



Report of the
MĀORI TRUSTEE

for the year ended
31 March 2007

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 2007.



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 2007.



John E Paki
Kai-Tiaki Māori

CONTENTS

Page

4	Performance Highlights
6	Issues Facing the Māori Trustee
8	Statement of Purpose
9	Vision, Values and Mission
10	Strategic Goals
12	Financial Results Overview
14	2007 Operational Results
14	• Property Management Services
17	• Client Services Unit
20	• Client Funds Management
20	• Funds Management Portfolios
22	• Other Management and Administration Services
23	Management Performance Information
	• Legal Responsibilities
	• Management Structure
	• Human Resources
24	Financial Information
24	• Statement of Accounting Policies
27	• Consolidated General Purposes Fund Statement of Financial Performance
28	• Consolidated General Purposes Fund Statement of Movements in Equity
29	• Consolidated General Purposes Fund Statement of Financial Position
30	• Consolidated Statement of Cash Flows
31	• Common Fund and Special Investments
32	• Notes to the Accounts
42	Report of the Auditor-General

PERFORMANCE HIGHLIGHTS

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

The Māori Trustee acted as trustee or agent for 188,653 owners of 2,094 properties, covering just over 111,658 hectares of Māori land. While the number of properties has decreased slightly, related annual rental has remained steady at \$11,336,221 in the period under review.

A major priority of the Māori Trustee is to manage clients' assets to best advantage, and to do this by actively and regularly consulting with clients and so empowering them to achieve their development aspirations.

During the year the Māori Trustee continued to work with owners of properties that have been identified as having development potential and being capable of providing significantly improved returns. These included the following projects:

- The Māori Trustee commissioned in-depth economic evaluations of the forestry harvesting prospects for the owners of 9 sections. Draft evaluations had been received as at 31 March 2007. Sustainable Forest Management Plans for a further 7 sections have now been requested.
- The pastoral leases on the East Coast are currently being streamlined to enable a larger area to be leased in 3-5 years' time to obtain higher returns for owners.
- The proposal to construct a fish processing warehouse and retail outlet, as reported in the previous year, has now been completed at a cost of around \$450,000. The cost of the building will be cleared within one year. A recent valuation has valued the building at \$780,000.
- In 2005/2006, the Māori Trustee provided a loan facility to four trusts under his administration to meet the partnership agreement under a kiwifruit Joint Venture arrangement. In the period under review the Joint Venture has achieved average returns of \$80,000 gross per hectare, almost double the industry average.
- In co-operation with owners of some 40 hectares of Māori land, the Māori Trustee has been a key player in the installation of three climate monitoring stations in the Mohaka area to collect data for assessing the potential of the area for kiwifruit operations.
- The Māori Trustee assisted a Waikato trust to obtain a Māori Business Facilitation Services funded feasibility study of land utilisation options. The report, which offers several utilisation options, is being considered by trustees.
- Similarly, the Māori Trustee assisted a Northland trust to obtain a capacity building grant for strategic planning and a feasibility study of land utilisation options. A strategic plan has been developed in consultation with owners. The feasibility study will be completed shortly and will enable owners to make decisions on the best use of their land.
- As part of the Major Regional Initiative for the Tairāwhiti region, the Māori Trustee together with a small number of Māori-owned farms around Wairoa is involved in a project looking at improving the development of Māori-owned farm land.
- The Māori Trust Office made sure that over 2,000 owners of 23 blocks on the East Coast were notified about and had the opportunity to attend a carbon farming hui convened by Ngāti Porou Whānui Forests Ltd. This is a potentially significant opportunity requiring further investigation and involvement by the Māori Trustee to ensure that our clients have the best information on which to make decisions on the joint venture's proposals.

Research funded by the Ministry of Agriculture and Forestry's Sustainable Farming Fund into the economic viability of sustainably managed beech forests and associated industry has now commenced. The University of Canterbury is carrying out the research on behalf of the Māori Trustee and the New Zealand Farm Forestry Association.

During the period under review, both investment portfolios being the General Purposes Fund and Common Fund portfolios exceeded the Māori Trustee's objective of performing as well as or better than the NZX Composite A Grade Bond Index. The annual return for both the Common Fund and the General Purposes Fund was 5.2%. This compares to 3.9% for the NZX Composite A Grade Bond Index for the same period.

The result was due to the ability within the Māori Trustee's investment policy to take advantage of rising short term interest rates while obtaining some quality long-term fixed interest securities.

Tax return processing under the Māori Authority tax legislation was successful with 99.78% of 2006 tax returns filed by the IRD deadline. A total of 1,872 tax returns were required to be filed, of which only 4 had not been filed by 31 March 2007.

ISSUES FACING THE MĀORI TRUSTEE

REVIEW OF THE MĀORI TRUSTEE AND THE MĀORI TRUST OFFICE

In 2006/2007 the review of the Māori Trustee and the Māori Trust Office had not been concluded. As a result a number of issues remained unresolved which continued to have an impact on the financial position of the Māori Trustee.

The final impact on the operation and the subsequent effect on the assets and liabilities of the Trustee remain difficult to assess.

In the meantime the liabilities of the Māori Trustee continued to grow and now stand at \$59.0 million. The principal liability is funding provided to Te Puni Kokiri for services to the Māori Trustee thereby enabling the Māori Trustee to carry out his statutory duties. The review remains to be concluded and therefore the issue of what, if any, of this funding will be required to be reimbursed to the Crown remains unclear.

Further decisions on the reimbursement of these expenses are to be made in conjunction with the review being undertaken by officials.

FINANCIAL RESULTS

The consolidated results of the Māori Trustee's General Purposes Fund show that overall total assets have decreased by \$6,707,271 and that there was an operating deficit of \$11,361,650 for the year ended 31 March 2007. This decrease in assets and operating deficit relates to a full provision against the value of the Māori Trustee's holdings in a wholly owned subsidiary. The provision reflects a reduction in the realisable value of the shareholding after careful consideration of the economic conditions and operating environment.

The operating deficit is a one-off in the 2006/07 year only. The Māori Trustee's equity has been reduced to -\$5,607,142 as at 31 March 2007. The Māori Trustee has total assets of \$53,402,065. The liabilities of \$59,009,207 are largely in relation to the potential reimbursement to Te Puni Kokiri for services of the Māori Trust Office, and are being dealt with within the review being undertaken by officials, as noted above.

The Māori Trustee notes that this situation could be viewed as leaving the Māori Trustee with insufficient assets to meet the liabilities. However, it is considered that at this point in time no further action is required given the nature of the situation, where there is positive indication through the review process that there will be legislative amendment to remove the potential for this level of reimbursement. The financial statements have received an unqualified audit opinion from Audit New Zealand.

FUNDS MANAGEMENT PORTFOLIOS

Compared to last year, there has been a notable increase in high-quality New Zealand denominated corporate bond issuance and as a result there has been sufficient supply to meet investment requirements as portfolio bonds matured this year.

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (NZ IFRS)

The application of NZ IFRS accounting standards and principles to the annual accounts of the Māori Trustee and all entities he is responsible for has been reviewed to determine which need to comply and which are exempt through differential reporting.

The Māori Trustee's accounts and the accounts of the largest entities (by revenue and asset size) will have to comply with NZ IFRS. All other entities will be exempt by virtue of their asset and income size and number of employees and the requirement for producing annual accounts.

RATES

Increasingly, the Māori Trustee is finding that properties under his administration are being valued for uses that do not reflect their practical usage (such as life style blocks) and take little account of the considerable restrictions on the sale of Māori land. For example, the 2006 revaluation of 10 sections in one area resulted in an increase in their values over a five year period of 240-454%. These increases did not reflect any land development or a corresponding increase in the rental income from these sections.

Where the capital values and associated rates are out of all proportion to the income-earning potential of land, there are difficulties in leasing the land at market value. Prospective new lessees are either offering a lower rental for such land (after taking into account the higher rates) or, worse, are unwilling to take on a lease.

SUSTAINABLE FARMING

While national and local bodies' sustainable farming policies may in the long term provide new potential opportunities for owners (for example, from ethanol and bio-fuel production, carbon credits and nutrient trading), in the short to medium term the increased compliance costs from water supply consents, protection of areas and reserves, restrictions on scrub clearance, erosion, or nitrate seepage are affecting the profitability of some of the land under the Māori Trustee's administration.

In the Lake Taupō and Rotorua regions a number of blocks administered by the Māori Trustee fall within the local authorities' nitrates policies and plans that will restrict future land use options and require investigating potential changes in current operations.

CHANGING CLIENT DEMOGRAPHICS

The Māori Trustee has noticed that as more owners live away from their turangawaewae and younger owners are succeeding to older, experienced owners, there has been a corresponding loss of understanding of whenua and knowledge of Te Ture Whenua Māori Act 1993 and other related legislation. While some general training is provided by the Māori Land Court and Biz Info, there is a need for specific training relevant to the issues facing owner trustees. The Māori Trustee provides some training tailored to the needs of owner trustees (where resources permit) and encourages them to attend Māori Land Court and Biz Info training if available.

REPORTING SYSTEMS

There are a number of changes occurring in the Māori Trustee's operation and it is recognized that there is a need to review the existing reporting systems.

STAFF TRAINING

The many changes occurring in the farming sector, particularly in the area of sustainable farming, mean that staff training is vital to the Māori Trustee being able to provide owners with up to date and appropriate information on land utilisation options.

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 judgements 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 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.

FINANCIAL RESULTS OVERVIEW

The financial statements for the financial year ended 31 March 2007 are contained on pages 24 to 43 of the Māori Trustee's Annual Report. The financial statements have received an unqualified audit opinion from Audit New Zealand.

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

The consolidated statement of financial position as at 31 March 2007 shows total assets of \$53,402,065. Overall total assets decreased by \$6,707,271.

The split of Māori Trustee assets is: 37% of assets are current assets (i.e. maturing within 12 months) and 63% are non-current assets (i.e. maturing after 12 months).

Non-current assets comprise 81% in long term fixed interest securities, 7% in shares, 11% in lending and 1% in fixed assets.

Consolidated General Purposes Fund net assets represent -10% of the total asset base primarily due to a reduction in the value of the Māori Trustee's holdings as noted below.

The liabilities continued to grow and are at \$59,009,207 as at 31 March 2007. This is mainly the TPK creditor, representing the level of funds provided to meet the costs associated with the Māori Trust Office that are expected to be fully reimbursed, which is \$57,425,344.

The net effect of operations for the period on the equity balance in the Māori Trustee's account is -\$5,607,142 as at 31 March 2007.

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

The consolidated statement of financial performance shows an operating deficit of \$11,361,650 in the Māori Trustee's General Purposes Fund after provisions. This represents a decrease of \$12,804,925 from 2006.

The operating deficit is in the main a one-off full provision against the value of the Māori Trustee holding in a wholly owned subsidiary after consolidation and other provisions as noted on page 33.

Revenue for the period increased from \$6,892,399 (2006) to \$7,362,408 (2007).

Operating costs increased from \$4,783,172 (2006) to \$5,110,648 (2007).

Other costs including interest paid to clients, provisions for bad and doubtful debts, as noted on page 27 increased from \$665,952 (2006) to \$13,613,410 (2007).

Overall total operating expenditure increased from \$5,449,124 (2006) to \$18,724,058 (2007), largely attributable to the one-off provision.

Most income continues to be generated from investment activities. Income from this source represents 81% of gross income. The Māori Trustee's remaining income of \$1,395,708 is derived mainly from commissions and fees.

The 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 activities.

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 \$39,496,263 as at 31 March 2007. This represents an increase in funds held of \$653,607 over the position at 31 March 2006 of \$38,842,656.

CLIENT FUNDS

Funds administered on behalf of clients are held in two accounts. These are the Special Investments Account and the Common Fund Account. Overall total funds held on behalf of clients within the two accounts total \$52,878,331.

Funds held in the two accounts have increased by \$4,023,164 from \$48,855,167 in 2006.

SPECIAL INVESTMENTS 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 depositors increased by \$3,369,557 from \$10,012,511 (2006) to \$13,382,068 (2007).

2007 OPERATIONAL RESULTS

The main functions of the Māori Trustee are:

- (A) Property Management Services
- (B) Client Services Unit
- (C) Client Funds Management – Special Investments and Deposit Account
- (D) Funds Management Portfolios – Common Fund and General Purposes Fund
- (E) Other Management and Administration Services.

(A) PROPERTY MANAGEMENT SERVICES

Property Management Services aims are:

- To maintain active and regular consultation with clients
- To maximise returns on land and related assets
- To empower 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 regular reports 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 2007**

\$Annual Rental Range	Total Gross \$Rental p.a.	Number of properties	Number of hectares	Number of owners
0	0	409	26,286	32,557
UP TO 1,000	300,978	401	6,027	22,903
1,001-5,000	1,890,126	649	31,103	62,597
5,001-10,000	2,561,558	321	18,052	30,616
10,001-15,000	1,463,230	124	8,829	15,364
15,001-20,000	1,294,826	75	8,341	7,519
20,001-25,000	918,371	39	4,085	4,610
OVER 25,000	2,907,132	76	8,935	12,487
TOTAL	11,336,221	2,094	111,658	188,653¹

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 tasks 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.
- *Lease 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 at any time 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 nominate advisory or responsible trustees or to take over administration of the property themselves and
 - 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.
- *Meetings with advisory trustees and responsible trustees*
Frequent meetings with owner representatives are held during the course of a lease to provide progress reports and consult on any important issues.
- *Reports to Owners*
Where there has not been a meeting of owners within the last three years, the Māori Trustee sends a written report to owners on the current state of the land and financial position of their trust/agency.
- *Trust Reviews*
The Māori Land Court requires periodic reviews of each ahu whenua trust. The review process gives the Court and beneficial owners an opportunity to see how well the trustees have performed and what improvements or changes may be needed.
- *Arrears Management*
The Māori Trustee follows up all rent arrears with lessees as soon as they occur to ensure owners receive the money they are entitled to.

Operational results for these key service areas are set out in Table 2 below.

TABLE 2 – PROPERTY MANAGEMENT SERVICE TARGETS AND RESULTS

Key Services Objectives for Year Ending 31 March	2007 Targets	2007 Results	2006 Results
Rent reviews	170	134	128
Lease renewals	105	100	60
Inspections of property	577	602	603
Lease expiries	233	227	200
Meetings of owners	328	430	363
Meetings with advisory and responsible trustees	214	160	227
Reports to Owners	181	119	233
Trust Reviews	167	134	112
Arrears			
<ul style="list-style-type: none"> • To ensure that the number of accounts in arrears does not exceed 8% of total accounts 	8%	10%	11%
<ul style="list-style-type: none"> • The overall percentage of gross annual rental in arrears be held at or below 	4%	5%	5%
<ul style="list-style-type: none"> • The average rent collection days be held at or below 	14	21	16

COMMENTARY ON RESULTS ACHIEVED

Arrears

The higher level of arrears is due primarily to disputed rental assessments in one region. The properties in question are coastal properties which have seen large increases in rental as a result of new property valuations. If these cases are taken out of the equation arrears results met or exceeded target.

Rent Reviews

Lessees are tending to dispute or query an assessed new rental more often now, particularly in cases where the rent is assessed at a fixed percentage of the land value. As a result the number of rent reviews able to be concluded during the year was less than projected.

Consultation with Clients

In line with Strategic Goals, the Māori Trustee regularly reports to, and consults with, clients. There were 590 meetings held with owners/trustees. The Māori Trustee also provides a written report to owners in a block where there has not been a meeting of owners within the last three years. In 2006/2007, the Māori Trustee reported to owners of 119 such blocks providing them with updated information on their land, its current condition, income, lease arrangements, financial position, funds held and any significant issues. Also included is a list of owners for whom no confirmed address is held with a request that owners advise the Māori Trust Office of addresses where they are able to.

Gross Annual Rentals

Total annual rental remained steady at \$11,336,221 as at 31 March 2007 (from \$11,232,351 as at 31 March 2006).

Other Results

Performance in other key service areas has been satisfactory – inspections exceeding target and trust reviews, lease renewals and expiries slightly less than targeted.

(B) CLIENT SERVICES UNIT

The Client Services unit aims are:

- To provide a timely payments and information service to clients and
- To maintain and continually improve the integrity and accuracy of the client database.

The Māori Trustee keeps a Client Account (within the Common Fund) for every owner who has shares in land that is currently administered by the Māori Trustee or that was once administered and for whom funds are still held – either because there is no confirmed address for payment or because the owner is deceased and his or her successors have not yet succeeded to the land interests and/or funds.

Each Client Account records a client's ownership/s in land, funds held on the client's behalf and, where known, last known address or bank details for payment of these funds, along with other information. The Māori Trustee currently maintains over 125,000 such accounts, the profile of which is set out in Table 3 below.

TABLE 3 – CLIENT ACCOUNTS PROFILE

As at 31 March	2007	2006
Number of active Client Accounts	125,304	113,898
Funds held on Client Accounts	\$10,262,411	\$9,538,039
Number of Client Accounts with valid addresses and/or bank accounts	42,818	42,062
Percentage of Client Accounts with valid addresses and/or bank accounts	34%	37%
Percentage of clients paid by Direct Credit	82%	80%

The large growth in 'active' Client Account numbers in the past year from 113,898 to 125,304 is largely due to the reclassification of around 10,000 accounts that had previously been classified as 'de-activated'. These are accounts that had been de-activated due to all funds having been transferred to a separate Unclaimed Moneys account.

Although the number of accounts with valid addresses or bank accounts rose from 42,062 to 42,818, the percentage decreased from 37% to 34% due to the reclassification of around 10,000 Client Accounts lacking any contact details.

Over the past 3 years the percentage of clients paid by direct credit to their bank account (as opposed to payment by cheque) has increased from 76% to 82%. The Māori Trustee actively encourages clients to have payments made by direct credit due to the greater security and efficiency of this method.

Once a year, after tax has been paid on the net income from the land, any distributions are made to the owner's Client Account based on the owner's shareholding in the land concerned.

While an owner can be paid their funds once the annual distribution has been made, there are three major factors affecting the ability of the Māori Trustee to pay. These are:

- **The lack of a confirmed address or valid bank account number:**
This happens as a result of clients changing address or bank accounts and failing to notify their new address/bank account details. In this respect the Māori Trustee appears to have a fairly mobile client base.
- **The lack of succession to a deceased client's interests:**
Where two or three generations have passed, the transfer of the original owner's interests can be a time consuming process and may be a disincentive to the whanau concerned especially if the balance of funds held is small. In this latter respect, continued fragmentation of interests will result in smaller and smaller balances held.
- **Small balances of funds held:**
For reasons of efficiency, the Māori Trustee has set minimum levels of payment of Client Account balances: that is, \$5 for direct credit and \$50 for cheque payments to clients resident in New Zealand; and \$200 for cheque payments to clients resident overseas. These payment levels are reviewed periodically.

As can be seen from Table 3 above, only 42,818 or 34% of Client Accounts have confirmed addresses or bank accounts. These are for the most part clients who are involved in the management of their land or who are receiving regular payments and are thus motivated to notify the Māori Trustee of any change of address or bank account.

Of the remaining 66% of Client Accounts (with no confirmed addresses or bank account details) most are accounts with low balances and/or accounts for which there have been no succession orders issued by the Māori Land Court.

To maximize the amount paid out each year to owners, the Māori Trustee proactively seeks current addresses at points of contact with clients. For example:

- When writing to owners regarding a forthcoming meeting, the Māori Trustee routinely includes with the letter a list of owners in the block without a valid address or who are deceased with no known successors and asks owners to provide addresses or the names of potential successors wherever they can.
- At meetings of owners convened by the Māori Trustee, an important agenda item is the circulation of the list of owners (in a particular block) without a valid address or who are deceased with no known successors. Where they can, attendees provide addresses or the names of potential successors.
- The Māori Trustee publishes and distributes an annual Unclaimed Moneys book. This is publicly available at all Māori Trust Office, Te Puni Kōkiri and Māori Land Court offices where visitors are encouraged to read the list and wherever possible provide addresses of those on the list. It is also distributed to over 150 Māori organisations and libraries, and to Māori Members of Parliament.
- The Māori Trustee also publishes the Unclaimed Moneys List on-line at www.tpk.govt.nz/about/structure/mto/unclaimed_moneys.asp
- Staff check electoral rolls and/or directly contact other whanau members to try and obtain current addresses.

- As part of the normal processing of Māori Land Court succession (ownership) or payment orders, the Māori Trustee routinely checks and updates client addresses where they are available.

Client Services Unit results achieved in 2006/2007 are set out in Table 4 below.

TABLE 4 – CLIENT SERVICES UNIT RESULTS

Key Objectives for year ending 31 March	2007 Results	2006 Results
To provide timely and accurate information to the Māori Land Court on funds held and known land interests for deceased estates to enable Succession Orders and Orders for Payment to be issued: <ul style="list-style-type: none"> • Number of Māori Land Court searches received and completed 	1,427	1,407
To update client records in the Māori Trust Office database to enable timely payments to clients: <ul style="list-style-type: none"> • Number of client record forms received and completed 	12,277	12,026
To provide clients with timely, accurate, up to date information in response to written requests: <ul style="list-style-type: none"> • Number of letters received and completed • Response times <ul style="list-style-type: none"> • <i>Within 10 working days</i> • <i>Within 20 working days</i> 	831 87% 95%	885 83% 92%
To maximize payments to clients: <ul style="list-style-type: none"> • Number of payments by cheque/direct credit • \$amount paid by cheque/direct credit 	24,991 \$5,535,119	23,809 \$4,313,315

COMMENTARY ON RESULTS ACHIEVED

The transitional stages following the introduction of the Māori Authority taxation regime are now complete. 2006/2007, the first full financial year under the Act, showed an increase in payments to clients of \$1.2 million compared with the previous year.

Results in most other areas have remained consistent with 2006 figures.

The decrease in correspondence/requests for information has continued the trend evident last year and has been matched by further improvements in turnaround response times. The number of Ministerial enquiries received continues to be very low.

Each year a Distribution (Tax) Statement is sent to clients whose annual distributions exceed a certain amount (\$10 currently) and for whom the Māori Trustee holds an address. The number of Client Accounts that met these criteria for the 2006/2007 year was around 19,000. This year the Statement was expanded significantly to provide clients with a summary of all account activity during the year. It is hoped that the greater detail will enable clients to be better informed and also less likely to need to contact the Māori Trust Office with queries.

(C) CLIENT FUNDS MANAGEMENT

Client funds can be held in several accounts that earn interest, including a Common Fund Deposit Account and/or a Special Investment Account.

Where funds are to be held for agencies or trusts and not immediately distributed, they may be placed either in a Common Fund Deposit Account (at a rate of return prescribed by regulation) or in a Special Investments Account (at the market rate of return offered by outside institutions).

Special Investments are considered in accordance with the provisions of the Māori Trustee Act 1953 and the governing entity's trust order or agency agreement. The minimum level of funds considered for placement with outside institutions is generally set at \$10,000.

All funds in the Common Fund (but excluding Special Investments Accounts) are guaranteed by the Crown.

Most Special Investment Accounts and all Common Fund Accounts are fixed interest investments. The range of return on a Client Account is dependent on:

- The level of funds on deposit;
- The term, for example on call, 7 days through to 365 days;
- The rates prevailing on the day that a special investment is made.

The Māori Trustee's aim is to manage funds to clients' best advantage and in a manner consistent with clients' cultural values, objectives and express directions.

97.94 percent of funds classified as Special Investments are placed in the money market for an average term of 61 days.

During the year there was an increase in both the level of funds and number of deposits classified as Special Investments as a result of owners/trustees continuing to either retain funds for long term objectives and/or as a result of a move in 2005 to annual distributions of rent held.

(D) FUNDS MANAGEMENT PORTFOLIOS

The Māori Trustee's objective for both Common Fund and General Purposes Fund investment portfolios is to perform as well as or better than the NZX Composite A Grade Bond Index over a comparable period.

Key tasks completed during the year were:

- Portfolio objectives review and risk profile analysis
- Peer group asset allocation, risk and strategy comparison
- Portfolio comparison against bond market weighting
- Comprehensive portfolio policy and sector weighting review.

Common Fund Investments

All Common Fund money comprises funds held on behalf of trusts and agencies and funds that have been distributed to Client Accounts. Interest accruing from these funds is credited to the Māori Trustee's General Purposes Fund.

The Māori Trustee continues to be dependent upon income generated from these 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 strategy, policy and oversight of an investment committee and investment advisors and in accordance with other statutory requirements.

All Common Fund investments are fixed interest securities. Investments must comply with the statutory provisions of the Trustee Act 1956 and the Māori Trustee Act 1953. Accordingly, the portfolio is conservative with a strong emphasis toward high quality securities, and investment aims are:

- To ensure that the nominal capital of the Common Fund remains intact and that no erosion takes place in the capital base and
- To maximise the yield.

In the period under review the Māori Trustee Common Fund returned 5.2%. This compares favourably with the NZX Composite A Grade Bond Index return of 3.9% for the same period.

The yield on the Common Fund as at 31 March 2007 was 7.0% compared to 6.5% for the NZX Composite A Grade Bond Index.

General Purposes Fund Investments

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, e.g. for lending purposes.

Statutory authorities contained in the Māori Trustee Act 1953 enable the Māori Trustee to be 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 strategy and policy which is conservative by general standards. The investment aim is to preserve the real value of the capital invested in cash and fixed term securities.

In the period under review the Māori Trustee General Purposes Fund returned 5.2%. This compares favourably with the NZX Composite A Grade Bond Index return of 3.9% for the same period.

The yield on the General Purposes Fund as at 31 March 2007 was 7.1% compared to 6.5% for the NZX Composite A Grade Bond Index.

Lending Portfolio

A portion of the General Purposes Fund is allocated for lending to Māori. This includes enterprise funding where it can be demonstrated a clear benefit exists for Māori. The long term objective is to develop a commercial loan portfolio of \$10-20 million.

Māori Trustee lending is based on established standards and involves term loans with the present portfolio averaging \$74,900. Advances are generally for short to medium term, being 5 years or less. Lending is flexible and tailored strongly to the needs of the borrower. The decision to lend is assessed on character, cash flow and collateral.

In the 2006/2007 year loans were provided for horticultural and commercial property purchases.

(E) OTHER MANAGEMENT AND ADMINISTRATION SERVICES

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.

The Māori Trustee aims to administer these trusts in accordance with the terms of the trust and the directions of trustees.

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 and their dependents. There are only two surviving widows.

The Sir Apirana Ngata Memorial Scholarship Fund is also administered by the Trust. The fund allows for education scholarships to be awarded with preference given to the descendants of WWI Māori veterans. Scholarships totalling \$36,000 were awarded to 11 applicants in 2006/2007.

The major asset of the trust is Hereheretau Station, a farming property situated in the Wairoa district. The farm is a typical North Island hill country sheep and cattle breeding property comprising 1,839 effective hectares presently wintering 18,000 stock units. The economic farm surplus achieved over the past three years is set out in Table 5.

TABLE 5 – ECONOMIC FARM SURPLUS

Year ending 30 June	2006	2005	2004
Total stock units	17,988	17,770	13,680
Stock units per effective hectare	9.8	9.7	9.9
Economic Farm Surplus per effective hectare	\$150.08	\$229.19	\$170.58
Economic Farm Surplus per stock unit	\$15.34	\$23.72	\$17.21
Total income per stock unit	\$51.68	\$56.21	\$55.11

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

Management Structure

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

Māori Trustee	John Paki
Financial Controller	Geoff Miller
Manager Asset Management 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/Leanne Hamilton
Regional Operations Manager Rotorua	Tina Ngatai
Regional Operations Manager Gisborne	Maui Tangohau
Regional Operations Manager Whanganui	Novena McGuckin

Human Resources

TABLE 6 – FULL-TIME EQUIVALENT MĀORI TRUST OFFICE STAFF

For the year ending	31 March 2007	31 March 2006
Staff		
• Permanent	48	46
• Temporary	5	8
Total	53	54

MĀORI TRUSTEE – GROUP FINANCIAL STATEMENTS STATEMENT OF ACCOUNTING POLICIES FOR THE YEAR ENDED 31 MARCH 2007

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 Investments Account

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 (TML), as at 31 March 2007. 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 Investments Account 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 Investments Account.

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 the Income Tax Act 2004 and as such is exempt from income taxation.

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 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
CONSOLIDATED GENERAL PURPOSES FUND STATEMENT OF
FINANCIAL PERFORMANCE FOR THE YEAR ENDED 31 MARCH 2007**

	Notes	2007 \$	2006 \$
INCOME			
Investment Income	1	5,966,700	5,597,822
Commission		910,937	892,655
Fees		484,771	400,641
Other Income	2	<u>0</u>	<u>1,281</u>
Total Income		<u>7,362,408</u>	<u>6,892,399</u>
EXPENDITURE			
Operating Costs	3	5,110,648	4,783,172
Interest Paid and Allowed on Trust Funds		921,139	831,505
Bad and Doubtful Debts	4	12,675,610	(100,122)
Net (Gain)/Loss on Conversion Fund Loans	4	(36,339)	(68,431)
Grants	5	<u>53,000</u>	<u>3,000</u>
Total Operating Expenditure		<u>18,724,058</u>	<u>5,449,124</u>
Net Surplus for the year		<u>(11,361,650)</u>	<u>1,443,275</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
MOVEMENTS IN EQUITY FOR THE YEAR ENDED 31 MARCH 2007

	2007	2006
	\$	\$
General Purposes Fund Opening Balance	5,754,508	4,311,233
Net Surplus/(Deficit) for the year (Total recognised revenue and expenses)	(11,361,650)	1,443,275
General Purposes Fund Closing Balance	<u>(5,607,142)</u>	<u>5,754,508</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 2007**

	Notes	2007 \$	2006 \$
THE MĀORI TRUSTEE ADMINISTERS			
Current Assets			
Bank, Petty Cash and Cash in Transit		12,215	11,093
Call Deposits	8	2,548,174	2,082,890
Sundry Debtors and Prepayments		251,703	183,414
Interest Accrued		1,599,819	1,279,483
Fixed Term Deposits	8	7,850,000	3,499,700
Government Stock and Commercial Bonds	8	<u>7,369,425</u>	<u>6,908,740</u>
Total Current Assets		<u>19,631,336</u>	<u>13,965,320</u>
Non Current Assets			
Advances to Stations, Properties and Clients		133,982	147,594
Provisions against advances	6	(107,761)	(109,517)
Loans/Mortgages		3,767,089	3,721,715
Provision against Loans/Mortgages	6	(73,332)	(153,321)
Conversion Fund Loans		3,388,454	3,426,186
Provisions against Conversion Fund loans	6	(3,354,389)	(3,390,728)
Government Stock	8	4,005,086	4,007,311
Local Authority and Commercial Bonds	8	23,167,139	22,874,320
Company Shares	7	12,680,468	12,680,468
Provisions against Company Shares	6	(12,680,468)	0
Other Investments – Shares	10	2,500,000	2,500,000
Fixed Assets net of accumulated depreciation	9	<u>344,461</u>	<u>439,988</u>
Total Non Current Assets		<u>33,770,729</u>	<u>46,144,016</u>
Total Assets		<u>53,402,065</u>	<u>60,109,336</u>
FUNDED BY			
Current and Non Current Liabilities			
TPK Creditor	11	57,425,344	52,824,394
Sundry External Creditors and Accruals		1,554,563	1,496,490
Net GST Liability		29,300	33,944
Total Liabilities		<u>59,009,207</u>	<u>54,354,828</u>
General Purposes Fund			
Balance held by Māori Trustee		<u>(5,607,142)</u>	<u>5,754,508</u>
Total Liabilities		<u>53,402,065</u>	<u>60,109,336</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 STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2007

	2007	2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash was provided from:		
Interest Income	5,558,652	5,596,756
Dividend Income	0	140,700
Fees and Commissions from Clients	1,361,514	1,315,684
Other Income	0	1,281
Goods and Services Tax	<u>22,459</u>	<u>11,496</u>
	6,942,625	7,065,917
Cash was applied to:		
Suppliers and Employees	(202,872)	(71,556)
Interest Payments to Clients	(921,198)	(984,928)
Legal Settlements	(166,621)	(254,126)
Grants	<u>(53,000)</u>	<u>0</u>
	(1,343,691)	(1,310,610)
Net Cash flow from Operating Activities	<u><u>5,598,934</u></u>	<u><u>5,755,307</u></u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash was provided from:		
Loan Repayments	557,282	1,325,261
Conversion Fund Repayments	37,733	51,943
Investment Maturities	9,189,373	4,130,088
Repayments of Advances on Overdraft	<u>9,971</u>	<u>15,365</u>
	9,794,359	5,522,657
Cash was applied to:		
Fixed Asset Purchases	(121,285)	(229,780)
Loan Advances	(465,609)	(879,086)
Investments Purchases	<u>(9,989,693)</u>	<u>(11,756,744)</u>
	(10,576,587)	(12,865,610)
Net Cash flows from Investing Activities	<u><u>(782,228)</u></u>	<u><u>(7,342,953)</u></u>
Net Increase/(Decrease) in Cash Held	4,816,706	(1,587,646)
Opening Cash Brought Forward	<u>5,593,683</u>	<u>7,181,329</u>
Ending Cash	<u><u>10,410,389</u></u>	<u><u>5,593,683</u></u>
Represented by:		
Bank and Petty Cash	12,215	11,093
Call Deposits	2,548,174	2,082,890
Term Deposits	<u>7,850,000</u>	<u>3,499,700</u>
	<u><u>10,410,389</u></u>	<u><u>5,593,683</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 2007**

	Notes	2007 \$	2006 \$
Special Investments			
Specific Deposits on behalf of Māori clients		<u>13,382,068</u>	<u>10,012,511</u>
FUNDED BY			
Special Investments			
Investments under Specific Direction		<u>13,382,068</u>	<u>10,012,511</u>
Common Fund Investments			
Short Term Deposits including Bank		10,258,402	9,382,881
Government Stock		6,971,104	9,477,069
Company Debentures Stocks and Bonds		22,185,070	19,901,019
Investment in Joint Ventures		<u>81,687</u>	<u>81,687</u>
Total Investments		<u>39,496,263</u>	<u>38,842,656</u>
FUNDED BY			
Common Fund			
Capital Gains from Common Fund Investment		2,429,732	2,574,231
Proceeds from Alienation of Land		26,512,180	26,812,281
Miscellaneous Deposits and Funds		8,808,568	8,089,208
Stations		<u>1,745,783</u>	<u>1,366,936</u>
Total Funds		<u>39,496,263</u>	<u>38,842,656</u>

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

MĀORI TRUSTEE

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2007

	2007	2006
1. Investment Income	\$	\$
Income Earned on Investments	6,098,003	5,343,531
Dividends Company Shares	0	140,700
Interest Earned – Other Sources	17,927	66,982
Unrealised Loss on Investments	(263,424)	0
Amortisation of Premiums	<u>114,194</u>	<u>46,609</u>
	<u>5,966,700</u>	<u>5,597,822</u>

The investment premiums are amortised on a straight-line basis over the life of the investment.

	2007	2006
2. Other Income	\$	\$
Bad Debts Recovered	<u>0</u>	<u>1,281</u>
	<u>0</u>	<u>1,281</u>

	2007	2006
3. Operating Costs	\$	\$
Fees Paid To Auditors		
Audit Fee	79,895	76,087
Subsidiary Audit Fee	5,460	3,109
Accounting fee	7,628	3,701
Directors Fees	1,125	2,250
Depreciation		
EDP Equipment	281,410	257,779
Office Equipment	19,647	17,044
Furniture and Fittings	11,282	9,985
Building Rental Expense	385,309	354,458
Salaries and Wages	2,919,607	2,574,555
Superannuation Subsidy	67,045	53,103
Other Administration Costs	<u>1,332,240</u>	<u>1,431,101</u>
	<u>5,110,648</u>	<u>4,783,172</u>

	2007	2006
4. Bad and Doubtful Debts	\$	\$
Bad Debts Written Off	76,887	3,535
Increase/(Decrease) in Provision for Bad & Doubtful Debts	<u>12,598,723</u>	<u>(103,657)</u>
	<u>12,675,610</u>	<u>(100,122)</u>

	2007	2006
	\$	\$
5. Grants		
Māori Education Trust QEII	3,000	3,000
s33 Māori Trustee Act Waipapa Charitable Trust	<u>50,000</u>	<u>0</u>
	<u>53,000</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.

During the year a payment of \$50,000 was made to the Waipapa Charitable Trust under s33 of the Māori Trustee Act 1953.

	2007	2006
	\$	\$
6. Provisions for Doubtful Debts		
Advances to Stations, Properties and Clients		
Provision against Advances at 1 April	(109,517)	(111,229)
(Increase)/Decrease in provision for year	<u>1,756</u>	<u>1,712</u>
Provision against Advances at 31 March	<u>(107,761)</u>	<u>(109,517)</u>
Loans / Mortgages		
Provision against Loans/Mortgages at 1 April	(153,321)	(255,266)
(Increase)/Decrease in provision for year	<u>79,989</u>	<u>101,945</u>
Provision against Loans/Mortgages at 31 March	<u>(73,332)</u>	<u>(153,321)</u>
Conversion Fund Loans		
Provision against Conversion Fund Loans at 1 April	(3,390,728)	(3,459,159)
(Increase)/Decrease in provision for year	<u>36,339</u>	<u>68,431</u>
Provision against Conversion Fund Loans at 31 March	<u>(3,354,389)</u>	<u>(3,390,728)</u>
TML Shares in Quantum Ltd		
Provision against Shares at 1 April	0	0
(Increase)/Decrease in provision for year	<u>(12,680,468)</u>	<u>0</u>
Provision against Shares at 31 March	<u>(12,680,468)</u>	<u>0</u>
Summary		
Provision for Doubtful Debts at 1 April	(3,653,566)	(3,825,654)
(Increase)/Decrease in provision for year	(12,598,723)	103,657
(Loss)/Gain on Conversion Fund	<u>36,339</u>	<u>68,431</u>
Provision at 31 March	<u>(16,215,950)</u>	<u>(3,653,566)</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)/Loss on Conversion Fund loans" mentioned in the Statement of Financial Performance reflects the reduction in the provision for doubtful/bad debts made during the year in terms of the amended Sections 151, 153 and 154, of the Māori Affairs Act 1953.

As part of the consolidation of the 100% owned subsidiary Te Māori Lodges Ltd, the value of the shares Te Māori Lodges Ltd holds in its associated company Quantum Ltd has been provided for in full. This provision amounted to \$12,680,468.

7. Financial Instruments

The Māori Trustee as part of the administration 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 via Te Māori Lodges Ltd (TML). This investment risk is managed by the Māori Trustee being on the Board of Quantum Ltd. While the TML shareholding in Quantum is a minority one the Board membership is considered to be a satisfactory control mechanism. Other investments of the Māori Trustee are monitored by the Māori Trust Office Investment Committee that has established strategies, guidelines and ratios to minimise exposure to risks. The Māori Trustee considers that sufficient provisions have been made to meet any known credit risk with respect to Quantum Ltd and Te Māori Lodges Ltd.

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 6.

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 Consolidated General Purposes Fund Statement of Financial Position and the Consolidated Statement of Common Fund and Special Investments.

General Purposes Fund

The investment in Government stock, Local Authority and Commercial bonds held by the General Purposes Fund had a current market value of \$34,776,332 as at 31 March 2007 (2006 \$34,469,090). Those individual investments whose "Fair Value" was lower than cost were marked down to fair value. The effect was a write down of \$263,424 (2006 Nil). This amount was charged to the Statement of Financial Performance as an Unrealised Loss on Investments.

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. The Māori Trustee has made a provision against the value of these shares. 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 \$29,453,523 as at 31 March 2007 (2006 \$30,227,001). Those individual investments whose "Fair Value" was lower than cost were marked down to "Fair Value". The effect was a write down of \$247,385 (2006 Nil). This amount was charged to "Capital Gains from Common Fund Investments" shown in the Statement of Common Fund and Special Investments administered by the Māori Trustee.

Special Investments

The value of cash deposits and bank instruments in the Special Investments portfolio are recorded at their fair market value. These investments had no reduction in value as a result of the valuation exercise.

8. 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.

Repricing Maturities - General Purposes Fund

	Less Than 1 Year	1 to 2 Years	2 to 5 Years	More Than 5 Years	Total
	\$	\$	\$	\$	\$
Call Deposits and Cash	2,560,389	0	0	0	2,560,389
Fixed Term Deposits	7,850,000	0	0	0	7,850,000
Government Stock	0	0	2,484,710	1,520,376	4,005,086
Corporate Bonds	2,001,387	1,484,425	3,913,283	4,510,486	11,909,581
Stated Owned Enterprises	1,005,123	1,298,147	2,496,130	998,164	5,797,564
Local Government Bonds	502,982	1,498,962	2,000,000	0	4,001,944
Bank Bonds	3,859,933	999,997	2,995,606	481,614	8,337,150
Capital Notes	0	0	490,325	0	490,325
Other Investments - Putake	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,500,000</u>	<u>2,500,000</u>
	<u>17,779,814</u>	<u>5,281,531</u>	<u>14,380,054</u>	<u>10,010,640</u>	<u>47,452,039</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 and Cash in Common Fund	2,983,391	0	0	0	2,983,391
Short Term Deposits and Cash in Stations Fund	499,870	0	0	0	499,870
Fixed Term Deposits	6,775,140	0	0	0	6,775,140
Government Stock	0	0	5,450,729	1,520,376	6,971,104
Corporate Bonds	999,956	499,992	3,743,215	3,758,668	9,001,831
State Owned Enterprises	1,008,550	798,860	2,494,929	499,082	4,801,421
Local Government Bonds	0	999,309	2,000,000	0	2,999,309
Bank Bonds	1,929,951	999,997	999,009	963,227	4,892,184
Capital Notes	<u>0</u>	<u>0</u>	<u>490,325</u>	<u>0</u>	<u>490,325</u>
	<u>14,196,858</u>	<u>3,298,158</u>	<u>15,178,207</u>	<u>6,741,353</u>	<u>39,414,575</u>

9. Fixed Assets 2007	Original Cost	Accumulated Depreciation	Net Carrying Value
	\$	\$	\$
EDP Equipment	1,891,400	(1,708,861)	182,539
EDP Equipment – in progress	91,063	0	91,063
Office Equipment	131,864	(82,346)	49,518
Furniture and Fittings	<u>93,046</u>	<u>(71,705)</u>	<u>21,341</u>
	<u>2,207,373</u>	<u>(1,862,912)</u>	<u>344,461</u>

Fixed Assets 2006	Original Cost	Accumulated Depreciation	Net Carrying Value
	\$	\$	\$
EDP Equipment	1,779,061	(1,427,451)	351,610
EDP Equipment – in progress	0	0	0
Office Equipment	131,054	(62,699)	68,355
Furniture and Fittings	<u>80,447</u>	<u>(60,424)</u>	<u>20,023</u>
	<u>1,990,562</u>	<u>(1,550,574)</u>	<u>439,988</u>

10. Other Investments – Equity

During 2006 the Māori Trustee purchased shares in Putake, an investment vehicle for Māori business. The purchase was for 2,500,000 shares at \$1.00 each. This represents a 50% share of Putake. Putake has invested the shareholding money in Money Market instruments to 31 March 2007 and has earned \$34,168 for the Māori Trustee for the year ended to 31 March 2007 (2006 \$18,842). The income has been reflected in the Statement of Financial Performance and the Statement of Financial Position. The shares had a fair value of \$2,552,998 at 31 March 2007 (2006 \$2,532,538). The Māori Trustee has committed to investing a further \$2,500,000 in Putake at a date to be determined.

11. 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 2007 the Māori Trustee did not make any reimbursement to the Crown (31 March 2006 Nil).

As at 31 March 2007 the monies paid by the Ministry of Māori Development on behalf of the Māori Trustee that have not been reimbursed to the Crown totalled \$57,425,344 and at 31 March 2006, \$52,824,394.

As at 31 March 2007 sundry creditors were \$1,583,863 (2006 \$1,530,434).

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 for \$40,500 (2006 \$40,500) and receives interest payments on the loans it has made to TML of \$3,157,096 (2006 \$4,241,896). These management fees and interest income have been fully eliminated on consolidation of the Māori Trustee and TML financial results. The Māori Trustee has also provided in full for the advances he has made to TML and has provided in full for the value of the Shares in the Quantum Ltd.

The business conducted by TML is that of a holding company which holds shares in Quantum Limited which in turn owns various hospitality assets.

13. Contingent Liabilities

Unclaimed Monies (1963 to 1993)

This Contingent Liability of \$7,643,845 (2006 \$7,643,845) 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.

Shares in Māori Forestry Companies

The Māori Trustee holds uncalled shares in a Māori forestry company totalling \$426,900 (2006 \$426,900). The Māori Trustee is of the view that the shares in the Māori forestry company are held in trust for the shareholders. Action is being taken to find the most effective way for the Māori Trustee to exit his involvement with this Māori forestry company.

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 Lands 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 \$66,000 (2006 \$185,318). 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.

	2007	2006
14. Reconciliation of Net Reported Operating Surplus with Net Cash Flows from Operating Activities	\$	\$
Reported Operating Surplus	(11,361,650)	1,443,275
Add non cash items		
Interest Income	(484,263)	(18,842)
Unrealised Loss on Investments	263,424	0
Amortisation of Premiums	(114,194)	(46,609)
Operating Expenses	81,699	18,056
Depreciation	312,339	284,808
Loss/(Gain) on Sale of Fixed Assets	(3,446)	2,273
Change in Doubtful Debts provision	12,598,723	(103,657)
Bad and Doubtful Debts	76,887	3,535
Gain on Conversion Fund Operations	(36,339)	(68,431)
Add/(Less) movements in other Working Capital items		
(Increase)/Decrease in Debtors, Prepayments and Accrued Interest	(388,625)	11,855
Increase/(Decrease) in Creditors	<u>4,654,379</u>	<u>4,229,044</u>
Net Cash Flows from Operating Activities	<u>5,598,934</u>	<u>5,755,307</u>

	2007	2006
15. Commitments	\$	\$
Capital Commitments		
Less than 1 year	0	0
Investment Commitments		
At Call	2,500,000	2,500,000
Leasing and Operating Commitments		
Less than 1 year	390,555	375,119
1 year to 2 years	390,555	369,860
2 years to 5 years	1,125,035	1,097,822
Greater than 5 years	<u>1,877,031</u>	<u>2,213,179</u>
Total	<u>6,283,176</u>	<u>6,555,980</u>

16. Transition to New Zealand Equivalents to International Financial Reporting Standards

The Māori Trustee will be adopting NZ IFRS for the first time in the audited financial statements for the year ending 31 March 2008.

The Māori Trustee has undertaken a process of evaluating the differences between current policies and the policies consistent with adoption of NZ IFRS. That evaluation was completed by Ernst & Young. The implementation is being managed by the Māori Trust Office Finance team and involves the major differences being identified and costed. The transition date is 1 April 2006 and the adoption date is 1 April 2007.

The implications to the Māori Trust Office are as follows:

Intangible Assets

Software developed specifically for the Māori Trust Office will be recorded as intangible assets. The effect of this will be neutral as the asset is currently recorded in fixed assets and amortisation costs will equal depreciation costs.

Investments of the Māori Trustee

Investments of the Māori Trustee will be recorded separately as “Investments held to maturity” and “Other Investments available for sale”. The majority of the Māori Trustee’s investments are held to maturity. Investments available for sale will be calculated at “fair value” and differences in “fair value” year on year will be taken to the profit and loss statement. The Māori Trustee has valued these investments at the lower of cost or value in the accounts.

Amortisation of Premiums and Discounts on Purchase

The investments of premiums/discounts on investment purchases will change from a straight line basis (based on days) to an effective interest rate basis.

General Purposes Fund Investments

The net result is to increase/(decrease) the write down of the premium/write up of the discount by the following amounts

	2005	2006	2007	Cumulative
General Purposes Fund Investments	\$33,075.64	(\$6,694.38)	\$4,840.61	\$31,221.87

Common Fund Investments

The net result is to increase/(decrease) the write down of the premium/write up of the discount by the following amounts

	2005	2006	2007	Cumulative
Common Fund Investments	\$26,109.93	(\$7,981.35)	\$29,939.58	\$48,068.16

Differential Reporting

The Māori Trustee will make use of all available differential reporting conditions in the completion of NZ IFRS financial statements.

Financial Impact

The financial effect to the Māori Trustee’s Financial Statements has been determined above to add \$31,222 to the expenses of the Māori Trustee at 31 March 2007. This is immaterial in terms of overall surplus/deficit reported at 31 March 2007.

The financial effect to the Financial Statements of the Common Fund has been determined above to add \$48,068 to the expenses of the Common Fund at 31 March 2007. This is immaterial in terms of overall surplus/deficit reported at 31 March 2007.

These figures may change upon an audit of the opening NZ IFRS Balance Sheet so should not be considered as final.

17. Events Subsequent to Balance date

The Māori Trustee and Māori Development Bill (the Bill) is currently before the House of Representatives (the House). The Bill will impact on the structure of the Office of the Māori Trustee and the governance of the funds that the Māori Trustee administers. The impacts of proposed changes are as follows:

1. The Māori Trustee will continue in effect as is, with the only real changes, and subsequent requirements arising from such changes being:
2. Māori Trustee will be an employer;
3. Funding streams change from Departmental to Crown;
4. An Appropriation Account is added to the list of Māori Trustee accounts;
5. Māori Trustee is to be added to Schedule Four of the Public Finance Act 1989 and through this schedule will be subject to some parts of the Crown Entities Act 2004;
6. The Māori Trustee remains as an entity on the Public Audit Act 2001;
7. A funding agreement is to be entered into between the Māori Trustee and the Crown;
8. Thirty five million dollars is to be transferred from the Māori Trustee account to MBANZ;
9. The value of the TPK creditor will be zero resulting in an increase in the equity line in the Māori Trustee's General Purposes Fund Account. The value will crystallize at the time of the Bill being passed into legislation;
10. Reduction in the Interest Revenue in the General Purposes Account, as a result of changes in the Bill. It is proposed that the interest derived from the Common Fund investment activity less a management fee be allocated to client accounts held in the Common Fund.

The Bill is currently before the Māori Affairs Select Committee for consideration. The submissions to the Bill closed on 14 May 2008.

At present the Māori Affairs Select Committee is scheduled to report back to the House on 4 September 2008.

The Māori Affairs Select Committee may recommend changes to the Bill during the course of its deliberations and it will not be until such time as the Select Committee reports back to the House that we will be aware of changes, if any, to the Bill in its current form.

AUDIT REPORT**TO THE READERS OF
THE MĀORI TRUSTEE AND GROUP'S
FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2007**

The Auditor-General is the auditor of the Māori Trustee (the Trustee) and group. The Auditor-General has appointed me, John O'Connell, using the staff and resources of Audit New Zealand, to carry out the audit on his behalf. The audit covers the financial statements included in the annual report of the Trustee and group for the year ended 31 March 2007.

Unqualified opinion

In our opinion:

- the financial statements of the Trustee and group on pages 24 to 41.
 - comply with generally accepted accounting practice in New Zealand; and
 - fairly reflect:
 - the Trustee and group's financial position as at 31 March 2007; and
 - the results of operations and cash flows for the year ended on that date.

The audit was completed on 25 June 2008, 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 and statement of service performance 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 and statement of service performance. 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 and statement of service performance. 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 and statement of service performance.

We evaluated the overall adequacy of the presentation of information in the financial statements and statement of service performance. 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 the financial statements in accordance with generally accepted accounting practice in New Zealand. The financial statements must fairly reflect the financial position of the Trustee and group as at 31 March 2007 and the results of 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 statement of service performance 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 Trustee or any of its subsidiaries.



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 and Statement of Service Performance

This audit report relates to the financial statements of the Māori Trustee and group for the year ended 31 March 2007 included on Te Puni Kokiri's website. Te Puni Kokiri's 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 website. We accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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 or from the 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 25 June 2008 to confirm the information included in the audited financial statements presented on this website.

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