions

HomeStart's purpose is to deliver affordable housing finance solutions for South Australians. We are dedicated to providing lending solutions that assist low to moderate income earners, for whom the challenge of affordability and limitations associated with traditional lending represent significant barriers to home ownership.

This year we have continued to help our customers with their home ownership needs. While we're proud to have helped many South Australians, the issues surrounding affordability and supply are continuing to escalate. Current environmental factors, combined with changing customer needs, require focus and dedication to ensure our products remain relevant.

In 2006-07 affordability continued to decline. Rising house and land prices are resulting in an increasing gap between the median house price and the average affordable home loan size. For March quarter 2007, the median South Australian house price was \$302 000, and the average loan size was \$175 000 for the purchase of an established home. In March 1984, the South Australian average loan size was 1.91 times the value of average full time adult ordinary time earnings, which has now increased to 3.37 times (as at March 2007).

If this growth continues, housing affordability will decline further, particularly for low to moderate income households. Add to this a lack of affordable housing supply, and it becomes apparent that our customers will face significant challenges in finding a suitable home within their price range.

The affordability issue can be compounded once people on lower incomes enter home ownership, as they face large mortgage repayments; for many, housing stress may be faced at some point during the journey into home ownership. The most vulnerable in our community, including the elderly, Indigenous people and single parents, will feel the effects of these factors more intensely as the affordability issue worsens.

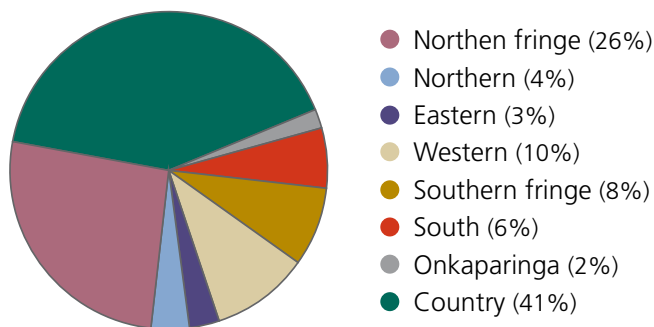


Customer profile

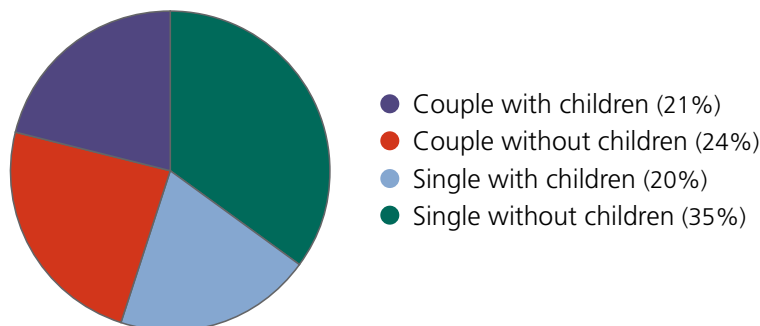
HomeStart provides housing solutions for all South Australians, particularly low to moderate income earners. Our customer demographics reveal our customers come from a wide range of backgrounds, personal and financial situations. Of loans settled during the year:

- 78% of our customers had incomes less than the average weekly ordinary time earnings (which was \$999.50 or \$51 974 per year) as at 30 June 2007
- 33% of our customers in the metropolitan area had an annual income less than \$35 350
18% of our customers in country areas had an annual income less than \$26 065
- 46% of our customers had Centrelink benefits as their main source of income
- 48% of our customers were women
- 19% of our customers utilised our subsidised Advantage Loan
- 41% of our customers were first homebuyers.

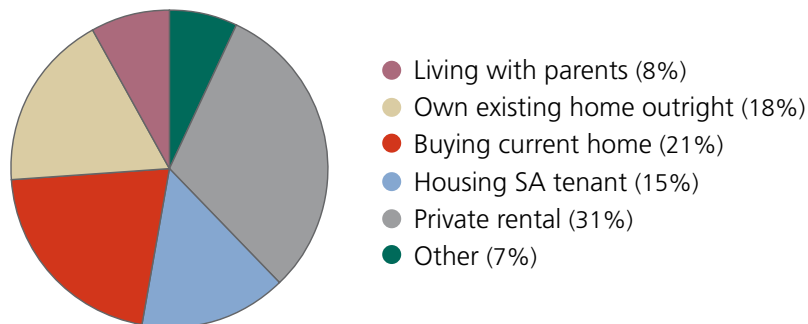
Geographic distribution of new lending



Marital status of main applicant



Previous accommodation of main applicant





Home loan initiatives

Breakthrough Loan launch

For aspiring home buyers who have watched house prices spiral and thought they may never escape the rental market, HomeStart has delivered a much needed breakthrough.

Our new Breakthrough Loan was developed to boost our customers' borrowing power without the added burdens associated with increased repayments. This innovative loan facility provides our customers with the opportunity to borrow up to 35% more with no additional monthly repayments.

This is made possible through a shared appreciation arrangement with HomeStart. When the property is sold, HomeStart will share a portion of the capital gain on the home with customers who will be able to enjoy years, even a lifetime, of home ownership security and independence.

We launched our Breakthrough Loan at our Flinders Street office on 30 January 2007. The event provided us with the opportunity to showcase this innovative product and highlight the steps we are taking to combat affordability challenges. Minister Jay Weatherill launched the new loan amid significant interest from Adelaide's media, with almost all media outlets being represented on the day.

The success of the launch was evident from the high volume of enquiries we received immediately following the launch, with our Customer Relations Group receiving a significant number of calls from people interested in the loan. Interest in our Breakthrough Loan continues to grow.

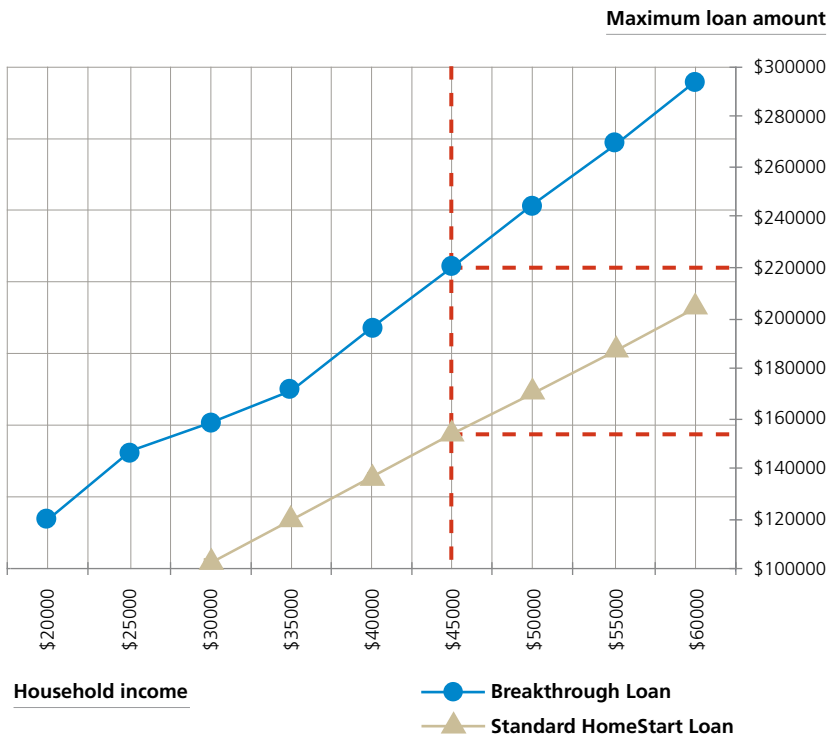
Standard Home Loan borrowing capacity -v- HomeStart Breakthrough Loan borrowing capacity

The following chart compares the number of houses and suburbs that become available for purchase based on increasing borrowing capacity through HomeStart's Breakthrough Loan when compared to a standard HomeStart Loan.

This comparison is based on Median Metropolitan Adelaide property sales data for the quarter ending March 2007, sourced through the Real Estate Institute of South Australia, and assumes a 100% loan amount.



Borrowing Capacity Comparison
(Breakthrough Loan -v- Standard HomeStart Loan)



Metro #	Suburb %	Availability %
Suburbs	Suburbs	Sales
144	38.8%	50.3%
114	30.7%	42.3%
89	21.6%	34.0%
62	16.7%	24.6%
38	10.2%	15.0%
22	5.9%	6.6%
12	3.2%	3.7%
7	1.9%	2.7%
0	0.0%	0%
1	0.0%	0%
0	0.0%	0%

371 suburbs/4572 house sales

Family Assist

A new version of our Family Assist facility was launched in June 2007. The new limited guarantee product is aimed at customers who can borrow enough to service a loan but do not have the required savings for fees, charges and a deposit.

Family Assist enables the borrower to take a regular HomeStart Loan and borrow the full purchase price of the home, plus fees and charges.

HomeStart is able to do this by securing a portion of the loan against the borrower’s new property (typically up to 95% of the value of the property or purchase price, whichever is the lesser) and a portion against the property of an immediate family member, called the ‘guarantor’. The guarantor doesn’t pay any HomeStart fees or make any loan repayments.

When the total loan reduces to 95% of the value of the property, HomeStart can then release the guarantor from any obligations they have regarding the loan.

This differs from guarantees at most other lending institutions, as the guarantor is usually required to guarantee the amount from 80% of the property value and up. This means that HomeStart’s guarantee is likely to be for a much smaller amount and in place for a shorter period of time.

Family Assist is also available in conjunction with our Breakthrough Loan and our Advantage Loan.



EquityStart Loan

HomeStart is pleased to have reached the significant target of helping more than 600 public housing tenants to break the rent cycle and buy their own home with our EquityStart Loan.

This unique loan, a joint initiative between HomeStart and the South Australian Government, was the first of its kind to offer public housing tenants the opportunity to enter the home ownership market.

HomeStart's EquityStart Loan enables eligible customers to purchase a house without undue financial strain, supporting our mission of providing affordable housing. Further good news to report is that the EquityStart Loan will continue to be made available to public housing tenants in the coming year.

Nunga Loan

Statistics from the 2006 Census show that Australia's Indigenous population has grown significantly, with many more Indigenous people owning their own homes.

In South Australia, 36% of Indigenous people have now achieved home ownership, which represents a 6% increase since 1996. This trend is evident at HomeStart, with over 300 Nunga Loans having been written since the loan was launched in 2004.

We remain committed to pursuing new and effective ways of assisting Indigenous households in South Australia into home ownership.

Seniors Equity Loan / Equity Loan

Following a product review, changes and improvements have been made to both our Seniors Equity Loan and Equity Loan.

The Seniors Equity Loan is a reverse equity product for customers aged 60 and over, and now enables our customers the opportunity to protect up to 20% of the value of their home through an extended no negative equity guarantee.

Special offer

HomeStart continued to make our customers smile by partnering with local businesses to run a special offer program. Eligible customers who received loan approvals during the promotional period for a standard loan facility received a \$300 IGA Foodland/IGA voucher on settlement of their loan.

Sales incentives were also offered to loan managers and internal lending teams.

Discount voucher extension

From early February 2007, the HomeStart Loan Establishment Fee voucher was extended from 6 to 12 months validity from the date of issue. The revised voucher has been extended to all customers associated with the loan.

Customers discharging their loan who have a good repayment history receive a voucher for a discount of \$350 off their next HomeStart Loan Establishment Fee. The voucher was extended to give customers further incentive to remain with HomeStart.



Community Finance initiatives

As house prices continue to rise, HomeStart will continue to innovate to ensure we are delivering affordable, effective home finance solutions for our customers. Our product range continues to evolve as we strive to meet the needs of people on lower incomes. We make sure our home loan solutions are affordable so our customers are not placed under unrealistic financial pressures.

This year saw HomeStart develop new products to reach the needs of a broad cross-section of the community. We also upgraded existing loans and reached significant milestones with several of our loan products.

Salisbury East Affordable Housing Project

A unique collaboration between HomeStart Finance and the Fairmont Homes Group led to the development of a new affordable housing project at Salisbury East.

The pilot project included the development of ten new properties to help increase the supply of affordable houses in South Australia.

By joining forces with Fairmont Homes Group, and with the assistance of Salisbury Council, it was possible to keep costs down without compromising on quality. Prices ranged from \$207 700 to \$217 207, well below the median house price in Adelaide.

A notable aspect of the project was the strong working relationship that was cemented between Fairmont and HomeStart. With both organisations sharing strong community values and dedicated to providing the public with the opportunity to improve their quality of life, the collaboration was a perfect way to provide a pathway for more South Australians to achieve independence, confidence and security through home ownership.

HomeStart is now looking to the future to expand on this project and create even more affordable housing prospects for our target customers.

CommunityStart Loan

HomeStart's CommunityStart Loan provides community housing associations with the opportunity to offer more affordable rental accommodation solutions.

The CommunityStart Loan is comprised of two parts – a CommunityStart Loan that incorporates 90% of the total borrowings, and an Advantage Loan at 10% of the total borrowings.

The benefit of the Advantage Loan portion is a subsidised interest rate, and if the balance of this part of the loan is repaid within the first five years from settlement, all interest charges are waived.

Another benefit of our CommunityStart Loan is that the repayment amount only changes once a year in line with inflation, so not-for-profit organisations are protected against sudden interest rate rises.



Other activities

Our distribution network

A broad distribution network is available directly via HomeStart offices and more widely through our four loan manager partners – BankSA, Bernie Lewis Home Loans, The Home Loan Centre and Homeloans Plus. These four loan managers also service a wide range of additional agents.

In 2006-07, HomeStart undertook a review of our distribution network. It is imperative that HomeStart is accessible to as many South Australians as possible who require finance for affordable housing loans.

As a result of the review, we reassigned resources from the Murray Bridge region and increased our presence in other regional areas in South Australia.

The expansion of our distribution network has continued and is expected to grow even further over the coming years. HomeStart recognises the appeal of shopping for home loans this way and we will continue to improve our delivery via this channel.

eMarketing strategy

The objective of HomeStart's eMarketing strategy is to better utilise web technology to enhance our relationship with our customers, increase our sales and create a culture of ongoing improvement for the website.

The successful redesign of the website resulted in creating a more user-friendly site, with more relevant information regarding HomeStart products, the home loan procedure and other information relevant to existing and potential customers.

Extensive consultation with staff, customers and an external organisation, Fusion, was carried out prior to the implementation of any changes. This was done to ensure that modifications were appropriate and took into consideration the needs of our customers.

The new website changes include:

- The addition of a 'First Time User Tool' which allows new users to gain easy and immediate access to the pages that interest them
- Increasing the visibility and prominence of HomeStart's benefits
- Changing the tone of the content to make it more appealing to our customers
- Implementing cross referencing to allow users quick access to the pages that most interest them
- Incorporating keywords in the page name of the URLs to increase traffic
- Implementation of a new content management system.

The eMarketing project will continue to evolve. Future plans include webinars, online loan applications, communication with our customers via SMS, as well as surveys and polls.

COMMUNITY CONNECTION



HomeStart is a deafness friendly organisation (HomeStart reception)





COMMUNITY CONNECTION



Working with industry and government

One of the key elements for a stable community is access to affordable and appropriate housing. HomeStart's mission to assist communities reaching such goals is evident in not only our dedication to providing affordable housing solutions, but also by taking a genuine interest in the local community and offering our steadfast support.

Our association with the community continued to flourish in several areas important to HomeStart's social charter, including the environment, community housing, assisting people with disabilities and aboriginal reconciliation.

Our sponsorship program continued to be successful in 2006-07 as we assisted not-for-profit organisations, sporting groups, educational programs, schools and industry associations.

Community Finance working with community housing and delivering affordable housing supply

HomeStart's Community Finance is a new and vibrant team with two distinct business units; Community Lending and Affordable Housing.

The Community Lending team was established to provide lending products for community housing associations to assist in increasing the number of affordable rental properties for their tenants.

HomeStart's Affordable Housing team was established to increase the supply of affordable properties for purchase. The Affordable Housing team and Fairmont Homes Group have forged a unique collaboration which delivered ten affordable properties in Salisbury East. The team have other affordable housing projects in the pipeline.

The Community Finance team work closely with the community housing sector, developers, government agencies and local councils to increase the supply of affordable rental properties and affordable properties available for our customers to purchase.



Department for Families and Communities (DFC) Australia Day Award for Innovation

The Indigenous Mentors Program, which was established by HomeStart, was recognised with a DFC Australia Day Award for Innovation.

The program provides DFC executives with access to an Indigenous mentor to build their understanding of indigenous circumstances, culture and aspirations. Ultimately, the program was created to improve the South Australian Government's policy responses and outcomes for Indigenous families and communities.

Unlike more traditional mentoring program models, participating executives were required to take on the role of the mentee, there to listen to, and learn from, their Indigenous mentor. The ethos behind the program was to emphasise the connection between participants.

The first round of the program had a significant influence on a number of the executive participants who forged strong new personal relationships with their Indigenous mentors.

The award was presented to Frances Rigney (program coordinator) and Peter Green (program manager) by the Minister for Housing at a ceremony held on Australia Day. The award acknowledges the importance of cultural connection and recognises an innovative approach to achieving better outcomes for Indigenous people and communities in South Australia.

Aboriginal reconciliation

HomeStart is an active supporter of the state government's reconciliation agenda and contributes to various initiatives to promote reconciliation within the Families and Communities portfolio, including initiatives to promote increased Indigenous employment.

We have led the portfolio to implement a new reconciliation scheme to connect senior DFC executives with an Indigenous mentor. We have also contributed to, and promoted, various initiatives to encourage the adoption and use of appropriate cultural protocols for agencies in their dealings with Indigenous people and communities.

HomeStart has implemented new programs and initiatives to assist us to achieve Aboriginal and Torres Strait Islander employment targets established in South Australia's Strategic Plan.



COMMUNITY CONNECTION



Staff blood donation to 'Club Red' which is a corporate blood donation program

Community involvement

Going green

Realising the need to improve our environmental practices, HomeStart created a 'Green Team' to oversee procedures and implement the Environmental Management System, an ongoing project dedicated to improving our environmental processes.

Through this evolving project, a system of processes and procedures will be created that meet our environmental goals and ensure that HomeStart is committed to sustainable environmental practices.

To help with the process, HomeStart has now implemented an environmental policy which encourages the organisation to:

- identify, implement and promote best practice environmental management systems and operations
- provide ongoing environmental education and training
- ensure that HomeStart is an environmentally sound workplace with environmentally sound work practices.

Seminars

To address the ongoing issue of affordable housing, HomeStart held regular seminars throughout the year to help more South Australians to realise their dreams of home ownership.

This year, HomeStart held information seminars in metropolitan and regional locations on the following topics: the home buying process; the home loan process; home loan terminology; legal rights and responsibilities; as well as how conveyancers and real estate agents can help.

During these seminars, potential customers also learned about:

- EquityStart Loan
- Graduate Loan
- Women's choices
- Nunga Loan
- Migrant's choices
- Breakthrough Loan
- Seniors Equity Loan (which was a new edition)

The response to HomeStart's free seminars was overwhelming; as a result, next year will include a seminar specifically designed for first home buyers.



Deafness friendly

Hearing loss is one of the most common disabilities, with one in six Australians affected.

HomeStart makes every effort to ensure that the needs of all customers are met. To assist those with hearing loss, HomeStart became a deafness-friendly location in 2006-07.

As a participant of DeafSA's 'Hi' deafness-friendly program, HomeStart has incorporated specialised hearing systems into our working environment. This equipment ensures that deaf and hearing impaired customers, clients, and staff have full access to HomeStart's products and services.

DeafSA's 'Hi' program provides a range of innovative products and solutions to assist hearing impaired customers and staff. Through this program, HomeStart will also have access to resources such as workshops, fact sheets, and checklists that help to develop effective strategies that ensure hearing impaired people have full access to products and services.

Customers that suffer from hearing loss may:

- have trouble hearing conversations at reception or in loan interviews
- misunderstand contractual instructions, entitlements or obligations because they didn't hear conversations properly.

It is important to acknowledge that both current and future HomeStart customers may suffer from this disability and that it is vital that the needs of such customers are met.

Donating blood

In October 2006, a corporate group was set up to encourage staff to donate blood to the Australian Red Cross. There are currently fourteen staff members participating in this program; feedback indicates that having such a great support network and a bus pickup service encourages ongoing donations from HomeStart staff.

StartDreams.com.au

For some, the dream of buying a home may seem an overwhelming goal to achieve and also a huge responsibility. To lessen any uncertainty or confusion, HomeStart joined forces with Kojo Interactive (a digital interactive and multimedia company) and the South Australian Film Corporation to create an interactive money management website called StartDreams.com.au

The website was created to educate people who may not have the necessary financial skills to assist them into home ownership. It is an interactive tool whereby customers can work towards defining and achieving their goals, whether it is to purchase a house, pay off debts, or save for a holiday. By learning the relevant money management skills and applying these to the budgeting tools provided, our hope is that customers will work towards their goals with greater clarity.

A key benefit of StartDreams.com.au is that customers can continue to monitor their progress as their dreams become a reality.

This project has been partly funded by the SA Film Corporation's Educational Content Fund (ECF), whereby funds are put towards the production of educational products which benefit South Australia. The fund also supports the associated professional development opportunities of South Australian talent; in this context, the web developer Kojo Interactive had several emerging practitioners working on the website.



Sponsorships

In 2006-07, HomeStart continued to provide support to the local community through a variety of sponsorship activities.

Living Loud

HomeStart continued as a major sponsor of the City of Salisbury's community event, Living Loud, which took place on 1 April 2007. This free family event provided residents with the chance to celebrate all that is great about Salisbury and featured amusement rides, exhibitions, demonstrations, live entertainment, food stalls and much more.

Hutt Street Centre

In 2006-07 HomeStart lent a helping hand to the Hutt Street Centre, an organisation that provides vital support services to homeless and underprivileged people in South Australia.

HomeStart supported Portavin TouchWine, a round robin touch football fundraising tournament that gives Hutt Street Centre regulars the chance to get personally involved on the day and enjoy the satisfaction of being able to contribute something back to the centre.

This year's support of Portavin involved the sponsorship of a family fun area called KidsTown where children had the chance to create houses for a miniature village. HomeStart entered a touch football team, Los Diablos, and notched up three wins with the help of celebrity team members Minister Jay Weatherill MP, Paul Vandenberg and Che Cockatoo-Collins. Due to a knee injury, Gavin Wanganeen was unable to play, but was an enthusiastic supporter of the event.

The day was a huge success and a total of \$96 000 was raised.

HomeStart also supported Hutt Street Centre's Angel for a Day program, which provided meals for the homeless. Realising the importance of such a service, HomeStart has pledged a donation for the next two years.

Young Achiever Awards

HomeStart was proud to be a sponsor of the SA Young Achiever Awards in 2006-07. The purpose of these awards is to recognise and reward the exceptional achievements of South Australia's youth aged between 14 and 26 years.

Winners of each category received a trophy and cheque for \$1000 from HomeStart. The ultimate winner, the Young Achiever of the Year, received an additional \$1000 from HomeStart.

Blak Nite

HomeStart appreciates how important it is to nurture our youth and in 2006-07 gave support to Blak Nite as a Festival Sponsor. Blak Nite was the closing event of ComeOut, and provided a platform for young Indigenous South Australians to show off their considerable skills, cultural values and creative thinking. This event brought together a fusion of contemporary and traditional dance, hip hop, comedy and visual arts.

Magdalene Centre

As HomeStart's charter is to assist people into affordable housing, it was fitting to support an organisation like the Magdalene Centre this year, which assists the poor and homeless.

At Christmas time, HomeStart staff donated presents to be distributed to those in need, with several staff members volunteering to assist in distribution of the presents.

A 'Working Wardrobe' bin has been placed at HomeStart premises so that staff can continue to donate to the Magdalene Centre. Staff can donate pre-loved or new clothing, accessories, handbags and jewellery to those in less fortunate situations.



Other organisations that HomeStart supported throughout the year included:

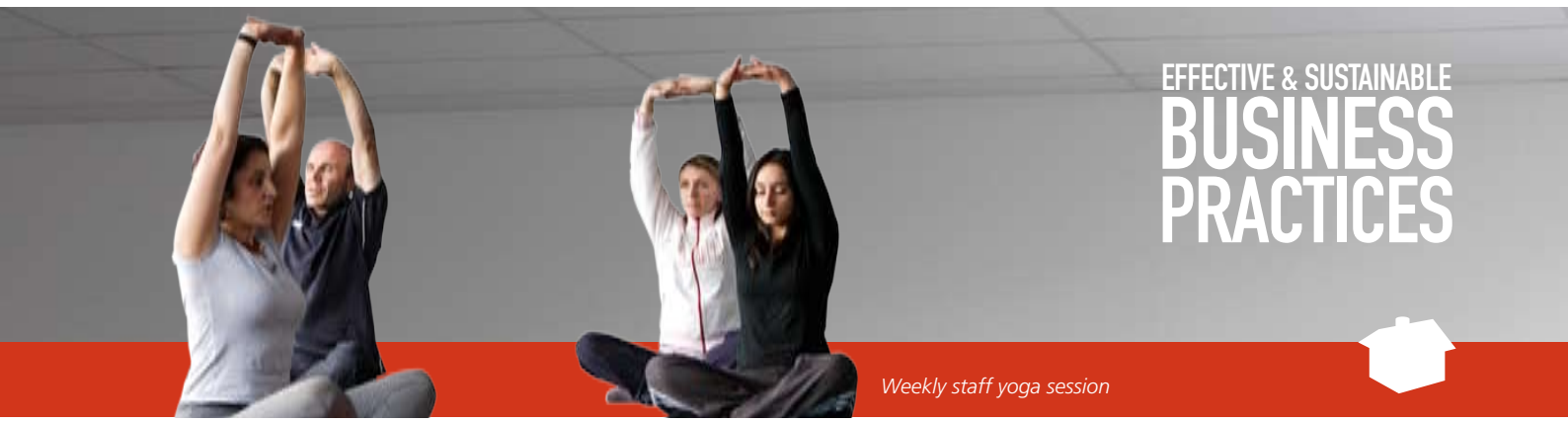
- Time for Kids Inc
- UniSA Network Now
- HomeStart 'kick start' Nova 91.9 promotion
- Fremont-Elizabeth High School Special Music Centre
- Kurna Eagles Football Club
- Council on the Ageing.

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Salisbury East Affordable Housing Project





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Weekly staff yoga session



Our people

At HomeStart, we believe that our 'point of difference' from other financial organisations is our people – our staff continually seek to promote our aim of helping people fulfil their home ownership dreams. We could never hope to achieve our success without the expertise of our professional team who continuously strive to provide the best possible solutions for our customers. All our staff work towards ensuring a very high standard of seamless service, whether behind the scenes or through face-to-face contact.

Everyone at HomeStart, regardless of their role, works industriously towards helping our customers fulfil their dreams.

Organisational culture

With a culture of learning and innovation, HomeStart takes the approach that staff do their best work when they are truly valued, empowered, and supported to achieve their personal and career goals. Our people enjoy the benefits of a stimulating and supportive workplace, where a diversity of opinions and outlooks is encouraged.

HomeStart has an organisational culture where people are committed and motivated to achieve positive results for the business. Our core values underpin our positive culture. They are embedded in all that we do at HomeStart and are fostered by our Board, the Chief Executive Officer and the Leadership Group.

Our people share the values of our organisation and this is intrinsic to HomeStart's success. Our values are:

- Empathy in delivery
- Leader in our field
- Ethical in action
- Commercial in thinking
- Team player at heart

HomeStart engaged Quantum Management Indicators to conduct an independent Organisational Effectiveness Survey of our staff in order to benchmark HomeStart against national finance and state government sectors. The results demonstrate that HomeStart exceeded World's Best Practice (Favourable includes Strongly Agree and Agree result, > 80% favourable is considered World's Best Practice) in a number of key areas:



Values alignment – 94% favourable result
 Health & safety – 98% favourable result
 Customer service – 95% favourable result
 Recognition – 91% favourable result
 Organisation commitment – 87% favourable result

Communication and engagement

At HomeStart, we pride ourselves on our open and informal style of communication with staff. Regular staff meetings are held that enable our Chief Executive Officer and Leadership Group to share information, update staff on business developments, present staff awards and discuss upcoming social activities.

A special staff day in June 2007 was the forum for HomeStart's Strategic Plan to be shared with staff, which included a fun team-building component based on our core values.

A consultative committee which comprises staff, management, human resources and organisational representation is a vehicle for communication and ongoing consultation with staff.

Effective communication – 88% favourable result

At HomeStart, we believe that communication is a key element of our high level of staff engagement. Meeting the qualitative, non-financial needs of our staff is vital to our success. Our people are able to work within their personal value set, enjoy work/life flexibility, and have access to health and wellbeing initiatives. These factors all contribute to HomeStart's committed and engaged workforce.

In the current competitive marketplace, attraction and retention of key people is critical to the success of HomeStart and our turnover of a mere 6% demonstrates a high level of staff satisfaction. To further support this,

Supervisory effectiveness of immediate manager – 97% favourable result
 Ethics of immediate manager – 94% favourable result
 Leadership – 92% favourable result
 Performance management – 87% favourable result

Learning and growth

HomeStart's ongoing commitment to learning and professional staff development is another important aspect of staff engagement. It is HomeStart's belief that a continuous learning environment can foster innovative, leading-edge strategies. All of our staff are encouraged to participate in learning activities to further their lifelong personal and career development.



Staff satisfaction with access to learning and development – 89% favourable result

HomeStart places a 5% benchmark result for training expenditure against total remuneration. Further education, specific training courses, team building exercises, leadership and management programs, and in-house initiatives resulted in expenditure of 2.79%.

Twelve staff are currently undertaking studies at the University of South Australia, Flinders University and Charles Darwin University, including the following courses: Masters of Business Administration; Bachelor of Business; Bachelor of Justice and Society; and Bachelor of Social Work and Social Planning. Five staff graduated in a variety of courses this year.

We congratulate those who graduated this year	
Course	Staff
Certificate III in Business Administration	Poppy Jones
Certificate IV in OH&S	Michelle Richardson
Diploma of Publishing	Stephanie Roberts-Victory
Graduate Diploma in Business Administration	Michael Veasey
Graduate Diploma in Business Administration	Darren Garbin

Investment in staff training	2006-07	2005-06	2004-05	2003-04	2002-03
Training expenditure as a percentage of total remuneration costs	2.79%	2.42%	3.58%	4.09%	3.89%

'Fish!' philosophy

One of the highlights of the year was our team-building days, based on the success of Seattle's Pike Place Fish Market. The 'Fish!' philosophy and principles demonstrate how a workplace culture can be created that encourages people to flourish and subsequently increases productivity. These principles assist our people to harness a positive attitude and have some fun at work, though the 'Fish!' principles can be applied to everyday life as well.

Opening doors

Our 'Opening Doors' staff day is organised by our People Team, a cross-functional group comprising staff, Human Resources and Leadership Group representation. This staff day is an excellent vehicle for encouraging interaction and open communication across the entire organisation.

Reflecting on HomeStart's journey since its formation in 1989 through to the success of the present day, our three-year Strategic Plan was presented to staff by our Leadership Group. Reinforcing the importance of our core values, the theme adopted this year for 'Opening Doors' day was 'Bringing our Values to Life'.



Equal employment opportunity and diversity

As an equal opportunity employer, HomeStart is proud of its inclusive workplace culture, one where diversity is encouraged across age, gender, personality, background and working style. At HomeStart, we focus on valuing people's differences and the contribution they make to innovative solutions within our business.

At the time of writing, HomeStart is recruiting a trainee for a Disability Traineeship. As further indication of HomeStart's commitment to equal opportunity and a diverse workforce, we have also recruited trainees into Indigenous, Youth and Migrant Traineeships.

During the year, research was undertaken into diversity at HomeStart as part of the University of South Australia's Work Placement Scheme. Outcomes from this research include the development of a Diversity Management Strategy which will further enhance HomeStart's standing as an employer committed to diversity.

Equal employment – 93% favourable result
Valuing diversity – 93% favourable result

Health and wellbeing

In recognition of the value we place on our people, a range of health and wellbeing initiatives are offered to staff, including opportunities to participate in activities such as yoga, volleyball and boccé. HomeStart staff are also encouraged to contribute ideas: regular neck and shoulder massage and self defence classes are ideas currently being considered for possible implementation.

Continuous improvement

Our people

The new HomeStart Competency Framework was implemented earlier this year, resulting in a review of all position descriptions to include the competencies and key behaviours required for each role.

The Competency Framework is an integral part of 'SuccessMap', our new performance and development tool which was launched in June 2007. 'SuccessMap' links individual roles to the achievement of strategic and business plan objectives with a focus on performance, individual learning and development.

Negotiations have commenced for a new HomeStart Finance Agreement in the lead-up to expiry of the current agreement in December 2007. A negotiating team has been formed comprising staff, management, human resources and organisational representation who will negotiate the conditions and benefits of the new agreement.

Our systems

The payroll component of our new Human Resources Information System was successfully implemented in December 2006. It is anticipated that the employee self-service module will be rolled out to staff early in the new financial year.

Phase 1 technology to support 'SuccessMap' has been implemented and Phase 2 will be developed and implemented over the coming year.



Workplace flexibility

In recognition of the fact that our staff have differing life roles and needs, HomeStart provided a range of flexible working arrangements during the course of the year. Anecdotal evidence suggests that this has been very well received by staff, and this is supported by the Organisational Effectiveness Survey.

Family/lifestyle situation – 90% favourable result

Number of employees using voluntary flexible working arrangements by gender

	Male	Female	Total
Purchased leave	0	1	1
Flexi-time	1	8	9
Compressed weeks	0	0	0
Part-time job share	2	22	24
Working from home	17	24	41
Total	20	55	75

Employee numbers, gender and status

Total number of employees		
Persons	102	
Full-time equivalents	94.8	<i>(FTE's shown to 1 decimal place)</i>

Gender	% Persons	% FTE's
Male	37.3%	39.5%
Female	62.7%	60.5%

Number of persons during the 2006-07 financial year	
Separated from Homestart	12
Recruited to Homestart	27

Number of persons at 30 June 2007	
On leave without pay	4

Number of employees by salary bracket

Salary bracket	Male	Female	Total
\$0 - \$43 999	7	15	22
\$44 000 - \$56 999	6	24	30
\$57 000 - \$72 999	7	11	18
\$73 000 - \$91 999	13	7	20
\$92 000+	5	7	12
Total	38	64	102



Status of employees in current position

Full-time equivalents	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	1.0	3.8	32.6	0	37.4
Female	0	8.0	49.4	0	57.4
Total	1.0	11.8	82.0	0	94.8

Persons	Ongoing	Short-term contract	Long-term contract	Other (casual)	Total
Male	1	4	33	0	38
Female	0	9	55	0	64
Total	1	13	88	0	102

Executives by gender, classification and status

	Ongoing		Contract tenured		Contract untenured		Other (casual)		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Total	0	0	0	0	3	2	0	0	3	2

Average day's leave per full-time equivalent employee

Leave type	2006-07	2005-06	2004-05	2003-04
Sick leave	4.9	8	5.1	5.6
Family carer's leave	0.5	0.9	0.8	0.3
Miscellaneous special leave	0.3	0.3	0.9	0.5

Aboriginal and/or Torres Strait Islander employees

Male	Female	Total	% of HomeStart	Target*
0	3	3	2.9%	2.0%

* Target from South Australia's Strategic Plan

Number of employees by age bracket by gender

Age bracket	Male	Female	Total	% of total workforce	Workforce benchmark*
15-19	0	0	0	0.0%	6.7%
20-24	1	3	4	3.9%	10.5%
25-29	3	13	16	15.7%	10.2%
30-34	5	14	19	18.6%	9.9%
35-39	7	11	18	17.7%	11.2%
40-44	8	9	17	16.7%	11.9%
45-49	5	8	13	12.8%	12.3%
50-54	5	4	9	8.8%	11.3%
55-59	2	1	3	2.9%	8.6%
60-64	2	1	3	2.9%	5.0%
65+	0	0	0	0.0%	2.4%
Total	38	64	102	100.0%	100.0%

*Source: Australian Bureau of Statistics Australian Demographic Statistics, Labour Force Status (ST LM8) by sex, age, state, marital status – employed – total from Feb78 Supertable, South Australia at March 2007



Cultural and linguistic diversity

	Male	Female	Total	% of HomeStart	SA community*
Number of employees born overseas	7	13	20	19.6%	20.3%
Number of employees who speak language(s) other than English at home	2	11	13	12.7%	15.5%

* Benchmarks from ABS Publication Basic Community Profile (SA) Cat No. 2001.0

Number of employees with ongoing disabilities requiring workplace adaption

Male	Female	Total	% of HomeStart
0	0	0	0%

Documented individual performance development plan

Employees with	% of total workforce
A plan reviewed within the past 12 months	62%
A plan older than 12 months*	30%
No plan**	8%

* Plans postponed due to launch of new performance & development tool in 2007-08

** All are new employees at HomeStart

Leadership and management training expenditure

Training and development	Total cost
Total training and development expenditure	\$92 302
Total leadership and management development	\$63 534
% of total expenditure	68.9%

Positions with customer service reflective in job and person specifications

Positions	%
% of positions with customer service reflected in the job and person specification.	42%
% of positions without customer service reflected in the job and person specification.	58%



Matthew Woodward – Executive Officer Multi Agency Community Housing Association Incorporated – about to start a building project at Logan Street, Adelaide.

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Sustainable financial management

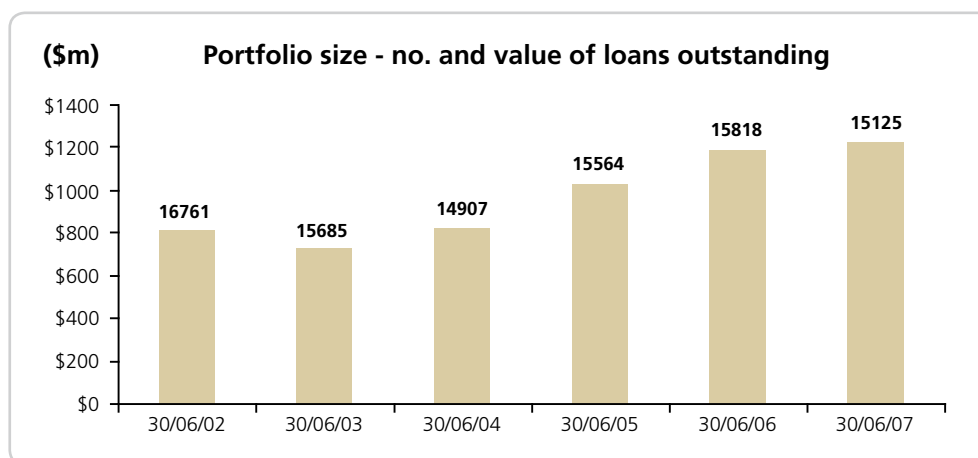
Results

From a financial perspective, HomeStart's results for 2006-07 have been excellent. Financial targets achieved included an operating profit before tax of \$11.9 million (2006: \$7.1 million) against a budget of \$11.6 million. HomeStart continued to provide substantial payments to government which this year amounted to \$15.9 million and have totalled \$209.6 million since inception. These outcomes are attributable to sound financial, risk and asset management policies, the growth in our lending portfolio and a solid return on the Risk Transfer Vehicle (RTV) investments.

Our debt funding with the South Australian Government Financing Authority (SAFA) grew to \$1095 million against a borrowing limit of \$1350 million. HomeStart has set minimum capital levels for prudential management. Our capital adequacy ratio increased marginally to 17.06% (2006: 17.03%) reflecting nominal changes to capital levels.

The lending portfolio grew by 3.3% to \$1225 million this year (2006: \$1186 million). Despite the continued availability of some higher risk products in response to market need, HomeStart has maintained a prudent approach to credit quality and provisioning, while utilising credit risk management systems to inform lending decisions and to allocate appropriate benchmarks for portions of the lending portfolio.

Asset and liability management



Effective and sustainable business practices are vital to our organisation. They allow us to maintain a balance between maximising social outcomes for our customers and meeting commercial objectives. Our long-term strategy is reliant upon retaining profits to fund future lending and subsidies. A total of \$2.5 million in self-funded subsidy was provided through the Advantage Loan this year. The Advantage Loan can be interest free (if fully repaid within five years), otherwise it has an interest rate based on the level of inflation which, as at 30 June 2007, was 1.55%.



Provisioning

HomeStart has restated its loss provision in its financial statements for the year ended 30 June 2007. This is due to a change in the method of calculating the collective loss provision. Further information in relation to this restatement can be found in Note 3 to the financial statements.

In addition to the specific and collective provisions, a general reserve for credit losses of \$10.53 million has been created (\$11.73 million in 2006). The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes.

HomeStart wishes to emphasise that any losses in excess of the collective provision will impact annual profit in future periods. Excess losses cannot be debited directly to the general reserve for credit losses. However, management believes that the sum of its specific and collective provisions, together with the general reserve for credit losses, constitutes a pool of capital which will be sufficient to meet loan losses in the future.

The adoption of AASB 139 means that decisions already made by management could result in losses being recognised in the Income Statement in future periods. These losses may not have been fully provided for in the collective provision as at 30 June 2007, despite the existence of historical evidence to support the view that a higher degree of non-payment may eventuate. This is because AASB 139 requires that a collective provision only be recognised if there is objective evidence of impairment following initial settlement of a loan. It does not allow for recognition of a collective provision for inherent losses within the portfolio.

The finance team

HomeStart's financial management philosophy is based on best practice concepts and principles aimed at positioning HomeStart in the best possible financial situation to sustain our business activities and meet our social obligations and financial performance targets.

Supported by sound risk management and corporate governance practices, the highly qualified and experienced finance team continually strives to improve process efficiency while maintaining strong internal controls. The team's core functions include:

- treasury and risk management
- corporate finance
- financial accounting
- asset and liability management
- financial forecasting and provisioning
- business reporting and analysis
- property realisation and loss recovery.

HomeStart uses the balanced scorecard method of performance measurement, which is based around key performance indicators, identified as part of the annual business planning process. This holistic view of the organisation assists the Board and management in identifying key areas of achievement, areas where corrective action is required, and new opportunities for the future.



Risk Transfer Vehicle (RTV)

In July 2000, HomeStart's Board established a Risk Transfer Vehicle (RTV) to minimise and quarantine credit risks and improve financial performance. It acts as a mortgage insurer to HomeStart and is a division of HomeStart managed by the Asset and Liability Committee.

Initially funded with \$20 million, the RTV is now worth \$45.5 million. It has returned 9.4% since inception and 13.9% this year. A loan provision charge is collected from loans settled as a part contribution towards write-offs. These funds are invested in various asset classes, as per the asset allocation analysis undertaken annually by HomeStart, with a view to achieving a long-term target rate of return of 6.5%. The Asset and Liability Committee engages actuaries to undertake an annual review of projected future loan loss levels.

Funding

HomeStart's lending is financed from its capital base and by borrowings from the South Australian Government Financing Authority (SAFA). A global approach to treasury risk management has been adopted, whereby risks are amalgamated from all activities and managed on a consolidated scheme basis taking advantage of offsetting risks.

A treasury master document outlines all treasury policies, processes and procedures and the limitations within which our treasury department must operate. The document also governs the structure and approach to the management of our debt portfolio. HomeStart has commissioned a new treasury management system due to significant growth in the size and complexity of the portfolio. The new system, which will be operational by September 2007, will consolidate the existing treasury management systems, provide superior reporting outcomes and deliver efficiency gains in the treasury and finance departments.

The Asset and Liability Committee oversees the management of asset price setting and policy and is ultimately responsible for the treasury operations of HomeStart. The Finance Sub-Committee, a sub-committee of the Asset and Liability Committee, is responsible for developing and implementing funding strategies as well as reviewing and monitoring interest rate exposures.

Financial history table

Financial Indicators	2003	2004	2005	2006	2007
Operating Profit (\$m)	8.6	4.4	6.4	7.1	11.9
Return on Equity	6.3%	3.2%	4.7%	4.95%	8.07%
Net Interest Margin	2.0%	1.9%	1.7%	1.3%	1.4%
Subsidy Provided (\$m)	1.7	2.0	2.1	2.2	2.5
Balance Sheet Strength					
Capital (\$m)	138.4	136.5	136	145 ¹	150
Provisions (\$m)	14.9	16.4	17.8	7.7 ¹	9.3
Loan Assets (\$m)	726.9	818.7	1024.3	1186.2	1224.7
RTV Net Assets (\$m)	21.5	23.7	33.5	39.0	45.5
Net Loan Losses (\$m)	0.1	0.02	0.02	0.01	0.02

¹HomeStart was required to comply with Australian Equivalents to International Financial Reporting Standards (AIFRS) for the first time in the year ended 30 June 2006



Account payment performance

Particulars	Number of Accounts Paid	Percentage of Accounts Paid (by number)	Value in \$A of Accounts Paid	Percentage of Accounts Paid (by value)
Paid by the due date	5623	98.3%	\$6 060 740.69	96.9%
Paid more than thirty days from due date	97	1.7%	\$194 185.64	3.1%

Financial contributions to the state government in \$million \$209.6 million paid to the state government since inception

Payment Type (\$m)	1995 ²	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	TOTAL
Guarantee Fee	6.1	9.5	8.6	7.5	6.5	5.5	5.0	5.0	4.6	4.6	5.6	7.3	7.1	82.9
SAFA ³ Admin Fee	0.0	0.0	0.0	0.0	0.7	0.6	0.6	0.5	0.5	0.5	0.7	0.8	0.9	5.8
Income Tax	0.0	1.5	6.3	4.2	3.0	2.4	3.0	2.1	2.5	2.6	1.4	2.0	2.9	33.9
Dividends	0.0	5.0	7.0	5.0	5.0	5.0	1.7	2.2	2.0	1.0	1.5	1.6	2.7	39.7
Capital	0.0	0.0	0.0	0.0	25.0	0.0	3.3	2.8	3.0	4.0	3.5	3.4	2.3	47.3
TOTAL PAID	6.1	16.0	21.9	16.7	40.2	13.5	13.6	12.6	12.6	12.7	12.7	15.1	15.9	209.6

² No payments made prior to 1995

³ South Australian Government Financing Authority



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HomeStart customer Ellen Freeman



Corporate governance

HomeStart Finance is a statutory corporation established under the *Housing and Urban Development (Administrative Arrangements) Act 1995* and owned by the South Australian Government.

HomeStart is subject to the control of the Minister for Housing, is an agency within the Families and Communities portfolio and works closely with Housing SA.

Board of Management

HomeStart is administered by a seven member Board of Management. Board members are appointed by the Governor for a term not exceeding three years and are entitled to such remuneration, allowances and expenses as determined by the Governor. The members who held office during 2006-07 are identified on page 46.

Board members are independent of the organisation and are chosen for their expertise and skills in matters related, or complementary to, HomeStart's business.

The Board is responsible to the Minister for Housing for overseeing HomeStart's business operations with the goal of securing continuous improvements in performance and protecting the long-term financial viability and the Crown's financial and other interests in the organisation. Board responsibilities are focused around corporate accountability, strategic planning, monitoring, and policy development.

The following sub-committees of the board operate under individual charters and assist the board in discharging particular functions. The members of each of the sub-committees are selected for their expertise and independence.

Audit Committee

This committee is chaired by Paula Capaldo and includes two other Board member representatives, along with management personnel and representatives of both external and internal auditors. Audit Committee's role is to assist the Board in fulfilling its responsibilities in the following areas:

- monitoring risk management processes and status of risks
- reviewing financial reporting processes and outputs
- reviewing compliance with relevant laws and regulations
- monitoring internal and external audit functions
- monitoring internal control processes.



Asset and Liability Committee

This committee is chaired by Jim Kouts and includes two other Board member representatives, along with management personnel. The committee operates to ensure that HomeStart:

- operates in a commercial manner and manages risk prudently
- maintains sound, prudent financial asset and liability management practices that result in the long-term financial viability of HomeStart
- meets the South Australian Government's performance targets
- manages HomeStart's Risk Transfer Vehicle, in accordance with an established charter, policies and procedures.

Business planning, monitoring and accountability

The Board, in conjunction with management, establishes and reviews strategic directions and objectives for the business on an annual basis that delivers HomeStart's mission and long-term goals in alignment with government strategies, targets and policy directions.

Sophisticated balanced scorecard methodologies are utilised to provide the board with monthly reports on all key areas of HomeStart's business operations. Similar reporting mechanisms support the work of the two board committees (Audit Committee and Asset and Liability Committee).

A review of Board member performance is undertaken on an annual basis by the Chair and the Minister. The Chief Executive Officer's performance is reviewed on a regular basis by the board.

HomeStart incorporates appropriate risk management standards and practices into all significant new business activities and initiatives, in line with the South Australian Government's Risk Management Policy Statement.

Board member remuneration

Board remuneration is determined by the Governor, on the advice of the Commissioner for Public Employment. Board member remuneration information is provided at Note 14 to the financial statements.

Board member benefits

No Board member has received, or will become entitled to receive, during or since the 2006-07 financial year, a personal benefit (other than a remuneration benefit included in Note 14 to the financial statements) because of a contract made with HomeStart by:

- the Board member
- any organisation of which the board member is a member
- any entity in which the board member has a substantial financial interest
- an associate of the board member (as defined in the *Public Sector Management Act 1995*).

Executive appointment and remuneration

Responsibility for executive appointments rests with the Board of Management and details of executive remuneration are set out in Note 13 to the financial statements.



Risk management

HomeStart's organisation-wide approach to managing risks ensures that they are identified and managed at all levels of our operations. Our Risk Management Policy reflects the South Australian Government Risk Management Policy Statement, relevant Treasurer's Instructions and best practice.

While risk management remains the primary responsibility of the board, it has assigned specific roles and responsibilities in relation to risk management to its sub-committees. The Audit Committee monitors our annual Risk Management Plan and regularly reviews the areas of highest risk. A new comprehensive plan that assessed HomeStart's major areas of risk moving forward was approved in April 2007 with a range of objectives to be actioned over the next 12 months.

Risk management is an integral part of our everyday work and is underpinned by a framework that involves all staff, including:

- identification, assessment (using Australian Standard 4360) and recording of risks through our online Risk Management System (RMS)
- continuous monitoring and reassessment of risks and internal controls, prompted by the RMS interactive email capability and regular discussion in work teams
- comprehensive reporting
- organisation-wide feedback on existing and emerging risks.

Strategic risk

Discussion and assessment of risks and opportunities form part of our strategic and business planning process to enable us to prioritise goals, maximise outcomes and mitigate threats. Our planning takes into consideration our external environment, Ministerial and government objectives, and internal capabilities.

Credit risk

Credit risk is inherent in our core function of lending. Although our business objectives are both social and commercial, this does not compromise our principles. Our lending policies are founded on sound credit risk management and behavioural intelligence which is incorporated into each stage of a customer's loan application and ongoing loan management.

Regular and comprehensive reporting and monitoring take place to ensure that our policies result in sound lending decisions and arrears management practices. These are underpinned by credit risk systems that have been developed using a combination of theory and experience drawn from the behaviour of our customer base.

HomeStart's arrears remain at historically low levels and write-offs continue to compare favourably to other organisations lending in similar markets.

Market risk

A comprehensive treasury master document sets out the policies which govern HomeStart's borrowing to fund its lending activities. These policies are monitored by the Asset and Liability Committee at its monthly meetings, by the Finance Sub-Committee at its weekly meetings, and by the General Manager of Treasury and Risk and the Corporate Treasurer on a daily basis. Our monitoring and forecasting is facilitated by sophisticated risk management software.

**Operational risk**

Operational risks are those inherent in the day-to-day functions of HomeStart. The RMS facilitates a comprehensive assessment, communication and monitoring framework for these risks that is available to all staff. Management regularly review their areas' risk profiles to ensure that appropriate internal controls are in place and operating effectively. Any incidents that occur are recorded in the RMS against the relevant risk, and are subsequently investigated and dealt with promptly in order to mitigate any recurrence. This assists future risk assessment and encourages continuous improvement and accountability.

Internal control and assurance

The HomeStart Board is responsible for ensuring that robust and effective internal controls exist in order to minimise the risks inherent in our business. Internal controls are regularly reviewed through the risk management framework to ensure their adequacy and to identify any areas of improvement. Executive and management are required to confirm to the board that effective risk management, internal control and compliance practices have operated throughout the year. Whilst fraud is a risk that we are exposed to in various areas of the business, no inappropriate activity has been identified. Strategies to prevent fraud are in place at all levels of our operations including:

- delegations of authority
- internal audit
- dual controls in appropriate areas
- internal policies, procedures, monitoring and reconciliation
- a strong internal culture and organisational values.

Internal and external audits

External audit is undertaken by the Auditor-General of South Australia and an Independent Audit Report is provided to the board. The report for this financial year can be found on page 104.

Internal audit functions in 2006-07 were outsourced to:

- PricewaterhouseCoopers - operational audit based on a three-year rolling audit plan
- Ernst & Young - new lending and arrears management monthly audits of loan manager performance.



Board members



Claude Long - Chair

Appointed May 2002

Mr Long is a Company Director and business consultant with over 40 years experience in the banking industry. Mr Long was formerly a General Manager of the Commonwealth Bank and has served on a number of bank policy-making committees.



Jim Kouts, BA, GIACD - Deputy Chair

Appointed November 2005

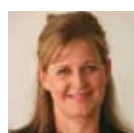
Mr Kouts is the national Corporate Affairs Manager for International Power Australia. He has wide experience across a range of industry and government sectors as a senior executive and management contractor. He is currently a Director of the Electricity Supply Industry Planning Council, the Botanic Gardens and State Herbarium, and is a strategic adviser to Adelaide Airport Limited.



Estelle Bowman

Appointed June 2005

Ms Bowman is a Chartered Occupational Psychologist with extensive experience in the field of management assessment and development. She is currently Managing Partner of CEConsult, specialising in change management and executive development.



Paula Capaldo

Appointed December 2005

Ms Capaldo is a Chartered Accountant and a Partner with Deloitte Touche Tohmatsu. She specialises in providing businesses and boards with advice regarding accounting, taxation, strategy, budgeting and finance. She has been a board member of the South Australian Museum, and was Deputy President of the Australian Institute of Management – SA Board.



Sandra De Poi, BA, B Social Admin

Appointed June 2005

Ms De Poi is the founder and Managing Director of De Poi Consultancy Services Pty Ltd which is a consultancy company specialising in injury management and employment services. She is also a Director of the WorkCover Board of South Australia.



Jay Hogan, MBA, JP

Appointed December 2005

Mr Hogan is an urban development consultant, specialising in large scale mixed use developments and urban regeneration. He has been a Chief Operating Officer with two of Australia's largest urban development companies. Mr Hogan is also a past chairman of the South Australian Housing Trust Board, Land Management Corporation Board and a member of various other private and public sector boards.



Lindsay Smith, LLB (Hons)

Appointed December 2005

Ms Smith is a lawyer whose practice has been conducted primarily in the areas of personal injury and family law. She is a Member of the Legal Practitioners' Disciplinary Tribunal and sits on the Board of the State Opera of South Australia.

Board Attendance

Member	Board		Audit Committee		Asset and Liability Committee	
	Eligible to Attend	Meetings Attended	Eligible to Attend	Meetings Attended	Eligible to Attend	Meetings Attended
C Long	11	11	1	1	-	-
J Kouts	11	11	-	-	11	10
E Bowman	11	10	-	-	11	9
P Capaldo	11	9	6	6	-	-
S De Poi	11	10	-	-	11	8
J Hogan	11	7	6	4	-	-
L Smith	11	9	6	5	-	-



EFFECTIVE & SUSTAINABLE
**BUSINESS
PRACTICES**

HomeStart customer Nanette Broad



Statutory information

Occupational health, safety, welfare and injury management system

HomeStart Finance is committed to, and places a high priority on, its responsibility to provide and maintain a safe working environment and safe systems of work for all its employees, contractors, consultants, visitors and others.

The Chief Executive Officer (CEO) is responsible for ensuring that the Occupational Health, Safety, Welfare and Injury Management (OHSW&IM) System is implemented and performs to expectations within HomeStart. General managers, managers and supervisors are responsible for the effective implementation, monitoring and review of the OHSW&IM System. Employees are required to cooperate, participate and be involved in the consultation process and support the achievement of goals and targets.

HomeStart continues to meet the strategic targets of the government's Workplace Safety Management Strategy 2004-06 and reduced its workers compensation claims to nil for the year. Significant achievement towards ensuring compliance with the WorkCover Performance Standards for Self Insurers continues, and the implementation of an enhanced OHSW&IM System framework has commenced. Development of new, and reviews of existing policies and procedures, in consultation with employees, has occurred to ensure continuous improvement and effectiveness of the system.

HomeStart employs a dedicated part-time Occupational Health, Safety & Welfare (OHS&W) Coordinator who is responsible for the development, implementation and management of the OHSW&IM System framework throughout the organisation on behalf of the CEO (Responsible Officer). The HR Coordinator OHS&W works with management and the OHS&W committee to ensure compliance with legislation, government requirements and the professional safety and wellbeing of all employees.

Training for all managers and supervisors was undertaken prior to the rollout of the enhanced framework to help them understand their legal responsibilities under the *OHS&W Act*, and to provide further information to assist them to effectively fulfil their role in implementing, monitoring and reviewing the OHSW&IM System.

HomeStart's OHS&W committee consists of eight members and includes the elected Health & Safety Representative (HSR), the Deputy HSR and the CEO (Responsible Officer). The committee met six times during the year to develop strategies and programs aimed at helping minimise accidents and incidents, to promote and integrate OHS&W into business objectives, to ensure the wellbeing and productivity of our employees, and to achieve best practice within the organisation.

Statistics of OHS&W performance are reported to stakeholders monthly to ensure a broad awareness of OHS&W issues and achievements. Data measured includes reported accidents, injuries and near misses, the number of safety audits conducted and the number of identified, corrected and outstanding hazards. Quarterly safety audits are undertaken by all managers to ensure early identification of any issues that could potentially affect the health and safety of our staff. Consultation takes place between the committee, employees and management and all information gathered is used to take corrective and preventative action where necessary and to measure the success of preventative strategies.

Expenditure for training and other OHS&W related programs for the year amounted to approximately \$17 000.



Key achievements

- 'Ensure A Safe Workplace' training program was conducted with all managers and supervisors
- Employee consultation of all eight policies for the enhanced OHSW&IM System framework was completed prior to their endorsement
- Workplace Bullying guideline, policy and procedure were developed and implemented; management and employee training programs were delivered to all staff across the organisation
- Responsible Officer training was completed
- Hazard management inspections were carried out each quarter in every area of the organisation
- 36 employees received a flu vaccination shot as part of the Flu Vaccination Program
- Corporate Blood Donor program was established
- Visitor access/contractor authorisation system was implemented to protect the health and safety of visitors and contractors on our premises in the event of an emergency
- OHS&W policies and procedures continued to be reviewed in consultation with employees to maintain their effectiveness.

Occupational Health, Safety & Welfare and Injury Management Statistics

		2006-07	2005-06	2004-05
1	OHS legislative requirements			
	Number of notifiable occurrences pursuant to OHS&W Regulations Division 6.6	Nil	Nil	Nil
	Number of immediately notifiable work injuries pursuant to OHS&W Regulations Division 6.6	Nil	Nil	Nil
	Number of notices served pursuant to <i>OHS&W Act</i> s35, s39 and s40 (default, improvement and prohibition notices)	Nil	Nil	Nil
2	Injury management legislative requirements			
	Total number of employees who participated in the rehabilitation program	1	1	Nil
	Total number of employees rehabilitated and reassigned to alternative duties	1	Nil	Nil
	Total number of employees rehabilitated back to their original work	1	1	Nil
	Number of open claims as at 30 June	Nil	2	1
	Percentage of workers compensation expenditure over gross annual remuneration	.02%	.03%	.05%
3	Number of claims			
	Number of new workers compensation claims in the financial year	Nil	2	Nil
	Number of fatalities, (F)	Nil	Nil	Nil
	lost time injuries, (LTI)	Nil	1	Nil
	medical treatment only (MTO)	Nil	1	Nil
	Total number of whole working days lost	Nil	3	Nil



4	Cost of workers compensation			
	Cost of new claims for financial year	Nil	\$1176	Nil
	Cost of all claims excluding lump sum payments	\$1310	\$2077	\$1501
	Amount paid for lump sum payments (s42)	Nil	Nil	Nil
	on the settlement of a claim (s43)	Nil	Nil	Nil
	(under the WRC Act) (s44)	Nil	Nil	Nil
	Total amount recovered from external sources (WRC Act s54) including from a negligent third party	Nil	Nil	Nil
	Budget allocation for workers compensation	\$4669	\$3500	\$3000
5	Trends			
	Injury frequency rate for new lost-time injury/disease for each million hours worked	Nil	6	Nil
	Most frequent cause (mechanism) of injury	Occup. Overuse	Occup. Overuse	Neck/ Shoulder Strain
	Most expensive cause (mechanism) of injury	Occup. Overuse	Occup. Overuse	Neck/ Shoulder Strain
6	Meeting the organisation's strategic targets			
	Targets and results from the organisation's action plan are provided	Yes	Yes	Yes

Freedom of Information

Freedom of Information Act – Information statement

HomeStart Finance is a statutory corporation established by the South Australian Government in 1989 to facilitate home ownership opportunities for low to moderate income households. HomeStart is required to operate in a commercial manner to achieve financial and other performance benchmarks that are established and agreed with the South Australian Government.

Policy documents

HomeStart delivers a residential mortgage lending program in conjunction with a network of four lending agencies (including BankSA, The Home Loan Centre, Homeloans Plus and Bernie Lewis Home Loans) and other finance programs to support community housing and aged care accommodation.

The following policy documents are available free of charge:

- HomeStart home loan brochures (and for other loan product types)
- HomeStart Guide to Fees and Charges
- HomeStart comparison rate schedules
- HomeStart Privacy Policy
- HomeStart Annual Report
- HomeStart news ('Smile') customer newsletters.

Copies of the above documents can be accessed from the homestart.com.au website or by contacting the Freedom of Information Officer (Ph 8203 4000). Copies of HomeStart's Information Statement can be obtained by contacting the Freedom of Information Officer during normal business hours.



Access to personal information

Customers are entitled to obtain access to their personal information held by HomeStart, in accordance with the *Freedom of Information Act 1991*. HomeStart may deny a request for access if required, obliged, or authorised to do so under any applicable law, including the *Freedom of Information Act 1991*. Any such request for access to personal information must be in writing and must be sent to the Freedom of Information Officer.

HomeStart will respond to all requests for information under the *Freedom of Information Act 1991* within 30 days of receipt of the request. Fees and charges may be payable.

HomeStart complies with the South Australian Government's *Citizen's Right to Information Charter*, the Department for Families and Communities *Code of Fair Information Practice* and relevant credit provider and credit reporting requirements under the *Privacy Act 1988 (Cth)*.

Contractual arrangements

HomeStart has not entered into any contracts with a value greater than \$4 million.

Overseas travel

No HomeStart staff member made an overseas trip during 2006-07.

Disability action plans

HomeStart's operations incorporate the recommendations of Promoting Independence – Disability Action Plans for South Australia. HomeStart embraces a culture of social inclusion and takes positive actions to make our services available to all South Australians.

HomeStart maintains relationships with various disability service providers through whom we have expanded our understanding of relevant disability issues. HomeStart utilises specialised services where possible to facilitate home ownership outcomes for customers with a disability.

Consultancy expenditure 2006-07

Consultant	Below \$10 000	Cost
9		\$ 28 435
Total Consultancies < \$10 000		\$ 28 435
Consultant	\$10 000 - \$50 000	Cost
	Purpose	
Collins Anderson	Regional economic analysis	
Ernst & Young	Australian International Financial Reporting Standards advice	
Experience Matters	IT strategic plan	
Frontier Software	Human resource consulting implementation issues	
Judith Selleck	Team building development	
McGuirk Management	Remuneration benchmarking review	
PricewaterhouseCoopers	Taxation advice re: indirect taxes, risk management review	
Quantum Management	Organisational effectiveness survey	
Total Consultancies \$10 000 - \$50 000		\$147 050
Consultant	Above \$50 000	Cost
Nil	Nil	Nil
Total		\$175 485



FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007



FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2007



HomeStart Finance Board Members' Statement

For the year ended 30 June 2007

In the opinion of the members of the Board of HomeStart Finance:

The financial report set out on pages 54 to 103:

- gives a true and fair view of the financial position of HomeStart Finance as at 30 June 2007 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
- provides reasonable grounds to believe that HomeStart Finance will be able to pay its debts as and when they become due and payable.

This statement is made in accordance with a resolution of the Board of HomeStart Finance and is signed for, and on behalf of, the members of the Board by:

Claude Long

Chair

18 September 2007

Adelaide

Estelle Bowman

Board Member

18 September 2007

Adelaide



HomeStart Finance Certification of the Financial Report

For the year ended 30 June 2007

We certify that:

The attached General Purpose Financial Report for HomeStart Finance:

- is in accordance with the accounts and records of HomeStart Finance and gives an accurate indication of its financial transactions for the year ended 30 June 2007;
- presents fairly, in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987*, applicable Australian Accounting Standards and other mandatory professional reporting requirements in Australia, the financial position of HomeStart Finance as at 30 June 2007, the results of its operations and its cash flows for the year then ended; and
- internal controls over financial reporting have been effective throughout the reporting period and there are reasonable grounds to believe HomeStart Finance will be able to pay its debts as and when they become due and payable.

A handwritten signature in black ink, appearing to read 'Gary Storkey'.

Gary Storkey

Chief Executive Officer
18 September 2007

A handwritten signature in black ink, appearing to read 'John Comley'.

John Comley

*General Manager Corporate Services
& Chief Financial Officer*
18 September 2007



Income statement

Financial statements for the year ended 30 June 2007

	Note No.	2007 \$'000	2006 \$'000
Interest income	7	89,887	77,061
Interest expense	7	(66,016)	(55,305)
Net interest income	7	23,871	21,756
Other income	8	15,149	12,343
Net gain/(loss) from disposal of assets	9	(12)	2
Bad and impaired loans expense	10	(1,829)	(2,426)
Government guarantee fee	11	(7,007)	(7,404)
Loan manager fees		(5,129)	(4,770)
Employee expenses	12	(7,544)	(6,999)
Depreciation and amortisation expense	16	(465)	(364)
Other expenses	17	(5,155)	(4,995)
Profit from continuing operations before income tax equivalents expense		11,879	7,143
Income tax equivalent expense	2.5	(3,563)	(2,143)
Profit for the year	29	8,316	5,000
Profit attributable to the SA Government as owner		8,316	5,000

The above Income Statement is to be read in conjunction with the accompanying notes.



Balance sheet

Financial statements for the year ended 30 June 2007

	Note No.	2007 \$'000	2006 \$'000
Assets			
Cash and cash equivalents	33	2,968	486
Investments	19	45,257	38,591
Derivative financial instruments	30.2	2,330	936
Loans and advances	20	1,199,867	1,167,154
Property, plant and equipment	21	2,418	2,584
Intangible assets	22	163	35
Other assets	23	1,895	1,988
Total assets		1,254,898	1,211,774
Liabilities			
Payables	24	4,579	4,060
Short-term borrowings	25	81,384	58,900
Long-term borrowings	25	1,013,500	999,500
Employee benefits	26	1,011	881
Income tax payable	27	1,946	1,239
Other liabilities	28	2,845	2,272
Total liabilities		1,105,265	1,066,852
Net assets		149,633	144,922
Equity			
Reserves	29	12,862	12,667
Retained earnings	29	136,771	132,255
Total equity		149,633	144,922

*Total equity is attributable to the state government as owner.
The above Balance Sheet is to be read in conjunction with the accompanying notes.*



Statement of changes in equity

Financial statements for the year ended 30 June 2007

	Note No.	2007 \$'000	2006 \$'000
Total equity at the beginning of the financial year		144,922	135,991
Adjustment on adoption of AASB 139, net of tax where applicable, to:			
Retained earnings	3	-	(733)
Reserves	3	-	8,397
Opening balance restated		144,922	143,655
Derivative income recognised directly in equity	29	1,395	1,267
Profit for the year		8,316	5,000
Transactions with state government as owner:			
Dividend paid		(2,744)	(1,650)
Capital distribution		(2,256)	(3,350)
Total equity at the end of the financial year		149,633	144,922
Total net movement in equity for the year		4,711	1,267

The above Statement of Changes in Equity is to be read in conjunction with the accompanying notes.



Cash flow statement

Financial statements for the year ended 30 June 2007

	Note No.	2007 \$'000	2006 \$'000
Cash flows from operating activities			
Cash inflows			
Interest received on:			
Cash		88	80
Investments		-	515
Loans and advances		93,705	81,558
Fees and commissions received		1,855	1,775
Bad debts recovered		158	127
EquityStart Grant received		5,024	4,245
Other		395	-
Total cash inflows from operating activities		101,225	88,300
Cash outflows			
Payments to employees		(7,354)	(7,010)
Payments to suppliers		(5,116)	(4,950)
Payments to loan managers		(5,254)	(5,639)
Borrowing costs paid		(65,622)	(54,903)
Government guarantee fee paid		(7,071)	(7,300)
Income tax equivalents paid		(2,856)	(2,012)
Other		-	(28)
Total cash outflows from operating activities		(93,273)	(81,842)
Net cash provided by operating activities	33.2	7,952	6,458

The above Cash Flow Statement is to be read in conjunction with the accompanying notes.



Cash flow statement (cont)

Financial statements for the year ended 30 June 2007

	Note No.	2007 \$'000	2006 \$'000
Cash flows from investing activities			
Cash inflows			
Proceeds from sale of office and computer equipment		-	24
Proceeds from maturity of Bank Bills		-	12,955
Customer loans repaid		240,093	216,926
Total cash inflows from investing activities		240,093	229,905
Cash outflows			
Payments for property, plant and equipment		(232)	(2,007)
Payments for software		(161)	(13)
Payments for investments		(1,237)	(15,231)
Customer loans settled		(275,417)	(373,563)
Total cash outflows from investing activities		(277,047)	(390,814)
Net cash used in investing activities		(36,954)	(160,909)
Cash flows from financing activities			
Cash inflows			
Proceeds from borrowings		310,000	533,500
Total cash inflows from financing activities		310,000	533,500
Cash outflows			
Dividends paid		(2,744)	(1,650)
Repayment of borrowings		(272,998)	(375,371)
Repayment of capital		(2,256)	(3,350)
Total cash outflows from financing activities		(277,998)	(380,371)
Net cash provided by financing activities		32,002	153,129
Net increase (decrease) in cash and cash equivalents		3,000	(1,322)
Cash and cash equivalents at the beginning of the financial year		(32)	1,290
Cash and cash equivalents at the end of the financial year	33.1	2,968	(32)

The above Cash Flow Statement is to be read in conjunction with the accompanying notes.

NOTES



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NOTES



NOTE 1 Objectives of HomeStart Finance

The role of HomeStart Finance is to expand affordable housing options for South Australians.

HomeStart Loan

HomeStart provides home loans to lower income households and other needs groups with repayments linked to income and the Consumer Price Index (CPI). The HomeStart Loan is the principal loan product. The outstanding value of HomeStart Loans at 30 June 2007 was \$1153.6 million (\$1130.6 million, 2005-06).

Subsidies

HomeStart provides subsidised Advantage Loans of up to \$27 500 to lower income earners. The Advantage Loan is interest free if it is repaid within five years. The Advantage Loan interest is calculated by reference to the CPI but this interest is waived if the Advantage Loan is repaid in full prior to its 5th anniversary. As at 30 June 2007 the interest rate applying to Advantage Loans was 1.55% (2.96%, 2005-06). The outstanding value of Advantage Loans at 30 June 2007 was \$41.6 million (\$41.0 million, 2005-06).

In providing these loans, HomeStart incurred a direct cost of subsidy estimated to be \$2.46 million on the funds lent (\$2.2 million, 2005-06). HomeStart does not receive any funding with respect to this subsidy. Taking account of the net impact of accounting for Advantage Loans at fair value results in a cost to HomeStart of \$2.64 million (\$2.7 million, 2005-06).

HomeStart also provides subsidised EquityStart Loans of up to \$50 000 to current public housing tenants. Regular repayments on the EquityStart Loan are optional, and payment can be deferred and paid at the end of the loan period. The outstanding value of EquityStart Loans at 30 June 2007 was \$26.5 million (\$14.6 million, 2005-06).

The EquityStart Loan incurs interest at a subsidised rate, which is linked to the CPI.

HomeStart received grant funding from the Department for Families and Communities, to compensate HomeStart for fair value losses incurred on subsidised EquityStart Loans, in addition to reimbursing HomeStart for the administration expenses incurred by administering the EquityStart Loan program.

HomeStart also has loans at concessional interest rates through the City Living Access Loan, H.O.M.E and Rental Purchase schemes.

Funding

HomeStart funds its mortgage activities from capital and by borrowing from the South Australian Government Financing Authority (SAFA).

NOTES



NOTE 2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

2.1 Basis of preparation

This financial report is a general purpose financial report which has been prepared in accordance with applicable Australian Accounting Standards (AASB), other authoritative pronouncements of the Australian Accounting Standards Board, including Australian Interpretations adopted by the AASB, Treasurer's Instructions and Accounting Policy Statements (APS) promulgated under the provisions of the *Public Finance and Audit Act 1987 (PFAA)*.

The financial report is prepared on the historical cost basis, except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets at fair value through profit or loss, financial instruments classified as available-for-sale and subsidised loans and advances.

Income and expenses have been classified according to their nature in accordance with Accounting Policy Framework II General Purpose Financial Reporting Framework paragraph APS 3.5 and have not been offset unless required or permitted by a specific accounting standard.

2.1.1 Issued standards not early adopted

Certain new accounting standards and interpretations have been identified as those which may impact HomeStart in the period of initial application but are not mandatory for the 30 June 2007 reporting period.

Such accounting standards and interpretations are available for early adoption at 30 June 2007 but have not been adopted by HomeStart for the year ended 30 June 2007. The table below outlines each of these and the expected change, if any, in accounting policy when applied.

AASB Amendment	Affected Standard(s)	Nature of change to accounting policy	Application date of standard*	Application date for HomeStart
AASB 7 Financial Instruments: Disclosures	AASB 7 Financial Instruments: Disclosures	Application will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to HomeStart's financial instruments.	1 January 2007*	1 July 2007
AASB 2005 -10	AASB 132 Financial Instruments: Disclosure and Presentation, AASB 101 Presentation of Financial Statements, AASB 114 Segment Reporting, AASB 117 Leases, AASB 133, AASB 139 Financial Instruments: Recognition and Measurement, AASB 1 First-time adoption of AIFRS	Consequential amendments arising as a result of the release of AASB 7.	1 January 2007*	1 July 2007
Revised AASB 101 - Presentation of Financial Statements	AASB 101 – Presentation of Financial Statements		1 January 2007*	1 July 2007

* Application date is for the annual reporting periods beginning on or after the date shown in the above table. The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of HomeStart as the standard and the amendment are concerned only with disclosures.

NOTES



2.1.2 Estimates and assumptions

The preparation of a financial report in conformity with Australian Accounting Standards requires HomeStart to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.2 Statement of compliance

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Except for the amendments to AASB 101 Presentation of Financial Statements which HomeStart has early adopted, Australian Accounting Standards and interpretations that have recently been issued or amended but are not yet effective have not been early adopted by HomeStart for the reporting period ended 30 June 2007. These are outlined in Note 2.1.1.

2.3 Comparative figures

The presentation and classification of items in the financial report are consistent with prior periods except where a specific Accounting Policy Statement or an Australian Accounting Standard has required a change. Where permitted by a specific Accounting Policy Statement or Australian Accounting Standard, comparative information has been reclassified and disclosed where required.

Where it has been impractical to reclassify comparative amounts, the reason for not reclassifying the amount and the nature of the adjustment has been disclosed.

Please refer to Note 3 for details of restatements to comparative figures.

2.4 Rounding

All amounts in the financial statements have been rounded to the nearest thousand dollars (\$'000).

NOTES



2.5 Taxation

In accordance with Treasurer's Instructions issued under the *Public Finance and Audit Act 1987*, HomeStart is required to pay to the state government an income tax equivalent. The income tax liability is based on the Treasurer's accounting profit method, which requires that the corporate income tax rate of 30% (30%, 2005-06) be applied to profit from continuing operations before income tax equivalents.

HomeStart is liable for payroll tax, fringe benefits tax and Goods and Services Tax (GST).

Income, expenses and assets are recognised net of the amount of GST except where:

- The amount of GST incurred by HomeStart as a purchaser is not recoverable from the Australian Taxation Office (ATO)
- Receivables and payables are stated with the amount of GST included.

HomeStart, being a provider of financial services, is classified as an input taxed entity for GST purposes and consequently absorbs GST costs passed on by suppliers. Reduced input tax credits can only be claimed on a very limited number of input costs.

The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

2.6 Income

Income is recognised in HomeStart's Income Statement when, and only when, it is probable that the flow of economic benefits to the entity will occur and can be reliably measured.

2.6.1 Interest income – non subsidised loans

Interest income is recognised as it accrues, except for impaired loans where interest income is recognised as it is recovered (as described in Note 2.6.3).

2.6.2 Interest income – subsidised loans

Where HomeStart provides subsidised loans, such as Advantage Loans and EquityStart Loans, at rates other than market interest rates, the initial recognition of these loans at fair value will result in an initial loss being generated in the Income Statement, being the difference between the amount disbursed and the fair value. Fair value is measured by discounting the expected cash flows using a market interest rate.

Interest income on these subsidised loans is brought to account using the effective interest method at a risk-free rate of interest, based on 4 year (for Advantage Loans) and 10 year (for EquityStart Loans) SAFA Bonds.

2.6.3 Interest income – both non subsidised and subsidised non accrual loans

HomeStart ceases accruing interest income on loans when it is considered that HomeStart would be unable to recover that interest income from either the customer or from the sale of the security.

Interest on these loans is only brought to account when realised or when loans are returned to accrual status.

Loans are assessed as non-accrual where they are contractually more than 90 days overdue with security insufficient to cover principal and arrears of interest, or where there is doubt as to the full recovery of principal and interest.

NOTES



A non-accrual item may be restored to accrual status only if all arrears have been eliminated by payments from the customer, and HomeStart judges that the customer is capable of servicing their future obligations under the facility, or when it otherwise becomes well secured.

2.6.4 Loans at fair value through profit or loss

Changes in the fair value of loans measured at fair value through profit or loss are recognised in the Income Statement as they occur.

2.6.5 Loan origination fees received or receivable

Income directly attributable to the origination of loans is deferred and recognised in the Income Statement as part of the effective interest rate calculation. This method results in origination income being recognised over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed annually to ensure the amortisation methodology is appropriate.

2.6.6 Government grants

Grants from the Government of South Australia are recognised at their fair value where there is a reasonable assurance that the grant will be received and HomeStart will comply with all attached conditions.

HomeStart receives grant funds from the Department for Families and Communities, to compensate HomeStart for fair value losses incurred on subsidised EquityStart Loans, in addition to reimbursing HomeStart for the administration expenses incurred by administering the EquityStart Loan program.

Government grants relating to costs are deferred and recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate.

2.6.7 Investment income

Changes in fair value of investments (both realised and unrealised) are recognised in the Income Statement as they occur.

2.6.8 Disposal of non-financial assets

Income from disposal of non-financial assets is recognised when control of the asset has passed to the buyer and determined by comparing proceeds with carrying amount. The gains or losses arising from disposal of non-financial assets are recognised on a net basis as income or an expense.

2.6.9 Other income

Other income is recognised when earned or recovered and is measured at the fair value of the consideration received or receivable.

2.7 Expenses

Expenses are recognised in HomeStart's Income Statement, when and only, when it is probable that the flow of economic benefits from the entity will occur and can be reliably measured.

2.7.1 Interest expense

Interest payable is expensed in accordance with the accounting policy described at Note 2.14.

NOTES



2.7.2 Government Guarantee Fee

The Government Guarantee Fee is expensed as it becomes due at the rate imposed by the Department of Treasury and Finance.

2.7.3 Bad and impaired loans expense

Bad and impaired loans are expensed in accordance with the accounting policy described in Note 2.11.

2.7.4 Loan origination fees paid or payable

Fees directly attributable to the origination of loans are deferred and recognised in the Income Statement as part of the effective interest rate calculation. This method results in origination fees being expensed over the five year average life of loans in the portfolio.

The average life and interest recognition pattern of loans in the originated loan portfolio is reviewed annually to ensure the amortisation methodology is appropriate.

2.7.5 Employee expenses

Employee expenses are recognised in accordance with the accounting policy described at Note 2.17.

2.7.6 Depreciation and amortisation expense

Depreciation and amortisation expense is recognised in accordance with the accounting policy described at Note 2.15.4.

2.7.7 Operating lease expense

Operating lease payments are charged to the Income Statement on a basis which is representative of the pattern of benefits derived from the leased assets.

The aggregate benefit of lease incentives received by HomeStart in respect of operating leases has been recorded as a reduction of rental expense over the lease term, on a straight line basis.

2.7.8 Tax equivalents expense

The tax equivalents expense is recognised in accordance with the accounting policy described at Note 2.5.

2.8 Assets and liabilities

Assets and liabilities are classified in the Balance Sheet by their nature and in an order that reflects their relative liquidity. Current and non-current classes are not presented separately.

2.9 Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and deposits at call that are readily converted to cash and are used in the cash management function on a day-to-day basis.

Cash also includes highly liquid investments with short periods to maturity that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value. Cash is measured at its nominal value.

NOTES



2.10 Financial instruments

During the current and comparative financial years, HomeStart had the following types of financial instruments:

- cash and cash equivalents (refer to accounting policy Note 2.9)
- loans and advances (refer to accounting policy Note 2.11)
- investments (including bank bills, listed equities and properties funds, SAFA Cash Enhanced Fund and SAFA Composite Bond Index investment – refer to accounting policy Note 2.12)
- derivative financial instruments (refer to accounting policy Note 2.13) and
- financial liabilities (refer to accounting policy Note 2.14).

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments are required to be classified into one of five categories which will, in turn, determine the accounting treatment of the financial instrument. The classifications are:

- loans and receivables – initially measured at fair value and then at amortised cost using the effective interest rate method
- held-to-maturity financial assets – measured at amortised cost
- financial instruments designated at fair value through profit or loss – measured at fair value
- available for sale financial assets – measured at fair value
- financial liabilities (not at fair value through profit or loss) - measured at amortised cost.

The classification depends on the purpose for which the financial instruments were acquired.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that HomeStart has the positive intention and ability to hold to maturity. HomeStart has designated its investments in bank bills as held-to-maturity financial assets.

Financial assets at fair value through profit or loss

A financial asset is classified in this category if so designated by HomeStart. HomeStart's policy is to designate a financial asset at fair value through profit or loss if it is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investments strategy, and information about the financial asset is provided internally on that basis to HomeStart's key management personnel.

Derivatives are also categorised as financial assets at fair value through profit or loss unless they are designated as hedges.

HomeStart has designated the shared appreciation component of the Breakthrough Loan as well as its investments in listed equities and properties funds, the SAFA Cash Enhanced Fund and the SAFA Composite Bond Index investment as financial assets at fair value through profit or loss.

NOTES



Available for sale financial assets

Available for sale financial assets, are non-derivatives that are either designated in this category or not classified in any of the other categories.

HomeStart does not have any available for sale financial assets.

Financial liabilities

HomeStart's short-term and long-term borrowings are financial liabilities.

Impairment

HomeStart assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired.

The recoverable amount of HomeStart's investments in held-to-maturity securities and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets).

An impairment loss in respect of held-to-maturity securities or loans and receivables carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Reference should be made to accounting policy Note 2.11 for additional information in relation to the assessment of impairment of loans and receivables.

2.11 Loans and advances

Loans measured at amortised cost

With the exception of the shared appreciation component of the Breakthrough Loan, loans and advances are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest rate method and taking account of principal repayments and impairment losses.

For subsidised loans fair value is less than their face value. On settlement of subsidised loans an initial loss is recognised as an expense, being the difference between the face and fair value, which is then recognised as income over the expected life of the loan, using the effective interest rate method.

Loans measured at fair value through profit or loss

The Breakthrough Loan facility includes two loan components:

- A standard loan component with standard interest rates and repayments which operates under identical terms as HomeStart's current standard loan products. This portion of the Breakthrough Loan is recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method and taking account of principal repayments and impairment losses
- A shared appreciation component where repayment of the loan balance is generally deferred until sale of the property upon which time the loan balance is repaid along with a scheduled percentage of the appreciated value of the property.

The shared appreciation component is measured at fair value through profit or loss. The fair value of this loan component is based on the value of the property pledged as collateral. Gains or losses arising from changes in fair value are presented in the Income Statement in the period in which they arise.

NOTES



Effective interest rate

The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the loan or advance to the net carrying amount of the loan or advance. When estimating the future cash flows HomeStart considers all contractual terms of the loan or advance excluding any future credit losses. Included in this calculation are all fees paid or received that are integral to the contract.

Provision for impairment

HomeStart assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. A financial asset or portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the Balance Sheet date ('a loss event') and that loss event or events has had an impact on the estimated future cash flows of the financial asset or the portfolio that can be reliably estimated.

Loans and advances are individually assessed for impairment. If HomeStart determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics, taking into account asset type, geographical location, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. In addition, HomeStart uses its experienced judgement to estimate the amount of an impairment loss.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to take into consideration HomeStart's actual loss experience.

For loans and receivables the amount of impairment loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognised using an allowance account and the amount of the loss is included in the Income Statement.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

NOTES



If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the Income Statement.

In addition, a general reserve for credit losses is maintained to cover risks inherent in the loan portfolios. This reserve represents the difference between the impairment provisions calculated under AIFRS and that determined under the former Australian Generally Accepted Accounting Principles (AGAAP), net of income tax equivalents. Movements in the general reserve for credit losses are recognised as a transfer of retained earnings.

Bad debts

All bad debts are written off in the period in which they are classified as not recoverable. If a provision for impairment has been recognised in relation to a loan, write-offs for bad debts are made against the provision. If no provision for impairment has previously been recognised, write-offs for bad debts are recognised as expenses in the Income Statement.

2.12 Investments

Held-to-maturity investments

HomeStart has designated its investments in bank bills as held-to-maturity financial assets.

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity where HomeStart has the positive intention and ability to hold to maturity.

Investments that are intended to be held to maturity are stated at amortised cost using the effective interest rate method less impairment losses.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity.

For investments carried at amortised cost, gains and losses are recognised in the Income Statement when the investments are derecognised or impaired.

Investments at fair value through profit or loss

HomeStart has designated its investments in listed equities and properties funds, the SAFA Cash Enhanced Fund and the SAFA Composite Bond Index investment as financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss are carried at fair value. Gains or losses arising from changes in fair value are presented in the Income Statement in the period in which they arise.

2.13 Derivative financial instruments

HomeStart is exposed to changes in interest rates arising from financing activities, and it uses forward rate agreements, interest rate swap agreements and futures contracts to hedge this risk. Derivative financial instruments are not held for speculative purposes.

HomeStart does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are initially recognised at cost and subsequent to initial recognition are stated at fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

NOTES



The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using current interest rates and the current creditworthiness of the swap counterparties at the measurement date.

HomeStart designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges). For the current reporting and comparative periods, HomeStart has only cash flow hedges.

HomeStart documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. HomeStart also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items. The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 30.2. Movements in the derivatives valuation reserve in equity are shown in Note 29.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised directly in equity in the derivatives valuation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Effectiveness tests are performed on all derivative financial instruments to determine if they are still providing the protection originally intended when entered into by HomeStart. Where a derivative financial instrument that was previously considered to be effective no longer satisfies the effectiveness test criteria, any gain or loss on the instrument previously recognised in equity is reversed through the Income Statement with all subsequent gains or losses recognised through the Income Statement.

2.14 Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value, net of transaction costs incurred. Interest-bearing borrowings are subsequently stated at amortised cost with any difference between the interest-bearing cost and the redemption value being recognised in the Income Statement over the period of the borrowings on the effective interest rate basis.

2.15 Non-financial assets

2.15.1 Property, plant and equipment

Assets are recorded at cost or at the value of any liabilities assumed, plus any incidental cost involved with the acquisition, less accumulated depreciation (see Note 2.15.4) and impairment losses. Where assets are acquired at no value, or minimal value, they are recorded at their fair value in the Balance Sheet. If however, the assets are acquired at no or nominal value as part of a restructuring of administrative arrangements, then the assets are recorded at the value recorded by the transferor prior to transfer.

At the expiration of the lease of its office accommodation, HomeStart is required by the lease agreement to return the premises to its original condition ('make good'). The costs involved in doing so have been included in the cost of HomeStart's leasehold improvements. This amount has been calculated as an estimate of future costs and discounted to a present value.

HomeStart capitalises all non-current tangible assets with a value of \$500 or greater.

NOTES



Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

2.15.2 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Intangible assets are recorded at cost less accumulated amortisation (refer to Note 2.15.4).

The acquisition or internal development of software is capitalised when the expenditure meets the definition and recognition criteria of an intangible asset outlined in AASB 138 Intangible Assets, and when the amount of expenditure is greater than or equal to \$500.

Software assets that are not integral to the operation of hardware are recognised as intangible assets with a finite life. Capitalised software is amortised over the finite life of the asset, with a maximum time limit for amortisation of four years.

Costs in relation to website development are charged as expenses in the period in which they are incurred, unless they relate to the acquisition of an asset, in which case they are capitalised and amortised over the period of expected benefit. Generally, costs in relation to feasibility studies during the planning phase of a website, and ongoing costs of maintenance during the operating phase are considered to be expenses. Costs involved in building or enhancing a website, to the extent they represent probable future economic benefits controlled by HomeStart that can be reliably measured, are capitalised as an asset and amortised over the period of the expected benefits.

2.15.3 Impairment and revaluation

In accordance with Accounting Policy Framework III Asset Accounting Framework:

- all tangible assets are valued at written down current cost (a proxy for fair value); and
- revaluation of non-current assets or group of assets is only performed when its fair value at the time of acquisition is greater than \$1 million and estimated useful life is greater than 3 years.

If at any time HomeStart considers that the carrying amount of an asset materially differs from its fair value, then the asset will be revalued regardless of when the last valuation took place.

All tangible and intangible assets are tested for indication of impairment at each reporting date. Where there is an indication of impairment, the recoverable amount is estimated.

An impairment loss is recognised whenever the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment losses are recognised in the Income Statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

NOTES



Reversals of impairment

Impairment losses are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.15.4 Depreciation and amortisation of non-financial assets

All non-financial assets, having a limited useful life, are systematically depreciated/amortised over their useful lives in a manner that reflects the consumption of their service potential. Amortisation is used in relation to intangible assets such as software, while depreciation is applied to physical assets such as office and computer equipment.

The useful lives of all major assets held by HomeStart are reassessed on an annual basis.

The value of leasehold improvements is amortised over the estimated useful life of each improvement, or over the lease period, whichever is lesser.

Depreciation and amortisation of non-current assets is determined as follows:

Class of asset	Depreciation method	Useful life (Years)
Leasehold improvements	Straight line	10
Other office and computer equipment	Straight line	5-10

2.16 Payables

Payables include creditors, accrued expenses, interest, guarantee fee and loan manager fees.

Creditors represent the amounts owing for goods and services received prior to the end of the reporting period that are unpaid at the end of the reporting period. Creditors include all unpaid invoices received relating to the normal operations of HomeStart.

Accrued expenses represent goods and services provided by other parties during the period that are unpaid at the end of the reporting period and where an invoice has not been received.

Employment on-costs include superannuation contributions and payroll tax with respect to outstanding liabilities for salaries and wages, long service leave and annual leave.

All payables are measured at their nominal amount and are normally settled within 30 days from the date the invoice is first received (in accordance with Treasurer's Instruction 11 Payment of Creditors' Accounts).

2.17 Employee benefits

2.17.1 Long-term service benefits

Long-term employee benefits are measured at present value. HomeStart's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods.

The liability for long service leave is recognised after an employee has completed 6.5 years (2006: 7 years) of service in accordance with Accounting Policy Framework IV Financial Asset and Liability Framework. An actuarial assessment of Long Service Leave undertaken by the Department of Treasury and Finance based on a significant sample of employees throughout the South Australian public sector determined that the liability measured using the short-hand method was not materially different from the liability measured using the present value of expected future payments. This calculation is consistent with HomeStart's experience of employee retention and leave taken.

NOTES



2.17.2 Wages, salaries, annual leave and sick leave

Liabilities for employee benefits for salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration salary rates that HomeStart expects to pay as at reporting date.

No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees is estimated to be less than the annual entitlement of sick leave.

Liability for salaries and wages are measured as the amount unpaid at the reporting date at remuneration rates current at the reporting date. The annual leave liability is expected to be payable within 12 months and is measured at the undiscounted amount expected to be paid. In the unusual event where salary and wages and annual leave are payable later than 12 months, the liability will be measured at present value.

HomeStart makes contributions to several state government and externally managed superannuation schemes. These contributions are treated as an expense when they occur. There is no liability for payments to beneficiaries as they have been assumed by the respective superannuation schemes. The only liability outstanding at balance date relates to any contributions due but not yet paid to the South Australian Superannuation Board and various externally managed superannuation schemes.

2.18 Insurance

HomeStart has arranged, through the SAFA, SAICORP division to insure all HomeStart's major risks. The excess payable under this arrangement varies depending on each class of insurance held.

2.19 Accounting judgements, estimates and assumptions

The preparation of the financial report requires the use of certain accounting estimates and requires HomeStart to exercise its judgement in the process of applying HomeStart's accounting policies. No judgements have been determined to be individually significant.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The areas involving a higher degree of estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual financial reporting period are outlined below.

2.19.1 Impairment of loans and advances

HomeStart determines whether loans are impaired on an ongoing basis. This requires an estimation of the value of the future cash flows. HomeStart's policy for calculation of loan impairment is disclosed in Note 2.11.

2.19.2 Fair value of subsidised loans and advances

When HomeStart provides subsidised loans, such as the Advantage Loan and EquityStart Loan, at rates lower than market interest rates, the initial recognition of these loans at fair value results in an initial loss being generated in the Income Statement. Fair value is measured by discounting the expected cash flows using a market interest rate. This requires an estimation of the value of the future cash flows. HomeStart's policy for calculation of the fair value of subsidised loans is disclosed in Note 2.6.

NOTES



NOTE 3 Restatement of collective loss provision

Background

HomeStart was required to comply with AIFRS for the first time in its financial statements for the year ended 30 June 2006.

The most significant financial standard adopted by HomeStart under AIFRS was AASB 139 Financial Instruments: Recognition and Measurement (AASB 139).

Amongst other things, AASB 139 outlines the requirements for calculating the collective provision for impairment.

In the preparation of the financial report for the year ended 30 June 2006, HomeStart dedicated significant resources to determining a collective provision which complied with AASB 139 and was assisted in the process by external expert accounting advisers.

The expert assisted in interpreting the requirements of AASB 139, reviewed HomeStart's methodology, and confirmed that the approach used by HomeStart to estimate the collective provision for impaired loans in the loan portfolio was consistent with their understanding of the Australian Accounting Standards Board's requirements in relation to the Collective Provisioning for Impairment Losses of financial assets in HomeStart's lending portfolio.

During the course of the 2007 financial year, HomeStart again engaged the same external expert accounting adviser to assist with revising the method of calculating the collective loss provision.

Revised method of calculation

A collective assessment is made for all loans that are found not to be impaired on an individual basis. HomeStart has calculated a collective provision for loans which have experienced one or more of the following loss events:

- currently in arrears
- under negotiated instalments
- interest has been capitalised
- current security value is below original valuation; and
- an adverse movement in credit risk score or loan performance score.

Loans which have experienced one or more of the above loss events are grouped with those displaying similar risk characteristics. These risk characteristics are loan to valuation ratio at settlement, location of the security property, current arrears level and product type. Historical data for each risk grouping is first adjusted to take account of changes in economic conditions and other factors relevant to determining risk levels in the portfolio, and then used to determine the probability of default and loss given default for each loan.

NOTES



In addition to the above, the collective provision assessment also includes an allowance for losses incurred but not reported on loans remaining from the total portfolio after excluding those selected under the base collective provision criteria.

Previous method of calculation

To determine a collective provision amount, HomeStart developed a model that projected losses using historical loss experience as determined by independent actuarial analysis. Loans were grouped by year of origination and expected loss rates were adjusted for the varying risk characteristics of the loan groups based on original Loan to Valuation Ratio (LVR) and region (metropolitan or country).

Expected losses were then determined using a loss event relating to the condition of the residential property market. Projected loss incidence was adjusted to reflect past loss experience at similar points in the property cycle.

How the restatement of the collective loss provision has been reflected in the financial statements

The restatement of the collective loss provision has been reflected in the financial statements for the year ended 30 June 2007 by restating the line items for the prior year, as if the revised method of calculation had always been applied.

This has resulted in the collective provision reported as at 30 June 2006 reducing from \$12.02 million to \$5.95 million, the general reserve for credit losses increasing from \$7.48 million to \$11.73 million and profit for the year increasing from \$4.7 million to \$5.0 million.

Retained earnings as at 1 July 2005 restated for the adoption of AIFRS, increased by \$2.57 million from \$132.69 million to \$135.26 million. The general reserve for credit losses as at 1 July 2005 increased by \$3.1 million from \$5.63 million to \$8.73 million. This was due to the collective loss provision on initial adoption of AIFRS decreasing by \$5.67 million from \$9.86 million to \$4.19 million.

The following shows the changes to comparative figures on a line-by-line basis.

NOTES



Net effect of restatement of collective loss provision

The restatement of the collective loss provision has resulted in the following changes to the comparatives in the financial statements:

	2006 \$'000	2006 \$'000	Change \$'000
	Original	Restated	Debit/(Credit)
Income statement			
Bad and impaired loans expense/(credit)	2,825	2,426	(399)
Profit from continuing operations before income tax equivalents expense	6,744	7,143	(399)
Income tax equivalent expense	2,023	2,143	120
Profit for the year	4,721	5,000	(279)
Balance sheet			
Assets			
Collective impairment provision			
Opening balance	-	-	-
Transfer from general provision for doubtful debts on adoption of AIFRS at 1 July 2005	16,658	16,658	-
Transfer to general reserve for credit losses on adoption of AIFRS at 1 July 2005	(5,633)	(8,729)	3,096
Adjustment to retained earning on adoption of AIFRS at 1 July 2005	(1,168)	(3,741)	2,573
Doubtful debts expense	2,163	1,764	399
Closing balance	(12,020)	(5,952)	6,068
Net loans and advances	1,161,086	1,167,154	6,068
Total assets	1,205,706	1,211,774	6,068
Liabilities			
Income tax payable	1,119	1,239	(120)
Total liabilities	1,066,732	1,066,852	(120)
Net assets	138,974	144,922	5,948

NOTES



	2006 \$'000	2006 \$'000	Change \$'000
	Original	Restated	Debit/(Credit)
Equity			
General reserve for credit losses			
General reserve for credit losses at the beginning of the financial year	-	-	-
Adjustment on adoption of AASB 139	5,633	8,729	(3,096)
Transfer from retained earnings	1,851	3,003	(1,152)
General reserve for credit losses at the end of the financial year	7,484	11,732	(4,248)
Retained earnings			
Retained earnings at the beginning of the financial year	135,991	135,991	-
Adjustments on adoption of AASB 139 (excluding collective provision)	(4,474)	(4,474)	-
Adjustment to collective provision	1,168	3,741	(2,573)
Retained earnings at the beginning of the financial year restated	132,685	135,258	(2,573)
Transfer to credit losses reserve	(1,851)	(3,003)	1,152
Total recognised income and expense	4,721	5,000	(279)
Dividend paid	(1,558)	(1,650)	92
Capital distribution	(3,442)	(3,350)	(92)
Total retained earnings at end of the financial year	130,555	132,255	(1,700)
Total equity	138,974	144,922	(5,948)

NOTES



NOTE 4 Effect of compliance with Australian Accounting Standard AASB 139

When calculating its collective provisions HomeStart has adopted the requirements of AASB 139 as described in accounting policy Note 2.11. It has also created a general reserve for credit losses in which it sets aside retained earnings being the equivalent of the excess of the loans impairment provision determined under its accounting policy prior to the adoption of AIFRS over that determined in accordance with AASB 139, as described in Note 29.

Actual future losses incurred by HomeStart in excess of the collective provision are required to be charged to the Income Statement and cannot be recognised directly to the general reserve for credit losses.

AASB 139 requires that a collective provision only be recognised if there is objective evidence of impairment following initial settlement of a loan. It does not allow for recognition of a collective provision for inherent risk of losses within the portfolio.

HomeStart estimates that the sum of its specific and collective provisions, together with the general reserve for credit losses, constitutes a pool of capital which will be sufficient to meet loan losses in the future.

NOTE 5 Government/non-government disclosures

In accordance with Accounting Policy Framework II General Purpose Financial Reporting, Accounting Policy Statement 4.1 Notes to the General Purpose Financial Report, HomeStart has included details of income, expenditure, assets and liabilities according to whether the transactions are with entities internal or external to the SA Government in the notes to the accounts.

NOTE 6 Segment reporting

HomeStart operates in one geographical segment (South Australia) and its principal activity is the provision of home finance to lower income groups.

NOTES



NOTE 7 Net interest income

Interest received/receivable from entities external to the SA Government	2007 \$'000	2006 \$'000
Loans and advances	91,549	80,391
Subsidised loans effective interest income	2,894	2,110
Subsidised loans fair value expense	(4,650)	(5,486)
Deposits with banks	94	46
Total interest received/receivable from entities external to the SA Government	89,887	77,061
Interest paid/payable to entities within the SA Government		
Borrowings from SAFA	66,016	55,305
Total interest paid/payable to entities within the SA Government	66,016	55,305
Net interest income	23,871	21,756

NOTES



NOTE 8 Other income

Other income received/receivable from entities external to the SA Government	2007 \$'000	2006 \$'000
Fees and charges	2,988	2,916
Loan origination income amortisation	1,874	1,327
Bad debts recovered	334	127
Unrealised change in fair value of loans	19	-
Unrealised change in market value of investments	1,856	1,506
Managed funds distribution	2,267	1,412
Interest income from investments	-	515
Other	99	189
Total other income received/receivable from entities external to the SA Government	9,437	7,992
Other income received/receivable from entities within the SA Government		
EquityStart grant (1)	3,881	3,918
Realised change in market value of investments – SA Government	1,306	433
Other	525	-
Total other income received/receivable from entities within the SA Government	5,712	4,351
Total other income	15,149	12,343

(1) EquityStart grant funds received

During the financial year, HomeStart received \$5.0 million (\$4.2 million, 2005-06) in grant funds from the Department for Families and Communities, to compensate HomeStart for fair value losses incurred on subsidised EquityStart loans, in addition to reimbursing HomeStart for the administration expenses incurred by administering the EquityStart loan program. These grant funds are deferred and recognised in the Income Statement over the period necessary to match them with the costs that they are intended to compensate – refer to Note 2.6.

NOTE 9 Net gain/(loss) from disposal of assets

	2007 \$'000	2006 \$'000
Proceeds from disposal of assets	-	24
Net book value of assets disposed	(12)	(22)
Total net gain/(loss) from disposal of assets	(12)	2

NOTE 10 Bad and impaired loans expense

	2007 \$'000	2006 \$'000
Bad and impaired loans expensed	16	14
Increase in provision for impairment	1,813	2,412
Total bad and impaired loans expense	1,829	2,426

NOTES



NOTE 11 Government guarantee fee

	2007 \$'000	2006 \$'000
Government guarantee fee paid or payable to entity within the SA Government	7,007	7,404
Total Government guarantee fee paid to entity within the SA Government	7,007	7,404

HomeStart paid a guarantee fee of 0.65% of outstanding borrowings to the Department of Treasury and Finance in 2006-07 (0.75%, 2005-06).

NOTE 12 Employee expenses, remuneration and number of employees

	2007 \$'000	2006 \$'000
Salaries and wages	6,312	6,066
Long service leave	(7)	(45)
Annual leave	109	10
Employment on-costs – superannuation	595	492
Employment on-costs – other	368	344
Board fees	167	132
Total employee expenses	7,544	6,999

Remuneration of employees	2007 No.	2006 No.
The number of employees whose remuneration received or receivable falls within the following bands:		
\$100,000 to \$109,999	6	3
\$110,000 to \$119,999	-	1
\$130,000 to \$139,999	-	1
\$140,000 to \$149,999	-	1
\$160,000 to \$169,999	-	1
\$170,000 to \$179,999	1	-
\$180,000 to \$189,999	1	-
\$190,000 to \$199,999	1	1
\$200,000 to \$209,999	-	1*
\$210,000 to \$219,999	1	-
\$280,000 to \$289,999	1	2*
Total number of employees	11	11

The table includes all employees who received remuneration of \$100 000 or more during the year. Remuneration of employees reflects all costs of employment including salaries and wages, superannuation contributions, fringe benefits tax and any other salary sacrifice benefits. The total remuneration received by these employees for the year was \$1.75 million (\$1.84 million, 2005-06).

* Includes payment of redundancies and long service leave.

Number of employees at the end of the reporting period:

HomeStart employed 102 (88, 2005-06) people at the end of the reporting period.

NOTES



NOTE 13 Key management personnel disclosures

The following employees held authority and responsibility for planning, directing and controlling the activities of HomeStart for the entire financial year:

- Gary Storkey (Chief Executive Officer)
- John Comley (General Manager Corporate Services and Chief Financial Officer)
- Kathryn Murray (General Manager Retail Services)
- Jay Walker (General Manager Community Finance)
- Ian Wheaton (General Manager Treasury and Risk)

Key management personnel compensation

The compensation of the above key management personnel included in 'employee expenses' (see Note 12) is as follows:

	2007 \$'000	2006 \$'000
Short-term employee benefits	1,050,769	987,134
Long-term employee benefits (long service leave)	57,506	118,447
Long-term employee benefits (amounts paid to superannuation plans)	86,989	87,717
Termination benefits	-	276,818
Total key management personnel compensation	1,195,264	1,470,116

NOTE 14 Related parties

All transactions between HomeStart and related parties are on arms-length terms and conditions.

During the financial year, HomeStart undertook transactions with the following related parties. The nature and amounts of these transactions have been disclosed throughout the financial report:

- employees who are key management personnel
- Board members
- Department for Families and Communities
- Department of Treasury and Finance
- South Australian Government Financing Authority

Board members

The following persons were members of the Board of HomeStart during the whole of the financial year:

- Claude Long (Chair)
- Jim Kouts (Deputy Chair)
- Estelle Bowman
- Paula Capaldo
- Sandra De Poi
- Jay Hogan
- Lindsay Smith.

NOTES



Board members' remuneration

The remuneration of the Board of HomeStart included in 'employee expenses' (see note 12) is as follows:

	2007 \$	2006 \$
Short-term benefits	166,791	128,400
Long-term employee benefits (amounts paid to superannuation plans)	15,638	11,600
Total Board members' remuneration	182,429	140,000

The number of HomeStart Board members whose remuneration received or receivable falls within the following bands:

	2007 No.	2006 No.
\$0 - \$9,999	-	3
\$10,000 - \$19,999	-	4
\$20,000 - \$29,999	6	2
\$30,000 - \$39,999	1	1
Total number of Board members	7	10

Apart from the details disclosed in this note, no Board member has entered into a material contract with HomeStart since the end of the previous financial year and there were no material contracts involving Board members' interests existing at year end.

NOTE 15 Economic dependency

HomeStart has an economic dependency on the following suppliers of services:

Financing services

SAFA is the sole provider of funds to HomeStart.

Loan management services

HomeStart contracts a significant proportion of its loan management services to BankSA, The Home Loan Centre, Homeloans Plus and Bernie Lewis Home Loans.

NOTES



NOTE 16 Depreciation and amortisation expense

Depreciation	2007 \$'000	2006 \$'000
Other office and computer equipment	223	229
Total depreciation	223	229
Amortisation		
Leasehold improvements	209	107
Intangible assets	33	28
Total amortisation	242	135
Total depreciation and amortisation	465	364

NOTE 17 Other expenses

Other expenses paid to entities within the SA Government	2007 \$'000	2006 \$'000
External auditor's remuneration	123	129
Insurance	61	49
Total other expenses paid to entities within the SA Government	184	178

Other expenses paid to entities external to the SA Government		
Office accommodation (minimum lease payments)	698	647
Marketing, product development and advertising	1,363	1,292
Internal audit fees	215	164
Loan administration	155	146
Information technology	493	319
Consultants' fees	175	234
Human resources and staff development	420	400
Other	1,452	1,615
Total other expenses paid to entities external to the SA Government	4,971	4,817
Total other expenses	5,155	4,995

The number and dollar amount of consultancies paid/payable that fell within the following bands:	No	2007 \$'000	No	2006 \$'000
Below \$10,000	9	28	3	5
Between \$10,000 and \$50,000	8	147	8	172
Above \$50,000	-	-	1	57
Total paid/payable to the consultants engaged	17	175	12	234

NOTES



NOTE 18 Auditor's remuneration

	2007 \$'000	2006 \$'000
Audit fees paid/payable to the Auditor-General's Department	123	129
Total audit fees – SA Government entities	123	129

Other services

No other services were provided by the Auditor-General's Department.

NOTE 19 Investments

19.1 Investments at fair value through profit or loss

Investments at fair value through profit or loss with entity within the SA Government	2007 \$'000	2006 \$'000
SAFA Composite Bond Index investment	8,503	6,993
SAFA Cash Enhanced Fund	18,167	15,234
Total investments at fair value through profit or loss with entity within the SA Government	26,670	22,227

Investments at fair value through profit or loss with entities external to the SA Government

Listed equities and properties funds	18,587	16,364
Total investments at fair value through profit or loss with entities external to the SA Government	18,587	16,364
Total investments at fair value through profit or loss	45,257	38,591

19.2 Maturity profile of HomeStart's investments

	2007 \$'000	2006 \$'000
At call	18,167	15,234
Not longer than 3 months	18,587	16,364
Longer than 3 months and not longer than 12 months	8,503	6,993
Total investments	45,257	38,591

NOTES



NOTE 20 Loans and advances

20.1 Loans and advances

	2007 \$'000	2006 \$'000
Primary loans	1,154,966	1,128,460
Subsidised loans	68,067	55,601
Breakthrough Loan (shared appreciation component)	1,551	-
Control accounts	89	2,170
Gross loans and advances	1,224,673	1,186,231
Fair value adjustment	(12,602)	(9,109)
Deferred loan fee income	(4,610)	(4,179)
Deferred loan fee expense	2,505	2,377
Specific provisions for impairment	(2,214)	(1,726)
Unearned income	(822)	(488)
Collective provision for impairment	(7,063)	(5,952)
Net loans and advances	1,199,867	1,167,154
Specific provision for impaired loans	2007 \$'000	2006 \$'000
Opening balance	1,726	1,172
Bad debts written off	(214)	(94)
Impairment expense	702	648
Closing balance	2,214	1,726
General provision for impaired loans		
Opening balance	-	16,658
Transfer to collective impairment provision on adoption of AIFRS at 1 July 2005	-	(16,658)
Closing balance	-	-

NOTES



Collective impairment provision	2007 \$'000	2006 \$'000
Opening balance	5,952	-
Transfer from general provision for doubtful debts on adoption of AIFRS at 1 July 2005	-	16,658
Transfer to general reserve for credit losses on adoption of AIFRS at 1 July 2005	-	(8,729)
Adjustment to retained earnings on adoption of AIFRS at 1 July 2005	-	(3,741)
Impairment expense	1,111	1,764
Closing balance	7,063	5,952
Total provision for impairment	9,277	7,678

20.2 Asset quality disclosures

Non-accrual loans	2007 \$'000	2006 \$'000
With provision	10,889	8,738
Without provision	1,885	653
Total non-accrual loans	12,774	9,391
Specific provision	2,194	1,664
Interest foregone on non-accrual loans	822	488
Real estate acquired		
Balance of loans at end of financial year	675	462
Specific provision	20	62
Past due loans		
Balance of loans at end of financial year	2,274	2,563
Specific provision	-	-

The balance of loans and advances is shown after deducting the provision for impairment, ensuring that the balance reflects the expected recoverable amount of these loans. The basis of determining the provision for impairment is disclosed at *note 2.11*.

NOTES



20.3 Maturity profile of HomeStart's loans and advances

	2007 \$'000	2006 \$'000
Longer than 1 year and not longer than 5 years	199	128
Longer than 5 years	1,224,474	1,186,103
Total gross loans and advances	1,224,673	1,186,231

The maturity distribution of loans and advances is based on contractual terms and not when they are due to reprice or are likely to be repaid. HomeStart Loans do not have fixed contractual terms as they vary with changes in inflation and interest rates. Based on standard assumptions, these loans would have an initial term ranging up to 28 years, but the majority of loans are anticipated to have actual contractual terms of a much shorter maturity period (around 60% of current customers are expected to repay their loans in under 20 years).

As at 30 June total loans either approved but not settled or settled but not fully drawn amounted to \$21.9 million (\$27.1 million, 2005-06).

NOTE 21 Property, plant and equipment

	2007 \$'000	2006 \$'000
Leasehold improvements		
Leasehold improvements at cost	1,989	1,848
Accumulated amortisation	(335)	(126)
Total leasehold improvements	1,654	1,722
Other office and computer equipment		
Other office and computer equipment at cost	2,755	2,801
Accumulated depreciation	(1,991)	(1,939)
Total other office and computer equipment	764	862
Total property, plant and equipment	2,418	2,584

	Leasehold improvements \$'000	Other office and computer equipment \$'000	Total \$'000
Carrying amount at the beginning of the financial year	1,722	862	2,584
Additions	144	134	278
Disposals	-	(12)	(12)
Transfers	(3)	3	-
Depreciation and amortisation	(209)	(223)	(432)
Carrying amount at the end of the financial year	1,654	764	2,418

NOTES



NOTE 22 Intangible assets

	2007 \$'000	2006 \$'000
Software at cost	797	549
Accumulated amortisation	(634)	(514)
Total software	163	35
Carrying amount at the beginning of the financial year	35	54
Additions	161	13
Disposals	-	(4)
Amortisation	(33)	(28)
Carrying amount at the end of the financial year	163	35

NOTE 23 Other assets

	2007 \$'000	2006 \$'000
Other assets – entities within the SA Government		
Accrued interest on derivatives (SAFA)	11	3
EquityStart grant receivable	1,038	1,392
Other	430	120
Total other assets – entities within the SA Government	1,479	1,515
Other assets – entities external to the SA Government		
Accrued interest on housing loans and advances	260	239
Accrued interest on cash at bank	9	3
GST recoverable	36	40
Prepayments	91	89
Other	20	102
Total other assets – entities external to the SA Government	416	473
Total other assets	1,895	1,988

NOTES



NOTE 24 Payables

Payables to entities within the SA Government	2007 \$'000	2006 \$'000
Creditors	2	3
Accrued administration expenses	151	130
Employment on-costs	192	132
Accrued interest payable	2,874	2,472
Accrued guarantee fee payable	581	645
Total payables to entities within the SA Government	3,800	3,382
Payables to entities external to the SA Government		
Creditors	302	215
Accrued administration expenses	113	148
Accrued loan manager fees	318	315
Accrued capital acquisition	46	-
Total payables to entities external to the SA Government	779	678
Total payables	4,579	4,060

NOTE 25 Borrowings

25.1 Interest bearing liabilities

	2007 \$'000	2006 \$'000
Short-term borrowings		
Short-term borrowings payable to entity within the SA Government		
Short-term borrowings	81,384	58,382
Total short-term borrowings payable to entity within the SA Government	81,384	58,382
Short-term borrowings payable to entity external to the SA Government		
Short-term borrowings (bank overdraft)	-	518
Total short-term borrowings payable to entity external to the SA Government	-	518
Total short-term borrowings	81,384	58,900
Long-term borrowings		
Long-term borrowings payable to entity within the SA Government		
Long-term borrowings	1,013,500	999,500
Total long-term borrowings payable to entity within the SA Government	1,013,500	999,500
Total long-term borrowings	1,013,500	999,500
Total interest bearing liabilities	1,094,884	1,058,400

NOTES



25.2 Maturity profile of HomeStart's interest bearing liabilities

	2007 \$'000	2006 \$'000
At call	2,884	1,400
Not longer than 3 months	78,500	44,500
Longer than 3 months but not longer than 1 year	-	13,000
Longer than 1 year and not longer than 5 years	733,500	999,500
Longer than 5 years	280,000	-
Total interest bearing liabilities	1,094,884	1,058,400

HomeStart sources its borrowings from SAFA and is subject to a gross borrowing limit of \$1350 million (\$1350 million, 2005-06).

NOTE 26 Employee benefits

26.1 Employee benefits

	2007 \$'000	2006 \$'000
Accrued salaries	141	113
Annual leave	400	291
Long service leave	470	477
Total employee benefits	1,011	881

26.2 Aggregate employee benefits

	2007 \$'000	2006 \$'000
Accrued salaries		
On-costs	66	21
Provision for employee benefits	141	113
Total accrued salaries	207	134
Annual leave		
On-costs	58	42
Provision for employee benefits	400	291
Total annual leave	458	333
Long service leave		
On-costs	68	69
Provision for employee benefits	470	477
Total long service leave	538	546
Aggregate employee benefit and related on-costs	1,203	1,013

NOTES



NOTE 27 Income tax payable

	2007 \$'000	2006 \$'000
Income tax payable to entity within the SA Government	1,946	1,239
Total tax liability payable to entity within the SA Government	1,946	1,239

NOTE 28 Other liabilities

Other liabilities payable to or arising from transactions with entities within the SA Government	2007 \$'000	2006 \$'000
Aboriginal loan security deposit	74	250
Unearned income (EquityStart grant)	2,508	1,718
Total other liabilities payable to or arising from transactions with entities within the SA Government	2,582	1,968

Other liabilities payable to or arising from transactions with entities external to the SA Government		
Make good provision	158	158
Operating lease incentive	105	140
Adelaide New Owners Grant	-	6
Total other liabilities payable to or arising from transactions with entities external to the SA Government	263	304
Total other liabilities	2,845	2,272

NOTE 29 Equity

	2007 \$'000	2006 \$'000
Reserves		
General reserve for credit losses	10,532	11,732
Derivatives valuation reserve	2,330	935
Total reserves	12,862	12,667
Retained earnings	136,771	132,255
Total equity at the end of the financial year	149,633	144,922

NOTES



Movements in equity were as follows:

General reserve for credit losses	2007 \$'000	2006 \$'000
General reserve for credit losses at the beginning of the financial year	11,732	8,729
Transfer (to)/from retained earnings	(1,200)	3,003
General reserve for credit losses at end of the financial year	10,532	11,732
Derivatives valuation reserve		
Derivatives valuation reserve the beginning of the financial year	935	(332)
Changes in the fair value of cash flow hedges	1,395	1,267
Balance at end of the financial year	2,330	935
Retained earnings		
Retained earnings at the beginning of the financial year	132,255	135,258
Transfer (to)/from credit losses reserve	1,200	(3,003)
Profit for the year	8,316	5,000
Dividend paid	(2,744)	(1,650)
Capital distribution	(2,256)	(3,350)
Total retained earnings at end of the financial year	136,771	132,255

Dividend payment

Pursuant to Section 26 of the *Housing and Urban Development (Administrative Arrangements) Act 1995*, HomeStart must recommend to the Minister for Housing that it pay a specified dividend or not pay a dividend, for the financial year, as it considers appropriate. The Act further provides for the Minister, in consultation with the Treasurer, to approve the recommendation of HomeStart, or to determine that another dividend, or no dividend, should be paid.

During 2006-07, HomeStart recommended, and paid, a dividend of \$5.0 million (\$5.0 million, 2005-06) which has been allocated between dividend and capital repatriation in accordance with an established dividend policy based on commercial principles.

General reserve for credit losses

A general reserve for credit losses was created as at 1 July 2005, to set aside retained earnings being the equivalent of the excess of the loans impairment provision determined under former AGAAP in excess of the specific and collective provisions determined under AASB 139. The maintenance of this reserve is consistent with the Australian Prudential Regulation Authority (APRA) prudential risk management requirements of retaining sufficient retained earnings for capital adequacy purposes.

Derivatives valuation reserve

The derivatives valuation reserve was created at 1 July 2005 on adoption of AASB 139 to recognise the effective gain or loss on derivatives that are designated hedging instruments.

NOTES



NOTE 30 Financial instruments

HomeStart's principal financial instruments comprise home loans and advances, investments, borrowings from SAFA and derivatives, being mainly interest rate swaps.

HomeStart's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. HomeStart's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of HomeStart.

HomeStart enters into derivative transactions, principally interest rate swaps. The purpose is to manage the interest rate risk arising from HomeStart's operations and its sources of finance. It is, and has been throughout the period under review, HomeStart's policy that no trading in financial instruments shall be undertaken.

Risk management is overseen by the Finance Sub-Committee and the Asset and Liability Committee under policies approved by the Board. The Finance Sub-Committee identifies, evaluates and hedges financial risks.

The Board and Asset and Liability Committee review and approve policies for managing financial risks and they are summarised below.

30.1 Interest rate risk

Interest rate risk is managed through matching HomeStart's borrowings with its home loan assets portfolio. The resulting repricing mismatch is measured daily and monitored by the Finance Sub-Committee on a weekly basis and the Asset and Liability Committee on a monthly basis.

HomeStart engages in derivative financial instruments to hedge interest rate risk within its portfolio. These derivatives include interest rate swaps, bank bill futures and forward rate agreements.

Fixed interest rate loan assets have been valued at fair value at 1 July 2006, being face value plus net transaction costs, and are hedged by interest rate swaps, which have been designated as cash flow hedges, to enable the portion of the effective gain or loss to be recognised in equity.

Fluctuations in the fair value of these transactions are not recognised in the Income Statement when HomeStart satisfies the 'hedge accounting' requirements contained in AASB 139 Financial Instruments: Recognition and Measurement.

30.2 Interest rate swap contracts – cash flow hedges

Interest rate swap contracts are used to assist HomeStart in eliminating the mismatch between repricing of its assets with that of its liabilities.

HomeStart receives a fixed rate of interest on a portion of its loans to customers and pays floating interest on borrowings from SAFA. To protect it from an increase in interest rates payable on its borrowings from SAFA, HomeStart has entered into interest rate swap contracts under which it is obliged to receive interest at floating rates and pay interest at fixed rates.

As at 30 June 2007, HomeStart had floating/fixed swaps with a notional value of \$225.0 million (\$168.0 million, 2005-06) with the fixed rates varying between 4.92% and 6.75% (4.92% and 6.10%, 2005-06).

NOTES



The notional principal amounts and periods of maturity of the interest rate swap contracts are as follows:

	2007 \$'000	2006 \$'000
Less than 1 year	74,000	64,000
1-2 years	71,000	59,000
2-3 years	32,500	38,000
3-4 years	9,500	3,500
4-5 years	38,000	3,500
Total notional principal amounts	225,000	168,000

The contracts are settled on a net basis. The average reset days and average rates are as follows:

	2007	2006
Receive (floating)		
Average reset days	19	26
Average rate	6.34%	5.89%
Pay (fixed)		
Average reset days	684	526
Average rate	6.04%	5.70%

The gain or loss from remeasuring the instruments at fair value is deferred in equity in the derivatives valuation reserve, to the extent that the hedge is effective. The ineffective portion is recognised in the Income Statement immediately. In the year ended 30 June 2007, there were no amounts recognised in the Income Statement.

At balance date these contracts were assets with fair value of \$2 330 305 (assets of \$935 555, 2005-06). The following tables show the average balance for each of the major categories of interest-bearing assets and liabilities, the amount of interest income or expense and the average interest rate (which is calculated on average monthly balances over the year).

2007	Average balance \$'000	Interest \$'000	Average interest rate %
Interest income			
Cash used for operating activities	1,253	76	6.06%
Cash used for investing activities	285	18	6.31%
Loans and advances	1,150,012	91,549	7.96%
	1,151,550	91,643	7.96%
Interest expense			
Interest on borrowings	1,079,619	66,016	6.12%

NOTES



2006	Average balance \$'000	Interest \$'000	Average interest rate %
Interest income			
Cash used for operating activities	695	14	2.01%
Cash used for investing activities	575	32	5.57%
Loans and advances	1,130,058	80,391	7.11%
	1,131,328	80,437	7.11%
Interest expense			
Interest on borrowings	1,000,984	55,305	5.53%

The average balance of loans and advances has been calculated using their face value and does not include any fair value adjustment.

Interest income excludes the subsidised loans fair value adjustment.

NOTES



HomeStart's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities are set out below:

Fixed interest maturing in:						
2007	Weighted average interest rate	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	Non interest bearing \$'000	Total \$'000
Financial assets:						
Cash used for operating activities	5.30%	2,679	-	-	-	2,679
Cash used for investing activities	6.40%	289	-	-	-	289
Cash Enhanced Fund	6.45%	18,167	-	-	-	18,167
Composite Bond Index investment	-	-	-	-	8,503	8,503
Investment – property and equity	-	-	-	-	18,587	18,587
Derivative financial instruments	6.34%	2	-	-	-	2
Derivative financial instruments	6.04%	-	257	2,071	-	2,328
Loans and advances	7.76%	1,026,192	55,941	142,509	31	1,224,654
Other assets	-	-	-	-	1,895	1,895
		1,047,329	56,198	144,580	29,016	1,277,104
Financial liabilities:						
Borrowings	6.25%	1,094,884	-	-	-	1,094,884
Interest rate swaps (notional principal amounts)	-	(225,000)	74,000	151,000	-	-

NOTES



Fixed interest maturing in:						
2006	Weighted average interest rate	Floating interest rate \$'000	1 year or less \$'000	1 to 5 years \$'000	Non interest bearing \$'000	Total \$'000
Financial assets:						
Cash used for operating activities	0.01%	116	-	-	-	116
Cash used for investing activities	5.78%	370	-	-	-	370
Cash Enhanced Fund	5.82%	15,234	-	-	-	15,234
Composite Bond Index investment	-	-	-	-	6,993	6,993
Investment – property and equity	-	-	-	-	16,364	16,364
Derivative financial instruments	5.89%	3	-	-	-	3
Derivative financial instruments	5.70%	-	106	827	-	933
Loans and advances	7.30%	1,025,340	59,415	101,459	17	1,186,231
Other assets	-	-	-	-	1,988	1,988
		1,041,063	59,521	102,286	25,362	1,228,232
Financial liabilities:						
Borrowings	5.81%	1,058,400	-	-	-	1,058,400
Interest rate swaps (notional principal amounts)	-	(168,000)	64,000	104,000	-	-

The weighted average interest rate is calculated on the balances outstanding as at 30 June. The effect of interest rate swaps and forward rate agreements has been incorporated into the weighted average interest rate.

NOTES



30.3 Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity.

Derivative financial assets

Credit risk arises with amounts receivable from unrealised gains on derivative financial instruments. At balance date the following amounts are receivable and payable from interest rate swap contracts:

	2007 \$'000	2006 \$'000
Swap income receivable	455	356
Swap expense payable	(466)	(353)
Net receivable (note 23)	11	3

The only derivative counterparty with whom HomeStart is permitted by the Department of Treasury and Finance to transact is SAFA.

Loans and receivables

The credit risk on financial assets has been recognised in the Balance Sheet as the carrying amount, net of any provisions for impairment. HomeStart manages its credit risk through compliance with credit policies and procedures. It also has registered mortgages over the security properties.

HomeStart is not materially exposed to any individual borrower. HomeStart only lends in South Australia and is therefore only exposed to the property market in this state.

Investments

HomeStart's Composite Bond Index investment and investments in listed property and equity funds represent exposure to the broader Australian bond, property and equities markets.

NOTES



NOTE 31 Commitments for expenditure

31.1 Capital commitments

HomeStart has no capital expenditure contracted for at the reporting date but not recognised as liabilities in the financial report as at 30 June 2007 (nil, 2005-06).

31.2 Operating lease commitments

HomeStart's operating leases are for office accommodation. The leases are non-cancellable with terms ranging up to five years with some leases having the right of renewal. Rent is payable monthly in advance.

The total amount of rental expense for minimum lease payments in the financial year is disclosed in Note 17.

Commitments under non-cancellable operating leases at the reporting date not recognised as liabilities in the financial report, are payable as follows:

	2007 \$'000	2006 \$'000
Not later than one year	721	729
Later than one year but not later than five years	1,507	2,344
Total operating lease commitments	2,228	3,073

31.3 Remuneration commitments

The majority of HomeStart staff members are employed under fixed term contracted that expire on varying dates within the next five years. Commitments for the payments of salaries and other remuneration under fixed term employment contracts in existence at the reporting date are not recognised as liabilities.

Notes 12 and 13 set out remuneration costs for the years ended 30 June 2006 and 2007. HomeStart estimates that commitments from existing executive and other service contracts within one year, and annually for not longer than five years, will be consistent with salaries and wages expenses in Note 12.

HomeStart does not offer fixed term remuneration contracts greater than five years.

NOTES



NOTE 32 **Contingent liabilities**

HomeStart has no material contingent liabilities as at 30 June 2007 (nil, 2005-06).

NOTE 33 **Cash flow reconciliation**

33.1 Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and at bank.

Cash also includes highly liquid investments with short periods to maturity that are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

Cash and cash equivalents as at the end of the financial year as shown in the Cash Flow Statement is reconciled to the items in the Balance Sheet as follows:

	2007 \$'000	2006 \$'000
Deposits at call	2,679	116
Money market deposits	289	370
Cash as recorded in the Balance Sheet	2,968	486
Bank overdraft at call	-	(518)
Cash as recorded in the Cash Flow Statement	2,968	(32)

NOTES



33.2 Reconciliation of profit for the year to net cash provided by operating activities

	2007 \$'000	2006 \$'000
Profit for the year	8,316	5,000
(Gain)/loss on sale of fixed assets	12	(2)
Depreciation and amortisation expense	465	364
Estimated 'make good' costs	-	(129)
Unrealised change in fair value of loans	(19)	-
Unrealised change in market value of investments	(1,856)	(1,506)
Reinvestment of investment income	(3,573)	(1,845)
Bad debts written off against profit	16	14
Bad debts written off against provision	214	94
Unearned income on loans written off	106	52
Grant monies transferred to loans and advances	6	12
Fees applied directly to loan accounts	(3,438)	(4,068)
Adjustments to opening balances of assets and liabilities		
Fair value adjustment to loans and advances	-	(4,827)
Recognition of deferred loan fee income	-	(2,599)
Recognition of deferred loan fee expense	-	1,486
Adjustment to provision for impairment	-	12,470
Changes in assets and liabilities		
(Decrease) increase in provision for impairment	1,599	(10,152)
Increase in deferred loan fee income	431	4,179
Increase in deferred loan fee expense	(128)	(2,378)
Increase in fair value adjustment	3,493	9,109
Increase in payables	473	412
(Decrease) increase in provision for employee benefits	130	(6)
Increase in other liabilities	572	2,004
Increase in unearned interest income	334	246
Increase in tax liability	707	131
Decrease (increase) in other assets	92	(1,603)
Net cash provided by operating activities	7,952	6,458

NOTES



NOTE 34 **Events after balance date**

No matters or circumstances have arisen since the end of the financial year which significantly affected, or may significantly affect, the operations of HomeStart, the results of those operations, or the state of affairs of HomeStart in subsequent years.



INDEPENDENT AUDITOR'S REPORT



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To The Chair HomeStart Finance

As required by section 31 of the *Public Finance and Audit Act 1987* and subsection 27(4) of the *Housing and Urban Development (Administrative Arrangements) Act 1995*, I have audited the accompanying financial report of the HomeStart Finance for the financial year ended 30 June 2007. The financial report comprises:

- An Income Statement;
- A Balance Sheet;
- A Statement of Changes in Equity;
- A Cash Flow Statement;
- Notes to the Financial Statements;
- A Board Members' Statement; and
- A Certificate by the Chief Executive Officer and the Chief Financial Officer.

The Responsibility of the HomeStart Finance Board Members for the Financial Report

The HomeStart Finance Board Members are responsible for the preparation and fair presentation of the financial report in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

My responsibility is to express an opinion on the financial report based on the audit. The audit was conducted in accordance with the requirements of the *Public Finance and Audit Act 1987* and Australian Auditing Standards. The Auditing Standards require that the auditor complies with relevant ethical requirements relating to audit engagements and plans and performs the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the HomeStart Finance Board Members, as well as the overall presentation of the financial report.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Auditor's Opinion

In my opinion, the financial report presents fairly, in all material respects, the financial position of HomeStart Finance as at 30 June 2007, and its financial performance and its cash flows for the year then ended in accordance with the Treasurer's Instructions promulgated under the provisions of the *Public Finance and Audit Act 1987* and Australian Accounting Standards (including the Australian Accounting Interpretations).

S O'Neill
Auditor-General
28 September 2007