



Report of the
MĀORI TRUSTEE
for the year ended
31 March 2005

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 2005.



John E Paki
Māori Trustee

Ki te Minita mō ngā Take Māori

He hōnore ki ahau te tuku atu i te pūrongo ā tau o Te Kai-Tiaki Māori ki a koe mō te tau i mutu i te 31 o Māehe 2005.



John E Paki
Kai-Tiaki Māori

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THE YEAR IN REVIEW

This report for the year to 31 March 2005 shows the Māori Trust Office continues to be actively involved in the Māori community, providing a superior service through business competence, teamwork and professionalism.

Internally the main focus for the past year has been on the Māori Authority taxation project and the impact the change in legislation has on the Māori Trustee and his clients. The Taxation (Māori Organisations, Taxpayer and Compliance and Miscellaneous Provisions) Act 2004 came into effect from April 2004. The legislation affected approximately 98% of the 2,263 entities the Māori Trustee administers.

This involved a review of the financial system to ensure that taxation obligations are efficiently met and that accurate financial information is provided to the Māori Trustee's clients.

In line with the focus on taxation the Māori Trust Office completed a number of projects over the past year relating to taxation of Māori Authorities. These include:

- Establishing a Tax Agency relationship with the Inland Revenue Department (IRD), registering 1,900 new entities with the IRD, linking these to the new Tax Agency, and completing the new Māori Authority elections to enable application of the Māori Authority tax regime for 2005.
- Development and implementation of software enhancements, and establishment of new procedures to enable individual income tax returns to be prepared, filed and managed for all entities that are obliged to file tax returns.

These taxation projects have provided an opportunity for the Māori Trust Office to review and improve its operational procedures. This has resulted in:

- Developing a new financial reporting approach, which provides owners and trustees with financial statements consistent with financial reporting standards.
- Identifying the need for amended agency agreements for 145 trusts and 5 groups of owners where the Māori Trustee acts as Section 13 agent for the trustees or owners. Letters and agreements were sent to 640 trustees and owners and the process has resulted in the Māori Trustee ceasing to act for 16 trusts, either because the responsible trustees decided to withdraw from using the Māori Trustee's services or because the responsible trustees did not respond and the Māori Trustee has had to withdraw his services. Agreements have been completed with the other trustees and owners.

- Encouraging trustees and owners to take a more active role in the management of their trusts where the Māori Trustee acts as agent.
- Identifying the need for ongoing staff training in specific areas of the Māori Trust Office.
- Annual distributions of income once tax commitment liabilities have been determined.
- The Sir Apirana Ngata Memorial Scholarship Fund made 13 awards to a value of \$28,000.

A major office goal is to unlock the potential of Māori assets by identifying opportunities for development. Consequently the Māori Trustee has identified some properties with development potential with the object of achieving greater returns.

In the past year these opportunities included the purchase of a 52% share of a kiwifruit orchard in Te Puke. The orchard, rated as one of the top producers in the area, has allowed the Māori owners to consolidate their interest and their returns from the land.

A 200 hectare block near Taupo was leased to a progressive lessee who has already made considerable improvements to the land. The lessee is committed to working with the owners and the long term proposal is to enter into a 50/50 sharemilking agreement with the lessee.

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, VALUES AND MISSION

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;
- Providing quality services to clients with regard to accuracy, timeliness, convenience 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, Values and Mission.

Strategic Goal 1

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

In doing this the Māori Trustee will:

- Actively and regularly consult with clients;
- Provide quality information to enable clients to make sound business decisions;
- Empower clients to achieve their development aspirations;
- Increase the value of clients' assets;
- Make timely payment of clients' funds.

Strategic Goal 2

To manage fund assets to best advantage for clients.

In managing these assets, the Māori Trustee will:

- Seek to improve the return on investments consistent with investment standards;
- Apply 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 encourage owners to assume the role of advisory trustee with a view to taking on the responsibility of their own trusts. This is evident in the Aotea region where over 60% of the meetings of owners in 2005 have resulted in advisory trustees being appointed.

The Māori Trustee has also accepted appointments, at the request of the Māori Land Court, to act for owners of several properties and to assist trustees with financial and governance issues.

RISK MANAGEMENT

Electronic duplication of around 1,200,000 paper pages of historical client account records was completed in 2004 and the original paper documents are now stored with Archives New Zealand.

ASSET ENHANCED 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 included:

- Completing an agreement to purchase a partially developed kiwifruit block near Te Teko by a trust which already has a high producing kiwifruit orchard adjacent. The purchase will be completed without borrowing as the owners have retained sufficient income to fund the growth of their trust.
- Arranging legal access to an 81 hectare block which borders the Kawhia Harbour. The Māori Trustee is Responsible Trustee for the block and an agreement has been reached with the owner of adjoining general land for a legal right of way access.
- Arranging practical legal access along the boundary of a block at Pukeatua at the base of Mount Maungatautari for which the Māori Trustee is Responsible Trustee. Negotiations with the local authority to reclaim approximately 5.3 hectares that was taken for public roads by Government Warrant in 1885, has resulted in practical access being provided to the adjoining Māori owned blocks. The local authority will re-vest the 5.3 hectares of unformed paper roads into the block that is administered by the Māori Trustee.
- Purchasing, on behalf of a trust where the Māori Trustee is Statutory Trustee, a residential property in Otorohanga that was previously owned

by a Māori Reserved Land lessee. The block comprises 6 residential sections and the trust was able to meet 80% of the cost from its own funds. The Māori Trustee advanced the balance on a commercial loan basis.

ISSUES FACING THE MĀORI TRUSTEE

REVIEW OF THE MĀORI TRUSTEE AND THE MĀORI TRUST OFFICE

In the period under review, 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 an impact on the financial position of the Māori Trustee.

TAXATION ISSUES

To work with the Inland Revenue Department (IRD) to develop and agree upon an efficient method of producing and bulk filing income tax, resident withholding tax on distribution and Māori Authority Credit returns.

To develop internal processes for managing the filing of tax returns, reviewing IRD assessments, making tax payments and recording income tax refunds.

To file tax returns for all entities administered by the Māori Trust Office for the year ended 31 March 2005.

Continue to develop a working relationship with IRD to ensure the effective and efficient management of income tax and associated tax issues for Māori Authorities.

COMPLYING WITH TE TURE WHENUA MĀORI ACT 1993

The Māori Trustee has been Responsible Trustee for a trust since 1986. There are currently 770 owners, 135 of whom are believed to be deceased. The Māori Trustee holds addresses for 408 owners.

The Māori Trustee has exercised his trust powers to enter into a land exchange agreement initiated by the owners, after many years of negotiation.

Before applying for an exchange order from the Māori Land Court, the Māori Trustee proposed holding a consultation meeting to consider and discuss the exchange and to obtain the views of owners who could not attend the consultation meeting through a questionnaire.

The consultation meeting was held in March 2005. Prior to the meeting notices were sent to 408 persons and advertisements were placed in four national newspapers and the Māori Land Court's Te Pouwhenua magazine. Forty two people were present at the meeting, 23 proxies were received and 70 persons returned the questionnaire. Owners from Australia also attended.

At the meeting background and details concerning the exchange were given, along with expert advice on engineering issues and valuation matters. At times the discussion was robust and the owners requested that a further meeting in four weeks time be held and that additional information on the technical aspects and the development potential of the exchange properties could be provided as well as other reports that would assist the owners in reaching a decision.

There were objections to the exchange on the grounds that the land was of ancestral or cultural significance and should not be exchanged.

Other issues requiring attention were the possibility of a Treaty claim and whether the Māori Trustee had the right to manage the trust.

The Māori Trustee in seeking exchange orders must satisfy the Court (s312 (1) TTWMA 93):

- (a) That the exchange is not detrimental to the interests of the Māori owners affected by the exchange:
- (b) That, if the interests to be exchanged are unequal in value, a sufficient sum of money by way of equality of exchange has been actually paid or sufficient security for its payment has been given:
- (c) That the Māori owners of the land affected by the exchange have had sufficient notice of the application for an exchange order and sufficient opportunity to discuss and consider it, and that there is a sufficient degree of support for the application among the owners, having regard to the nature and importance of the matter.

A further consultation meeting is set down for May 2005.

The Māori Trustee's role as Responsible Trustee is to ensure that the best interests of the owners are maintained and protected.

FINANCIAL RESULTS OVERVIEW

The audited financial statements for the financial year ended 31 March 2005 are contained on pages 25 to 40 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 \$1,409,417 was generated in the Māori Trustee's General Purposes Fund. This represents an increase of \$374,749.

Revenue increased from \$5,768,574 (2004) to \$5,929,028 (2005). Operating expenditure decreased from \$4,733,906 (2004) to \$4,519,611 (2005).

Most income continues to be generated from investment activities. Income from this source represents 78.4% of gross income. The Māori Trustee's remaining income of \$1,279,305 is derived mainly from commissions and then fees. Fees collected for the year increased by \$23,358.

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

The consolidated statement of financial position as at 31 March 2005 shows total assets of \$54,583,729. Overall total assets increased by \$5,578,461.

The Māori Trustee continues to re-align the General Purposes Fund investment portfolio. As a result, the majority of the Māori Trustee's assets, 76.8% are classified as non-current.

Non-current assets comprise 58.4% in long term fixed interest securities, 30.2% in shares, 10.2% in lending and 1.2% in fixed assets.

Consolidated General Purposes Fund net assets represent 7.9% 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 \$34,226,476 as at 31 March 2005. This represents an increase in funds held of \$3,729,977 over the position at 31 March 2004 of \$30,496,499.

CLIENT 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 \$42,725,446.

Funds held in the two accounts have increased by \$5,069,909 from \$37,655,537 in 2004. This represents an increase of some 13.5% over 2004.

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 \$1,339,932 from \$7,159,038 (2004) to \$8,498,970 (2005). Over the same period the number of individual accounts did not increase.

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.

2005 OPERATIONAL RESULTS

The main functions of the Māori Trustee are:

- (A) Property Management Services;
- (B) Client Services Unit;
- (C) Funds Management;
- (D) General Purposes Fund;
- (E) 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 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 PROPERTIES ADMINISTERED AS AT 31 MARCH 2005

\$Annual Rental Range	Total Gross \$Rental p.a.	Number of Properties	Number of Hectares	Number of Owners
0	0	472	24,574	30,023
UP TO 1,000	320,787	465	7,689	29,006
1,001-5,000	1,983,114	678	29,225	57,943
5,001-10,000	2,453,677	314	14,730	31,962
10,001-15,000	1,457,937	122	10,336	15,062
15,001-20,000	1,230,173	68	6,477	6,563
20,001-25,000	655,423	32	4,579	7,014
OVER 25,000	2,478,873	66	5,709	10,815
TOTAL	10,579,984	2,217	103,319	188,388 ¹

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 three to five 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*

These 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*

These are held at expiry of a lease as well as when there are significant issues to resolve during the term of a lease. 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 a lease before any new land utilisation is arranged.

Property Management Service targets were set for these processes. Results achieved are set out in Table 2 below.

TABLE 2 – PROPERTY MANAGEMENT SERVICE TARGETS AND RESULTS

Key Services Objectives for 2004/2005	2004/2005 Targets	2004/2005 Results	2003/2004 Results
Arrears			
To ensure that the number of accounts in arrears does not exceed 9% of total accounts	9%	10%	8%
The overall percentage of gross annual rental in arrears be held at or below	2.5%	4%	2.5%
The average rent collection days be held at or below	12	18	12
Property Management Tasks			
To complete the targeted number of property management tasks by 31 March 2005:			
• Rent reviews	128	107	201
• Lease renewals	89	86	93
• Inspections of property	559	625	694
• Meetings of owners	344	331	450
• Lease expiries	219	187	206
• Meetings with advisory and responsible trustees	160	187	115

COMMENTARY ON RESULTS ACHIEVED

- Good results in arrears management continues even though arrears were slightly up to 4% as against 2.5% for the previous year.
- Held 518 meetings with owners and their representatives.
- Overall performance was satisfactory.
- In addition the owners of 94 trusts and agencies were sent written reports to update them on their land, its utilisation and financial performance. The 94 trusts and agencies were targeted as they are not scheduled for a meeting of owners within the next few years. This was an issue identified by the Office of the Auditor General in its performance audit in 2003/04.

(B) Client Services Unit

Client Services Unit aims are:

- 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 112,000 Client Accounts, the profile of which is set out in Table 3 below:

TABLE 3 – CLIENT SERVICES UNIT PROFILE

	2004/2005 Position	2003/2004 Position
Number of Client Services Unit Accounts	112,949	113,055
Funds held on Client Services Unit Accounts	\$9,428,746	\$9,256,597
Number of Client Services Unit Accounts with confirmed addresses or bank accounts	41,777	41,131
Percentage of Client Services Unit Accounts with valid addresses or bank accounts	37%	36.4%

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

Tax is calculated and paid on each block's net income. Tax paid distributions are then made to owners based on their shareholding with Māori Authority tax credits attached.

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 generally \$100 for cheque payments to clients resident overseas. Most years, often in March, the minimum payment threshold is reduced to \$2 for direct credit and \$20 for cheque payments to New Zealand clients.

Client Accounts 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 Trustee has no current address and/or bank account numbers, in particular those with large balances.

Results achieved in 2005 are set out in Table 4 below.

TABLE 4 – CLIENT SERVICES UNIT TARGETS AND RESULTS

Key Services Objectives for 2004/2005	2004/2005 Results	2003/2004 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	1,434	1,580
To update client records in the computer database to enable timely payments to clients: • Number of client record forms received and completed	16,987	14,631
To provide clients with timely, accurate, up to date information in response to written requests: • Number of letters received and completed • Response times • <i>Within 10 working days</i> • <i>Within 20 working days</i>	1,853 69% 84%	1,720
To actively seek clients' IRD numbers to ensure payment of the lowest applicable tax rate: • Number of client accounts where IRD number recorded	26,445	approx 10,500

COMMENTARY ON RESULTS ACHIEVED

- In August 2004 letters were sent to some 41,000 clients, for whom the Māori Trustee holds addresses, advising them of the consequences of the new Māori Authority tax legislation, including its effect on tax rates, distributions to clients and the necessity to provide IRD numbers in order to qualify for the lower tax rate.
- In excess of 2,000 letters were returned unclaimed which resulted in the Māori Trustee's client address database being updated.
- Overall performance was satisfactory.

(C) Funds Management

(i) CLIENT FUNDS MANAGEMENT AIMS ARE:

- **To consult with trustees, advisory trustees and owners and obtain the best return commensurate with risk in line with clients' objectives 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.

(iii) INVESTMENT PORTFOLIO

The Māori Trustee continues to be dependent upon income generated from his investments to contribute to funding his responsibilities as contained in the Māori Trustee Act 1953. Investment is made in accordance with the Māori Trustee's investment policy and oversight of an investment committee and investment advisors and in accordance with other statutory requirements.

The portfolio is conservative with a strong emphasis toward high quality securities. The Māori Trustee continues to regularly review the risk profile and asset allocation of the portfolio and its appropriateness to support the Māori Trustee's overall strategy.

(D) 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 meeting certain expenditure as specified in the Māori Trustee Act 1953.

Statutory authorities contained in the Māori Trustee Act 1953 enable the Māori Trustee to be much more flexible with the type of security, type of instrument and return on investments made for 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, lending and mortgages; and**
- **To manage any 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:

- **Over the long term to develop a portfolio of between \$10M and \$20M 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 previous 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, the Māori Business Facilitation Service, the Poutama Trust and the Māori Trustee's own clients to identify opportunities where the Māori Trustee can assist Māori seeking funds for personal, trust or business development.

Māori Trustee lending is based on a commercial approach and involves term lending with an average loan size of \$50,000. Terms are generally

for 5 years or less. Lending is flexible and tailored strongly to the needs of the borrower. The decision to lend is assessed on character, cashflow and collateral.

Lending enquiries during the period under review comprised 42 individual cases as scheduled in Table 5.

TABLE 5 – LENDING ENQUIRIES

Interest did not proceed beyond initial enquiry	13	31%
Incomplete applications that did not proceed	7	17%
Applications declined	9	21%
Loans advanced within the year	7	17%
Loans approved but not taken	2	5%
Loans approved yet to be drawn	1	2%
Loans under evaluation	3	7%

Loans totalling over \$500,000 have been drawn down for farm development and commercial property purchase in the 2004/2005 year.

(E) 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.

MĀORI SOLDIERS' TRUST

Under the Māori Soldiers' Trust Act 1957, the Māori Trustee administers the Soldiers' Fund Account for the benefit of WWI Māori veterans, of which there are only two surviving widows, and their dependents.

The Sir Apirana Ngata Memorial Scholarship Fund is also administered by the Trust. The fund allows for education grants to be awarded to descendants of the veterans. Grants of \$28,000 were awarded to 13 applicants.

The Trust's farm, Hereheretau Station, a property situated within the Wairoa district, represents a typical North Island hill country sheep and cattle breeding property comprising 1,839 effective hectares presently wintering 17,883 stock units. On 30 June 2004 the operational size increased through acquisition of a further 489 hectares of adjoining farmland. Greater

economies of scale will deliver improved performance outcomes. The economic farm surplus achieved over the past three years from the original farming base is scheduled in Table 6.

TABLE 6 – ECONOMIC FARM SURPLUS

	2003-2004	2002-2003	2001-2002
Total stock units	13,680	13,512	12, 642
Stock units per effective hectare	9.9	9.9	9.3
Economic Farm Surplus per effective hectare	\$170.58	\$145.00	\$248.41
Economic Farm Surplus per stock unit	\$17.21	\$14.59	\$26.72
Total income per stock unit	\$55.11	\$49.17	\$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
- Māori Reserved Land Amendment Act 1998

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/Lisa Swan
Manager Special Projects Asset Development	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	Tina Ngatai
Regional Operations Manager Gisborne	Maui Tangohau
Regional Operations Manager Wanganui	Novena McGuckin

Human Resources

As at 31 March 2005:

Human Resources	31 March 2005	31 March 2004
Staff		
• Permanent	44	47
• Temporary	10	8
Total	54	55

MĀORI TRUSTEE
CONSOLIDATED GENERAL PURPOSES FUND STATEMENT
OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED
31 MARCH 2005

	Notes	2005	2004
		\$	\$
INCOME			
Investment Income	1	4,649,723	4,494,634
Commission		842,092	857,884
Fees		436,806	413,448
Other Income	2	407	2,608
Total Income		<u>5,929,028</u>	<u>5,768,574</u>
EXPENDITURE			
Operating Costs	3	4,702,773	4,091,072
Interest Paid and Allowed on Trust Funds	4	770,666	675,286
Bad and Doubtful Debts	5	1,640	(26,139)
Net (Gain)/Loss on Conversion Operations		(958,468)	(9,313)
Grants	6	3,000	3,000
Total Operating Expenditure		<u>4,519,611</u>	<u>4,733,906</u>
Net Surplus for the year		<u><u>1,409,417</u></u>	<u><u>1,034,668</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 2005

	Notes	2005 \$	2004 \$
THE MĀORI TRUSTEE ADMINISTERS			
Current Assets			
Bank, Petty Cash and Cash in Transit		3,888	14,607
Call Deposits	9	412,482	520,025
Sundry Debtors and Prepayments	7	195,013	187,973
Interest Accrued		1,257,068	1,298,611
Fixed Term Deposits	9	6,764,959	2,578,530
Government Stock and Commercial Bonds	9	4,002,875	3,960,608
Total Current Assets		<u>12,636,285</u>	<u>8,560,354</u>
Non Current Assets			
Advances to Stations, Properties and Clients	7	150,354	59,094
Loans	7	4,116,219	1,464,142
Conversion Fund Loans	7	18,970	26,845
Government Stock	9	5,539,367	5,055,194
Local Authority and Commercial Bonds	9	18,944,776	20,504,443
Company Shares	8	12,680,468	12,680,468
Fixed Assets	10	497,290	654,728
Total Non Current Assets		<u>41,947,444</u>	<u>40,444,914</u>
Total Assets		<u>54,583,729</u>	<u>49,005,268</u>
FUNDED BY			
Current and Non Current Liabilities			
Sundry Creditors and Accruals	11	50,272,496	46,103,452
Total Liabilities		<u>50,272,496</u>	<u>46,103,452</u>
General Purposes Fund		<u> </u>	<u> </u>
Balance held by Māori Trustee		4,311,233	2,901,816
Total Liabilities		<u>54,583,729</u>	<u>49,005,268</u>



J E Paki
Māori Trustee



Geoff Miller
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.

MĀORI TRUSTEE
CONSOLIDATED GENERAL PURPOSES FUND STATEMENT
OF MOVEMENTS IN EQUITY FOR THE YEAR ENDED
31 MARCH 2005

	2005	2004
	\$	\$
General Purposes Fund Opening Balance	2,901,816	1,867,148
Net Surplus/(Deficit) for the year (Total recognised revenue and expenses)	1,409,417	1,034,668
General Purposes Fund Closing Balance	<u>4,311,233</u>	<u>2,901,816</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 CASH FLOWS FOR THE YEAR
ENDED 31 MARCH 2005

	2005	2004
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Interest Income	4,570,548	4,201,332
Dividend Income	0	300,000
Fees and Commissions from Clients	1,287,908	1,211,382
Other Income	829	2,179
Goods and Services Tax	0	6,575
	<u>5,859,285</u>	<u>5,721,468</u>
Cash was applied to:		
Suppliers and Employees	(117,402)	(59,925)
Interest Payments to Clients	(774,641)	(677,542)
Legal Settlements	(268,380)	(30,310)
Grants	(3,000)	(3,000)
Goods and Services Tax	(12,082)	0
	<u>(1,175,505)</u>	<u>(770,777)</u>
Net Cash Flows from Operating Activities	<u>4,683,780</u>	<u>4,950,691</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Loan Repayments	757,630	463,333
Conversion Fund Repayments	966,343	14,984
Investment Maturities and Sales	3,950,000	500,000
Repayments of Advances on Overdraft	12,527	(24,736)
	<u>(156,390)</u>	<u>(467,594)</u>
Cash was applied to:	<u>(3,138,603)</u>	<u>(651,139)</u>
Fixed Asset Purchases	<u>(3,007,120)</u>	<u>(6,616,083)</u>
Loan Advances	<u>(615,613)</u>	<u>(6,781,235)</u>
Investments	<u>(615,613)</u>	<u>(6,781,235)</u>
Net Cash Flows from Investing Activities	<u>(615,613)</u>	<u>(6,781,235)</u>
Net Increase/(Decrease) in Cash Held	4,068,167	(1,830,544)
Opening Cash Brought Forward	3,113,162	4,943,706
Ending Cash	<u>7,181,329</u>	<u>3,113,162</u>
Represented by:		
Bank and Petty Cash	3,888	14,607
Call Deposits	412,482	520,025
Term Deposits	6,764,959	2,578,530
	<u>7,181,329</u>	<u>3,113,162</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 2005**

	Notes	2005 \$	2004 \$
Special Investments			
Specific Deposits on behalf of Māori clients		<u>8,498,970</u>	<u>7,159,038</u>
FUNDED BY			
Special Investments			
Investments under Specific Direction		<u>8,498,970</u>	<u>7,159,038</u>
Common Fund Investments			
Short Term Deposits including Bank	9	9,301,158	4,277,486
Government Stock	9	9,487,111	11,742,464
Company Debentures Stocks and Bonds	9	<u>15,438,207</u>	<u>14,476,549</u>
Total Investments		<u>34,226,476</u>	<u>30,496,499</u>
FUNDED BY			
Common Fund			
Capital Gains from Common Fund Investment		2,565,148	2,615,963
Proceeds from Alienation of Land		22,048,639	17,888,000
Sundry Estates and Trusts		681,737	759,316
Miscellaneous Deposits and Funds		7,206,885	7,567,196
Stations		<u>1,724,067</u>	<u>1,666,024</u>
Total Funds		<u>34,226,476</u>	<u>30,496,499</u>

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

MĀORI TRUSTEE – GROUP FINANCIAL STATEMENTS STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2005

Accounting Entity

These are the consolidated financial statements of the Māori Trustee.

These statements are prepared in terms of Section 23 of the Māori Trustee Act 1953 (“the Act”) 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 Māori Trustee in his own right. Common Fund monies are received by the Māori Trustee under Sections 23 and 25 of 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.

Measurement Base

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

Accounting Policies

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 Māori Trustee can only deduct his fee and/or commission upon actual receipt of trust monies which are primarily derived from the rental of Māori land.

Consolidated Financial Statements

The consolidated financial statements incorporate the financial statements of the Māori Trustee and his wholly owned subsidiary company, Te Māori Lodges Limited as at 31 March 2005. The wholly owned subsidiary is accounted for under FRS 37 using the purchase method 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 Māori 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 after providing for doubtful and uncollectable debts.

Financial Instruments

The Māori 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 Māori Trustee's General Purposes Fund Statement of Financial Position, or the Māori 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 Māori Trustee's General Purposes Fund are recognised in the Statement of Financial Performance for the General Purposes Fund.

Income Taxation

The Māori 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.

Statement of Cash Flows

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 Māori 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 2005

	2005	2004
	\$	\$
1. Investment Income		
Income Earned on Investments	4,740,069	4,301,563
Dividends Company Shares	0	300,000
Interest Earned Other	0	7
Amortisation of Premiums	(90,346)	(106,936)
	<u>4,649,723</u>	<u>4,494,634</u>

Included within interest earned on investments is approximately \$2,165 (2004 \$2,821) relating to mortgages which are considered doubtful and have a significant provision against them which is reflected in Note 7.

The amortisation of investment premiums is on a straightline basis over the term of the investments.

	2005	2004
	\$	\$
2. Other Income		
Miscellaneous Receipts	407	2,608
	<u>407</u>	<u>2,608</u>

	2005	2004
	\$	\$
3. Operating Costs		
Fees Paid To Auditors		
Audit Fee	72,465	60,000
Subsidiary Audit Fee	3,438	3,393
Directors Fees	5,625	18,000
Depreciation		
EDP Equipment	304,192	258,961
Office Equipment	9,450	11,135
Furniture and Fittings	9,594	9,594
Building Rental Expense	346,438	356,361
Salaries and Wages	2,498,484	2,244,366
Superannuation Subsidy	29,372	17,598
Other Administration Costs	1,423,715	1,111,664
	<u>4,702,773</u>	<u>4,091,072</u>

	2005	2004
	\$	\$
4. Interest		
Interest Paid and Allowed on Trust Funds	770,666	675,286
	<u>770,666</u>	<u>675,286</u>

	2005	2004
5. Bad and Doubtful Debts	\$	\$
Bad Debts Written Off	5,495	4,685
Increase/(Decrease) in Provision for Bad & Doubtful Debts	(3,855)	(30,824)
	<u>1,640</u>	<u>(26,139)</u>

	2005	2004
6. Grants	\$	\$
Māori Education Trust QEII	<u>3,000</u>	<u>3,000</u>

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.

	2005	2004
7. Provisions for Doubtful Debts	\$	\$
Sundry Debtors and Prepayments	195,013	187,973
Provision for Doubtful Debts	0	0
	<u>195,013</u>	<u>187,973</u>
Advances to Stations, Properties and Clients	261,583	168,287
Provision for Doubtful Debts	(111,229)	(109,193)
	<u>150,354</u>	<u>59,094</u>
Loans	4,371,486	1,779,448
Provision for Doubtful Debts	(255,267)	(315,306)
	<u>4,116,219</u>	<u>1,464,142</u>
Conversion Fund Loans	3,478,129	4,444,472
Provision for Doubtful Debts	(3,459,159)	(4,417,627)
	<u>18,970</u>	<u>26,845</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 2004/2005 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 \$28,974,013 as at 31 March 2005 (2004 \$30,773,091).

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, and company debentures, stocks and bonds held by the Common Fund had a current market value of \$25,587,050 as at 31 March 2005 (2004 \$27,654,673).

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 \$
Call Deposits	412,482	0	0	0
Fixed Term Deposits	6,764,959	0	0	0
Government Stock	0	1,529,831	1,518,351	2,491,185
Corporate Bonds	3,000,952	1,000,000	3,504,785	3,077,627
Stated Owned Enterprises	1,001,923	500,000	3,330,759	1,011,623
Local Government Bonds	0	996,457	2,016,628	0
Bank Bonds	0	998,723	2,005,801	502,373
	<u>11,180,316</u>	<u>5,025,011</u>	<u>12,376,324</u>	<u>7,082,808</u>

Repricing Maturities – Common Fund

	Less Than 1 Year	1 to 2 Years	2 to 5 Years	More Than 5 Years
	\$	\$	\$	\$
Short Term Deposits	9,301,158	0	0	0
Government Stock	0	2,517,806	2,554,198	4,415,107
Corporate Bonds	1,500,714	1,512,186	1,991,870	2,032,896
State Owned Enterprises	500,977	0	1,835,807	1,492,198
Local Government Bonds	0	996,457	999,955	0
Bank Bonds	0	499,991	1,502,783	502,373
Capital Notes	70,000	0	0	0
	<u>11,372,849</u>	<u>5,526,440</u>	<u>8,884,613</u>	<u>8,442,574</u>

	Original Cost	Accumulated Depreciation	Net Carrying Value
	\$	\$	\$
10. Fixed Assets 2005			
EDP Equipment	1,550,016	(1,169,671)	380,345
EDP Equipment – in progress	53,070	0	53,070
Office Equipment	95,821	(59,191)	36,630
Furniture and Fittings	77,684	(50,439)	27,245
	<u>1,776,591</u>	<u>(1,279,301)</u>	<u>497,290</u>

	Original Cost	Accumulated Depreciation	Net Carrying Value
	\$	\$	\$
Fixed Assets 2004			
EDP Equipment	1,453,988	(865,479)	588,509
Office Equipment	79,122	(49,742)	29,380
Furniture and Fittings	77,684	(40,845)	36,839
	<u>1,610,794</u>	<u>(956,066)</u>	<u>654,728</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 2005 the Māori Trustee did not make any reimbursement to the Crown (\$NIL, 31 March 2004).

As at 31 March 2005 the monies paid by the Ministry of Māori Development on behalf of the Māori Trustee that have not been reimbursed to the Crown totalled \$48,594,033 (GST exclusive) and at 31 March 2004, \$44,531,096 (GST exclusive).

As at 31 March 2005 sundry creditors were \$1,678,463 (2004 \$1,515,742).

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 (2004 \$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 totalling \$0.15M (2004 \$0.15M). 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.

	2005	2004
	\$	\$
14. Reconciliation of Net Reported Operating Surplus with Net Cash Flows from Operating Activities		
Reported Operating Surplus	1,409,417	1,034,668
Add non cash items		
Interest Income	(211,065)	0
Amortisation of Premiums	90,346	106,936
Depreciation	323,236	279,690
Loss/(Gain) on Sale of Fixed Assets	0	2,067
Bad and Doubtful Debts	1,640	(30,824)
Gain on Conversion Fund Operations	(958,468)	(9,313)
Add/(Less) movements in other Working Capital items (Increase)/Decrease in Debtors, Prepayments and Accrued Interest	10,670	(162,886)
Increase/(Decrease) in Creditors	4,018,004	3,730,353
Net Cash Flows from Operating Activities	<u>4,683,780</u>	<u>4,950,691</u>

	2005	2004
	\$	\$
15. Commitments		
Capital Commitments		
Less than 1 year	85,000	0
Leasing and Operating Commitments		
Less than 1 year	310,775	305,751
1 year to 2 years	255,736	258,353
2 years to 5 years	557,550	706,361
Greater than 5 years	78,486	317,760
Total	<u>1,287,547</u>	<u>1,588,225</u>



AUDIT REPORT

TO THE READERS OF THE MĀORI TRUSTEE GROUP'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2005

The Auditor-General is the auditor of the Māori Trustee Group (the Group). The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit of the financial statements of the Group, on his behalf, for the year ended 31 March 2005.

Unqualified Opinion

In our opinion the financial statements of the Group on pages 25 to 40:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - the Group's financial position as at 31 March 2005; and
 - the results of its operations and cash flows for the year ended on that date.

The audit was completed on 31 January 2006, and is the date at which our opinion is expressed.

The basis of our opinion is explained below. In addition, we outline the responsibilities of the Māori Trustee and the Auditor, and explain our independence.

Basis of opinion

We carried out the audit in accordance with the Auditor-General's Auditing Standards, which incorporate the New Zealand Auditing Standards.

We planned and performed the audit to obtain all the information and explanations we considered necessary in order to obtain reasonable assurance that the financial statements did not have material misstatements,

whether caused by fraud or error.

Material misstatements are differences or omissions of amounts and disclosures that would affect a reader's overall understanding of the financial statements. If we had found material misstatements that were not corrected, we would have referred to them in our opinion.

The audit involved performing procedures to test the information presented in the financial statements. We assessed the results of those procedures in forming our opinion.

Audit procedures generally include:

- determining whether significant financial and management controls are working and can be relied on to produce complete and accurate data
- verifying samples of transactions and account balances
- performing analyses to identify anomalies in the reported data
- reviewing significant estimates and judgements made by the Māori Trustee
- confirming year-end balances
- determining whether accounting policies are appropriate and consistently applied; and
- determining whether all financial statement disclosures are adequate.

We did not examine every transaction, nor do we guarantee complete accuracy of the financial statements.

We evaluated the overall adequacy of the presentation of information in the financial statements. We obtained all the information and explanations we required to support our opinion above.

Responsibilities of the Māori Trustee and the Auditor

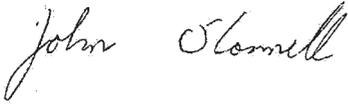
The Māori Trustee is responsible for preparing financial statements in accordance with generally accepted accounting practice in New Zealand. Those financial statements must fairly reflect the financial position of the Group as at 31 March 2005. They must also fairly reflect the results of its operations and cash flows for the year ended on that date. The Māori Trustee's responsibilities arise from the Māori Trustee Act 1953.

We are responsible for expressing an independent opinion on the financial statements and reporting that opinion to you. This responsibility arises from section 15 of the Public Audit Act 2001.

Independence

When carrying out the audit we followed the independence requirements of the Auditor-General, which incorporate the independence requirements of the Institute of Chartered Accountants of New Zealand.

Other than the audit, we have no relationship with or interests in the Māori Trustee Group.

A handwritten signature in black ink that reads "John O'Connell". The signature is written in a cursive style with a large initial 'J' and 'O'.

John O'Connell
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 Group for the year ended 31 March 2005 included on Te Puni Kōkiri's web-site. Te Puni Kōkiri's Chief Executive is responsible for the maintenance and integrity of Te Puni Kōkiri's web site. We have not been engaged to report on the integrity of Te Puni Kōkiri'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.

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 31 January 2006 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.