



Report of the

Queen Elizabeth the Second National Trust

Nga Kairauhi Papa

for the year ended
30 June 2004

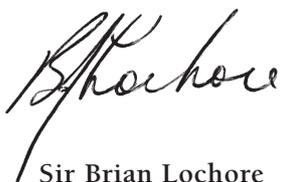
Presented to the House of Representatives pursuant to
Section 32 of the Queen Elizabeth the Second National
Trust Act 1977.

Minister of Conservation
Parliament Buildings
WELLINGTON

Dear Minister

In accordance with Section 32 of the Queen Elizabeth the Second National Trust Act 1977, I present, on behalf of the Trust, the annual report of the financial operations for the year ended 30 June 2004.

Yours faithfully

A handwritten signature in black ink, appearing to read 'B Lochore', written in a cursive style.

Sir Brian Lochore
Chairperson

Highlights for the Year Ended 30 June 2004

- 304 new covenant approvals protecting 8,390 hectares
- 143 new covenant registrations protecting 3,407 hectares
- 477 approved covenants progressing towards registration
- Monitoring 853 covenants
- Significant work achieved from Biodiversity Condition and Advice funds
- Management of 28 properties owned by the Trust
- Administration of 2,393 covenants (registered and approved) protecting 85,895 hectares.

Increased protection of habitats under threat

73 new approved covenants protected coastal and semi coastal areas

43 new approved covenants protected wetlands and swamps

108 new approved covenants were in the lowlands

123 new approved covenants protected primary forest

Members of the Board

The Trust is a statutory organisation independent from Government and managed by a Board of Directors. Four directors including the chairperson are appointed by the Minister of Conservation and two are elected by Trust members.

Appointed by the Minister of Conservation

Sir Brian Lochore Chairperson *term commenced 1 September 2003.*

Dr Susan Bennett

Commander Dick Ryan *term ended 31 August 2003.*

Mrs Yvonne Sharp *term commenced 1 September 2003.*

Mrs Lorraine Stephenson

Elected by members

Mr Bill Garland Deputy Chairperson *Acting Chairperson from 15 March - 31 August 2003.*

Mr Geoff Walls

Chairman's report

It is a pleasure to report on a year of solid progress.

Our financial performance is strong and we continue to deliver exceptional value for money. We take enormous pride in what we have achieved for New Zealand's natural heritage for less than \$3million of public funds. This year we approved 304 new covenants, which is a grand reflection on landowners coming forward to voluntarily protect natural features on their land. QE II is now the perpetual trustee for over 2,393 covenants protecting over 85,000ha, or as some of us like to say, over 212,000 acres!

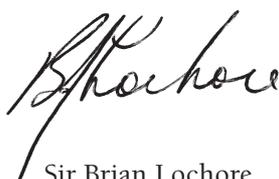
In my first nine months in the role as Chairperson I have travelled the length of the country and been privileged to meet a wide variety of landowners. Whether we're in a Southland peat bog, a bush remnant in the hill country of the Wairarapa or a coastal forest and dune system in the Far North, all the landowners have one thing in common: they all take great pride in and are absolutely committed to conservation and good environmental practice on their own patch. Their stewardship is to be applauded and encouraged in every way as it is integral to helping us as a country retain the natural character of our land for the benefit of all New Zealand.

Many rural landowners have had challenges over the last year with storms and floods. I have been a farmer all my life and I know how devastating the loss of many years' hard work on the land can be. My heartfelt thoughts are with all of you who have experienced hardship. These times also remind us of the need to respect the land, natural processes and the delicate balances of nature.

My fellow Directors come from a diverse background and collectively we make an effective team. We comprise four farmers, a mayor and an ecologist, and are geographically spread from Kerikeri to Te Anau. This inevitably leads to healthy and robust debate that continues to test and strengthen the Trust's work. During the year Yvonne Sharp was appointed as a Director, Lorraine Stephenson was reappointed for a second term and Bill Garland and Geoff Walls were both re-elected by the membership for a further three-year term. I thank them for their ongoing dedication.

We were all saddened by the sudden loss of former chairperson Sir Peter Elworthy during the year. Sir Peter had served on the Board for a total of six and half years and he was absolutely committed to the work of the Trust and took great pride in his own covenants on Craigmore. His contribution, particularly to the rural sector in New Zealand, was enormous.

We especially thank the Minister of Conservation, the Honourable Chris Carter, for his support and for the increase in funding. As well as enabling additional QE II presence and protection around the country the funding has provided an enormous boost to morale for all those involved in private land conservation.



Sir Brian Lochore
Chairperson

Chief Executive's report

This last year has been an exciting and challenging one for the Trust.

The significant increase in funding, from a modest base, has enabled activity to be increased with renewed energy.

We welcomed Sir Brian Lochore as Chairperson. He brings huge mana and embodies our core working values of practicality, respect and partnership.

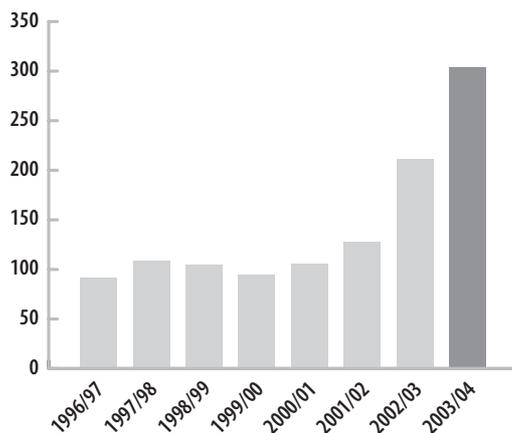
In recognition of the increasing importance of science and technology Dr Richard Allibone was appointed to a newly created position of National Services Manager. Richard is a freshwater scientist with previous roles in NIWA and Department of Conservation and brings valuable science leadership to QE II. The total staff in the Wellington office is now 12.

This year we also created four new territories in the field allowing more intensive coverage for remote areas. They cover the West Coast, Coromandel, North West Auckland and the Te Anau Basin. This brings the total number of (part-time) field representatives to 20.

There has been a steady increase in all our work and conservation gains for private land.

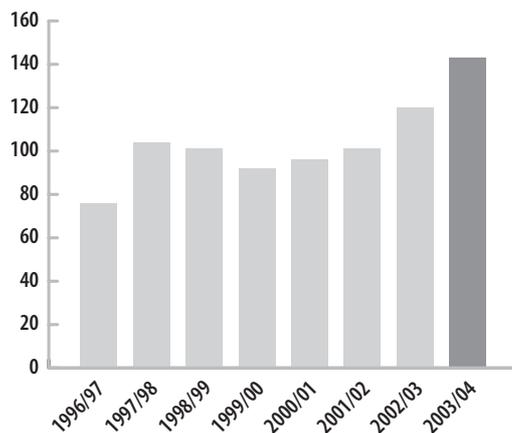
Growth in number of new covenants approved

(number of new covenants is a function of funding)



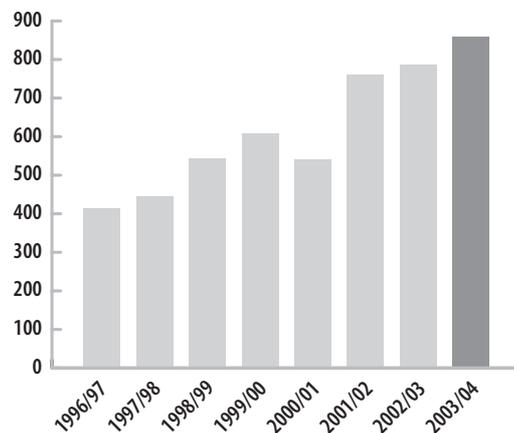
Growth in number of covenants registered

(lag between approval to registration is 1-2 years)



Growth in number covenants monitored annually

(covenants are monitored every second year)



Chief Executive's report *(continued)*

Proudly we continue to have a highly operational and practical focus with over 40% of funding going directly towards contributions to the fencing and survey cost of covenants.

Increased resources were again applied to the monitoring of covenants. The results showed 82% of covenants exceeded the agreed covenant terms and conditions, and less than 3% had poor adherence where remedial action was required. These statistics remain the same whether the landowner is the originating Covenantor or has purchased covenanted land.

Biodiversity advice and condition funding has had a great impact on improving the condition of the covenants. Work has been targeted to specific covenants and groups of covenants for integrated pest management.

The Trust continues to forge stronger links with local government. This increases resources and planning capability and in many cases leverages additional funds for landowner assistance. This year we formalised Memorandums of Understanding with Environment Bay of Plenty and Canterbury Regional Council.

Technology increasingly provides an important way forward. We have improved financial management systems, upgraded to digital photography and continue to make progress towards integrated geographical information systems. We have been actively involved in planning and bidding for research grants in collaboration with AgResearch, Landcare Research and university partnerships.

Our 'Open Space' magazine goes from strength to strength. While we progressively include more science and land management content to assist our covenantors, we are also increasing distribution through a wider variety of channels. In addition to rural landowners, we have targeted resource planners, surveyors, farm accountants and farm foresters.

Our challenges over the next year include keeping pace with new technology where it improves our efficiency and allows a more strategic approach and ensuring we reach and influence landholders in the appreciation of open space and the natural New Zealand landscape.

We offer expertise in legal protection of natural features, expertise in monitoring programmes and a network of specialised field representatives throughout the country. As a resource management tool, for the 70% of land in private ownership, QE II is simple, robust and highly cost effective.

Importantly we all thank the landholders for their tremendous dedication in managing their voluntary covenants and helping shape and give QE II and New Zealand a unique presence.



Margaret McKee
Chief Executive

The role of QE II National Trust

The Queen Elizabeth the Second National Trust 1977 was established to

...encourage and promote, for the benefit and enjoyment of the present and future generations of the people of New Zealand, the provision, protection, preservation and enhancement of open space for the benefit and enjoyment of the people of New Zealand.

The Trust achieves this in a variety of ways including;

- Advocating for and protecting valuable natural features on private land by open space covenant
- Acquiring, mainly by gift, properties of natural value
- Facilitating and promoting land purchases and other conservation activities.

An *open space covenant*, is a highly versatile, legal instrument that secures the protection of natural features on land in private ownership in perpetuity. Landholders are able to achieve voluntary and independent protection and still retain their private property rights. Features protected include landscapes, forests, wetlands, coastlines, lakes, tussock grasslands, geological features and cultural heritage. Much of New Zealand's unique natural heritage, particularly in the lowlands, exists only on the 70% of land in private ownership.

Summary @ 30 June 2004

Covenants	Number	Hectares
Registered covenants	1,919	68,365
Approved covenants	477	17,016
Total	2,396	85,381
Formal agreements	15	644
Properties owned by the Trust	28	1,575
Total		87,600 hectares

Open space covenants

An open space covenant is a voluntary, legally binding agreement between the landholder and the Trust. Private property rights are not jeopardised as the landowner retains ownership and management of the land and visitor access is in accordance with the landowner's wishes. The Trust provides on going management advice and ensures the aims and objectives of the covenants are being observed, in perpetuity. Covenants are registered against the title of the land and are legally binding on the present and all subsequent landowners.

Each covenant is unique. A covenant can apply to the whole property, with different management areas, or just part of the property. Conditions can be stringent and very specific where rare species are being protected or more general for open space landscape protection.

The covenant document defines the area to be covenanted, states the purpose of the protection and sets out activity that can or cannot be carried out in the covenant. The right of public access is encouraged but is not always appropriate.

Most open space covenants are in perpetuity though there can be a case for variable term covenants. These include:

Kawenata, on Maori land which recognises tino rangatiratanga and **Life of the Trees** covenant, where individual trees occur in a managed landscape and they are not self regenerating. **Landscape protection agreements** are used where land may not have land title such as road reserve.

The average covenant size is 35 ha and the largest is 6,500 ha; they can be found from the Far North to Stewart Island from sea level to above the snow line.

Managing covenants

QE II helps landowners with ongoing management advice and support. A management plan may be prepared with the landowner when a covenant is established which sets out ongoing management objectives and provides guidance on species management, pest control and restoration methods.

Monitoring and rigour of protection

QE II visits each covenant every second year, or when ownership changes. Condition and trend values are monitored as well as adherence to agreed covenant terms and conditions. Standards of adherence have shown not to be affected by changes in ownership.

NZ Biodiversity Strategy 2000

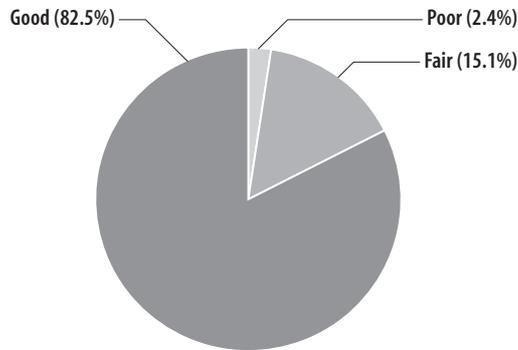
The QE II National Trust plays a key role in the implementation of the **NZ Biodiversity Strategy 2000** through the protection of biodiversity on private land. 70% of New Zealand is in private ownership, most of which is in the lowland-areas which have high economic value and have been intensively developed. Much of the threatened indigenous flora, fauna and their habitats are on the lowlands and these areas can only be protected by the goodwill and action of private landowners. The small remnants of natural habitat often sit nestled in farmland and are vital for the maintenance of biodiversity. Open space covenants and the ongoing monitoring ensure these values are protected and well managed into the future. Covenants also provide the ability to protect and link ecological corridors across private land.

Collaboration and partnerships

Our grateful thanks to Auckland Regional Council, Canterbury Regional Council, Department of Conservation, Environment BoP, Environment Waikato, Far North District Council, Federated Farmers, Gisborne District Council, Hawkes Bay Regional Council, Horizons Manawatu, Kapiti Coast District Council, Landcare Research, Local Government New Zealand, Marlborough District Council, Ministry Agriculture & Forestry, Ministry for Environment, New Plymouth District Council, NZ Native Forests Restoration Trust, North Shore City Council, Otago Regional Council, Otago Tree Trust, Porirua City Council, Royal Forest & Bird Protection Society, Southland Regional Council, South Taranaki District Council, Taranaki Regional Council, Taranaki Tree Trust, Tasman District Council, Tasman Environmental Trust, The Tindall Foundation, Waitakere District Council, Wellington Regional Council, Whangarei District Council, Fields Pond Foundation, H.B and PE Williams Charitable Trust, J.N. Williams Memorial Trust, Landcorp Farming Ltd, WWF-NZ, Waiiau Trust.

Some monitoring results from 853 covenant visits in 2003/04 financial year

Adherence



Adherence

Adherence is assessed with respect to how well the agreed covenant terms and conditions are being met.

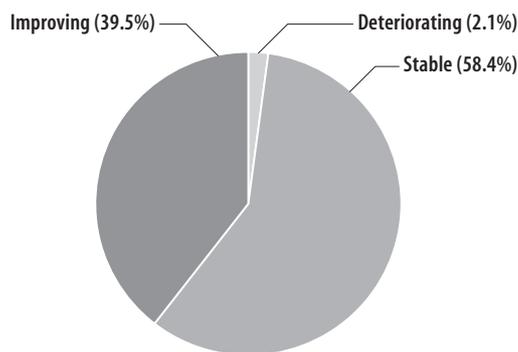
Good: Exceeds the terms and conditions

Fair: satisfies the terms and conditions

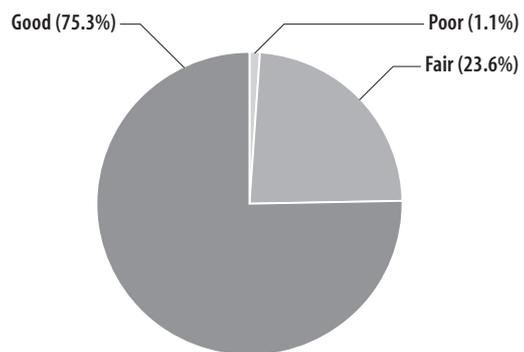
Poor: Remedial action required to ensure terms and conditions are met.

In 2003/04 the percentage of covenants that were considered to be poorly adhering to covenant conditions matches the long term figure of 2.5%

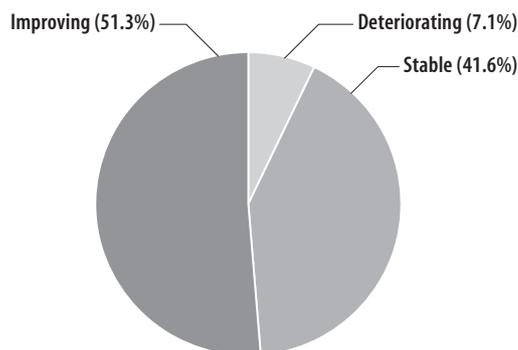
Canopy Trend



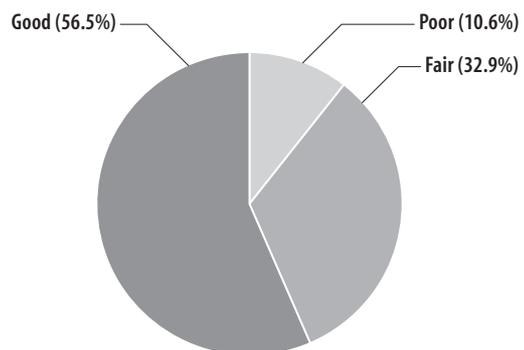
Canopy Condition



Ground Cover Trend



Ground Cover Condition



Monitoring

Canopy condition monitoring showed that the majority of covenants are in good condition and canopy trend is also either stable or continuing to improve. The ground cover condition and trend show more covenants in poor condition and this is expected because weeds and pre-covenanting

condition can effect the covenant for some time. It is expected that some covenants will be in poor condition as the native flora recovers from grazing. The trend monitoring of the ground cover indicates the majority of covenants do have improving ground cover.

Statement of Service Performance for the Year Ended 30 June 2004

This statement measures performance against goals set at the commencement of the Purchase Agreement signed by the Minister of Conservation in July 2003.

1.0 Output One

Implementation of Legal Protection of Open Space Values on Private, Maori or Crown Leasehold Land

1.1 Description

Responding to landowner enquiries, assessment, evaluation, document preparation, legal processing, survey, fencing, preparation of covenant plans and registration. From Board approval, completion of an open space covenant to registration, can take up to two years.

1.2 Outcomes

Legal protection in perpetuity, of areas of value on private, Maori or Crown leasehold land. Open space values protected may include ecological, landscape, geological, archaeological, scientific, cultural, recreational, educational, soil and water values or social interest.

1.3 Service Performance

	Actual 2003/04		Target 2003/04		2002/03	
	No.	Hectares	No.	Hectares	No.	Hectares
Approved Open Space Covenants	304	8,390	400	10,000	211	4,865
Registered Open Space Covenants	143	3,407	150	3,500	120	8,237

NOTE: Individual covenant areas vary enormously and annual fluctuations in total covenant numbers and hectares can be expected as costs associated with size vary. At 30 June 2004 there were 477 covenants with approved status and progressing towards registration.

1.4 Output One Cost

Output 1	Actual 2003/04	Target 2003/04	2002/03
Total	\$1,768,955	\$1,828,888	\$1,420,672

NOTE: The contributions to fencing costs, by the landowners, councils, and other organisations, do not appear in the above figures. Between 40-50% of new covenant proposals had additional financial contributions from councils.

Statement of Service Performance for the Year Ended 30 June 2004 *(continued)*

2.0 Output Two

Maintaining the Perpetual Trustee Role for Registered Covenants

2.1 Description

Maintain the monitoring, inspection and management advice for registered covenants. All covenants are monitored biennially. At 30 June 2004 there were 1919 registered covenants protecting 68,365 hectares.

2.2 Outcomes

A partnership between the Trust and landowner, ensuring the agreed covenant objectives are being met.

2.3 Service Performance

	Actual 2003/04	Target 2003/04	2002/03
A Inspection of registered covenants	853	850	786
B Contribution to replacement fencing (metres)	6,171	6,000	9,018

2.4 Output Two Cost

Output 2	Actual 2003/04	Target 2003/04	2002/03
A Monitoring	\$691,706	\$578,666	\$528,186
B Replacement fencing	\$21,600	\$30,000	\$31,563
Total	\$713,306	\$608,666	\$559,749

Statement of Service Performance for the Year Ended 30 June 2004 *(continued)*

3.0 Output Three

Acquisition and Maintenance of Trust Properties

3.1 Description

Acquisition and management of land owned by the Trust.

The Trust owns 28 properties with natural, cultural, scientific and aesthetic values. The output includes development and implementation of management plans, monitoring, fencing, animal and pest control, revegetation, interpretative signage and day-to-day administration.

3.2 Outcomes

Provision of open space for the enjoyment of all New Zealanders. Public use of Trust properties ranges from passive through to active.

3.3 Service Performance

	Actual 2003/04	Target 2003/04	2002/03
A Properties acquired	1	1	1
B Annual property inspections completed	27	28	27
C Management Plans reviewed	3	3	4

Management plans are approved by the Trust Board and provide policies and standards by which management outcomes for individual properties can be measured.

Reviews of existing plans are undertaken at five yearly intervals.

3.4 Output Three Cost

Output 3	Actual 2003/04	Target 2003/04	2002/03
Total	\$232,584	\$214,000	\$319,458

Statement of Financial Performance for the Year Ended 30 June 2004

2003 Actual \$		2004 Actual \$	2004 Budget \$
Revenue			
1,318,222	Government Grant - Base Funding	1,318,222	1,318,200
533,333	Government Grant - Biodiversity	1,333,334	1,332,800
42,166	Government Contestable Funds	336,717	113,000
136,331	Donations and Other Grants	145,962	55,000
259,693	Interest from Investments	320,254	240,000
166,710	Other Revenue	134,797	191,151
2,456,455	Total Revenue	3,589,286	3,250,151
Expenditure			
705,442	Field Operations	1,077,690	1,119,180
610,832	Covenant Expenditure (Note 2)	696,270	1,172,797
655,198	Administration (Note 1)	636,780	670,779
151,520	Property Operations	128,403	116,395
96,105	Public Relations	98,707	121,000
80,782	Depreciation (Note 8)	76,996	50,000
2,299,879	Total Expenditure	2,714,846	3,250,151
156,576	Net Surplus before Property Acquisitions/ Disposals <i>(See Note Below)</i>	874,440*	-
Surplus/ (Deficit) on Property Acquisitions/ Disposals			
(16,000)	Loss on Sale of Property by Trust	-	-
36,000	Property Gifted to Trust	250,000	-
176,576	Net Surplus/ (Deficit)	1,124,440	-

* There is a commitment against this figure of \$703,831 which is allocated to fencing and survey costs for specific covenants approved during 2003/04 and is currently work in progress.

Statement of Movements in Equity for the Year Ended 30 June 2004

2003 Actual \$		2004 Actual \$	2004 Budget \$
8,028,984	Funds brought forward as at 1 July	8,205,560	8,205,560
176,576	Net Surplus/(Deficit) for the year	1,124,440	-
176,576	Total recognised revenues and expenses for the year	1,124,440	-
8,205,560	Trust Funds as at 30 June 2004 (Note 3)	9,330,000	8,205,560

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of Financial Position for the Year Ended 30 June 2004

2003 Actual \$		2004 Actual \$	2004 Budget \$
Capital			
8,205,560	Trust Reserves (Note 3)	9,330,000	8,205,560
8,205,560	Total Capital	9,330,000	8,205,560
Represented by:			
Current Assets			
96,380	Cash and Bank	606,327	101,799
26,571	Interest Receivable	47,313	46,571
80,816	Accounts Receivable	67,088	85,816
4,482,973	Investments (Note 4)	4,954,973	4,482,973
5,420	GST Receivable	-	-
-	Prepayments	302	-
-	Stock	3,173	5,000
4,692,160	Total Current Assets	5,679,176	4,722,159
Less Current Liabilities			
164,633	Accounts Payable	202,166	224,735
2,285	Directors Fees Payable	637	-
80,821	Deferred Revenue	97,462	90,821
68,144	Employee Entitlements	56,399	60,429
-	GST Payable	37,473	19,897
-	Rent Received in Advance	217	-
315,883	Total Current Liabilities	394,354	395,882
4,376,277	Working Capital	5,284,822	4,326,277
Non Current Assets			
3,829,283	Fixed Assets (Note 5)	4,045,178	3,879,283
8,205,560	Net Assets	9,330,000	8,205,560

For and on behalf of the Board of Directors, which authorised the issue of the financial report on 21st September 2004



Sir Brian Lochore
Chairperson

Date



Margaret McKee
Chief Executive

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of Cash Flows for the Year Ended 30 June 2004

2003 Actual \$		2004 Actual \$	2004 Budget \$
Cash Flows from Operating Activities			
Cash was provided from:			
2,159,364	Receipts from Operations	2,651,556	2,646,556
105,500	Donations and Other Grants	157,593	55,000
256,577	Interest Received	299,513	220,000
6,754	GST Received	49,134	31,186
-	Other Revenue	486,417	314,151
2,528,195		3,644,213	3,266,893
Cash was distributed to:			
(2,160,327)	Expenditure on operations	(2,614,762)	(3,161,474)
(2,160,327)		(2,614,762)	(3,161,474)
367,868	Net Cash Flow from/(used in) Operating Activities	1,029,451	105,419
Cash Flows from Investing Activities			
Cash was provided from:			
30,000	Sale of property	-	-
30,000		-	-
Cash was disbursed to:			
(308,008)	Term Investment Deposits	(472,000)	-
(37,312)	Purchase of Fixed Assets	(47,504)	(100,000)
(345,320)		(519,504)	(100,000)
(315,320)	Net Cash Flow from/(used in) Investing Activities	(519,504)	(100,000)
-	Net Cash Flow from/(used in) Financing Activities	-	-
52,548	Net Increase / (Decrease) in Cash Held	509,947	5,419
43,832	Add: Opening Cash Brought Forward	96,380	96,380
96,380	Closing Cash at End of Year	606,327	101,799

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of Cash Flows for the Year Ended 30 June 2004 *(continued)*

2003 Actual \$		2004 Actual \$	2004 Budget \$
	Cash Carried Forward		
28,129	Bank of New Zealand - Operating Account	578,843	70,315
27,597	Bank of New Zealand - Capital Account	26,904	26,904
84	Petty Cash	47	80
35,600	ASB Bank	-	-
4,970	ANZ - Three Streams	533	4,500
96,380	Cash and Bank	606,327	101,799
	Reconciliation of Operating Cash Flows with Operating Surplus		
176,576	Net Surplus\ (Deficit)	1,124,440	-
	Add/ (Deduct) Non Cash Items:		
80,782	Depreciation	76,996	50,000
43,982	Loss on Sale of Fixed Assets	4,613	-
(36,000)	Property Gifted to the Trust	(250,000)	-
265,340		956,049	50,000
	Add/(Deduct) Movements in Working Capital		
(14,558)	(Increase)/ Decrease in Accounts Receivable	13,728	(5,000)
60,068	Increase/ (Decrease) in Accounts Payable	35,885	57,817
(3,116)	Decrease/(Increase) in Interest Receivable	(20,741)	(20,000)
80,821	Increase/(Decrease) in Deferred Revenue	16,641	10,000
(22,154)	Increase/(Decrease) in Employee Entitlements	(11,745)	(7,715)
(1,708)	(Increase)/Decrease in Net GST Receivable	42,892	25,317
3,175	Decrease/(Increase) in Publication Stock	-	-
-	Decrease/(Increase) in Closing Stock	(3,173)	(5,000)
-	(Increase)/Decrease in Prepayments	(302)	-
-	Increase/ (Decrease) in Rent Received in Advance	217	-
367,868	Net cash outflow from operating activities	1,029,451	105,419

The accompanying accounting policies and notes form an integral part of these financial statements.

Statement of Commitments for the Year Ended 30 June 2004

Covenant Commitments	2004	2003
	\$	\$
1. Short term fencing commitments		
New fences for approved covenants		
Survey costs to define approved covenants	1,341,640	925,546
	1,341,640	925,546

Operating Lease Commitments

The National Trust's Head Office operating lease agreement expires 31 July 2005.

	2004	2003
	\$	\$
1 year	59,745	59,745
1-2 years	4,979	59,745
2-5 years	-	4,979
> 5 years	-	-
	64,724	124,469

Property Endowment Commitments

The Trust holds \$335,904 in property endowments, which have been received by the Trust for use on specific property (2003: \$351,366).

Covenant Endowments

The Trust holds \$1,709,509 in covenant endowments, which have been received by the Trust for use on specific covenants (2003: \$1,709,509).

Capital Commitments

There were no capital commitments as at 30 June 2004 (2003: nil).

Statement of Contingencies as at 30 June 2004

	2004	2003
	\$	\$
1. Liability for long term fencing replacement contribution for covenants over next 35-40 years	7,000,000	7,000,000
	7,000,000	7,000,000

QE II has a financial liability to contribute to fencing in covenant agreements prior to 1995. The fences are mostly maintained by the landowner on a day to day basis.

Statement of Accounting Policies for the Year Ended 30 June 2004

Reporting Entity

The Queen Elizabeth the Second National Trust is a statutory body.

The Trust's financial statements have been prepared in accordance with section 41 of the Public Finance Act 1989.

The Trust operates in one industry and geographical segment – that being the provision, protection, preservation and enhancement of open space for the benefit and enjoyment of the people of New Zealand.

Measurement System

The financial statements have been prepared on a historical cost basis, adjusted by the revaluation of certain fixed assets prior to 1 July 2001.

Accounting Policies

The financial statements are prepared in accordance with the requirements of the Queen Elizabeth the Second National Trust Act 1977. The general accounting policies recognised as appropriate for the measurement and reporting of results, cash flows and financial position have been followed in the preparation of these financial statements.

Revenue

Revenue is recognised by the Trust as follows:

Grants revenue – Recognised as it becomes receivable, except where the grant is for a specific purpose and there is a legal and constructive obligation to repay the grant if the specific purpose is not undertaken.

Interest revenue – recognised as earned.

Donations revenue – cash donations are recognised when the cash is received; non-cash donations are recognised at their fair value at the time the ownership rights are transferred to the Trust. Recognition is not dependent on whether or not donations have specific purposes attached to them.

Membership/ sponsorship revenue – recognised when the cash is received.

Other revenue – recognised as earned.

Land, Improvements and Fencing

Land and improvements acquired or gifted to the Trust prior to 1 July 2001 are recorded at depreciated book values based on Quotable Value New Zealand Limited valuations performed on these assets in the three years prior to that date. Land and improvements acquired or gifted to the Trust since 1 July 2001 are recorded at cost, for acquired assets, or fair value (based on the most recent Quotable Value New Zealand Limited valuation), for gifted assets.

The cost of new fencing of Trust properties is capitalised in the year of completion.

Other Fixed Assets

Other fixed assets are valued at cost.

Restrictions on Assets

The only restrictions on assets held by the Trust are those pertaining to covenants and specific gifts.

Statement of Accounting Policies for the Year Ended 30 June 2004 *(continued)*

Depreciation

The depreciation rates are provided for on a diminishing value and straight line basis at the Inland Revenue Departments prescribed depreciation rates. The depreciation rates used for the major classes of assets are:

Computer & Electronic Equipment	18-48% DV
Furniture and Fittings, Plant and Equipment	4-18% DV
Improvements (Gifted and Purchased Buildings)	4% DV
Motor Vehicles	12-18% DV
Land Fencing	9.5% DV
Leasehold Improvements	10% SL
Land	0%

Employee Entitlements

Provision is made in respect of the Trust's liability for annual leave, long service leave and retirement leave. All leave has been calculated on an actual entitlement basis at current rates of pay at balance date.

Goods and Services Tax

The financial statements are prepared on a GST exclusive basis, with the exception of accounts receivable and accounts payable which include GST invoiced.

Investments

Investments are stated at market value.

Financial Instruments (Note 7)

The Trust is party to financial instruments as part of its normal operations. These financial instruments include bank balances, investments and accounts receivable. All financial instruments are recognised in the Statement of Financial Position.

In the normal course of its business, the Trust incurs credit risk from accounts receivable, and transactions with financial institutions.

The Trust does not require any collateral or security to support financial instruments with financial institutions that the Trust deals with as these entities have high credit ratings. For its other financial instruments, the Trust does not have significant concentrations of credit risk.

Accounts Receivable

Accounts receivable are recorded at estimated realisable value.

Stock

Stock is valued on a first in first out basis.

Leases

Operating lease payments, where the lessors effectively retain substantially all the risks and benefits of ownership of the leased item, are charged as expenses in the periods in which they are incurred.

Statement of Accounting Policies for the Year Ended 30 June 2004 *(continued)*

Commitments

Future expenses and liabilities to be incurred on contracts that have been entered into at balance date are disclosed as commitments to the extent that there are equally unperformed obligations.

Contingent Liabilities

Contingent liabilities are disclosed at the point at which the contingency is evident.

Statement of Cash Flows

Cash means cash balances on hand and cash held in bank accounts.

Operating activities include cash received from all income sources of the Trust 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 capital injection by, or repayment of capital to the Crown and hire purchase repayments.

Budget Figures

The budget figures are those which were approved by the Board.

Changes in Accounting Policies

A change was made to the investment valuation method for the year ended 30 June 2004. Previously investments were valued at cost. For the 30 June 2004 year onwards, all investments will be valued at market value in the Statement of Financial Position. The reason for this change is to provide a more accurate reflection of the Trust's financial position. The effect of this change has been a net increase of \$173,706 from cost to market value.

Comparative Figures

Certain comparative information in these financial statements has been reclassified to reflect current year disclosure.

Notes to the Financial Statements for the Year Ended 30 June 2004

1. Administration

The Administration figure includes:	2004	2003
	\$	\$
Directors' Fees	19,293	17,895
Audit Fees	16,750	16,475
Rent Expense	62,066	60,187
Loss on Disposal of Fixed Assets	4,613	27,982
Other Administration Expenses	534,058	532,659
	636,780	655,198

2. Covenant Expenditure and Commitments

Covenant expenditure relates to fencing, survey and legal costs incurred on approved covenants as they progress towards registration. At the time of approval the funds are allocated, but the expenditure usually takes place in the following year(s).

Total covenant expenditure committed, but not incurred, at 30 June 2004 was \$703,831 (2003: \$925,546) (See Statement of Commitments).

3. Trust Reserves

Revaluation Reserve	2004	2003
	\$	\$
Opening Balance	2,084,687	2,117,354
Movement in Current Year	0	0
Transfers to Retained Earnings	0	(32,667)
Closing Balance	2,084,687	2,084,687
Retained Earnings		
Opening Balance	6,120,873	5,911,630
Net Surplus/ (Deficit)	1,124,440	176,576
Transfer from Other Reserves	0	32,667
Closing Balance	7,245,313	6,120,873
Analysis of Trust Funds		
Revaluation Reserve	2,084,687	2,084,687
Retained Earnings	7,245,313	6,120,873
Closing Trust Reserves	9,330,000	8,205,560

Notes to the Financial Statements for the Year Ended 30 June 2004 *(continued)*

4. Investments

Details of investments are as follows:

	2004	2003
	\$	\$
Bonds	2,998,277	1,886,065
Call Accounts	147,841	21,754
Debentures	400,000	400,000
Term Deposits	1,303,904	2,076,873
Unit Trusts	104,951	98,281
Total Investments	4,954,973	4,482,973

The Trust only invests in highly liquid investments.

5. Fixed Assets

	Cost or	Accumulated	Net Book	Net Book
	Revaluation	Depreciation	Value	Value
	\$	\$	2004	2003
			\$	\$
Land and Improvements (Note 6)	3,945,975	97,508	3,848,467	3,627,950
Land Fencing	110,715	26,413	84,302	93,150
Trust Property	4,056,690	123,921	3,932,769	3,721,100
Furniture & Fittings, Motor Vehicles, Equipment	282,068	171,105	110,963	106,224
Leasehold Improvements	5,134	3,688	1,446	1,959
	287,202	174,793	112,409	108,183
Total Fixed Assets	4,343,892	298,714	4,045,178	3,829,283

Notes to the Financial Statements for the Year Ended 30 June 2004 *(continued)*

6. Land and Improvements

	2004 \$	2004 \$	2004 \$	2003 \$
	Land	Improvements	Total	Total
Aroha	425,000	353,862	778,862	797,048
Awapikopiko Reserve	42,000		42,000	42,000
Bowman's Bush	63,000		63,000	63,000
Dunns Bush	150,000		150,000	150,000
Durslade	220,000	84,480	304,480	308,000
Ernest Morgan Forest Reserve	140,000		140,000	140,000
Hann Bush	18,000		18,000	18,000
Hartree Forest	72,000	10,506	82,506	82,944
l'Anson Reserve	434,000		434,000	434,000
Ira Menzies Duneland	250,000		250,000	-
Mara Point	80,000		80,000	80,000
Maungaruahine Bush	74,000		74,000	74,000
Miro Bay	100,000		100,000	100,000
Mokotahi Hill	9,000		9,000	9,000
Parkinson's Bush	143,000		143,000	143,000
Pouawa Sandhills	66,000		66,000	66,000
Robbs Bush	33,500		33,500	33,500
Robert Houston Memorial Reserve	50,000		50,000	50,000
Snells Bush	36,000		36,000	36,000
Spencer Reserve	16,000		16,000	16,000
Sunset Bay	45,000		45,000	45,000
Tata Headland	17,000		17,000	17,000
Taupo Swamp	98,000		98,000	98,000
Te Harakiki Swamp	32,000		32,000	32,000
Three Streams	390,000	142,850	532,850	538,802
Tokatea	110,000	33,269	143,269	144,656
Waiata Bush	25,000		25,000	25,000
	3,138,500	624,967	3,763,467	3,542,950
Tumutumu Bush (title yet to be obtained)	85,000	-	85,000	85,000
Total Land and Improvements	3,223,500	624,967	3,848,467	3,627,950

Notes to the Financial Statements for the Year Ended 30 June 2004 *(continued)*

7. Financial Instruments

The following methods and assumptions were used to estimate the value of each class of financial instrument:

Cash, bank and receivables – the carrying amount of cash, bank and receivables balances is equivalent to their fair value.

Investments – investments are stated at market value.

The Trust has no exposure to currency risk, and the values of its financial instruments are not interest rate sensitive.

8. Depreciation Expense

Depreciation expense was charged on the following classes of assets:	2004	2003
	\$	\$
Improvements	29,475	29,601
Land Fencing	8,849	9,778
Furniture & Fittings, Motor Vehicles, Equipment	38,159	40,890
Leasehold Improvements	513	513
	76,996	80,782

REPORT OF THE AUDITOR-GENERAL**TO THE READERS OF THE FINANCIAL STATEMENTS OF QUEEN ELIZABETH THE SECOND NATIONAL TRUST FOR THE YEAR ENDED 30 JUNE 2004**

We have audited the financial statements on pages 11 to 25. The financial statements provide information about the past financial and service performance of Queen Elizabeth the Second National Trust and its financial position as at 30 June 2004. This information is stated in accordance with the accounting policies set out on pages 19 to 21.

Responsibilities of the Board

The Public Finance Act 1989 requires the Board to prepare financial statements in accordance with generally accepted accounting practice in New Zealand which fairly reflect the financial position of Queen Elizabeth the Second National Trust as at 30 June 2004, the results of its operations and cash flows and service performance achievements for the year ended on that date.

Auditor's Responsibilities

Section 15 of the Public Audit Act 2001 and Section 43(1) of the Public Finance Act 1989 requires the Auditor-General to audit the financial statements presented by the Board. It is the responsibility of the Auditor-General to express an independent opinion on the financial statements and report its opinion to you.

The Auditor-General has appointed Marcus P. Henry, of Ernst & Young, to undertake the audit.

Basis of Opinion

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

- the significant estimates and judgements made by the Board in the preparation of the financial statements; and
- whether the accounting policies are appropriate to Queen Elizabeth the Second National Trust's circumstances, consistently applied and adequately disclosed.

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

Other than in our capacity as auditor acting on behalf of the Auditor-General, we have no relationship with or interests in Queen Elizabeth the Second National Trust.

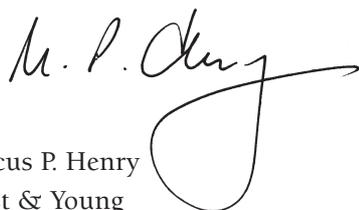
Unqualified Opinion

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

In our opinion the financial statements of Queen Elizabeth the Second National Trust on pages 11 to 25:

- comply with generally accepted accounting practice in New Zealand; and
- fairly reflect:
 - Queen Elizabeth the Second National Trust's financial position as at 30 June 2004;
 - the results of its operations and cash flows for the year ended on that date; and
 - the service performance achievements in relation to the performance targets and other measures adopted for the year ended on that date.

Our audit was completed on 21 September 2004 and our unqualified opinion is expressed as at that date.



Marcus P. Henry
Ernst & Young
On behalf of the Auditor-General
Wellington, New Zealand



QE II National Trust

For open space in New Zealand

Nga Kairauhi Papa