



June 13, 2018

Memorandum

To: Members of the Board

Monica R. Valentine

From: Monica R. Valentine, Assistant Director

Wendy M. Payne

Through: Wendy M. Payne, Executive Director

Subject: **Revised Draft Statement – Classified Activities¹ – Tab F**

MEMBER ACTION REQUESTED:

- Review latest revisions to draft *Classified Activities* Statement. Provide staff with feedback by **Friday June 22, 2018**.

MEETING OBJECTIVE

The objective for this meeting is to review the latest draft of the *Classified Activities* Statement so that a pre-ballot draft can be provided to the Board. Staff has made the revisions to the draft based on the Board discussion during the April meeting closed and open sessions.

BRIEFING MATERIAL

The briefing material include this memorandum and the following attachments and appendices:

Attachment 1: Draft *Classified Activities* Statement - **Marked**

Attachment 2: Draft *Classified Activities* Statement – **Clean**

Appendix A: Original *Classified Activities* Exposure Draft

REVISIONS

The following revisions were incorporated into the latest *Classified Activities* (CA) Statement draft.

- Paragraph 8 includes a summary of the modifications permitted by the CA Statement

¹ The staff prepares Board meeting materials to facilitate discussion of issues at the Board meeting. This material is presented for discussion purposes only; it is not intended to reflect authoritative views of the FASAB or its staff. Official positions of the FASAB are determined only after extensive due process and deliberations.

- Paragraphs 9 – 11 provide more detailed guidance on the types of modifications permitted by the Statement
- Basis for Conclusions:
 - Added additional language to address the Board’s response to the respondent comments.
 - Added Board discussion on the evaluation of those viable options available for presenting classified information in unclassified GPFFRs without jeopardizing national security
 - Added Board response to the respondent comments on the proposed disclosures
 - Added Board response to proposed requirement for detailed documentation and reconciliation between the classified information and the modified presentations
 - Added discussion on how the Board will make the public aware of the classified guidance.
- At the April closed session meeting the Board agreed to consider two disclosure options for the CA Statement and to share those options with some of the respondents of the CA exposure draft. Staff sent the below disclosure options to the fifteen ED respondents that commented on the proposed disclosures.
- *Option 1 provides a neutral disclosure statement to be included in a component reporting entity’s summary of significant accounting policies. This statement would be required of all federal component reporting entities on a consistent basis whether they made modifications or not. The government-wide disclosure adds that modifications have been made to certain presentations and disclosures and should also be disclosed on a consistent basis.*

Option 1:

COMPONENT REPORTING ENTITY DISCLOSURES

Federal component reporting entities should consistently disclose that GAAP allows certain presentations and disclosures to be modified to protect classified information. The following should be included in the summary of significant accounting policies.

GAAP allows certain presentations and disclosures to be modified to protect classified information.

Component reporting entities should not include any other information related to the application of this Statement or any Interpretations of this Statement in the disclosures.

FINANCIAL REPORT OF THE U.S. GOVERNMENT DISCLOSURES

The financial report of the U.S. Government (government-wide financial report) should disclose that GAAP allows certain presentations and disclosures to be modified and that certain financial statement presentations and disclosures have been modified to protect classified information. The government-wide financial report may omit disclosures about specific Interpretations that may have been applied. The following should be included in the government-wide summary of significant accounting policies.

GAAP allows certain presentations and disclosures to be modified to protect classified information. Accordingly, modifications have been made to certain presentations and disclosures.

- *Option 2 limits disclosure exclusively to government-wide reporting. The government-wide disclosure adds that modifications have been made to certain presentations and disclosures and should also be disclosed on a consistent basis. Component reporting entities would not disclose in their summary of significant accounting policies that GAAP allows certain presentations and disclosures to be modified to protect classified information or that certain modifications have been made.*

Option 2:

COMPONENT REPORTING ENTITY DISCLOSURES

Component reporting entities should not disclose application of this Statement, including any Interpretations of this Statement, or that GAAP allows certain presentations and disclosures to be modified to protect classified information.

FINANCIAL REPORT OF THE U.S. GOVERNMENT DISCLOSURES

The financial report of the U.S. Government (government-wide financial report) should disclose that GAAP allows certain presentations and disclosures to be modified and that certain financial statement presentations and disclosures have been modified to protect classified information. The government-wide financial report may omit disclosures about specific Interpretations that may have been applied. The following should be included in the government-wide summary of significant accounting policies.

GAAP allows certain presentations and disclosures to be modified to protect classified information. Accordingly, modifications have been made to certain presentations and disclosures.

Staff only received responses from five of the fifteen respondents contacted. Of the five, the three preparers preferred Option 2 and the two auditor respondents preferred neither option but stated that Option 1 was closer to what they preferred. The auditors still believe that the preparer should disclose when the modifications are applied. As a

third option, the Board could retain the language proposed in the exposure draft. Based on the respondents' feedback on the options, staff recommends Option 2.

NEXT STEPS

If all unresolved substantive issues have been resolved by the Board during Wednesday morning's closed session staff will make revisions agreed to by the Board and present a pre-ballot draft of the final CA Statement to the Board at the Wednesday afternoon closed session.

MEMBER FEEDBACK

Because this draft had to go through a clearance review by the appropriate authorities, members cannot suggest any specific editorial changes outside of a secure environment. If members have comments or edits on specific areas of the draft, staff is requesting that members contact staff via email stating their question and identifying the paragraph number that relates to your comment or edit. Staff will make every effort to address the concern.

You can contact Monica by telephone at 202-512-7362 or by e-mail at ValentineM@fasab.gov with a cc to PayneW@fasab.gov .

During the closed session meeting we will have the opportunity to discuss specific edits to the draft. **Please note that specific edits to the draft statement can only be discussed during the secure closed session due to the sensitive nature of the surrounding topics.**

Thank you and I look forward to our meeting.



Federal Accounting Standards Advisory Board

CLASSIFIED ACTIVITIES

SUBTITLE

Statement of Federal Financial Accounting Standards

WORKING DRAFT

June 13, 2018

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government. Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

Additional background information and other items of interest are available on the FASAB website:

- Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board
- Mission Statement
- Documents for comment
- Statements of Federal Financial Accounting Standards and Concepts
- FASAB newsletters

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SUMMARY

The objective of this Statement is to protect classified national security information or activities from unauthorized disclosure in a ~~publically~~publicly issued General Purpose Federal Financial Report (GPFFR). This Statement would permit certain modifications to information required by other standards. In addition, this Statement would permit classified Interpretations that may allow other modifications to information in GPFFRs. This Statement would allow financial presentation and disclosure to appropriately accommodate end user needs in a manner that does not impede national security.

This Statement represents the first step in balancing the need for financial reports to be publicly available with the need to protect classified information from public disclosure. It would permit modifications that do not affect net results of operations and net position. In addition, ~~if classified information could be revealed by applying this Statement would permit certain modifications to~~ the requirements of Statement of Federal Financial Accounting Standards 47, *Reporting Entity*; ~~this Statement would permit certain modifications~~ to protect classified information. Further, Interpretations of this Statement, that may themselves contain classified information, would address the requirements of existing standards and permit other modifications when needed to protect classified information. Modifications permitted by future classified Interpretations may affect the net results of operations and net position of those entities applying the classified Interpretations.

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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STANDARDS

SCOPE

1. This Statement applies to federal entities that ~~publicly~~ issue unclassified general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. This Statement does not apply to the reporting of financial information within the GPFFR in the classified environment and only applies when the information is presented in the unclassified environment, such as publicly available component reporting entity GPFFR. This Statement does not apply to classified GPFFR provided to cleared personnel, including elected officials. This does not relieve reporting entities from their requirements and responsibilities to comply with existing accounting standards in the appropriate classified environment.

DEFINITIONS

- ~~2.3.~~ **Classified National Security Information**, also known as "classified information," is any information that has been determined pursuant to Executive Order (EO) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:
 - a. **TOP SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause exceptionally grave damage to the national security that the original classification authority is able to identify or describe;
 - b. **SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause serious damage to the national security that the original classification authority is able to identify or describe; and
 - c. **CONFIDENTIAL**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause damage to the national security that the original classification authority is able to identify or describe.
- ~~3.4.~~ **Original Classification Authority** is an individual authorized in writing, either by the President, the Vice President, or by agency heads or other officials designated by the President, to classify information in the first instance.
- ~~4.5.~~ **Derivative Classification** is incorporating, paraphrasing, restating, or generating in new form information that is already classified, and marking the newly developed material consistent with the classification markings of the source of the information. Derivative

classification includes the classification of information based on classification guidance. The duplication or reproduction of existing classified information is not derivative classification.

APPLICATION OF STANDARDS AND DISCLOSURES

~~5.6.~~ Classified information is prohibited from public release. Classified information is determined by an Original Classification Authority (OCA) or by applying derivative classification.

7. Reporting entities are expected to comply with existing accounting standards in the appropriate classified environment, and may apply this Statement when, through OCAs or by applying derivative classification, it is determined that the information is classified and cannot be presented without modification in unclassified GPFFR. Component reporting entities have the discretion to apply this Statement at the program or transaction level.

8. This Statement permits certain techniques for protecting information in an unclassified GPFFR related to classified activities. This Statement would permit the following.

a. An entity may modify information required by other standards if the effect of the modification does not change the net results of operations and net position.

b. A component reporting entity is allowed to be excluded from one reporting entity and consolidate into another reporting entity.

c. An entity may apply classified Interpretations of this Statement that allow other modifications to information required by other standards and the effect of the modifications may change the net results of operations and net position.

The above techniques allowed by this Statement are discussed in more detail in paragraphs 9-11 below.

PRESENTATION AND DISCLOSURE MODIFICATIONS

~~6.9.~~ The entity may modify unclassified financial statement presentations, disclosures, ~~and~~ required supplementary information (RSI), and Required Supplementary Stewardship Information (RSSI) required by other ~~standards~~ Statements to protect ~~the~~ classified information if the effect of the modification does not change the net results of operations and net position. In this context, modify means:

a. Presenting amounts associated with one financial statement line item in another financial statement line item but not presenting narrative explaining that fact so that classified information would not be disclosed

b. Omitting required disclosures ~~or~~ RSI, or RSSI that would otherwise reveal classified information

CONSOLIDATION MODIFICATIONS

~~7-10.~~ An entity may be excluded from a particular reporting entity to protect classified information¹ and consolidated into another reporting entity. There may be organizations that according to SFFAS 47, *Reporting Entity*, should be included in a particular component reporting entity's GPFFR. In the instance when an organization² ~~cannot be included in the~~ is excluded from a particular component reporting entity's GPFFR without revealing to protect classified information, that organization may be ~~included in~~ consolidated into another reporting entity.³ If a reporting entity consolidates an organization that is excluded from another reporting entity's GPFFR to protect classified information, that consolidation modification may affect one or both reporting entities' net results of operations and net position. This Statement permits those consolidation modifications that affect a reporting entity's net results of operations and net position.

INTERPRETATIONS

~~8-11.~~ The Board may issue classified Interpretations of this Statement. These classified Interpretations may affect existing Statements- and may apply to future Statements. Such classified Interpretations may permit other unclassified ~~financial statement~~ GPFFR presentations and disclosure modification options as needed. These ~~other~~ modification options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. An entity is permitted to make modifications that affect the entity's net results of operations and net position when specifically allowed by an Interpretation of this Statement. ~~Such options may modify net results of operations and net position.~~

~~9.~~ Documentation must be retained in the appropriate environment and/or domain to adequately support classified information and modifications. Recorded amounts modified to protect classified information must reconcile in aggregate to these unmodified schedules or other documentation subject to audit.

COMPONENT REPORTING ENTITY DISCLOSURES REPORTING ENTITY DISCLOSURES

~~10-12.~~ A component reporting entity may choose to consistently disclose that certain financial statement presentations and disclosures may have been modified. For example, the summary of significant accounting policies may indicate:

In accordance with accounting standards, certain presentations and disclosures may have been modified to protect classified information.

¹ Decisions to exclude an entity from a particular component reporting entity to protect classified information may be evidenced by approval or concurrence from an oversight organization such as the Office of Management and Budget.

³ SFFAS 47, *Reporting Entity*, provides the framework for determining what organizations (for example, component reporting entities or sub-components) should be included in the reporting entity's GPFFRs for financial accountability purposes.

~~11.13.~~ Alternatively, a component reporting entity may choose to omit disclosure of the fact that certain financial statement presentations and disclosures may have been modified⁴ in accordance with this Statement and ~~related~~classified Interpretations of this Statement.

~~12. Other disclosure modifications, as noted in par. 6.b., including omission of information otherwise required, are permitted if needed to protect classified information.~~

FINANCIAL ~~REPORT~~REPORT OF THE ~~U.S. GOVERNMENT DISCLOSURES~~U.S. GOVERNMENT DISCLOSURES

~~13.14.~~ ~~If applicable, the~~The financial report of the U.S. Government should disclose that certain financial statement presentations and disclosures may have been modified to protect classified information. The financial report of the U.S. Government may omit disclosures ~~related to~~incorporated into specific Interpretations that may have been applied.

~~14. Other disclosure modifications, including omission of information otherwise required, are permitted if needed to protect classified information.~~

EFFECTIVE DATE

15. This Statement is effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.

⁴ Modifications include those ~~changes to presentation~~techniques permitted by paragraphs ~~68~~ through ~~911~~.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. In August 2016, the Department of Defense (DoD or the Department) identified several areas for the Federal Accounting Standards Advisory Board's consideration where the application of general accepted accounting principles may result in the exposure of classified information. As the DoD was preparing to commence full-scope financial statement audits, it identified specific accounting standard requirements that could conflict with its responsibility to prevent the unauthorized disclosure of information in accordance with Executive Order (EO) 13526 of December 29, 2009, "Classified National Security Information."
- A2. Specifically, EO 13526 recognizes, "Our democratic principles require that the American people be informed of the activities of their Government. Also, our Nation's progress depends on the free flow of information both within the Government and the American people. Nevertheless, throughout our history, the national defense has required that certain information be maintained in confidence in order to protect our citizens, our democratic institutions, our homeland security, and our interactions with foreign nations. Protecting information critical to our Nation's security and demonstrating our commitment to open Government through accurate and accountable application of classification standards and routine, secure, and effective declassification are equally important priorities."
- A3. Executive Order 13526, SEC 1.4 authorizes classification of information regarding the following types :
 - military plans, weapons systems, or operations;
 - foreign government information;
 - intelligence activities (including covert actions), intelligence sources or methods, or cryptology;
 - foreign relations or foreign activities of the United States, including confidential sources;
 - scientific, technological, or economic matters relating to the national security;
 - United States Government programs for safeguarding nuclear materials or facilities;

- vulnerabilities or capabilities of systems, installations, infrastructures, projects, plans, or protection services relating to the national security; or
- the development, production, or use of weapons of mass destruction.

Unauthorized disclosure of classified information is prohibited by Title 18 U.S. Code, Section 798.

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

- A4. FASAB issued the ED, titled *Classified Activities* on December 14, 2017, with comments requested by March 16, 2018. Upon release of the ED, FASAB provided notices and press release to the FASAB email listserv, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants *Topics*, the *CPA Journal*, *Government Executive*, the *CPA letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, the Financial Statement Audit Network, and committees of professional associations generally commenting on ED's in the past (for example, the Greater Washington Society of CPAs, Association of Government Accountants Financial Management Standards Board).
- A5. FASAB followed up this broad announcement with direct mailings of the ED to the following relevant congressional committees:
- [a. House Homeland Security Committee: Full Committee](#)
 - [b. House Homeland Security Committee: Sub-committee on Oversight and Management Efficiency](#)
 - [c. House Homeland Security Committee: Sub-committee on Counterterrorism and Intelligence](#)
 - [d. Senate Select Committee on Intelligence](#)
 - [e. House Permanent Select Committee on Intelligence](#)
 - [f. Senate Armed Services Committee](#)
 - [g. House Armed Services Committee](#)
 - [h. House Oversight and Government Reform:](#)
 - [i. Senate Homeland Security and Governmental Affairs Committee](#)
 - [j. Senate Appropriations Committee](#)
 - [k. House Appropriations Committee](#)

- A6. FASAB received 17 responses from preparers, auditors, and professional associations. Many respondents had concerns with ~~the disclosure requirements and a few had concerns with the overall guidance~~how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves. The Board has agreed to minor revisions to the disclosure requirements to address the respondents' concerns. The Board has also agreed to minor revisions proposed by some respondents to clarify this Statement or address issues in the basis for conclusions.
- A7. The Board did not rely on the number in favor ~~of or opposed to a given position. Staff provides the reporting of financial~~Board information withinabout the ~~GPFFR in respondents' majority view only as a means of summarizing the classified environment~~comments. The Board considered each response and only applies when weighed the ~~information is presented in~~merits of the unclassified environment such as publicly available component reporting entity financial reports. ~~This does not relieve reporting entities from their requirements and responsibilities to comply with existing accounting standards in the appropriate environment as it relates to internal records and non-public reports~~points raised.
- ~~A8. Although the modifications using this Statement will be applied to publicly available GPFFRs, internal records and non-public financial reports will continue to be subject to adequate internal controls. This Statement does not apply to classified and unclassified financial information provided to cleared personnel, including elected officials, in non-public financial reports. Hence, GPFFR not made publicly available will conform to GAAP without the application of this Statement and related classified Interpretations.~~

STANDARDS ON CLASSIFIED ACTIVITIES

- ~~A9-A8.~~ There are many component reporting entities engaged in classified activities. In the recent past, information regarding the total amount budgeted for such classified activities ~~were~~was not publicly disclosed. However, in the last decade, changes were made so that highly aggregated budget numbers for such activities would be made available. Details remain classified including the amount of funding for particular components within the intelligence community and other departments or agencies. Disclosure of the disaggregated funding details may harm ~~the~~ national security interests.
- ~~A10-A9.~~ Similarly, ~~lower levels of disaggregated~~ detailed financial reporting could also harm national security ~~interest~~interests. To address the issue of classified information being revealed by applying the requirements of SFFAS 47, *Reporting Entity*, this Statement permits certain modifications and disclosures at both the component reporting entity level and at the government-wide level.
- ~~A11-A10.~~ The ~~affected component reporting entities thoroughly evaluated~~Board had several discussions with national security experts and stakeholders which allowed the Board the opportunity to evaluate the available options for presenting classified information

~~in unclassified GPFFRs without jeopardizing national security and, including the specific options suggested by respondents. The Board determined that options other options would than those permitted in this Statement may not always adequately resolve national security concerns. Based Therefore, based on input from stakeholders having national security expertise the evaluation of the options,~~ the Board concluded that this Statement and future related Interpretations provide the optimal solution. This option would allow reporting entities to issue unclassified, publicly available financial statements that comply with accounting standards. Without this Statement, there is a risk that reporting entities may need to classify their entire financial statements to comply with existing accounting standards which would likely result in the need to classify a large portion of the government-wide financial statements.

A11. Some respondents suggested that the Board require component reporting entities to only disclose that certain presentation and disclosure modifications have been made when the entity has applied this Statement to protect classified information. The Board, in consultation with national security stakeholders, concluded that the identification by a component reporting entity that this Statement has been applied may reveal classified information. Doing so, would allow GPFFR users to identify component reporting entities with and without modifications. Further, users could identify changes among component reporting entities over time if modifications are disclosed in some reporting periods but not others. Therefore, the Board is [OPTION 1 - requiring a more neutral disclosure for component reporting entities as well as the government-wide entity to prevent specific identification of any entity applying this Statement.] OPTION 2 – requiring a more simplified disclosure that only allows the disclosure in the government-wide GPFFR. This alleviates the possibility of alerting the reader to question what modifications may have been made in a component entity’s GPFFR. It also protects the anonymity for those component reporting entities that have made modifications to protect classified information and at the same time avoid highlighting the possibility of modifications for those component reporting entities that have no classified information reported.] [OPTION 3 (PROPOSED in the ED) - permitting component reporting entities great flexibility in disclosing whether they applied modifications or not.]

A12. This Statement and future Interpretations would be applied as needed based on an assessment of the need to protect classified activities or to assist other departments and agencies by including an organization as described in paragraph 107. During the audit, the preparer would inform the properly cleared auditor whether and how this Statement and related Interpretations were applied. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

A13. Some respondents questioned the proposal to require documentation retained in the appropriate environment and/or domain to adequately support classified information and modifications. Such documentation was intended to allow recorded amounts modified to protect classified information to reconcile in aggregate to unmodified schedules or other documentation subject to audit. Upon review, members noted that the proposed requirement related to systems, controls, and audit procedures. This proposed level of detail regarding documentation exceeded that of other financial accounting standards.

A14. The Board believes that standards regarding the underlying documentation of modifications are unnecessary and has removed the proposed requirement. The Board expects that – as with other aspects of financial statements – the preparer will maintain sufficient documentation to support modifications and that the documentation will be available during the audit but in an environment appropriate to classified information.

~~A13-A15.~~ Modifications may not be needed to protect certain classified information. Therefore, this Statement permits, rather than requires, modifications on a case-by-case basis.

~~A14-A16.~~ The Board considered whether to take a prescriptive approach by requiring those component reporting entities applying this Statement to disclose that certain financial statement presentations and disclosures may have been modified to protect classified information. However, the Board believes that certain flexibilities should be afforded to component reporting entities because the reporting of classified information may change over time. The Board believes that permitting management discretion in disclosing the fact that modifications may have been made will meet the national security needs of those affected entities. This Statement may be applied by any federal entity needing to protect classified information in unclassified GPFRR.

PROCESS FOR FUTURE CLASSIFIED INTERPRETATIONS

~~A15-A17.~~ This Statement permits certain techniques for protecting information within the GPFRR related to classified activities. Certain other techniques are expected to be addressed through classified guidance issued as issue classified Interpretations of this Statement to address specific issues raised by affected component reporting entities. The Board has established a process to engage cleared stakeholders in due process regarding classified Interpretations of this Statement. The process will engage users of information related to classified activities.

~~A16-A18.~~ The six-step process established in the "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board" will be followed in developing classified Interpretations. Appropriate protections will be applied to classified information, consistent with federal law applicable to federal advisory committees and their activities involving information classified pursuant to Executive Order. The six-step process for classified Interpretations and related protections are described below.

- a. Identification of accounting issues and agenda decisions
 - i. The Board will carry out this step by consulting with cleared stakeholders in secure facilities. Stakeholders - including preparers, auditors, and users of classified information - will be informed regarding the process for raising issues for Board consideration.
- b. Preliminary deliberations
 - i. Preliminary deliberations will engage all members of the Board. Deliberations will occur during closed meetings. Closed meetings will be approved and

announced in the Federal Register consistent with the process established in the Federal Advisory Committee Act.

- c. Preparation of initial documents (issues papers and/or discussion memoranda)
 - i. We expect that all initial documents will contain classified information and will therefore be subject to federal requirements pertaining to classified information. Initial documents will be prepared by cleared individuals of FASAB staff and representatives of affected organizations who have original or derived classification authority.⁵ Such documents will be shared with members in a setting appropriate to the classification level of the documents. Members will be afforded adequate time to review the materials, ask questions, and deliberate over the materials before making decisions regarding the issues raised.
- d. Release of documents to the public, public hearings, and consideration of comments
 - i. Members of the public will have an opportunity to comment on the proposed Statement. The public will be able to comment on the general subject matter discussed in the proposed Statement and the existence of classified Interpretations. The Board will consider all comments provided.
 - ii. Also, because we expect that all documents related to Interpretations will contain classified information, release will be limited to cleared individuals and organizations that have signed a non-disclosure agreement and have a need-to-know, in accordance with federal requirements pertaining to classified information. The Board will ensure a representative group of stakeholders with varied perspectives and appropriate clearances are engaged. The Board expects to seek input from elected representatives of the public and appointed government officials to ensure the needs of citizens are balanced against national security interests. The Board will consider all comments and input received from the representative group of stakeholders.
- e. Further deliberations, exposure draft, and consideration of comments
 - i. This step will occur in closed sessions as noted above. The Board will seek input from cleared individuals, including elected and appointed officials, and organizations to the greatest extent possible given the classified nature of the materials and deliberations. The Board will consider all comments and input received from the representative group of stakeholders.
- f. Vote to approve proposed Interpretations
 - i. Consistent with the Board's established procedures for consideration of proposed Interpretations, final classified Interpretations will be those approved by a majority of the members and not objected to by a member representing the Comptroller General, the Secretary of the Treasury, or the Director of OMB

⁵ The Board does not have specific original classification authority. The classification level of all work products will be determined by those with that authority.

during a 45-day review period. Final classified Interpretations will be maintained by FASAB. Component reporting entities should contact FASAB to arrange access to the classified Interpretations as needed. FASAB will provide access to any relevant Interpretations following appropriate security procedures.

~~A17.~~A19. This approach balances the public's interest in financial information with the need to protect classified information. Further, the Board's process will be adhered to as closely as possible given the classified nature of the Interpretations. The Board's role in promulgating classified Interpretations ~~will~~may appropriately guide the techniques used in protecting classified information.

A20. The Board may issue Interpretations and implementation guidance in the classified environment. The issuance of classified guidance by the Board will be publicly announced in the Federal Register and on the FASAB website. The public will be made aware of the guidance's existence and the unclassified title of the guidance. All classified guidance will only be made available to those individuals who have been designated as need to know and who hold the proper clearances.

APPENDIX B: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
EO	Executive Order
DoD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
OCA	Original Classification Authority
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX C: GLOSSARY

Classified National Security Information, also known as "classified information," is any information that has been determined pursuant to Executive Order (E.O.) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:

- a. **TOP SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause exceptionally grave damage to the national security that the original classification authority is able to identify or describe;
- b. **SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause serious damage to the national security that the original classification authority is able to identify or describe; and
- c. **CONFIDENTIAL**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause damage to the national security that the original classification authority is able to identify or describe.

Original Classification Authority is an individual authorized in writing, either by the President, the Vice President, or by agency heads or other officials designated by the President, to classify information in the first instance.

Derivative Classification is incorporating, paraphrasing, restating, or generating in new form information that is already classified, and marking the newly developed material consistent with the classification markings of the source of the information. Derivative classification includes the classification of information based on classification guidance. The duplication or reproduction of existing classified information is not derivative classification.

Net results of operations – The term "net results of operations" describes the excess (or the deficit) of the "net cost of operations" over "financing sources." ... The net result of operations is also the current period's change in the cumulative results of the entity's operations since its inception, except to the extent that there are prior period adjustments. (*Implementation Guide: Accounting for Revenue and Other Financing Sources*, par. 63. Also, see SFFAC 2, *Entity and Display*, Appendix 1-C for an illustration of the calculation of net results of operations.)

Net position – Net position or its equivalent, net assets, is the arithmetic difference between the total assets and total liabilities recognized in the federal government's or a component entity's balance sheet. Net position may be positive (assets greater than liabilities) or negative (assets less than liabilities). (SFFAC 5, *Definitions of Elements of the Accrual Basis Financial Statements*.)

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Federal Accounting Standards Advisory Board

CLASSIFIED ACTIVITIES

SUBTITLE

Statement of Federal Financial Accounting Standards

WORKING DRAFT

June 13, 2018

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government. Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

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- Mission Statement
- Documents for comment
- Statements of Federal Financial Accounting Standards and Concepts
- FASAB newsletters

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SUMMARY

The objective of this Statement is to protect classified national security information or activities from unauthorized disclosure in a publicly issued General Purpose Federal Financial Report (GPFFR). This Statement would permit certain modifications to information required by other standards. In addition, this Statement would permit classified Interpretations that may allow other modifications to information in GPFFRs. This Statement would allow financial presentation and disclosure to appropriately accommodate end user needs in a manner that does not impede national security.

This Statement represents the first step in balancing the need for financial reports to be publicly available with the need to protect classified information from public disclosure. It would permit modifications that do not affect net results of operations and net position. In addition this Statement would permit certain modifications to the requirements of Statement of Federal Financial Accounting Standards 47, *Reporting Entity* to protect classified information. Further, Interpretations of this Statement, that may themselves contain classified information, would address the requirements of existing standards and permit other modifications when needed to protect classified information. Modifications permitted by future classified Interpretations may affect the net results of operations and net position of those entities applying the classified Interpretations.

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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STANDARDS

SCOPE

1. This Statement applies to federal entities that issue unclassified general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.
2. This Statement does not apply to the reporting of financial information within the GPFFR in the classified environment and only applies when the information is presented in the unclassified environment, such as publicly available component reporting entity GPFFR. This Statement does not apply to classified GPFFR provided to cleared personnel, including elected officials. This does not relieve reporting entities from their requirements and responsibilities to comply with existing accounting standards in the appropriate classified environment.

DEFINITIONS

3. **Classified National Security Information**, also known as "classified information," is any information that has been determined pursuant to Executive Order (EO) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:
 - a. **TOP SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause exceptionally grave damage to the national security that the original classification authority is able to identify or describe;
 - b. **SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause serious damage to the national security that the original classification authority is able to identify or describe; and
 - c. **CONFIDENTIAL**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause damage to the national security that the original classification authority is able to identify or describe.
4. **Original Classification Authority** is an individual authorized in writing, either by the President, the Vice President, or by agency heads or other officials designated by the President, to classify information in the first instance.
5. **Derivative Classification** is incorporating, paraphrasing, restating, or generating in new form information that is already classified, and marking the newly developed material consistent with the classification markings of the source of the information. Derivative

classification includes the classification of information based on classification guidance. The duplication or reproduction of existing classified information is not derivative classification.

APPLICATION OF STANDARDS AND DISCLOSURES

6. Classified information is prohibited from public release. Classified information is determined by an Original Classification Authority (OCA) or by applying derivative classification.
7. Reporting entities are expected to comply with existing accounting standards in the appropriate classified environment, and may apply this Statement when, through OCAs or by applying derivative classification, it is determined that the information is classified and cannot be presented without modification in unclassified GPFFR. Component reporting entities have the discretion to apply this Statement at the program or transaction level.
8. This Statement permits certain techniques for protecting information in an unclassified GPFFR related to classified activities. This Statement would permit the following.
 - a. An entity may modify information required by other standards if the effect of the modification does not change the net results of operations and net position.
 - b. A component reporting entity is allowed to be excluded from one reporting entity and consolidate into another reporting entity.
 - c. An entity may apply classified Interpretations of this Statement that allow other modifications to information required by other standards and the effect of the modifications may change the net results of operations and net position.

The above techniques allowed by this Statement are discussed in more detail in paragraphs 9-11 below.

PRESENTATION AND DISCLOSURE MODIFICATIONS

9. The entity may modify unclassified financial statement presentations, disclosures, required supplementary information (RSI), and Required Supplementary Stewardship Information (RSSI) required by other Statements to protect classified information if the effect of the modification does not change the net results of operations and net position. In this context, modify means:
 - a. Presenting amounts associated with one financial statement line item in another financial statement line item but not presenting narrative explaining that fact so that classified information would not be disclosed
 - b. Omitting required disclosures, RSI, or RSSI that would otherwise reveal classified information

CONSOLIDATION MODIFICATIONS

10. An entity may be excluded from a particular reporting entity to protect classified information¹ and consolidated into another reporting entity. There may be organizations that according to SFFAS 47, *Reporting Entity*, should be included in a particular component reporting entity's GPFFR. In the instance when an organization² is excluded from a particular reporting entity's GPFFR to protect classified information, that organization may be consolidated into another reporting entity.³ If a reporting entity consolidates an organization that is excluded from another reporting entity's GPFFR to protect classified information, that consolidation modification may affect one or both reporting entities' net results of operations and net position. This Statement permits those consolidation modifications that affect a reporting entity's net results of operations and net position.

INTERPRETATIONS

11. The Board may issue classified Interpretations of this Statement. These classified Interpretations may affect existing Statements and may apply to future Statements. Such classified Interpretations may permit other unclassified GPFFR presentations and disclosure modification options as needed. These modification options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. An entity is permitted to make modifications that affect the entity's net results of operations and net position when specifically allowed by an Interpretation of this Statement.

COMPONENT REPORTING ENTITY DISCLOSURES

12. A component reporting entity may choose to consistently disclose that certain financial statement presentations and disclosures may have been modified. For example, the summary of significant accounting policies may indicate:

In accordance with accounting standards, certain presentations and disclosures may have been modified to protect classified information.

13. Alternatively, a component reporting entity may choose to omit disclosure of the fact that certain financial statement presentations and disclosures may have been modified⁴ in accordance with this Statement and classified Interpretations of this Statement.

FINANCIAL REPORT OF THE U.S. GOVERNMENT DISCLOSURES

14. The financial report of the U.S. Government should disclose that certain financial statement presentations and disclosures may have been modified to protect classified information.

¹ Decisions to exclude an entity from a particular component reporting entity to protect classified information may be evidenced by approval or concurrence from an oversight organization such as the Office of Management and Budget.

² SFFAS 47, *Reporting Entity*, provides the framework for determining what organizations (for example, component reporting entities or sub-components) should be included in the reporting entity's GPFFRs for financial accountability purposes.

³ SFFAS 47, *Reporting Entity*, provides the framework for determining what organizations (for example, component reporting entities or sub-components) should be included in the reporting entity's GPFFRs for financial accountability purposes.

⁴ Modifications include those techniques permitted by paragraphs 8 through 11.

The financial report of the U.S. Government may omit disclosures incorporated into specific Interpretations that may have been applied.

~~EFFECTIVE DATE~~

15. This Statement is effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. In August 2016, the Department of Defense (DoD or the Department) identified several areas for the Federal Accounting Standards Advisory Board’s consideration where the application of general accepted accounting principles may result in the exposure of classified information. As the DoD was preparing to commence full-scope financial statement audits, it identified specific accounting standard requirements that could conflict with its responsibility to prevent the unauthorized disclosure of information in accordance with Executive Order (EO) 13526 of December 29, 2009, “Classified National Security Information.”
- A2. Specifically, EO 13526 recognizes, “Our democratic principles require that the American people be informed of the activities of their Government. Also, our Nation’s progress depends on the free flow of information both within the Government and the American people. Nevertheless, throughout our history, the national defense has required that certain information be maintained in confidence in order to protect our citizens, our democratic institutions, our homeland security, and our interactions with foreign nations. Protecting information critical to our Nation’s security and demonstrating our commitment to open Government through accurate and accountable application of classification standards and routine, secure, and effective declassification are equally important priorities.”
- A3. Executive Order 13526, SEC 1.4 authorizes classification of information regarding the following types :
- military plans, weapons systems, or operations;
 - foreign government information;
 - intelligence activities (including covert actions), intelligence sources or methods, or cryptology;
 - foreign relations or foreign activities of the United States, including confidential sources;
 - scientific, technological, or economic matters relating to the national security;
 - United States Government programs for safeguarding nuclear materials or facilities;

- vulnerabilities or capabilities of systems, installations, infrastructures, projects, plans, or protection services relating to the national security; or
- the development, production, or use of weapons of mass destruction.

Unauthorized disclosure of classified information is prohibited by Title 18 U.S. Code, Section 798.

SUMMARY OF OUTREACH EFFORTS AND RESPONSES

- A4. FASAB issued the ED, titled *Classified Activities* on December 14, 2017, with comments requested by March 16, 2018. Upon release of the ED, FASAB provided notices and press release to the FASAB email listserv, the Federal Register, *FASAB News*, the *Journal of Accountancy*, Association of Government Accountants *Topics*, the *CPA Journal*, *Government Executive*, the *CPA letter*, the Chief Financial Officers Council, the Council of the Inspectors General on Integrity and Efficiency, the Financial Statement Audit Network, and committees of professional associations generally commenting on ED's in the past (for example, the Greater Washington Society of CPAs, Association of Government Accountants Financial Management Standards Board).
- A5. FASAB followed up this broad announcement with direct mailings of the ED to the following relevant congressional committees:
- a. House Homeland Security Committee: Full Committee
 - b. House Homeland Security Committee: Sub-committee on Oversight and Management Efficiency
 - c. House Homeland Security Committee: Sub-committee on Counterterrorism and Intelligence
 - d. Senate Select Committee on Intelligence
 - e. House Permanent Select Committee on Intelligence
 - f. Senate Armed Services Committee
 - g. House Armed Services Committee
 - h. House Oversight and Government Reform:
 - i. Senate Homeland Security and Governmental Affairs Committee
 - j. Senate Appropriations Committee
 - k. House Appropriations Committee

- A6. FASAB received 17 responses from preparers, auditors, and professional associations. Many respondents had concerns with how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves. The Board has agreed to minor revisions to the disclosure requirements to address the respondents' concerns. The Board has also agreed to minor revisions proposed by some respondents to clarify this Statement or address issues in the basis for conclusions.
- A7. The Board did not rely on the number in favor of or opposed to a given position. Staff provides the Board information about the respondents' majority view only as a means of summarizing the comments. The Board considered each response and weighed the merits of the points raised.

STANDARDS ON CLASSIFIED ACTIVITIES

- A8. There are many component reporting entities engaged in classified activities. In the recent past, information regarding the total amount budgeted for such classified activities was not publicly disclosed. However, in the last decade, changes were made so that highly aggregated budget numbers for such activities would be made available. Details remain classified including the amount of funding for particular components within the intelligence community and other departments or agencies. Disclosure of the disaggregated funding details may harm national security interests.
- A9. Similarly, disaggregated detailed financial reporting could also harm national security interests. To address the issue of classified information being revealed by applying the requirements of SFFAS 47, *Reporting Entity*, this Statement permits certain modifications and disclosures at both the component reporting entity level and at the government-wide level.
- A10. The Board had several discussions with national security experts and stakeholders which allowed the Board the opportunity to evaluate the available options for presenting classified information in unclassified GPFFRs without jeopardizing national security, including the specific options suggested by respondents. The Board determined that options other than those permitted in this Statement may not always adequately resolve national security concerns. Therefore, based on the evaluation of the options, the Board concluded that this Statement and future related Interpretations provide the optimal solution. This option would allow reporting entities to issue unclassified, publicly available financial statements that comply with accounting standards. Without this Statement, there is a risk that reporting entities may need to classify their entire financial statements to comply with existing accounting standards which would likely result in the need to classify a large portion of the government-wide financial statements.
- A11. Some respondents suggested that the Board require component reporting entities to only disclose that certain presentation and disclosure modifications have been made when the entity has applied this Statement to protect classified information. The Board, in consultation with national security stakeholders, concluded that the identification by a component reporting entity that this Statement has been applied may reveal classified

information. Doing so, would allow GPFFR users to identify component reporting entities with and without modifications. Further, users could identify changes among component reporting entities over time if modifications are disclosed in some reporting periods but not others. Therefore, the Board is [OPTION 1 - requiring a more neutral disclosure for component reporting entities as well as the government-wide entity to prevent specific identification of any entity applying this Statement.] OPTION 2 – requiring a more simplified disclosure that only allows the disclosure in the government-wide GPFFR. This alleviates the possibility of alerting the reader to question what modifications may have been made in a component entity's GPFFR. It also protects the anonymity for those component reporting entities that have made modifications to protect classified information and at the same time avoid highlighting the possibility of modifications for those component reporting entities that have no classified information reported.] [OPTION 3 (PROPOSED in the ED) - permitting component reporting entities great flexibility in disclosing whether they applied modifications or not.]

- A12. This Statement and future Interpretations would be applied as needed based on an assessment of the need to protect classified activities or to assist other departments and agencies by including an organization as described in paragraph 10. During the audit, the preparer would inform the properly cleared auditor whether and how this Statement and related Interpretations were applied. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.
- A13. Some respondents questioned the proposal to require documentation retained in the appropriate environment and/or domain to adequately support classified information and modifications. Such documentation was intended to allow recorded amounts modified to protect classified information to reconcile in aggregate to unmodified schedules or other documentation subject to audit. Upon review, members noted that the proposed requirement related to systems, controls, and audit procedures. This proposed level of detail regarding documentation exceeded that of other financial accounting standards.
- A14. The Board believes that standards regarding the underlying documentation of modifications are unnecessary and has removed the proposed requirement. The Board expects that – as with other aspects of financial statements – the preparer will maintain sufficient documentation to support modifications and that the documentation will be available during the audit but in an environment appropriate to classified information.
- A15. Modifications may not be needed to protect certain classified information. Therefore, this Statement permits, rather than requires, modifications on a case-by-case basis.
- A16. The Board considered whether to take a prescriptive approach by requiring those component reporting entities applying this Statement to disclose that certain financial statement presentations and disclosures may have been modified to protect classified information. However, the Board believes that certain flexibilities should be afforded to component reporting entities because the reporting of classified information may change over time. The Board believes that permitting management discretion in disclosing the fact that modifications may have been made will meet the national security needs of those

affected entities. This Statement may be applied by any federal entity needing to protect classified information in unclassified GPFRR.

PROCESS FOR FUTURE CLASSIFIED INTERPRETATIONS

A17. The Board anticipates needing to issue classified Interpretations of this Statement to address specific issues raised by affected component reporting entities. The Board has established a process to engage cleared stakeholders in due process regarding classified Interpretations of this Statement. The process will engage users of information related to classified activities.

A18. The six-step process established in the "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board" will be followed in developing classified Interpretations. Appropriate protections will be applied to classified information, consistent with federal law applicable to federal advisory committees and their activities involving information classified pursuant to Executive Order. The six-step process for classified Interpretations and related protections are described below.

- a. Identification of accounting issues and agenda decisions
 - i. The Board will carry out this step by consulting with cleared stakeholders in secure facilities. Stakeholders - including preparers, auditors, and users of classified information - will be informed regarding the process for raising issues for Board consideration.
- b. Preliminary deliberations
 - i. Preliminary deliberations will engage all members of the Board. Deliberations will occur during closed meetings. Closed meetings will be approved and announced in the Federal Register consistent with the process established in the Federal Advisory Committee Act.
- c. Preparation of initial documents (issues papers and/or discussion memoranda)
 - i. We expect that all initial documents will contain classified information and will therefore be subject to federal requirements pertaining to classified information. Initial documents will be prepared by cleared individuals of FASAB staff and representatives of affected organizations who have original or derived classification authority.⁵ Such documents will be shared with members in a setting appropriate to the classification level of the documents. Members will be afforded adequate time to review the materials, ask questions, and deliberate over the materials before making decisions regarding the issues raised.
- d. Release of documents to the public, public hearings, and consideration of comments

⁵ The Board does not have specific original classification authority. The classification level of all work products will be determined by those with that authority.

- i. Members of the public will have an opportunity to comment on the proposed Statement. The public will be able to comment on the general subject matter discussed in the proposed Statement and the existence of classified Interpretations. The Board will consider all comments provided.
 - ii. Also, because we expect that all documents related to Interpretations will contain classified information, release will be limited to cleared individuals and organizations that have signed a non-disclosure agreement and have a need-to-know, in accordance with federal requirements pertaining to classified information. The Board will ensure a representative group of stakeholders with varied perspectives and appropriate clearances are engaged. The Board expects to seek input from elected representatives of the public and appointed government officials to ensure the needs of citizens are balanced against national security interests. The Board will consider all comments and input received from the representative group of stakeholders.
- e. Further deliberations, exposure draft, and consideration of comments
- i. This step will occur in closed sessions as noted above. The Board will seek input from cleared individuals, including elected and appointed officials, and organizations to the greatest extent possible given the classified nature of the materials and deliberations. The Board will consider all comments and input received from the representative group of stakeholders.
- f. Vote to approve proposed Interpretations
- i. Consistent with the Board's established procedures for consideration of proposed Interpretations, final classified Interpretations will be those approved by a majority of the members and not objected to by a member representing the Comptroller General, the Secretary of the Treasury, or the Director of OMB during a 45-day review period. Final classified Interpretations will be maintained by FASAB. Component reporting entities should contact FASAB to arrange access to the classified Interpretations as needed. FASAB will provide access to any relevant Interpretations following appropriate security procedures.

A19. This approach balances the public's interest in financial information with the need to protect classified information. Further, the Board's process will be adhered to as closely as possible given the classified nature of the Interpretations. The Board's role in promulgating classified Interpretations may appropriately guide the techniques used in protecting classified information.

A20. The Board may issue Interpretations and implementation guidance in the classified environment. The issuance of classified guidance by the Board will be publicly announced in the Federal Register and on the FASAB website. The public will be made aware of the guidance's existence and the unclassified title of the guidance. All classified guidance will only be made available to those individuals who have been designated as need to know and who hold the proper clearances.

APPENDIX B: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
EO	Executive Order
DoD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
OCA	Original Classification Authority
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX C: GLOSSARY

Classified National Security Information, also known as "classified information," is any information that has been determined pursuant to Executive Order (E.O.) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:

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Federal Accounting Standards Advisory Board

CLASSIFIED ACTIVITIES

Statement of Federal Financial Accounting Standards

Exposure Draft

Written comments are requested by March 16, 2018

December 14, 2017

THE FEDERAL ACCOUNTING STANDARDS ADVISORY BOARD

The Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), and the Comptroller General of the United States established the Federal Accounting Standards Advisory Board (FASAB or “the Board”) in October 1990. FASAB is responsible for promulgating accounting standards for the United States government. These standards are recognized as generally accepted accounting principles (GAAP) for the federal government. Accounting standards are typically formulated initially as a proposal after considering the financial and budgetary information needs of citizens (including the news media, state and local legislators, analysts from private firms, academe, and elsewhere), Congress, federal executives, federal program managers, and other users of federal financial information. FASAB publishes the proposed standards in an exposure draft for public comment. In some cases, FASAB publishes a discussion memorandum, invitation for comment, or preliminary views document on a specific topic before an exposure draft. A public hearing is sometimes held to receive oral comments in addition to written comments. The Board considers comments and decides whether to adopt the proposed standards with or without modification. After review by the three officials who sponsor FASAB, the Board publishes adopted standards in a Statement of Federal Financial Accounting Standards. The Board follows a similar process for Statements of Federal Financial Accounting Concepts, which guide the Board in developing accounting standards and formulating the framework for federal accounting and reporting.

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Federal Accounting Standards Advisory Board

December 14, 2017

TO: ALL WHO USE, PREPARE, AND AUDIT FEDERAL FINANCIAL INFORMATION

The Federal Accounting Standards Advisory Board (FASAB or "the Board") requests your comments on the exposure draft of a proposed Statement of Federal Financial Accounting Standards, entitled *Classified Activities*. Specific questions for your consideration appear on page 6, but you are welcome to comment on any aspect of this proposal. If you do not agree with the proposed approach, your response will be most helpful to the Board if you explain the reasons for your position and any alternative you propose. Responses are requested by March 16, 2018.

All comments received by FASAB are considered public information. Those comments may be posted to FASAB's website and will be included in the project's public record.

Mail delivery is delayed by screening procedures. Therefore, please provide your comments in electronic form by email to fasab@fasab.gov. If you are unable to email your responses, we encourage you to fax comments to 202-512-7366. Alternatively, you may mail your comments to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

We will confirm receipt of your comments. If you do not get a confirmation, please contact our office at 202-512-7350 to determine if your comments were received.

FASAB's rules of procedure provide that the Board may hold one or more public hearings on any exposure draft. No hearing has yet been scheduled for this exposure draft.

FASAB will publish notice of the date and location of any public hearing on this document in the Federal Register and in FASAB's newsletter.

Sincerely,

A handwritten signature in black ink, reading "D. Scott Showalter", is written over a light blue rectangular background.

D. Scott Showalter
Chair

EXECUTIVE SUMMARY

WHAT IS THE BOARD PROPOSING?

The Board is proposing guidance to protect classified national security information or activities from unauthorized disclosure in a publically issued General Purpose Federal Financial Report (GPFFR). The guidance would permit certain modifications to information required by other standards. In addition, the proposal would permit classified Interpretations that may allow other modifications to information in GPFFRs.

The matter of public disclosure has been addressed in the budget arena. As a result, the availability of budgetary information for classified activities has been limited over the years. While topline budget numbers are available publicly, details remain classified including the amount of funding for particular components within the intelligence community and other departments or agencies. Public officials concluded that disclosure of funding details at lower levels may harm national security interests.

This proposal represents the first step in balancing the need for financial reports to be publicly available with the need to protect classified information from public disclosure. It would permit modifications that do not affect net results of operations and net position. In addition, if classified information could be revealed by applying the requirements of Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*, this proposal would permit certain modifications to protect classified information. Further, Interpretations, that may themselves contain classified information, would address the requirements of existing standards and permit other modifications when needed to protect classified information. Modifications permitted by future Interpretations may affect net results of operations and net position.

HOW WOULD THIS PROPOSAL IMPROVE FEDERAL FINANCIAL REPORTING AND CONTRIBUTE TO MEETING THE FEDERAL FINANCIAL REPORTING OBJECTIVES?

This proposal would permit component reporting entities to provide GPFFR to the public by including limited modifications necessary to protect classified information from disclosure. This would allow financial presentation and disclosure to appropriately accommodate end user needs in a manner that does not impede national security.

MATERIALITY

The provisions of this Statement need not be applied to immaterial items. The determination of whether an item is material depends on the degree to which omitting or misstating information about the item makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or the misstatement.

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QUESTIONS FOR RESPONDENTS

The Federal Accounting Standards Advisory Board (FASAB or “the Board”) encourages you to become familiar with all proposals in the Statement before responding to the questions in this section. In addition to the questions below, the Board also welcomes your comments on other aspects of the proposed Statement. Because FASAB may modify the proposals before a final Statement is issued, it is important that you comment on proposals that you favor as well as any that you do not favor. Comments that include the reasons for your views are especially appreciated.

The Board believes that this proposal would improve federal financial reporting and contribute to meeting the federal financial reporting objectives. The Board has considered the perceived costs associated with this proposal. In responding, please consider the expected benefits and perceived costs and communicate any concerns that you may have in regard to implementing this proposal.

The questions in this section are available in a Microsoft Word file for your use at <http://www.fasab.gov/documents-for-comment/>. Your responses should be sent to fasab@fasab.gov. If you are unable to respond by email, please fax your responses to 202-512-7366. Alternatively, you may mail your responses to:

Wendy M. Payne, Executive Director
Federal Accounting Standards Advisory Board
Mailstop 6H19
441 G Street, NW, Suite 6814
Washington, DC 20548

All responses are requested by March 16, 2018.

Q1. Classified information is prohibited from public release and the Board is proposing an approach for protecting classified information from unauthorized disclosure. The proposed Statement would provide general guidance for protecting classified information and, when detailed guidance is needed, the Board proposes to provide classified Interpretations¹ of existing standards. GPFRR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

Do you agree or disagree with the Board's overall proposed approach for protecting classified information? Please provide the rationale for your answer.

Q2. The proposed Statement permits reporting entities to modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) to protect classified information. The modifications are (1) those that do not change the net results of operations and net position and (2) the inclusion of an organization in a manner that would not reveal classified information.

a. Do you agree or disagree with permitting reporting entities to modify presentations to protect classified information when it does not change net

¹ With respect to Interpretations, the Board would follow its due process and appropriate protections would be applied to classified information.

results of operations and net position? Please provide the rationale for your answer.

- b. Do you agree or disagree with permitting certain modifications when applying the provisions of SFFAS 47, *Reporting Entity*, when necessary to protect classified information? Please provide the rationale for your answer.
- c. Do you agree or disagree with permitting modifications to disclosures and required supplementary information? Please provide the rationale for your answer.

Q3. In the future, the Board may issue classified Interpretations of existing standards. The Interpretations would permit other presentation and disclosure options as needed to produce unclassified GPFFR. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. The classified Interpretations would be developed following a due process involving:

- a. development of classified proposals,
- b. comment on the proposals from individuals and organizations holding appropriate clearances,
- c. consideration of comments, and
- d. issuance of Interpretations to individuals and organizations holding appropriate clearances. (See par. A9 and A10 for a more detailed discussion of the process.)

Do you agree or disagree with the proposed approach? Please provide the rationale for your answer.

Q4. The Board is proposing that recorded amounts related to classified information reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

Do you agree or disagree with the conditions necessary to apply the proposed Statement? Please provide the rationale for your answer.

Q5. The Board has considered how to inform readers of GPFFRs regarding the potential modifications given the classified nature of the modifications themselves.

- a. Do you agree or disagree with the disclosure requirements (see par. 10-14)? Please provide the rationale for your answer.
- b. Do you agree or disagree that component reporting entities may choose to consistently disclose that certain presentations may have been modified? Please provide the rationale for your answer.
- c. Alternatively, do you believe every component reporting entity of the federal government should be required to disclose that certain presentations may have been modified? Please provide the rationale for your answer.

PROPOSED STANDARDS

SCOPE

1. This Statement applies to federal entities that present general purpose federal financial reports (GPFFRs), including the consolidated financial report of the U.S. Government (CFR), in conformance with generally accepted accounting principles (GAAP), as defined by paragraphs 5 through 8 of Statement of Federal Financial Accounting Standards (SFFAS) 34, *The Hierarchy of Generally Accepted Accounting Principles, Including the Application of Standards Issued by the Financial Accounting Standards Board*.

DEFINITIONS

2. **Classified National Security Information**, also known as "classified information," is any information that has been determined pursuant to Executive Order (EO) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:
 - a. **TOP SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause exceptionally grave damage to the national security that the original classification authority is able to identify or describe;
 - b. **SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause serious damage to the national security that the original classification authority is able to identify or describe; and
 - c. **CONFIDENTIAL**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause damage to the national security that the original classification authority is able to identify or describe.
3. **Original classification authority** is an individual authorized in writing, either by the President, the Vice President, or by agency heads or other officials designated by the President, to classify information in the first instance.
4. **Derivative Classification** is incorporating, paraphrasing, restating, or generating in new form information that is already classified, and marking the newly developed material consistent with the classification markings of the source of the information. Derivative classification includes the classification of information based on classification guidance. The duplication or reproduction of existing classified information is not derivative classification.

APPLICATION OF STANDARDS AND DISCLOSURES

5. Classified information is prohibited from public release. Classified information is determined by an Original Classification Authority (OCA) or by applying derivative classification.
6. A reporting entity's unclassified GPFFR should not reveal classified information. Therefore, unclassified reports should be presented in a manner that protects the classified information.

The entity may modify unclassified financial statement presentations, disclosures, and required supplementary information (RSI) required by other standards to protect the information if the modification does not change the net results of operations and net position. In this context, modify means:

- a. Presenting amounts associated with one financial statement line item in another financial statement line item but not presenting narrative explaining that fact so that classified information would not be disclosed
 - b. Omitting required disclosures or RSI that would otherwise reveal classified information
7. There may be organizations that according to SFFAS 47, *Reporting Entity*, should be included in a particular component reporting entity's GPFFR. In the instance when an organization² cannot be included in the particular component reporting entity GPFFR without revealing classified information, that organization may be included in another reporting entity.³
 8. The Board may issue Interpretations of existing Statements permitting other unclassified presentations and disclosure options as needed. The other options would protect specific financial statement elements from unauthorized disclosure in an unclassified GPFFR. Such options may modify net results of operations and net position.
 9. Recorded amounts related to classified information must reconcile in aggregate to schedules or other documentation subject to audit. Documentation must be retained in the appropriate environment and/or domain to adequately support classified information.

COMPONENT REPORTING ENTITY DISCLOSURES

10. Component reporting entities may choose to consistently disclose that certain presentations may have been modified. For example, the summary of significant accounting policies may indicate:

In accordance with accounting standards, certain presentations may have been modified to protect classified information.
11. Alternatively, the component reporting entity may omit disclosure of the fact that modifications⁴ in accordance with this Statement and related Interpretations were made.
12. Other disclosure modifications, including omission of information otherwise required, are permitted if needed to protect classified information.

² Decisions to exclude an organization from a particular component reporting entity to protect classified information may be evidenced by approval or concurrence from an oversight organization such as the Office of Management and Budget.

³ SFFAS 47, *Reporting Entity*, provides guidance regarding identifying organizations to include any associating organizations with a particular component reporting entity.

⁴ Modifications include those changes to presentation permitted by paragraphs 6 through 9.

FINANCIAL REPORT OF THE U.S. GOVERNMENT DISCLOSURES

13. If applicable, the financial report of the U.S. Government should disclose that certain presentations may have been modified to protect classified information. The financial report of the U.S. Government may omit disclosures related to specific Interpretations that may have been applied.
14. Other disclosure modifications, including omission of information otherwise required, are permitted if needed to protect classified information.

EFFECTIVE DATE

15. This Statement is effective upon issuance.

The provisions of this Statement need not be applied to immaterial items.

APPENDIX A: BASIS FOR CONCLUSIONS

This appendix discusses some factors considered significant by Board members in reaching the conclusions in this Statement. It includes the reasons for accepting certain approaches and rejecting others. Individual members gave greater weight to some factors than to others. The standards enunciated in this Statement—not the material in this appendix—should govern the accounting for specific transactions, events, or conditions.

This Statement may be affected by later Statements. The FASAB Handbook is updated annually and includes a status section directing the reader to any subsequent Statements that amend this Statement. The authoritative sections of the Statements are updated for changes. However, this appendix will not be updated to reflect future changes. The reader can review the basis for conclusions of the amending Statement for the rationale for each amendment.

PROJECT HISTORY

- A1. In August 2016, the Department of Defense (DoD or the Department) identified several areas for the Federal Accounting Standards Advisory Board’s consideration where the application of general accepted accounting principles may result in the exposure of classified information. As the DoD was preparing to commence full-scope financial statement audits, it identified specific accounting standard requirements that could conflict with its responsibility to prevent the unauthorized disclosure of information in accordance with Executive Order (EO) 13526 of December 29, 2009, “Classified National Security Information.”
- A2. Specifically, EO 13526 recognizes, “Our democratic principles require that the American people be informed of the activities of their Government. Also, our Nation’s progress depends on the free flow of information both within the Government and the American people. Nevertheless, throughout our history, the national defense has required that certain information be maintained in confidence in order to protect our citizens, our democratic institutions, our homeland security, and our interactions with foreign nations. Protecting information critical to our Nation’s security and demonstrating our commitment to open Government through accurate and accountable application of classification standards and routine, secure, and effective declassification are equally important priorities.”
- A3. Executive Order 13526, SEC 1.4 authorizes classification of information regarding the following types :
- military plans, weapons systems, or operations;
 - foreign government information;
 - intelligence activities (including covert actions), intelligence sources or methods, or cryptology;
 - foreign relations or foreign activities of the United States, including confidential sources;
 - scientific, technological, or economic matters relating to the national security;
 - United States Government programs for safeguarding nuclear materials or facilities;

- vulnerabilities or capabilities of systems, installations, infrastructures, projects, plans, or protection services relating to the national security; or
- the development, production, or use of weapons of mass destruction.

Unauthorized disclosure of classified information is prohibited by Title 18 U.S. Code, Section 798.

- A4. There are many federal departments and agencies engaged in classified activities such as those described above. In the recent past, information regarding the total amount budgeted for classified activities was not publicly disclosed. However, in the last decade, changes were made so that the topline budget numbers for such activities would be made available. Details remain classified including the amount of funding for particular components within the intelligence community and other departments or agencies. Disclosure of the funding details at lower levels of detail may harm the national security interests.
- A5. The affected departments and agencies thoroughly evaluated available options and determined that other options would not adequately resolve national security concerns. Based on input from stakeholders having national security expertise, the Board concluded that this Statement and future related Interpretations provide the optimal solution. This option would allow reporting entities to issue unclassified, publically available financial statements that comply with accounting standards. Without this Statement, there is a risk that reporting entities may need to classify their entire financial statements to comply with existing accounting standards which would likely result in the need to classify a large portion of the government-wide financial statements.
- A6. This Statement does not apply to the reporting of financial information within the GPFFR in the classified environment and only applies when the information is presented in the unclassified environment such as publicly available agency financial reports. This does not relieve reporting entities from their requirements and responsibilities to comply with existing accounting standards in the appropriate environment as it relates to internal records and non-public reports.
- A7. This Statement and future Interpretations would be applied as needed based on an assessment of the need to protect classified activities or to assist other departments and agencies by including an organization as described in paragraph 7. During the audit, the preparer would inform the properly cleared auditor whether and how this Statement and related Interpretations were applied. GPFFR modified pursuant to this Statement and related Interpretations would be considered in accordance with generally accepted accounting principles.

PROPOSED APPROACH TO REPORTING ON CLASSIFIED ACTIVITIES

- A8. This proposed Statement permits certain techniques for protecting information within the GPFFR related to classified activities. Certain other techniques are expected to be addressed through classified guidance issued as Interpretations of this Statement. The Board will establish a process to engage cleared stakeholders in due process regarding classified Interpretations of this Statement. The process will engage users of information related to classified activities.

- A9. The six-step process established in the "Memorandum of Understanding among the Government Accountability Office, the Department of the Treasury, and the Office of Management and Budget, on Federal Government Accounting Standards and a Federal Accounting Standards Advisory Board" will be followed in developing classified Interpretations. Appropriate protections will be applied to classified information, consistent with federal law applicable to federal advisory committees and their activities involving information classified pursuant to Executive Order. The six-step process for classified Interpretations and related protections are described below.
- a. Identification of accounting issues and agenda decisions
 - i. The Board will carry out this step by consulting with cleared stakeholders in secure facilities. Stakeholders - including preparers, auditors, and users of classified information - will be informed regarding the process for raising issues for Board consideration.
 - b. Preliminary deliberations
 - i. Preliminary deliberations will engage all members of the Board. Deliberations will occur during closed meetings. Closed meetings will be approved and announced in the Federal Register consistent with the process established in the Federal Advisory Committee Act.
 - c. Preparation of initial documents (issues papers and/or discussion memoranda)
 - i. We expect that all initial documents will contain classified information and will therefore be subject to federal requirements pertaining to classified information. Initial documents will be prepared by cleared individuals of FASAB staff and representatives of affected organizations who have original or derived classification authority.⁵ Such documents will be shared with members in a setting appropriate to the classification level of the documents. Members will be afforded adequate time to review the materials, ask questions, and deliberate over the materials before making decisions regarding the issues raised.
 - d. Release of documents to the public, public hearings, and consideration of comments
 - i. Members of the public will have an opportunity to comment on the proposed Statement. The public will be able to comment on the general subject matter discussed in the proposed Statement and the existence of classified Interpretations. The Board will consider all comments provided.
 - ii. Also, because we expect that all documents related to Interpretations will contain classified information, release will be limited to cleared individuals and organizations that have signed a non-disclosure agreement and have a need-to-know, in accordance with federal requirements pertaining to classified information. The Board will ensure a representative group of stakeholders with

⁵ The Board does not have original classification authority. The classification level of all work products will be determined by those with that authority.

varied perspectives and appropriate clearances are engaged. The Board expects to seek input from elected representatives of the public and appointed government officials to ensure the needs of citizens are balanced against national security interests. The Board will consider all comments and input received from the representative group of stakeholders.

- e. Further deliberations, exposure draft, and consideration of comments
 - i. This step will occur in closed sessions as noted above. The Board will seek input from cleared individuals, including elected and appointed officials, and organizations to the greatest extent possible given the classified nature of the materials and deliberations. The Board will consider all comments and input received from the representative group of stakeholders.
- f. Vote to approve proposed Interpretations
 - i. Consistent with the Board's established procedures for consideration of proposed Interpretations, final classified Interpretations will be those approved by a majority of the members and not objected to by a member representing the Comptroller General, the Secretary of the Treasury, or the Director of OMB during a 45-day review period. Final classified Interpretations will be maintained by FASAB. Component reporting entities should contact FASAB to arrange access to the classified Interpretations as needed. FASAB will provide access to any relevant Interpretations following appropriate security procedures.

A10. This approach balances the public's interest in financial information with the need to protect classified information. Further, the Board's process will be adhered to as closely as possible given the classified nature of the Interpretations. The Board's role in promulgating classified Interpretations will appropriately guide the techniques used in protecting classified information.

A11. While the modifications approved as GAAP will be applied to publicly available GPFRRs, internal records and non-public financial reports will continue to be subject to adequate internal controls. This Statement does not apply to classified and unclassified financial information provided to cleared personnel, including elected officials, in non-public financial reports. Hence, GPFRR not made publicly available will conform to GAAP without the application of this Statement and related classified Interpretations.

A12. The Board may issue Interpretations and implementation guidance in the classified environment.

APPENDIX B: ABBREVIATIONS

CFR	Consolidated Financial Report of the U.S. Government
ED	Exposure Draft
EO	Executive Order
DoD	Department of Defense
FASAB	Federal Accounting Standards Advisory Board
GAAP	Generally Accepted Accounting Principles
GPFFR	General Purpose Federal Financial Report
OCA	Original Classification Authority
OMB	Office of Management and Budget
RSI	Required Supplementary Information
SFFAS	Statement of Federal Financial Accounting Standards

APPENDIX C: GLOSSARY

Classified National Security Information, also known as "classified information," is any information that has been determined pursuant to Executive Order (E.O.) 13526, as amended; or any successor orders, to require protection against unauthorized disclosure and is marked to indicate its classified status. Information may be classified at one of the following three levels:

- a. **TOP SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause exceptionally grave damage to the national security that the original classification authority is able to identify or describe;
- b. **SECRET**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause serious damage to the national security that the original classification authority is able to identify or describe; and
- c. **CONFIDENTIAL**, which is applied to information, the unauthorized disclosure of which reasonably could be expected to cause damage to the national security that the original classification authority is able to identify or describe.

Original classification authority is an individual authorized in writing, either by the President, the Vice President, or by agency heads or other officials designated by the President, to classify information in the first instance.

Derivative Classification is incorporating, paraphrasing, restating, or generating in new form information that is already classified, and marking the newly developed material consistent with the classification markings of the source of the information. Derivative classification includes the classification of information based on classification guidance. The duplication or reproduction of existing classified information is not derivative classification.

Net results of operations – The term "net results of operations" describes the excess (or the deficit) of the "net cost of operations" over "financing sources." ... The net result of operations is also the current period's change in the cumulative results of the entity's operations since its inception, except to the extent that there are prior period adjustments. (*Implementation Guide: Accounting for Revenue and Other Financing Sources*, par. 63. Also, see SFFAC 2, *Entity and Display*, Appendix 1-C for an illustration of the calculation of net results of operations.)

Net position – Net position or its equivalent, net assets, is the arithmetic difference between the total assets and total liabilities recognized in the federal government's or a component entity's balance sheet. Net position may be positive (assets greater than liabilities) or negative (assets less than liabilities). (SFFAC 5, *Definitions of Elements of the Accrual Basis Financial Statements*.)

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