

**ACCOUNTING POLICY
2005/2006 FINANCIAL YEAR**

Approved by Council :
30 August 2006
C 85/08/06

ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. BASIS OF PRESENTATION

1.1 These annual financial statements have been prepared in terms of the 3 Standards of the Generally Recognised Accounting Practice (GRAP) and the 8 Standards of the Generally Accepted Municipal Accounting Practice (GAMAP) as approved by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act No 56 of 2003). These accounting policies are consistent with those applied in the previous financial year.

1.2 The City have certain transactions, events or balances that are outside the ambit of the accounting standards referred to above but which have been based on the South African Statements of Generally Accepted Accounting Practices (GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

1.3 The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

2. PRESENTATION CURRENCY

These annual financial statements are presented in South African Rand.

3. GOING CONCERN ASSUMPTION

These annual financial statements have been prepared on the going concern basis.

4. HOUSING FUNDS

The Housing Development Fund was established in terms of the Housing Act (Act No 107 of 1997).

4.1 Housing Development Fund

Sections 15(5) and 16 of the Housing Act, (Act 107 of 1997), which came into operation on 1 April 1998, required that the City maintain a separate housing operating account. This legislated separate operating account is known as the Housing Development Fund.

The Housing Act also requires in terms of Section 14(4) (d) (ii) (aa) read with, inter alia, Section 16(2) that the net proceeds of any letting, sale or alienation of property, previously financed from government housing funds, be paid into a separate operating account and be utilised by the City for housing development in accordance with the National Housing Policy.

The following provisions are set for the creation and utilization of the Housing Development Fund:

- The Housing Development Fund is cash backed, and invested in accordance with the investment policy of the City.
- The proceeds in this fund are utilized for housing developments in accordance with the national housing policy and also for housing development projects approved by the MEC for housing.
- Any contributions to or from the fund are shown as transfers in the Statement of Changes in Net Assets.
- Interest earned on the investments of the fund is disclosed as interest earned in the Statement of Financial Performance.

4.2 Unrealised Housing Proceeds

In order to comply with Section 14(4) (d) (i) and (ii) of the Housing Act, (Act 107 of 1997) where all net proceeds need to be paid into the Housing Development Fund, it was necessary to create a holding account which represents the unrealised funds due by long-term housing selling developments and sponsored loan debtors. This account is reduced when debtors are billed for their current loan repayments.

5 RESERVES

The City creates and maintains reserves in terms of specific requirements.

5.1 Capital Replacement Reserve (CRR)

In order to finance the provision of infrastructure and other property, plant and equipment, from internal sources, amounts are transferred from the accumulated surplus/ (deficit) to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilization of the CRR:

- The cash funds which back up the CRR are invested until utilized. The cash may only be invested in accordance with the investment policy of the City.
- The CRR may only be utilized for the purpose of purchasing items of property, plant and equipment and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the accumulated surplus/ (deficit) is credited by a corresponding amount.
- If a profit is made on the sale of assets other than land, the profit on these assets is reflected in the Statement of Financial Performance and is then transferred, via the Statement of Changes in Net Assets, to the CRR, provided that it is cash backed. Profit on the sale of land is not transferred to the CRR as it is regarded as revenue.

5.2 Capitalisation Reserve

On the implementation of GAMAP/GRAP, the balance on certain funds, created in terms of the various Provincial Ordinances applicable at the time, that had historically been utilised for the acquisition of items of property, plant and equipment have been transferred to a Capitalisation Reserve instead of the accumulated surplus/ (deficit) in terms of a MFMA Circular no.18 issued by National Treasury. The purpose of this Reserve is to promote consumer equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of these items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/ (deficit).

The balance on the Capitalisation Reserve equals the carrying value of the items of property, plant and equipment financed from the former legislated funds. When items of property, plant and equipment are depreciated, a transfer is made from the Capitalisation Reserve to the accumulated surplus/ (deficit).

When an item of property, plant and equipment is disposed of, the balance in the Capitalisation Reserve relating to such item is transferred to the accumulated surplus/ (deficit).

5.3 Government Grant Reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Government Grants Reserve equal to the Government Grant recorded as revenue in the Statement of Financial Performance in accordance with the MFMA Circular no.18 issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/ (deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Government Grants.

When an item of property, plant and equipment financed from Government Grants is disposed of, the balance in the reserve relating to such item is transferred to the accumulated surplus/ (deficit).

5.4 Donations and Public Contributions Reserve

When items of property, plant and equipment are financed from donations and public contributions, a transfer is made from the accumulated surplus/(deficit) to the Donations and Public Contributions Reserve equal to the Donations and Public Contributions recorded as revenue in the Statement of Financial Performance in accordance with the MFMA Circular no.18 issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the reserve to the accumulated surplus/ (deficit). The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from such reserve.

When an item of property, plant and equipment financed from donations and public contributions is disposed of, the balance in the reserve relating to such item is transferred to the accumulated surplus/ (deficit).

5.5 Insurance Reserve

A general insurance reserve has been established and subject to re-insurance where deemed necessary, covers claims that may occur. Premiums are charged to the respective services taking into account claims history and replacement value of the insured assets.

Reinsurance premiums paid to external re-insurers are regarded as an expense and are shown as such in the Statement of Financial Performance. The net surplus or deficit on the insurance operating account is transferred to or from the insurance reserve via the Statement of Changes in Net Assets.

The balance of the self-insurance reserve is invested in short term cash investments. Interest earned on the insurance reserve is recorded as interest earned in the Statement of Financial Performance and is transferred to the Insurance reserve via the Statement of Changes in Net Assets as a contribution.

An actuarial valuation is obtained each year to assess the adequacy of the Insurance Reserve at year-end.

5.6 COID Reserve

The City has been exempted from making contributions to the Compensation Commissioner for Occupational Injuries and Diseases (COID).

The certificate of Exemption issued by the Commissioner and as prescribed by the Compensation for Occupational Injuries and Diseases Act (No. 130 of 1993), requires that the City deposit cash and/or securities with the Commissioner, the market values of which in aggregate, shall not be less than the capitalised value of the of the continuing liability of the City as at 31 December of each year.

The continuing liability is that of annual pensions, the capitalized value of which is determined on the basis of an actuarial determination prescribed by the Commissioner. A COID Reserve has been established to equate to the value of the continuing liability. The market value of the securities is determined annually by the Commissioner and the City is required to meet any shortfall in the aggregate value of the securities as at 31 December.

In addition to the COID Reserve a provision is made annually to provide for outstanding claims as at 30 June of each year.

6. PROPERTY, PLANT AND EQUIPMENT (PPE)

6.1 General

6.1.1 PPE is stated:

- At cost less accumulated depreciation.
- At fair value at date of acquisition less accumulated depreciation where assets have been acquired by grant or donation.

6.1.2 Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset are enhanced in excess of the originally assessed standard of performance. If expenditure only restores the originally assessed standard of performance, then it is regarded as repairs and maintenance and is expensed. The enhancement of an existing asset so that its use is expanded or the further development of an asset so that its original life is extended are examples of subsequent expenditure which should be capitalised.

6.1.3 The City has adopted a capitalisation threshold whereby all expenditure below the threshold is expensed when incurred. The threshold is currently R5 000.

6.2 Depreciation and impairment losses

6.2.1 Depreciation is calculated on cost, using the straight-line method, over the estimated useful lives of the assets. The depreciation rates are based on the following estimated useful lives:

	Years		Years
Infrastructure		Other	
Roads and Paving	10-30	Buildings	20 - 30
Pedestrian Malls	30	Specialist vehicles	10
Electricity	20-30	Other vehicles	5-7
Water	15-20	Office equipment	3-7
Sewerage	15-20	Furniture and fittings	7-10
Housing	30	Watercraft	15
		Bins and containers	5
Community		Specialized plant and equipment	10-15
Improvements	30	Other plant and equipment	2-5
Recreational Facilities	20-30	Landfill Sites	30
Security	5		

6.2.2 Heritage assets, which are defined as culturally significant resources, are not depreciated as they are regarded as having an indefinite life. Land is also not depreciated for the same reason.

6.2.3 Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

6.2.4 The carrying amount of an item or a group of identical items of PPE is reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognized as an expense immediately and charged as an impairment loss to the Statement of Financial Performance.

6.2.5 The City has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation in accordance with the City's accounting policy on provisions.

6.3 Disposal of assets

- Assets are written off on disposal.
- The difference between the carrying value of assets (cost less accumulated depreciation) and the sales proceeds is reflected as a profit or loss in the Statement of Financial Performance.

6.4 Investment properties

Investment properties are stated at cost less accumulated depreciation. Investment properties are written down for impairment where considered necessary.

7 INVESTMENTS

Financial assets and financial liabilities are recognised on the City's Statement of Financial Position when the City has become a party to contractual provisions of the instrument.

7.1 Investments in Financial Instruments

- *Held to maturity (HTM) investments* are financial assets with fixed or determinable payments and fixed maturity where the City has the positive intent and ability to hold the investment to maturity.
- *Loans and receivables originated by the enterprise* are financial assets that are created by providing money, goods or services directly to a debtor.
- *Available for sale investments* are financial assets that are designated as available for sale or are not classified as, (a) loans and receivables, (b) held to maturity investments or (c) financial assets at fair value through profit or loss.

INITIAL MEASUREMENT of financial instruments is *at cost, which is the fair value* of the consideration given or received. The fair value is usually the transaction price or market price. In terms of AC 133:67 *transaction costs* are included in the initial measurement of financial assets. Transaction costs include fees and commissions paid to agents, advisors, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs do not include debt premium or discount, financing costs or allocations of internal administrative or holding costs.

SUBSEQUENT MEASUREMENT of financial assets.

HTM investments and loans and receivables originated by the City and not held for trading are subsequently recognized *at amortized cost using the effective interest rate method*. *Amortized cost* is defined in AC 133:11 as the amount at which the financial asset was measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount, and minus any write-down for impairment or uncollectability.

The carrying amounts of such investments are reduced to recognize any decline, other than a temporary decline, in the value of individual investments.

7.2 Investment in Controlled Entities

Investments in controlled entities under ownership control or effective control of the City are carried at cost and are classified as available for sale investments. Separate consolidated financial statements will be prepared in accordance with circular 18 of National Treasury, to account for the City's share of net assets and post-acquisition results of these investments.

The carrying amounts of such investments are reduced to recognize any decline, other than a temporary decline, in the value of individual investments.

7.3 Interests in Joint Ventures

A joint venture is a contractual arrangement whereby the City and other parties undertake an economic activity that is subject to joint control. Interests in joint ventures are stated at cost and are classified as available for sale investments.

Separate consolidated financial statements will be prepared in accordance with circular 18 of National Treasury, to account for the City's share of net assets and post-acquisition results of these investments

The carrying amounts of such investments are reduced to recognize any decline, other than a temporary decline, in the value of individual investments.

8. INVENTORIES

Inventories consist of raw materials, work in progress, consumables and finished goods, which are valued at the lower of cost, determined on the weighted average basis, and net realisable value. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value.

Cost of inventories comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Redundant and slow moving inventories are identified and written down to their estimated net realisable values. Consumables are written down according to their age, condition and utility.

9 ACCOUNTS RECEIVABLE

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified as irrecoverable. Amounts that are receivable within 12 months from the reporting date are classified as current.

10 TRADE AND OTHER PAYABLES

Trade and other payables are stated at their nominal value.

11 REVENUE RECOGNITION

Revenue excluding value-added taxation where applicable is derived from a variety of sources which include Rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the City and these benefits can be measured reliably.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

- 11.1 Revenue from rates is recognized when the legal entitlement to this revenue arises. Collection charges are recognized when such amounts are legally enforceable. Interest on unpaid rates is recognized on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable.

A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

- 11.2 Service charges relating to solid waste, sanitation and sewerage are levied monthly in terms of the approved tariffs.

- 11.3 Service charges relating to Electricity and Water are based on consumption. Meters are read on a periodic basis and revenue is recognized when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed and are based on the consumption history. The provisional estimates of consumption are recognized as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognized as revenue in the invoicing period

- 11.4 Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received, and the revenue from the issuing of summonses is only recognised when collected by the Courts. Due to the various legal processes that can apply to summonses and the inadequate information received from the Courts, it is not possible to measure this revenue when the summons is issued.

- 11.5 Various services are provided on a prepayment basis in which case no formal billing takes place and revenue is recognised when received.

- 11.6 The Regional Establishment Levy and Regional Services Levy are recognised at the time of receipt of the RSC4 return submitted by all registered levy payers. Where RSC4 returns are not submitted an historical estimate is made of revenue for the year.
- 11.7 Income in respect of housing rental and instalment sale agreements is accrued monthly in terms of the agreement.
- 11.8.1 Government grants and public contributions are recognised as revenue when all conditions associated with the grant have been met.
- 11.9 Interest earned on investments is recognised in the Statement of Financial Performance on a time proportionate basis that takes into account the effective yield on the investment. Interest may be transferred from the accumulated surplus to the Housing Development Fund or the Insurance Reserve.
- Interest earned on the following investments is not recognised in the Statement of Financial Performance:
- Interest earned on Trust Funds is allocated directly to the fund and is not recognised in the Statement of Financial Performance.
 - Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.
- 11.10 Dividends are recognized when the City's right to receive payment is established.
- 11.11 Income for agency services is recognized on a monthly basis once the income collected on behalf of agents has been quantified. The income is recognized in terms of the agency agreement.
- 11.12 Donations are recognized on a cash receipt basis or where the donation is in the form of property, plant and equipment, when the risks or rewards of ownership have transferred to the City.
- 11.13 Income from the recovery of unauthorized, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognized when the recovery thereof from the responsible councillors or officials is probable.
- 11.14 Revenue from the sale of goods is recognized when all the following conditions have been satisfied:
- The City has transferred to the buyer the significant risks and rewards of ownership of the goods.
 - The City retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
 - The amount of revenue can be measured reliably.
 - It is probable that the economic benefits or service potential associated with the transaction will flow to the City.
 - The costs incurred or to be incurred in respect of the transaction can be measured reliably.

12 CONDITIONAL GRANTS & RECEIPTS

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the City has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

12.1 Unutilised Conditional Grants

Unutilized conditional grants are reflected on the Statement of Financial Position as a creditor. They represent unspent government grants, subsidies and contributions from the public. This creditor always has to be backed by cash. The following provisions are set for the creation and utilization of this creditor:

- The cash, which backs up the creditor, is invested until it is utilized.

- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the City's interest it is recognized as interest earned in the Statement of Financial Position.
- Whenever an asset is purchased out of an unutilised conditional grant, an amount equal to the cost price of the asset is transferred from Unutilised Capital Receipts to the Statement of Financial Performance as revenue. Thereafter an equal amount is transferred on the Statement of Changes in Net Assets to the Donations and Public Contributions Reserve. This reserve is equal to the remaining depreciable value (book value) of assets purchased out of Unutilised Capital Receipts. The reserve is used to offset depreciation charged on assets purchased out of Unutilised Capital Receipts.

13 PROVISIONS

A provision is recognized when the City has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at year-end and adjusted accordingly.

14 CASH AND CASH EQUIVALENTS

Cash includes cash on hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of twelve months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprises of cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

15 EMPLOYEES BENEFITS

15.1 Retirement Funds

The City provides retirement benefits for its employees and councillors. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. The defined benefit funds, which are administered on a provincial basis, are actuarially valued tri-annually on the projected unit credit method basis. Deficits identified are recovered through lump sum payments or increased future contributions on a proportional basis to all participating municipalities.

Pension contributions in respect of employees who were not members of a pension fund are recognised as an expense when incurred.

Staff Provident Funds are maintained to accommodate personnel who, due to age, cannot join or be part of the various Pension/Retirement Funds. The City contributes monthly to the Funds.

15.2 Medical Aid: Continued Members

The City provides post retirement benefits by subsidising the medical aid contributions of certain retired staff. According to the rules of the medical aid funds, with which the City is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for 30% of the medical aid membership fee, and the City for the remaining 70%. Under an accrued rights position agreed to by Council, the age of internally appointed staff under the City's new conditions of service determines, on a sliding scale basis, the post-retirement subsidy for medical aid. External appointments do not qualify for post retirement medical aid subsidy.

These contributions are charged to the operating account when paid. In addition the City will contribute annually for the next five years, with effect from 1 July 2003, towards funding the unrecognised transitional liability which was calculated on the projected unit credit actuarial valuation method (AC 116).

15.3 Accrued Leave Pay

Liabilities for annual leave are recognised as they accrue to employees. Provision is based on the total accrued leave days at year-end.

16 LEASES

16.1 The City as Lessee

16.1.1 Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the City.

Assets subject to finance lease agreements are capitalised at their cash cost equivalent and the corresponding liabilities are raised. The cost of the assets is depreciated at appropriate rates on the straight-line basis over the estimated useful lives of the assets. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

16.1.2 Operating leases are those leases, which do not fall within the scope of the above definition. Payments made under operating leases are charged to the statement of financial performance on a straight-line basis over the period of the lease.

16.2 The City as Lessor

Rental income from operating leases is recognised in terms of the agreement.

17 BORROWINGS

Interest-bearing external loans and bank overdrafts are recorded net of direct issue costs. Finance charges, including premiums payable are accounted for on an accrual basis.

18 CASH FLOW HEDGE ACCOUNTING

The effective portion of changes in the fair value of interest rate swap derivatives are recognised in net assets (equity).

19 VALUE ADDED TAX

The City accounts for Value Added Tax on the payment basis.

20 GRANTS-IN-AID

The City transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the City does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

21 INTANGIBLE ASSETS

An intangible asset is defined as an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes. Intangible assets are treated in accordance with the provisions of IAS 38, “**Intangible Assets**”. Intangible assets are initially recorded at their cost price and are subsequently amortized over their expected useful lives. The intangible asset under the control of the City is amortized according to the straight line method.

22 UNAUTHORISED EXPENDITURE

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

23 IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), and the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

24 FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

25 FOREIGN CURRENCY TRANSACTIONS

Transactions in foreign currencies are initially accounted for at the rate of exchange ruling on the date of the transaction. Trade creditors denominated in foreign currency are reported at balance sheet date by using the exchange rate at that date. Exchange differences arising on the settlement of creditors or on reporting of creditors at rates different from those at which they were initially recorded during the period, are recognized as income or as expenses in the period in which they arise.

26 COMPARATIVE INFORMATION

26.1 Current Year Comparatives

Budgeted amounts have been included in the annual financial statements for the current financial year only.

26.2 Prior year comparatives

When the presentation or classification of items in the annual financial statements are amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.