



TE RIPOATA A TAU a te
TE KAI-TIAKIMĀORI
Aperira 2002 – Maehe 2003

ANNUAL REPORT of the
MĀORI TRUSTEE
April 2002 – March 2003



Report of the
MĀORI TRUSTEE
for the year ended
31 March 2003

Minister of Māori Affairs

I have the honour to present to you the Annual Report for the Māori Trustee for the year ended 31 March 2003.



John E Paki
Māori Trustee

Ki te Minita mō ngā Take Māori

He hōnore ki ahau te tuku atu i te pūrongo ā tau ō Te Kai-Tiaki Māori ki a koe mō te tau i mutu i te 31 o Māehe 2003.



John E Paki
Kai-Tiaki Māori

CONTENTS

Page

| | |
|----|--|
| | Contents |
| 4 | The Year in Review |
| 5 | Statement of Purpose |
| 6 | Vision, Values and Mission |
| 7 | Strategic Goals |
| 9 | Performance Highlights |
| 12 | Financial Results Overview |
| 14 | 2003 Operational Results |
| 14 | ◆ Property Management Services |
| 16 | ◆ Client Services |
| 18 | ◆ Funds Management |
| 20 | 2003 General Purposes Fund |
| 21 | ◆ Other Management and Administration Services |
| 23 | Management Performance Information |
| 23 | ◆ Legal Responsibilities |
| 23 | ◆ Management Structure |
| 23 | ◆ Human Resources |
| 24 | Financial Information |
| 24 | ◆ Consolidated General Purposes Fund Statement of Financial Performance |
| 25 | ◆ Consolidated General Purposes Fund Statement of Financial Position |
| 26 | ◆ Consolidated General Purposes Fund Statement of Movements in Equity |
| 27 | ◆ Consolidated Statement of Cash Flows |
| 28 | ◆ Common Fund and Special Investments |
| 29 | ◆ Statement of Accounting Policies |
| 32 | ◆ Notes to the Accounts |
| 39 | Report of the Auditor-General |

THE YEAR IN REVIEW

An objective assessment of the year to 31 March 2003, reveals that the Māori Trust Office completed a number of significant achievements which have firmly cemented the role of the Trustee as critically important for Māori.

In all its activities the Māori Trustee strives to operate a client-focused business, providing superior service through business competence, teamwork and professionalism.

A detailed examination of this report will clearly underline the success of this philosophy. For example:

- \$5,189,038 was paid out to clients during the year;
- Māori assets have been “unlocked” to make way for dairying, cropping, forestry and kiwifruit projects;
- Cropping initiatives have seen rentals increased by up to 120% per hectare;
- There are now 10 blocks in forestry joint ventures with a total area of 2,137.41 hectares;
- A taxation review has assisted the Māori Trustee to maximise client returns;
- Securing legal access to a 233 hectare land block.

In the crucial area of property management some optimistic targets were met, and in many cases exceeded. Rentals either met or exceeded market levels and the amount of rental in arrears is the lowest ever. This situation has been achieved directly as a result of operational initiatives adopted by the Māori Trust Office.

A major strategic decision has been made in the administration of the General Purposes Fund. The Māori Trustee has identified an opportunity to assist in the acceleration of Māori development through the provision of a lending service. The Māori Trust Office is working closely with the Māori Business Facilitation Unit of Te Puni Kōkiri and the Māori Trustee’s own clients to identify business development opportunities.

It is expected that some decisions on the future of the Māori Trustee and the Māori Trust Office will be made in the coming year. Issues to be resolved will be the appropriate level of Crown funding and the continued independence of the Māori Trustee to protect the interests of clients.

STATEMENT OF PURPOSE

Purpose

The Māori Trustee exists:

- (a) To protect and enhance the interests of Māori clients and their resources;
- (b) To manage the adverse effects of fragmented and multiple ownership of Māori land; and
- (c) To provide fair, proper and prudent administration and management of clients' assets within the principles and obligations of trusteeship and agency.

Clients

The Māori Trustee's clients comprise individuals, whanau, hapu and trusts whose assets the Māori Trustee administers.

In managing these assets the Māori Trustee also provides services to the Māori Land Court, lessees, grantees and others.

An Independent Trustee and Agent

The Māori Trustee is accountable directly to Māori clients, and is required by law to act independently from the Crown.

This independence is necessary so that the Māori Trustee:

- Can give professional and objective advice to clients for whom he acts as agent or trustee; and
- Is not influenced by political or other factors that may not be in the interests of clients.

As trustee the Māori Trustee is obliged to act in the interests of the beneficiaries of the trust and can be brought to account through the Māori Land Court or other forum for any breach of trust.

Similarly, as agent the Māori Trustee must act for Māori clients within the agency contract which binds them together and can be brought to account for any breach of contract.

VISION

To provide a productive and sustainable framework for the development and utilisation of Māori resources that the Māori Trustee administers.

VALUES

The Māori Trustee is guided by client expectations to participate in decisions and judgments affecting them and their right to exercise responsibility over their own interests.

The Māori Trustee is committed to building a relationship with clients that helps them to retain and improve their resources, guided by the following principles:

- Client priority;
- Integrity, competence and professionalism;
- Impartiality, loyalty and understanding;
- Ability to work with one another and with the client;
- Providing quality services to clients with regard to accuracy, timeliness, accessibility and legal compliance.

MISSION

The mission of the Māori Trustee is to build a client focussed business that provides superior service through business competence, teamwork and professionalism.

STRATEGIC GOALS

The Māori Trustee has developed four Strategic Goals to enable him to achieve the Vision, Mission and Values.

These Goals relate to development and growth of:

- Client Assets;
- Māori Trustee Assets;
- Māori Trustee Capability.

Strategic Goal 1

To manage clients' assets to best advantage through sound and prudent management practices.

In doing this the Māori Trustee will:

- Have active and regular consultation with clients;
- Provide quality information to enable clients to make sound business decisions;
- Empower clients to achieve their development aspirations;
- Increase the value of client assets;
- Make timely payment of client funds.

Strategic Goal 2

To manage Fund assets to best advantage for clients.

In managing these assets, the Māori Trustee will:

- Seek to maximise the return on investments consistent with prudential investment standards;
- Adopt an asset management framework that encompasses:
 - * Maintenance and Growth Objectives
 - * Risk/Return Profiles
 - * Diversification/Asset Classes.

Strategic Goal 3

To unlock the potential of Māori assets by identifying opportunities and by lending for new and existing land and business development.

The Māori Trustee will do this by:

- Identifying and investigating opportunities for clients to increase the value of their assets;
- Facilitating client access to funding, advisory and mentoring support services;
- Lending to small and medium sized enterprises on a commercial basis.

Strategic Goal 4

To strengthen operational capability by developing staff and improving efficiency and effectiveness.

The Māori Trustee will do this by:

- Developing and extending staff to utilise their talents, contribute to strong teamwork and provide a superior service to clients;
- Continuing to improve the efficiency and effectiveness of systems and processes.

PERFORMANCE HIGHLIGHTS

The Māori Trustee continues to provide a valuable service by assisting in the management of clients' land and other resources.

The consolidated statement of financial performance shows an operating surplus of \$507,562 was generated in the Māori Trustee's General Purposes Fund. This represents an increase of some \$212,658.

Revenue increased from \$4,696,661 (2002) to \$5,066,182 (2003). Operating expenditure increased from \$4,401,757 (2002) to \$4,558,620 (2003).

LAND DEVELOPMENT INITIATIVES

One of the Māori Trustee's goals is to unlock the potential of Māori assets by identifying opportunities for development. As part of this goal the Māori Trustee has identified some properties with development potential that will provide greater returns for owners than traditional leasing arrangements.

In the past year development initiatives have involved:

- Continuing work on grouping Gisborne cropping lease expiry dates to enable the Māori Trustee to negotiate a significantly better return for owners in 2002/2003. Common expiry dates for nine cropping leases have resulted in very attractive options for owners. The total area is 73.04 hectares. The outcome of this initiative has provided two options:
 - (1) a rental per hectare based on a cropping regime of two crops per year;
 - (2) a rental per hectare plus a share of the crop proceeds. This option provides for one crop rotation only.

These initiatives have seen rentals increased by up to 120% per hectare.

- Two blocks entered in the manuka honey pilot project.
- Two blocks with a total area of 444.63 hectares planted in forestry under a joint venture agreement. The Māori Trustee now has 10 blocks in the joint venture with a total area of 2,137.41 hectares.
- Identification of utilisation options for small blocks in Wairoa which resulted in positive discussions with a major cropping contractor from the Hawkes Bay. Several blocks are now under consideration for lease and negotiations are ongoing.
- Developing kiwifruit orchards in Maketu/Paengaroa/Te Kaha.
- The Māori Trustee continues to work to increase utilisation and returns on land which was granted under the South Island Landless Natives Act 1906. The Māori Trustee is trustee for over 5,000 owners of nearly 8,500 hectares of this land mainly in Southland. The nature of the land

varies from virgin indigenous forest to plantation forestry and grazing land. An imaginative mixture of owner initiatives, forestry industry partnerships, Māori Trustee expertise and some limited recognition of obligations by the Crown has resulted in the following projects over the past year:

- Programme of forest maintenance over 19 trusts with an estate of over 2000 hectares of pine and eucalyptus – half are owner operated while half are in joint ventures.
- Negotiations on conservation agreements on virgin forests which has cleared the path for possible agreements with Nature Heritage Fund in the 2003/2004 year.
- Short-term agreement between owners and the Crown for payment in return for owner agreement, on an annual basis, not to harvest on 42 specified forest sections.
- Harvesting of forests to provide income in appropriate cases.
- A sustainable forest management project following from the research project which is likely to involve Crown expertise from the Indigenous Forest Unit.

Issues Facing the Māori Trustee

REVIEW OF THE MĀORI TRUSTEE AND THE MĀORI TRUST OFFICE

No significant progress has been made on concluding the review of the Māori Trustee and the Māori Trust Office. As a result a number of issues still remain unresolved, and as such have a perceived impact on the financial position of the Māori Trustee.

TAXATION POLICY REVIEW

Changes to the Māori Authority taxation regime will result in further systems developments to be undertaken to ensure compliance with this new regime in time for the commencement of the major provisions.

TE TURE WHENUA MĀORI AMENDMENT ACT 2002

Obtaining access to land-locked Māori land: the recent amendments to Te Ture Whenua Māori Act 1993 now allow the Māori Land Court greater flexibility to create roadway orders over general land titles which may previously have been restricting access to Māori land.

Obtaining legal access has been a principal focus in the Hamilton region and the Māori Trustee has been successful in negotiating and securing legal access for owners of a 233 hectare block through the adjoining general land. In the coming year an application will be made to the Māori Land Court to seek legal access to a 138 hectare block. The Māori Trustee is

working with the local council and adjoining landowners to exhaust all alternative options regarding formation of an access.

PLANNING AND PERFORMANCE MEASUREMENT

The Māori Trustee has recently reviewed his strategic direction and plans. External benchmarks have been established for evaluating Common Fund and General Purposes Fund investments.

In the coming year the Māori Trustee will also look at suitable performance measures linked to external comparisons in the property management area.

INFORMATION TECHNOLOGY

The final stage of the Māori Trustee's property management and accounting system is to be installed in May 2003. This stage includes additional functionality which will help to make the management and administration of the assets under the Māori Trustee's control more effective and efficient.

Further software developments will be required to accommodate the changes in the taxation of Māori Authorities and to better support the Māori Trustee's strategic goals.

RISK MANAGEMENT

Electronic duplication and archiving of around 1,200,000 pages of pre-1988 paper-based client account records will be completed in the coming year. The principal aim is the preservation of the original ledger cards and the information contained therein. This is being achieved in conjunction with on-line access to the digital images created. This project is being managed by the Client Services Unit.

FINANCIAL RESULTS OVERVIEW

General Purposes Fund

The audited financial statements for the financial year ended 31 March 2003 are contained on pages 24 to 38 of the Māori Trustee's Annual Report.

Statement of Financial Performance – Māori Trustee's General Purposes Fund

The consolidated statement of financial performance shows an operating surplus of \$507,562 was generated in the Māori Trustee's General Purposes Fund. This represents an increase of some \$212,658.

Revenue increased from \$4,696,661 (2002) to \$5,066,182 (2003). Operating expenditure increased from \$4,401,757 (2002) to \$4,558,620 (2003).

The main source of income continues to be generated from investment activities. Income from this source represents 75.14% of gross income. The Māori Trustee's remaining income of \$1,259,691 is derived mainly from commissions and then fees. Commission income earned during the period is relatively high in comparison with the previous period due to increase in lease rentals generated on property accounts, and one-off income due to the compensation monies received in relation to the settlement of Schedule Five of the Māori Reserved Land Amendment Act 1997.

Overall operating costs for the reporting period increased by \$156,863 from \$4,401,757 in 2002 to \$4,558,620 in 2003.

Statement of Financial Position – Māori Trustee's General Purposes Fund

The consolidated statement of financial position as at 31 March 2003 shows total assets of \$44,485,543. Overall total assets increased by some \$4,351,937.

The Māori Trustee continues to re-align the General Purposes Fund investment portfolio. As a result, the majority of the Māori Trustee's assets, 84.79% are classified as non-current.

Non-current assets comprise 61.01% in long term fixed interest securities, 33.62% in shares, 3.50% in lending and 1.87% in fixed assets.

Consolidated General Purposes Fund net assets represent 4.20% of the total asset base primarily due to no significant progress being made in relation to a number of issues associated with the review of the Māori Trustee and the Māori Trust Office.

Statement of Financial Position – Māori Trustee's Common Fund

All money collected by the Māori Trustee from various sources on behalf of Māori owners is administered within the Common Fund. Sources of funds include rental, royalties, interest and income from primary sector industries.

The Common Fund carries a Crown guarantee in accordance with Section 27 of the Māori Trustee Act 1953.

The total fund administered by the Māori Trustee within the Common Fund on behalf of Māori clients was \$29,346,943 as at 31 March 2003. Representing an increase in funds held of \$2,182,493 over the position at 31 March 2002 of \$27,164,450.

Trustee Funds

Funds administered on behalf of clients are held in two accounts. These are the Special Investment Account and the Common Fund Account. Overall total trustee funds held on behalf of clients within the two accounts total \$35,844,806.

Funds held in the two accounts have increased by \$4,227,325 from \$31,617,481 in 2002. This represents an increase of some 13.37% over 2002.

Special Investment Account

Funds held by the Māori Trustee in Special Investments are governed by Section 24 of the Māori Trustee Act 1953.

Funds invested by the Māori Trustee with outside financial institutions on behalf of and at the direction of individual clients increased by \$2,044,832 from \$4,453,031 (2002) to \$6,497,863 (2003). Over the same period the number of individual accounts increased from 115 to 129.

During this period the level of funds increased as clients chose to retain and move funds held on deposit within the Māori Trustee's Common Fund to wholesale financial markets due to the higher rate of interest available.

2003 OPERATIONAL RESULTS

The main functions of the Māori Trustee are:

- (A) Property Management Services;
- (B) Client Services;
- (C) Funds Management;
- (D) Other Management and Administration Services.

(A) Property Management Services

Property Management Services aims are:

- **Active and regular consultation with clients**
- **Maximising returns on land and related assets**
- **Empowering clients to achieve their asset development aspirations.**

A major part of the Māori Trustee's work is the administration of Māori land. This function includes:

- Arranging for the land to be leased or otherwise utilised;
- Collecting rental and other income;
- Monitoring the lessee's compliance with the terms of the lease;
- Providing owners with information on their land, including land use development reports, and management and financial reports;
- Calling meetings of owners when decisions are required.

A breakdown of rental properties administered by the Māori Trustee in terms of income, area and ownership is provided in Table 1 below.

TABLE 1 – ILLUSTRATION OF PROFILE OF RENTAL PROPERTIES ADMINISTERED AS AT 31 MARCH 2003

| \$Rental Range Only | Gross \$Rental per Annum | Number of Properties | Number of Hectares | Number of Owners |
|---------------------|--------------------------|----------------------|--------------------|----------------------------|
| 0 | 0 | 471 | 30,271 | 33,078 |
| UP TO-1,000 | 329,708 | 610 | 12,443 | 41,997 |
| 1,001-5,000 | 2,005,666 | 753 | 35,952 | 60,929 |
| 5,001-10,000 | 2,408,764 | 315 | 16,204 | 27,086 |
| 10,001-15,000 | 1,365,163 | 112 | 10,314 | 11,310 |
| 15,001-20,000 | 942,002 | 44 | 4,691 | 6,549 |
| 20,001-25,000 | 560,355 | 21 | 1,878 | 2,357 |
| 25,001 AND UP | 1,916,835 | 42 | 4,518 | 7,017 |
| TOTAL | 9,528,493 | 2,368 | 116,271 | 190,323¹ |

¹ Note: As many clients have shares in more than one property, this number is higher than the number of individual Client Accounts.

To ensure that land is managed to the best advantage of owners, key targets are scheduled over the life of the lease (generally no more than 10 years) including:

- *Inspections*: In most cases these are carried out every three years and are a check on the condition of the land and the compliance of the lessee with the terms of the lease;
- *Rent reviews*: Usually undertaken every 3 to 5 years, they enable a current market rental to be determined and the best return obtained for owners consistent with their wishes for the land;
- *Renewals*: They provide an opportunity for the condition of the land to be assessed and an extension of the lease to be negotiated on best terms for owners;
- *Meetings of owners*: Are held prior to expiry of a lease as well as when there are significant issues to resolve during the term of a lease. Owners meetings are:
 - * A key point of contact and consultation with owners;
 - * An opportunity for owners to respond to any issue and to nominate advisory trustees;
 - * A forum for the Māori Trust Office to provide information to owners, such as inspection reports on the condition of the land, reports on utilisation options for the land and financial reports on the funds received.
- *Expiries*: This involves the final action under the old lease before any new land utilisation is arranged.

In 2003, Property Management Services targets were set for these processes. Results achieved are set out in Table 2 below.

TABLE 2 – PROPERTY MANAGEMENT SERVICES TARGETS AND RESULTS

| Key Services Objectives for 2002/2003 | 2002/2003 Projections | 2002/2003 Results | 2001/2002 Results |
|---|-----------------------|-------------------|-------------------|
| Arrears | | | |
| To ensure that the number of accounts in arrears does not exceed 7% of total accounts | 6% | 8% | 7% |
| To reduce the overall percentage of gross annual rental in arrears | 2% | 2% | 2.4% |
| To reduce the average rent collection days | 9 | 12 | 9 |
| Property Management Tasks | | | |
| To complete scheduled property management tasks by 31 March, 2003: | | | |
| • Rent reviews | 264 | 276 | 196 |
| • Lease renewals | 83 | 75 | 58 |
| • Inspections of property | 652 | 640 | 613 |
| • Meetings of owners | 258 | 262 | 322 |
| • Lease expiries | 261 | 259 | 239 |
| • Meetings with advisory and responsible trustees | 138 | 231 | 219 |

(B) Client Services

Client Services aims are:

- **Active and regular consultation with clients;**
- **To provide a timely payments and information service to clients;**
- **To maintain and improve the integrity and accuracy of the client database.**

The Māori Trustee currently maintains over 110,000 Client Accounts. The profile of which is set out in Table 3 below.

TABLE 3 – CLIENT SERVICES PROFILE

| | 2002/2003 Position | 2001/2002 Position |
|--|-------------------------------|-------------------------------|
| Number of Client Accounts* | 110,985 | 135,319 |
| Funds held on Client Accounts | \$8,688,388 | 7,752,395 |
| Number of Client Accounts with valid addresses/ bank accounts* | 40,564 | 46,326 |
| Percentage of Client Accounts with valid addresses/ bank accounts | 36.55% | 34.23% |

*Following an internal review to develop more accurate and relevant management reports, enhanced reporting procedures have resulted in the 2002/2003 statistics including only "active" (open) client accounts, whereas previous year's reports also included statistics for a large number of "in-active" (closed) accounts

Each owner who has shares in a property has a Client Account containing information on land ownership and funds held. Client Account funds are held in the Common Fund.

After deduction of income tax, net income is placed in a Client Account in proportion to a client's share in a property.

At least once a month the Māori Trustee makes payments by cheque or direct credit to clients where there is a current address or bank account number. There are minimum levels set for payment: \$5 for direct credit and \$50 for cheque payments to clients resident in New Zealand; and \$100 for cheque payments to clients resident overseas. Most years, in March, the minimum payment threshold is reduced to \$2 for direct credit and \$20 for cheque payments to New Zealand clients.

Client Accounts (if not already held) are set up for successors to any land interests and/or funds once succession orders have been received from the Māori Land Court.

The cornerstone to providing quality Client Services is an up to date database of client land ownership, funds held and (where available) contact details.

Maintaining the accuracy and integrity of the database involves:

- Processing Māori Land Court succession (ownership) or payment orders;
- Continually updating current addresses and/or bank account numbers;
- Proactively seeking clients for whom the Māori Trust Office has no current address and/or bank account numbers, in particular those with large balances; and
- Providing information to clients.

In 2003, Client Services targets were set for these processes. Results achieved are set out in Table 4 below.

TABLE 4 – CLIENT SERVICES TARGETS AND RESULTS

| Key Services Objectives for 2002/2003 | 2002/2003 Projections | 2002/2003 Results | 2001/2002 Results |
|---|--|-----------------------------|---------------------------|
| To provide timely and accurate information to Māori Land Court Registries on funds held and known land interests for deceased estates to enable Succession Orders and Orders for Payment to be issued: • Number of MLC searches received and completed | Estimated: 1,560 | 1,489 | 1,573 |
| To make regular payments to clients with current addresses/bank accounts: • Number of payments to clients • \$ Amount paid out to clients | Estimated: 45,350 Not estimated | 39,484 \$5,189,038 | 45,665 \$4,923,297 |
| To update client records in the computer database to enable timely payments to clients: • Number of client record forms received and completed | Estimated: 12,600 | 12,586 | 11,728 |
| To trace clients with unknown addresses or their successors and pay to them unclaimed monies held on their behalf: • \$Amount paid out to clients • Number of clients successfully traced • Average payout per client | Estimated: \$300,000 Not estimated Not estimated | \$162,820 113 \$1,440 | \$325,906 349 \$934 |
| To provide clients with timely, accurate, up to date information in response to written requests: • Number of letters received and completed | Estimated: 1,080 | 1,274 | 1,056 |

COMMENTARY ON RESULTS ACHIEVED

- The number of payments made to clients with current addresses/bank accounts was approximately 6,000 less than estimated as the March lower payment threshold runs were postponed.
- The unclaimed monies amount was below target as resources normally used in this area were diverted to the Special Project involving the electronic duplication and archiving of client account historical paper based records.
- Even though there was a decrease in the number of clients for unclaimed monies this year, the average payout per client was higher than in 2002.

(C) Funds Management**(i) Client Funds Management aims are:**

- **To consult with trustees, advisory trustees and owners and obtain the best return in line with clients investment aspirations and prudential investment standards.**

Owners and trustees are increasingly recognising the need to retain funds for future developments.

Where funds are to be held in trust for owners and not immediately distributed, they may be placed either in a Common Fund deposit account or in Special Investments. The minimum level of investment with outside institutions is generally set at \$10,000. All funds in the Common Fund (but excluding Special Investments) are guaranteed by the Crown.

Similarly, investments in the Special Investment Fund must comply with the statutory provisions of the Trustee Act 1956 and the Māori Trustee Act 1953. Most investments in the Special Investment Fund are fixed interest investments.

The range of return on investments is dependent on:

- The level of funds on deposit;
- The term of the investment, for example on call, 7 days through to 365 days;
- The rates of return offered on the day of investment; and
- The investment type.

(ii) Common Fund Investments

Common Fund Investment aims are:

- **To ensure that the nominal capital of the Common Fund remains intact – no erosion takes place in the capital base; and**
- **To maximise the investment rate of return over the Common Fund portfolio of investments.**

All investments in the Common Fund are fixed interest investments. Investments are highly regulated and must comply with the statutory provisions of the Trustee Act 1956 and the Māori Trustee Act 1953.

2003 GENERAL PURPOSES FUND

The General Purposes Fund is the Māori Trustee's account. The Māori Trustee is dependent on income generated by investments in the General Purposes Fund and other income from commission, fees and interest from Common Fund investments to contribute to funding the activities of the Māori Trustee.

Statutory authorities contained in the Māori Trustee Act 1953 enable the Māori Trustee to be much more flexible with the type of security and return on investments made in the General Purposes Fund.

Investments are made in accordance with the Māori Trustee's investment policy; a policy which is conservative by general standards.

General Purposes Fund Investment aims are:

- **To preserve the real value of capital invested in cash, fixed term securities and mortgages; and**
- **To manage all existing non-performing investments with the aim of protecting the current capital value of the asset and exiting these investments in a timely and prudent manner.**

LENDING AIM:

- **To develop a portfolio of between \$10 and \$20 million in loans on commercial terms. Money for this purpose is to be invested in cash and fixed term securities in the meantime.**

Historical Position

In recent years the Māori Trustee's lending has mainly been to those Trusts where the Māori Trustee has been administering a lease which required a payment of compensation for the value of improvements to the lessee. In some cases the Māori Trustee was obliged by statute to lend; in other cases the Māori Trustee lent because no other institution was willing to lend.

Current and Future Direction

Through the strategic planning process the Māori Trustee has identified an opportunity to assist in the acceleration of Māori development through the provision of a lending service. The objective of the service is to work closely with Te Puni Kōkiri, Māori Business Facilitation Service and the Māori Trustee's own clients to identify opportunities in which the Māori Trustee can best assist Māori seeking funds for personal, trust or business development.

Māori Trustee lending is based on a commercial approach and involves term lending where the average loan size is \$50,000. Terms are generally for 5 years or less. Lending is flexible and tailored strongly to the needs of the borrower. Loans are assessed on character, cashflow and collateral.

The total lending enquiry to date represents 64 individual cases as shown in Table 5.

TABLE 5 – LENDING ENQUIRIES

| | | |
|---|----|-----|
| Interest did not proceed beyond initial enquiry | 19 | 30% |
| Incomplete applications that did not proceed | 9 | 14% |
| Applications declined | 17 | 26% |
| Loans advanced within the year | 14 | 22% |
| Loans approved but not taken | 2 | 3% |
| Loans approved yet to be drawn | 2 | 3% |
| Loans under evaluation | 1 | 2% |

17 applications were declined and 14 loans were advanced.

In terms of Section 32 of the Māori Trustee Act 1953, the Māori Trustee has wide powers in relation to the type of advances that he may make, the return on advances and the security (if any) of advances from the General Purposes Fund.

(D) Other Management and Administration Services

Other Management and Administration aims are:

- **To administer special trusts in accordance with the terms of the trust and the directions of trustees.**

The Māori Trustee provides administration services to a small number of special trusts including:

- Māori Soldiers' Trust
- Ngarimu VC and 28th Māori Battalion Memorial Scholarship Fund
- Māori Purposes Fund
- Residual Estates and Disabilities Trusts

MĀORI SOLDIERS' TRUST

Under the Māori Soldiers' Trust Act 1957, the Māori Trustee administers the Trust including a farming property (Hereheretau Station), the Soldiers' Fund Account for the benefit of WWI Māori veterans and their dependents, and the Sir Apirana Ngata Memorial Scholarship Fund.

Hereheretau Station is an asset of the Māori Soldiers' Trust administered by the Māori Trustee. This sheep and cattle property situated on the East Coast of the North Island comprises 1,360 effective hectares and presently winters 12,642 stock units. Capital development is being undertaken to deliver above average outcomes. The economic farm surplus achieved over the past three years is analysed in Table 6 below.

TABLE 6 – ECONOMIC FARM SURPLUS

| | 1999-2000 | 2000-2001 | 2001-2002 |
|---|------------------|------------------|------------------|
| Total stock units | 11,598 | 11,888 | 12,642 |
| Stock units per effective hectare | 8.5 | 8.7 | 9.3 |
| Economic Farm Surplus per effective hectare | \$92.02 | \$231.35 | \$248.41 |
| Economic Farm Surplus per stock unit | \$10.79 | \$26.47 | \$26.72 |
| Total income per stock unit | \$39.28 | \$57.69 | \$60.05 |

NGARIMU VC AND 28TH MĀORI BATTALION MEMORIAL SCHOLARSHIP FUND

Under the Ngarimu VC and 28th Māori Battalion Memorial Scholarship Fund Act 1945 and its amendments, the Māori Trustee acts as banker and thereby holds and invests funds as directed by the Ngarimu VC and 28th Māori Battalion Memorial Scholarship Fund Board.

MĀORI PURPOSES FUND

Under the Māori Purposes Fund Act 1934-35 and its amendments, the Māori Trustee acts as banker and thereby holds and invests funds as directed by the Māori Purposes Fund Board.

MANAGEMENT PERFORMANCE INFORMATION

Legal Responsibilities

The legal authorities of the Māori Trustee are contained within a number of statutes. The main statutes are:

- Māori Trustee Act 1953
- Trustee Act 1956
- Māori Vested Lands Administration Act 1954
- Māori Reserved Land Act 1955
- Māori Soldiers' Trust Act 1957
- Māori Affairs Restructuring Act 1989
- Ministry of Māori Development Act 1991
- Te Ture Whenua Māori Act 1993

and other minor acts.

Management Structure

Senior officers in the Māori Trust Office during the period reported were:

| | |
|---------------------------------------|--------------------------------------|
| Māori Trustee | John Paki |
| Financial Controller | Andrea Williams |
| Manager Client Services | Tai Taitoko |
| Manager Operations | Isobel McIntyre |
| Regional Operations Manager Whangarei | Merran O'Hagan |
| Regional Operations Manager Hamilton | John Hutcheson |
| Regional Operations Manager Rotorua | Timi Wi Rutene |
| Regional Operations Manager Gisborne | Maui Tangohau |
| Regional Operations Manager Whanganui | Miriama Chadwick/ Novena McGuckin |

Human Resources

As at 31 March 2003:

| Human Resources | 31 March 2003 | 31 March 2002 |
|-----------------|---------------|---------------|
| Staff | | |
| • Permanent | 44 | 47 |
| • Temporary | 8 | 10 |
| Total | <u>52</u> | <u>57</u> |

MĀORI TRUSTEE
CONSOLIDATED GENERAL PURPOSES FUND STATEMENT
OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED
31 MARCH 2003

| | Notes | 2003 | 2002 |
|--|-------|-----------------------|-----------------------|
| | | \$ | \$ |
| INCOME | | | |
| Investment Income | 1 | 3,806,491 | 3,577,271 |
| Commission | | 891,154 | 723,642 |
| Fees | | 366,060 | 372,765 |
| Other Income | 2 | 2,477 | 22,983 |
| Total Income | | <u>5,066,182</u> | <u>4,696,661</u> |
| EXPENDITURE | | | |
| Operating Costs | 3 | 3,987,649 | 4,024,921 |
| Interest Paid and Allowed on Trust Funds | 4 | 623,707 | 457,066 |
| Bad and Doubtful Debts | 5 | (10,258) | (38,890) |
| Net (Gain)/Loss on Conversion Operations | | (45,478) | (44,340) |
| Grants | 6 | 3,000 | 3,000 |
| Total Operating Expenditure | | <u>4,558,620</u> | <u>4,401,757</u> |
| Net Surplus/(Deficit) for the year | | <u><u>507,562</u></u> | <u><u>294,904</u></u> |

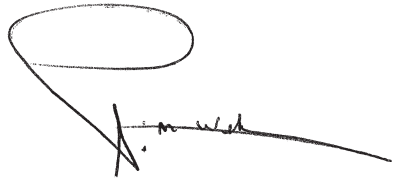
This Statement is to be read in conjunction with the accompanying Statement of Accounting Policies and Notes to the Financial Statements.

**MĀORI TRUSTEE
CONSOLIDATED GENERAL PURPOSES FUND STATEMENT
OF FINANCIAL POSITION AS AT 31 MARCH 2003**

| | Notes | 2003 \$ | 2002 \$ |
|--|-------|-------------------|-------------------|
| THE MĀORI TRUSTEE ADMINISTRATORS | | | |
| Current Assets | | | |
| Bank, Petty Cash and Cash in Transit | | 25,005 | 24,037 |
| Call Deposits | 9 | 1,153,701 | 1,021,178 |
| Sundry Debtors and Prepayments | 7 | 125,326 | 147,745 |
| Interest Accrued | | 1,198,373 | 1,174,606 |
| Fixed Term Deposits | 9 | 3,765,000 | 7,325,200 |
| Local Authority and Commercial Bonds | 9 | 500,580 | 0 |
| Total Current Assets | | <u>6,767,985</u> | <u>9,692,766</u> |
| Non Current Assets | | | |
| Advances to Stations, Properties and Clients | 7 | 31,250 | 17,252 |
| Loans | 7 | 1,251,054 | 895,882 |
| Conversion Fund Loans | 7 | 39,488 | 44,411 |
| Government Stock | 9 | 7,317,818 | 7,105,237 |
| Local Authority and Commercial Bonds | 9 | 15,692,693 | 9,168,577 |
| Company Shares | 8 | 12,680,468 | 12,680,468 |
| Fixed Assets | 10 | 704,787 | 529,013 |
| Total Non Current Assets | | <u>37,717,558</u> | <u>30,440,840</u> |
| Total Assets | | <u>44,485,543</u> | <u>40,133,606</u> |
| FUNDED BY | | | |
| Liabilities | | | |
| Sundry Creditors and Accruals | 11 | 42,618,395 | 38,774,020 |
| Total Liabilities | | <u>42,618,395</u> | <u>38,774,020</u> |
| General Purposes Fund | | | |
| Balance held by Māori Trustee | | <u>1,867,148</u> | <u>1,359,586</u> |
| Total Liabilities | | <u>44,485,543</u> | <u>40,133,606</u> |



J E Paki
Māori Trustee



A M Williams CA, BBS
Financial Controller
Māori Trust Office

This Statement is to be read in conjunction with the accompanying Statement of Accounting Policies and Notes to the Financial Statements.

MĀORITRUSTEE
CONSOLIDATED GENERAL PURPOSES FUND STATEMENT
OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED
31 MARCH 2003

| | 2003 | 2002 |
|---|------------------|------------------|
| | \$ | \$ |
| General Purposes Fund Opening Balance | 1,359,586 | 1,064,682 |
| Net Surplus/(Deficit) for the year (Total recognised revenue and expenses) | 507,562 | 294,904 |
| General Purposes Fund Closing Balance | <u>1,867,148</u> | <u>1,359,586</u> |

This Statement is to be read in conjunction with the accompanying Statement of Accounting Policies and Notes to the Financial Statements.

MĀORI TRUSTEE
CONSOLIDATED STATEMENT OF CASHFLOWS FOR THE
YEAR ENDED 31 MARCH 2003

| | 2003 | 2002 |
|--|---------------------------|---------------------------|
| | \$ | \$ |
| CASHFLOWS FROM OPERATING ACTIVITIES | | |
| Cash was provided from: | | |
| Interest Income | 3,870,194 | 3,289,726 |
| Fees and Commissions from Clients | 1,275,634 | 1,092,057 |
| Other Income | 33,262 | 4,383 |
| | <u>5,179,090</u> | <u>4,386,166</u> |
| Cash was applied to: | | |
| Suppliers and Employees | (96,965) | (74,084) |
| Interest Payments to Clients | (621,500) | (457,040) |
| Legal Settlements | (49,569) | (41,913) |
| Grants | (3,000) | (3,000) |
| Goods and Services Tax | (30,641) | (2,354) |
| | <u>(801,675)</u> | <u>(578,391)</u> |
| Net Cashflow from Operating Activities | <u><u>4,377,415</u></u> | <u><u>3,807,775</u></u> |
| CASHFLOWS FROM INVESTING ACTIVITIES | | |
| Cash was provided from: | | |
| Loan Repayments | 226,404 | 237,643 |
| Conversion Fund Repayments | 44,515 | 51,041 |
| Investment Maturities and Sales | 0 | 8,615,340 |
| Cash was applied to: | | |
| Fixed Asset Purchases | (171,209) | (216,998) |
| Loan Advances | (568,117) | (171,288) |
| Investments | (7,324,565) | (12,001,365) |
| Repayments of Advances on Overdraft | (11,152) | (2,210) |
| Net Cashflows from Investing Activities | <u><u>(7,804,124)</u></u> | <u><u>(3,487,837)</u></u> |
| Net Increase/(Decrease) in Cash Held | (3,426,709) | 319,938 |
| Opening Cash Brought Forward | 8,370,415 | 8,050,477 |
| Ending Cash | <u><u>4,943,706</u></u> | <u><u>8,370,415</u></u> |
| Represented by: | | |
| Bank and Petty Cash | 25,005 | 24,037 |
| Call Deposits | 1,153,701 | 1,021,178 |
| Term Deposits | 3,765,000 | 7,325,200 |
| | <u><u>4,943,706</u></u> | <u><u>8,370,415</u></u> |

This Statement is to be read in conjunction with the accompanying Statement of Accounting Policies and Notes to the Financial Statements.

**MĀORI TRUSTEE
COMMON FUND AND SPECIAL INVESTMENTS
ADMINISTERED BY THE MĀORI TRUSTEE AS AT
31 MARCH 2003**

| | Notes | 2003 | 2002 |
|--|--------------|-------------------|-------------------|
| | | \$ | \$ |
| Special Investments | | | |
| Specific Deposits on behalf of Māori clients | | <u>6,497,863</u> | <u>4,453,031</u> |
| | | | |
| FUNDED BY | | | |
| Special Investments | | | |
| Investments under Specific Direction | | <u>6,497,863</u> | <u>4,453,031</u> |
| | | | |
| Common Fund Investments | | | |
| Short Term Deposits including Bank | 9 | 5,643,113 | 6,676,410 |
| Government Stock | 9 | 10,730,000 | 10,743,258 |
| BIL Finance Investment | 9 | 998,805 | 996,602 |
| Company Debentures Stocks and Bonds | 9 | 11,975,025 | 8,748,180 |
| Total Investments | | <u>29,346,943</u> | <u>27,164,450</u> |
| | | | |
| FUNDED BY | | | |
| Common Fund | | | |
| Capital Gains from Common Fund Investment | | 2,672,336 | 2,743,704 |
| Proceeds from Alienation of Land | | 17,560,404 | 16,203,755 |
| Sundry Estates and Trusts | | 756,122 | 736,137 |
| Miscellaneous Deposits and Funds | | 6,873,756 | 6,162,934 |
| Stations | | <u>1,484,325</u> | <u>1,317,920</u> |
| Total Funds | | <u>29,346,943</u> | <u>27,164,450</u> |

This Statement is to be read in conjunction with the accompanying Statement of Accounting Policies and Notes to the Financial Statements.

**MĀORI TRUSTEE
STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR
ENDED 31 MARCH 2003**

Accounting Entity

These are the financial statements of the Maori Trustee.

These statements are prepared in terms of Section 23 of the Maori Trustee Act 1953 for the following separate funds or accounts:

The General Purposes Fund
The Common Fund
Special Investment Accounts

The General Purposes Fund represents funds held by the Maori Trustee in his own right. Common Fund monies are received by the Maori Trustee under Sections 23 and 25 of the Maori Trustee Act 1953, (“the Act”) in trust for persons entitled to receive them. All Common Fund monies are guaranteed by the Crown under Section 27 of the Act. Special Investments are investments made in accordance with Section 24 of the Act.

Accounting Policies

Measurement Base

The measurement base used is the historic cost system with the exception of certain items for which specific accounting policies are identified.

Revenue

Interest and rent are recognised on an accrual basis. Dividends are recognised when declared. Fees and Commissions owing to the General Purposes Fund from the Common Fund are recognised on a cash basis as the Maori Trustee can only deduct his fee and/or commission upon actual receipt of trust monies which are primarily derived from the rental of Maori land.

Consolidated Financial Statements

The consolidated financial statements are prepared from the audited financial statements of the Maori Trustee and his wholly owned subsidiary company, Te Maori Lodges Limited, (TML), as at 31 March 2003. The wholly owned subsidiary is accounted for under FRS37 which involves adding together corresponding assets, liabilities, revenues and expenses on a line by line basis. The principal activity of Te Māori Lodges is that of a holding company which holds shares in Quantum Limited.

All significant inter-party transactions have been eliminated.

Fixed Assets

The Maori Trust Office has three classes of fixed assets:

- EDP Equipment
- Furniture and Fittings
- Office Equipment

All fixed assets are recorded at cost.

Depreciation

Depreciation is provided on a straight line basis on all tangible fixed assets, at rates calculated to allocate the assets' cost over their estimated useful lives. Assets are depreciated at the following rates:

| | |
|------------------------|-----|
| EDP – Equipment | 33% |
| Furniture and Fittings | 20% |
| Office Equipment | 20% |

Investments

Government stock, convertible notes, company debentures and bonds are stated at the lower of cost, adjusted for the amortisation of any premium or discount, or net realisable value. The premium or discount is amortised over the life of the investment on a straight line basis.

Mortgages and other advances are stated at their net realisable value. Provisions are made for doubtful debts where full recovery is not expected. Investments in shares are valued at the lower of cost or market value.

Receivables

Receivables are stated at their estimated realisable value.

Financial Instruments

The Maori Trustee's General Purposes Fund, Common Fund and Special Investment Accounts are party to financial instrument arrangements as part of its normal operations which have been recognised in these financial statements.

The financial instruments include:

- Cash and Bank
- Debtors
- Investments
- Overdrafts
- Creditors
- Shares

In total, the fair values of company shares and government stock exceed the carrying values. The fair value of all other investments is equivalent to the carrying amount disclosed in either the Maori Trustee's General

Purposes Fund Statement of Financial Position, or the Maori Trustee's Statement of Administration of the Common Fund and Special Investment Accounts.

All revenues and expenses in relation to financial instruments disclosed in the Maori Trustee's General Purposes Fund are recognised in the Statement of Financial Performance for the General Purposes Fund.

Income Taxation

The Maori Trustee is defined as a Public Authority under Part OB1 of the Income Tax Act 1994 and as such is exempt from income taxation under CB 3 (a) of the Income Tax Act 1994.

Employee Entitlements

Annual leave is recognised as it accrues to employees of the Maori Trust Office. Long service leave is recognised on the basis of four days for every year completed after 15 years of continuous service subject to a maximum of 20 days entitlement at current rates of pay.

Statement of Cashflows

Cash means cash balances on hand, held in bank accounts, and short term deposits held with various financial institutions.

Operating Activities include cash received from all income sources by the Maori Trustee and record the cash payments made for the supply of goods and services.

Investing Activities are those activities relating to the acquisition and disposal of non-current assets.

Financing activities comprise repayment of capital to the Crown.

Goods and Services Tax

Goods and Services Tax is excluded from the Statement of Financial Performance and the Statement of Financial Position except for sundry debtors and sundry creditors which are GST inclusive. GST receivable or payable is included in debtors or creditors whichever is applicable.

Changes in Accounting Policies

There have been no changes in accounting policies. All policies have been applied on the same bases as those used in previous years.

MĀORI TRUSTEE
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED
31 MARCH 2003

| | 2003 | 2002 |
|------------------------------------|------------------|------------------|
| | \$ | \$ |
| 1. Investment Income | | |
| Income Earned on Investments | 3,893,839 | 3,623,266 |
| Interest Earned Other | (61) | (453) |
| Realised Gain/(Loss) on Investment | 0 | 48,749 |
| Amortisation of Premiums | (87,287) | (94,291) |
| | <u>3,806,491</u> | <u>3,577,271</u> |

Included within interest earned on investments is approximately \$836 (2002 \$1,506) relating to mortgages which are considered doubtful and have a significant provision against them which is reflected in Note 7.

| | 2003 | 2002 |
|------------------------|--------------|---------------|
| | \$ | \$ |
| 2. Other Income | | |
| Miscellaneous Receipts | 60 | 22,983 |
| Bad Debts Recovered | 2,417 | 0 |
| | <u>2,477</u> | <u>22,983</u> |

| | 2003 | 2002 |
|----------------------------|------------------|------------------|
| | \$ | \$ |
| 3. Operating Costs | | |
| Fees Paid To Auditors | | |
| Audit Fee | 60,000 | 60,000 |
| Subsidiary Audit Fee | 4,031 | 3,408 |
| Directors Fees | 6,750 | 12,045 |
| Depreciation | | |
| EDP Equipment | 220,925 | 148,239 |
| Office Equipment | 1,715 | 596 |
| Furniture and Fittings | 5,269 | 7,387 |
| Building Rental Expense | 338,420 | 341,555 |
| Salaries and Wages | 2,094,073 | 2,074,395 |
| Superannuation Subsidy | 15,258 | 16,742 |
| Other Administration Costs | 1,241,208 | 1,360,554 |
| | <u>3,987,649</u> | <u>4,024,921</u> |

| | 2003 | 2002 |
|--|-------------|-------------|
| | \$ | \$ |
| 4. Interest | | |
| Interest Paid and Allowed on Trust Funds | 623,707 | 457,066 |

| | 2003 | 2002 |
|--|--------------------|--------------------|
| 5. Bad and Doubtful Debts | \$ | \$ |
| Bad Debts Written Off | 30,946 | 6,143 |
| Increase/(Decrease) in Provision for Bad & Doubtful Debts | <u>(41,204)</u> | <u>(45,033)</u> |
| | <u>(10,258)</u> | <u>(38,890)</u> |
| | 2003 | 2002 |
| 6. Grants | \$ | \$ |
| Māori Education Trust QEII | 3,000 | 3,000 |
| The Māori Trustee is required by Section 3 of the Queen Elizabeth II Postgraduate Fellowship of New Zealand Act 1963 to make an annual payment of \$3,000. | | |
| | 2003 | 2002 |
| 7. Provisions for Doubtful Debts | \$ | \$ |
| Sundry Debtors and Prepayments | 125,326 | 147,745 |
| Provision for Doubtful Debts | <u>0</u> | <u>0</u> |
| | <u>125,326</u> | <u>147,745</u> |
| Advances to Stations, Properties and Clients | 145,958 | 139,010 |
| Provision for Doubtful Debts | <u>(114,708)</u> | <u>(121,758)</u> |
| | <u>31,250</u> | <u>17,252</u> |
| Loans | 1,591,642 | 1,270,650 |
| Provision for Doubtful Debts | <u>(340,588)</u> | <u>(374,768)</u> |
| | <u>1,251,054</u> | <u>895,882</u> |
| Conversion Fund Loans | 4,466,428 | 4,516,829 |
| Provision for Doubtful Debts | <u>(4,426,940)</u> | <u>(4,472,418)</u> |
| | <u>39,488</u> | <u>44,411</u> |

The Conversion Fund was abolished by the Māori Affairs Amendment Act 1987 which effectively vested the Conversion Fund assets in the Māori Trustee. The "Net Gain on Conversion Fund" mentioned in the 2002/2003 statement of financial performance reflects the reduction in the provision for bad debts made during the year in terms of the amended Sections 151, 153 and 154, of the Māori Affairs Act 1953.

8. Financial Instruments

The Māori Trustee as part of his General Purposes Fund and Common Fund is party to financial instrument arrangements as part of his everyday operations. These include instruments such as bank balances, investments, accounts receivable, trade creditors, short term and long term loans.

Credit Risk

Credit risk is the risk that a third party will default on its obligations to the Māori Trustee, causing the Māori Trustee to incur a loss. In the normal course of his business, the Māori Trustee incurs credit risk from trade debtors, transactions with financial institutions and short and long term loan recipients.

Significant Concentrations of Credit Risk

There are no significant concentrations of credit risk with respect to debtors.

The Māori Trustee has significant exposure within his General Purposes Fund in respect of his shareholding in Quantum Limited. Investments are monitored by the Māori Trust Office Investment Committee. The Māori Trustee has established guidelines, strategies and ratios which aim to minimise exposure to risks. The Māori Trustee considers that sufficient provisions have been made to meet any known credit risk.

Security in Respect of Credit Risk

Advances to Stations, Properties, and Clients and Mortgages have been made under Section 32 of the Māori Trustee Act 1953 and Section 248 of the Māori Affairs Act 1953.

Advances under Section 32 of the Māori Trustee Act 1953 may or may not be secured. Where advances under Section 32 of the Māori Trustee Act 1953 are secured the security may be a first or a second mortgage security over a freehold interest in land, a memorial of charge against land or a debenture.

Advances under Section 248 of the Māori Affairs Act 1953 may or may not be secured. Where advances under Section 248 of the Māori Affairs Act 1953 are secured the security is a memorial of charge over land.

The Conversion Fund loans are “deemed advances” and are not secured but the Māori Trustee owns shares in the land to which the Conversion Fund loans relate.

There are substantial provisions made for these Advances and Conversion Fund loans which are reflected in Note 7.

Security for other financial instruments is either unobtainable, due to the nature of the instrument, or is not sought due to the instrument being invested in high credit quality organisations.

Fair Value

With the exception of company shares and government stock, the fair values of which exceed the carrying values, the fair value of all other investments is equivalent to the carrying amount disclosed in the Māori Trustee’s General Purposes Fund Statement of Financial Position and the Statement of Common Fund and Special Investments.

General Purposes Funds

The investment in Government stock, Local Authority and Commercial bonds held by the General Purposes Fund had a current market value of \$24,661,948 as at 31 March 2003 (2002 \$16,530,197).

The investment in Company Shares has no quoted market price and it is not practicable to estimate a market value due to certain restrictions that may exist if divestment were to occur. All current estimates, taking into account these possible restrictions, indicate a market value in excess of the current value as recorded in these accounts.

Common Fund

The investments in Government stock, BIL Finance and company debentures, stocks and bonds held by the Common Fund had a current market value of \$25,123,016 as at 31 March 2003 (2002 \$20,891,686).

9. Currency and Interest Rate Risk

Currency risk is the risk that debtors and creditors due in foreign currency will fluctuate because of changes in foreign exchange rates.

The Māori Trustee has no exposure to foreign currency fluctuations.

Interest rate risk is the risk that the Māori Trustee's return on funds he has invested will fluctuate due to changes in the market interest rates.

There is a negligible interest rate risk as the interest received by the Māori Trustee exceeds the interest payable on clients' funds by a substantial margin.

Repricing Maturities - General Purposes Fund

| | Less Than 1 Year | 1 to 2 Years | 2 to 5 Years | More Than 5 Years | Total |
|--------------------------|---------------------|------------------|-------------------|----------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Call Deposits | 1,153,701 | 0 | 0 | 0 | 1,153,701 |
| Fixed Term Deposits | 3,765,000 | 0 | 0 | 0 | 3,765,000 |
| Government Stock | 0 | 3,271,150 | 1,566,541 | 2,480,127 | 7,317,818 |
| Corporate Bonds | 0 | 0 | 5,055,584 | 499,963 | 5,555,547 |
| Stated Owned Enterprises | 0 | 0 | 2,058,227 | 2,329,831 | 4,388,058 |
| Local Government Bonds | 0 | 0 | 1,516,286 | 1,504,262 | 3,020,548 |
| Bank Bonds | 500,580 | 721,413 | 2,007,127 | 0 | 3,229,120 |
| | <u>5,419,281</u> | <u>3,992,563</u> | <u>12,203,765</u> | <u>6,814,183</u> | <u>28,429,792</u> |

Repricing Maturities - Common Fund

| | Less Than 1 Year | 1 to 2 Years | 2 to 5 Years | More Than 5 Years | Total |
|-------------------------|---------------------|------------------|------------------|----------------------|-------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Short Term Deposits | 5,643,113 | 0 | 0 | 0 | 5,643,113 |
| Government Stock | 0 | 2,756,643 | 2,539,719 | 5,433,638 | 10,730,000 |
| Corporate Bonds | 0 | 0 | 3,546,516 | 992,083 | 4,538,599 |
| State Owned Enterprises | 0 | 0 | 1,573,473 | 1,789,462 | 3,362,935 |
| Local Government Bonds | 0 | 0 | 991,297 | 999,929 | 1,991,226 |
| Bank Bonds | 0 | 1,007,083 | 1,005,182 | 0 | 2,012,265 |
| Capital Notes | 998,805 | 0 | 70,000 | 0 | 1,068,805 |
| | <u>6,641,918</u> | <u>3,763,726</u> | <u>9,726,187</u> | <u>9,215,112</u> | <u>29,346,943</u> |

| | Original Cost | Accumulated Depreciation | Net Carrying Value |
|------------------------------|------------------|-----------------------------|-----------------------|
| | \$ | \$ | \$ |
| 10. Fixed Assets 2003 | | | |
| EDP WIP Software | 17,388 | 0 | 17,388 |
| EDP WIP Hardware | 131,952 | 0 | 131,952 |
| EDP WIP Duplication Project | 158,381 | 0 | 158,381 |
| EDP Equipment | 962,743 | (652,625) | 310,118 |
| Office Equipment | 84,947 | (44,432) | 40,515 |
| Furniture and Fittings | 77,684 | (31,251) | 46,433 |
| | <u>1,433,095</u> | <u>(728,308)</u> | <u>704,787</u> |

| | Original Cost | Accumulated Depreciation | Net Carrying Value |
|----------------------------------|--------------------------|-------------------------------------|-------------------------------|
| | \$ | \$ | \$ |
| Fixed Assets 2002 | | | |
| EDP Equipment - Work in Progress | 0 | 0 | 0 |
| EDP Equipment | 952,793 | (435,713) | 517,080 |
| Office Equipment | 48,497 | (39,163) | 9,334 |
| Furniture and Fittings | 32,450 | (29,851) | 2,599 |
| | <u>1,033,740</u> | <u>(504,727)</u> | <u>529,013</u> |

11. Sundry Creditors and Accruals

The funds to be reimbursed by the Māori Trustee pursuant to Section 41 of the Māori Trustee Act 1953 arise from an obligation by the Ministry of Māori Development to fund the operating costs of the Office of the Māori Trustee from the departmental appropriation of the Ministry of Māori Development.

Agreement was reached with officials of the Ministry of Māori Development to defer the reimbursement of the expenses that were incurred and not reimbursed by the Māori Trustee up to and including 30 June 1994.

The Māori Trustee agreed to use his best endeavours to reimburse the Crown for expenses incurred by the Ministry of Māori Development on behalf of the Māori Trustee since 1 July 1994.

The level of reimbursement has been subject to the Māori Trustee's financial situation and the requirement to meet his trustee obligations.

By letter dated 10 June 1996, Crown Law have also expressed the view that whether or not, pursuant to his power under Section 41 to do so, the Minister of Finance requisitions a sum or sums from the Māori Trustee, may depend upon all the circumstances at the time, including considerations such as the amount held in the General Purposes Fund and the Māori Trustee's ability, given his income and expenditure commitments in relation to that Fund, to make such a payment.

Further decisions on the reimbursement of expenses are to be made in conjunction with the review being undertaken by officials on the future of the Māori Trustee and the Office of the Māori Trustee.

During the year ended 31 March 2003 the Māori Trustee did not make any reimbursement to the Crown (\$NIL, 31 March 2002).

As at 31 March 2003 the monies paid by the Ministry of Māori Development on behalf of the Māori Trustee that have not been reimbursed to the Crown totalled \$40,867,521 (GST exclusive) and at 31 March 2002, \$37,201,031 (GST exclusive).

12. Related Party

The Māori Trustee has a wholly owned subsidiary, Te Māori Lodges Limited (TML). The Māori Trustee significantly influences the role of TML. The Māori Trustee provides management services to TML. These have been fully eliminated on consolidation of the Māori Trustee and TML financial results.

The business conducted by TML is that of a holding company which holds shares in Quantum Limited.

13. Contingent Liabilities

Unclaimed Monies (1963 to 1993)

This Contingent Liability of \$7.6M (2002 \$7.6M) relates to beneficiary monies paid out by the Māori Trustee under Statutory direction to the Māori Education Trust, the Māori Purposes Fund Board and the New Zealand Māori Council. These funds are still owing to beneficiaries and are liable to be paid by the Māori Trustee should such a claim be made.

Compensation Leases

The Māori Trustee administers leases where compensation is payable to the lessee on expiry or resumption of a lease.

In some of these cases the Māori Trustee is required by the Māori Vested Land Administration Act 1954 to advance to the owners the funds required to meet compensation payments upon resumption, as the level of funds required to be set aside during the course of the lease is insufficient. The value of advances which the Māori Trustee may be required to make upon resumption of a lease is not quantifiable at this time.

In other cases where the lease provides for compensation to be paid, and there is insufficient funds held on behalf of the owners, the Māori Trustee is not required by statute to provide these funds. However, the Māori Trustee is often the only institution which will provide the finance required. The value of advances is not quantifiable at this time.

Other Contingent Liabilities

The Māori Trustee has received or is aware of various potential claims totaling \$0.13M (2002 \$0.27M). The Māori Trustee denies liability and will defend these actions in most cases.

The Māori Trustee is presently considering an issue related to Conversion Fund loans. However, the Māori Trustee does not acknowledge any liability in respect of this matter which is as yet unquantified.

| | 2003 | 2002 |
|---|-------------------------|-------------------------|
| 14. Reconciliation with Reported Operating Surplus | \$ | \$ |
| Reported Operating Surplus | 507,562 | 294,904 |
| Add non cash items | | |
| Interest Income | (576) | (6,764) |
| Amortisation of Premiums | 87,287 | 94,291 |
| Depreciation | 227,909 | 156,222 |
| Loss/(Gain) on Sale of Investments | 0 | (48,749) |
| Bad and Doubtful Debts | (105,005) | (133,713) |
| Gain on Conversion Fund Operations | 45,478 | 44,340 |
| Add/(Less) movements in other Working Capital items | | |
| (Increase)/Decrease in Debtors, Prepayments and Accrued Interest | (1,348) | (216,345) |
| Increase/(Decrease) in Creditors | <u>3,616,108</u> | <u>3,623,589</u> |
| Net Cashflows from Operating Activities | <u><u>4,377,415</u></u> | <u><u>3,807,775</u></u> |

| | 2003 | 2002 |
|-----------------------------------|------------------|------------------|
| | \$ | \$ |
| 15. Commitments | | |
| Capital Commitments | | |
| Less than 1 year | 238,405 | 0 |
| Leasing and Operating Commitments | | |
| Less than 1 year | 333,998 | 340,871 |
| 1 year to 2 years | 261,607 | 306,598 |
| 2 years to 5 years | 654,802 | 640,782 |
| Greater than 5 years | 502,339 | 710,287 |
| Total | <u>1,991,151</u> | <u>1,998,538</u> |



REPORT OF THE AUDITOR-GENERAL

TO THE READERS OF THE FINANCIAL STATEMENTS OF THE MĀORI TRUSTEE AND GROUP FOR THE YEAR ENDED 31 MARCH 2003

We have audited the financial statements on pages 24 to 38. The financial statements provide information about the past financial performance and the financial position of the Māori Trustee and group as at 31 March 2003. This information is stated in accordance with the accounting policies set out on pages 29 to 31.

Responsibilities of the Māori Trustee

The Māori Trustee is responsible for ensuring that the financial statements are prepared in accordance with generally accepted accounting practice in New Zealand that fairly reflect the financial position of the Māori Trustee and group as at 31 March 2003, and the results of its operations and cash flows for the year ended on that date.

Auditors' responsibilities

Section 15 of the Public Audit Act 2001 requires the Auditor-General to audit the financial statements presented by the Māori Trustee. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report that opinion to you.

The Auditor-General has appointed H C Lim, of Audit New Zealand, to undertake the audit.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Māori Trustee in the preparation of the financial statements; and
- whether the accounting policies are appropriate to the Māori Trustee and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with the Auditing Standards published by the Auditor-General, which incorporate the Auditing Standards

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

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in the Māori Trustee or any of its subsidiaries.

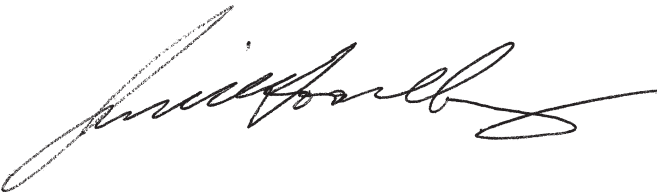
Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion the financial statements of the Māori Trustee and group on pages 24 to 38:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Māori Trustee and group's financial position as at 31 March 2003; and
 - the results of operations and cash flows for the year ended on that date.

Our audit was completed on 27 June 2003 and our unqualified opinion is expressed as at that date.



H C Lim
Audit New Zealand
On behalf of the Auditor-General
Wellington, New Zealand

Matters relating to the electronic presentation of the audited financial statements

This audit report relates to the financial statements of the Maori Trustee and group for the year ended 31 March 2003 included on Te Puni Kokiri's website. The Chief Executive is responsible for the maintenance and integrity of Te Puni Kokiri's website. We have not been engaged to report on the integrity of Te Puni Kokiri's web site. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

We have not been engaged to report on any other electronic versions of the Maori Trustee and group's financial statements, and accept no responsibility for any changes that may have occurred to electronic versions of the financial statements published on other websites and/or published by other electronic means.

The audit report refers only to the financial statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these financial statements. If readers of this report are concerned with the inherent risks arising from electronic data communication they should refer to the published hard copy of the audited financial statements and related audit report dated 27 June 2003 to confirm the information included in the audited financial statements presented on this web site.

Legislation in New Zealand governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.