I have pleasure in reporting that the attendance in the schools during the year just closed has kept up to the average; the figures for the last quarter being 273 in the boy's school, and 180 in the girls' school, as against 261 and 171 for the corresponding period in 1887.

During the year the Board came under the provisions of "The Public Bodies Powers Act, 1887," which has greatly facilitated its operations in the management of its endowments.

On the 10th July last the Board re-leased a number of sections, the original leases of which had expired. The new leases were for fourteen years in the case of rural lands, and for twenty-one years in the case of township sections; and the rents of the former showed a satisfactory increase.

During the year the Board received a petition from a number of settlers in the Wyndham Valley District, who purchased lands from it on deferred payment when high prices were ruling, and who stated that they were totally unable to meet their payments, asking for a rebate of 50 per cent. of the purchase money.

After carefully considering the matter in all its bearings the Board decided that it could not see its way to make any reduction in the original amount of purchase money, but that it was prepared to receive proposals for relief from individual settlers on any one of the following schemes, namely:—

1. To take back part of the holding, allowing valuation for improvements which have been effected thereon, the amount of such valuation, together with what has already been paid, to go towards completing the payment of the remainder.

2. To capitalise or change the holding into a leasehold, the present occupier to have a lease at a rental of 5 per cent. per annum on the original cost of the land, with valuation for improvements at the end of lease, or right to remove them. All amounts which have been paid on account of purchase money to count as rent from the date of commencement of occupation.

3. To let the mortgage stand as at present, but to have an extension of time allowed for repayment of the balance owing at a reduced rate of interest.

Five tenants have agreed to the first-named proposal, and two to the third proposal.

The Board desires me to urge upon the Government the necessity of exempting it from the payment of city rates in respect of the buildings and grounds of the Boys' and Girls' High Schools in Dunedin. It was evidently the intention of the Legislature when passing "The Rating Act, 1882," that high schools should be exempt from rates, as section 2 subsection (14) applies to them, inasmuch as they are not carried on for "pecuniary gain and profit" in the sense in which these terms are used in the Act; unfortunately, however, the Corporation of the City of Dunedin does not levy rates under this Act, but under "The Rating Act, 1886," which does not exempt the high schools from payment. The Otago Boys' and Girls' High Schools Act, 1877, under which the Board manages the schools, is silent on the matter of rates, and the Board is consequently compelled to pay the sum of £150 per annum to the Corporation. I may say that none of the other high schools in New Zealand are required to pay municipal rates on their school buildings.

The funds of the Board have been considerably reduced during the last three years owing to shrinkage in rents, &c., and also to the fact that the Board provides free education to a large number of scholarship-holders and pupils who attained fifty per cent. of marks in senior provincial scholarship examinations. Such being the case, the above-named tax is a very heavy burden upon the Board's income, and it hopes that steps will be taken during the coming session of Parliament to exempt it from payment.

I have, &c.,

The Hon. the Minister of Education, Wellington. D. M. Stuart, D.D., Chairman.

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2. Statement of Receipts and Expenditure for the Year ending 31st December, 1888.

Receipts.	£	s.	d.
To Endowments—			
Capital Account—Price of reserves sold	649	13	7
Current income from reserves ..	2,541	14	10
Interest on moneys invested and on unpaid purchase-money	210	8	8
Paid by School Commissioners ..	496	9	1
School fees	3,607	7	3
Boarding-school fees—			
Boys	10	0	0
Girls	857	0	6
Dr. balance at end of year—			
Bank	1,370	17	10
Cheques to present	407	2	3
	£10,150	14	0

Expenditure.	£	s.	d.
By Balance at beginning of year	1,982	7	4
Management—			
Salary	170	0	0
Destroying rabbits..	4	0	0
Other expenses	45	5	7
Teachers' salaries and allowances ..	5,844	2	1
Boarding-school account—			
Boys	103	7	5
Girls	682	1	8
Prizes	35	16	5
Printing, stationery, and advertising ..	109	16	9
Cleaning, fuel, light, &c., including the salaries of two janitors	249	14	10
County, city, and water rates.. ..	324	8	4
Repairs	284	12	8
Insurance	52	8	6
Furnishing	37	0	5
Interest on current account	189	13	6
Expenses of survey, reporting sales, management, &c.	35	18	6
	£10,150	14	0

D. M. Stuart, Chairman.
C. Macandrew, Secretary.

Examined and found correct.—James Edward FitzGerald, Controller and Auditor-General.