

**SUMMARY OF MAJOR CHANGES TO
DoD 7000.14.R, VOLUME 15, CHAPTER 7
“PRICING”**

All changes are denoted by blue font

Substantive revisions are denoted by a * preceding the section,
paragraph, table or figure that includes the revision

Hyperlinks are denoted by *underlined, bold, italic, blue font*

This updated chapter supersedes the previously published version dated April 2008.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Reworded and reformatted chapter for clarity, updated references, and added electronic links.	Update
All	Revised tables and figures to reflect updated information. Deleted obsolete tables.	Update, Delete
Multiple	Changed Security Assistance Accounting Center (SAAC) to Defense Finance and Accounting Service, Security Cooperation Accounting (DFAS SCA) to reflect the current organization's name.	Update
Multiple	Changed Defense Security Assistance Agency (DSAA) to Defense Security Cooperation Agency (DSCA) to reflect the current organization's name.	Update
Multiple	Changed customer to purchaser to update terminology.	Update
Multiple	Changed stock fund to Defense Working Capital Fund (DWCF) to reflect current working environment.	Update
Multiple	Reclassified Tables as Figures where appropriate.	Update
070101.B 070101.C	Referenced the legal authorities for Foreign Military Sales (FMS) pricing.	Add
070102.B	Clarified items included in single selling price.	Update
070102.D	Clarified the type of pricing information releasable to purchasers.	Update
070102.E	Added the requirement that the administrative surcharge applies to each line of the Letter of Offer/Acceptance (LOA) and is to be specified in the notes.	Add
070102.I	Added the use of the “buy back” holding account for an audit trail.	Add
070103	Included a provision that prices included in LOAs must only be for the sale of articles and services and must not be adjusted unless authorized in this chapter.	Update
070103.A	Clarified Defined Order pricing.	Update
070103.B	Clarified Blanket Order pricing.	Update

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
070103.C	Identified location of procedures for pricing cooperative logistical supply support arrangements (CLSSAs). Added CLSSA definition and use.	Update
070104.B.5 (previous)	Removed as interest is addressed in Chapter 5, 050202.D of this volume.	Deleted
070104.C.1	Revised to waive nonrecurring cost recoupment charges and to clarify the requirement to coordinate waivers with the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) OUSD(AT&L) and Office of the Under Secretary for Defense (Comptroller) OUSD(C) per the Arms Export Control Act (AECA), Section 21 (e).	Update
070104.C.2	Deleted references to multilateral memoranda of understanding among North Atlantic Treaty Organization ministers of defense dated between 1978 and 1990.	Delete
070104.C.3	Added non-North Atlantic Treaty Organization countries included in the waiver of Contract Administration Services (CAS) and cataloging services. Clarified the application date of the waiver.	Update
070104.C.5.c	Clarified that DWCF articles and services will not be re-priced when a case is fully funded by Map Merger or non-repayable Foreign Military Financing (FMF).	Update
070104.C.6	Clarified that the provision for exchange training only applies to established military units.	Update
070202	Revised to clarify civilian personnel pricing.	Update
070203	Combined and revised 070203.C and 070203.D. Clarified location of standard rates and when to apply acceleration factors.	
070203.E (previous)	070203.E from the previous version is now addressed in 070104.C.5.	Update

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
070206	Clarified that DWCF services will be sold at the price effective when the order is received and accepted rather than when the services are performed.	Update
070302.B.1	Included provision to indicate that DWCF supply management prices are determined when the item is dropped from inventory. Deleted the special instructions for purchasers who are not under CLSSAs.	Update
070302.B.2	Clarified pricing instructions for the repair or replacement of DWCF items.	Update
070302.B.4	Added paragraph to clarify that beginning October 1, 2001, DWCF fuel will be at the replacement cost of the fuel during the period of the sale plus associated overhead.	Add
070302.C.1.a	Added requirement to include applicable nonrecurring costs recoupment charge.	Add
070302.C.2	Revised paragraph to show use of proceeds from items being replaced in kind, with an improved item, or a substitute. Added requirement to include applicable nonrecurring costs (NC) recoupment charge.	Update
070304.A	Provided packing, crating, and handling (PC&H) computation for excess items. Revised wording to address NC recoupment charges.	Update
070305.D	Updated Budget Activity codes for the Research, Development, Test and Evaluation (RDT&E) appropriation to align with information in Volume 2B, Chapter 5, paragraph 050201 of this Regulation.	Update
070305.H.3	Deleted production quantity verification.	Delete
070305.L	Removed ammunition from the list of significant changes.	Delete
070305.O.2	Removed Table 703-12.	Delete

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070305.P.1	Clarified DSCA's authority to waive NC recoupment.	Update
070305.T	Added paragraph on special RDT&E and nonrecurring production costs per 32 Code of Federal Regulation 165.	Add
070306	Added paragraph for the return of defense articles per AECA, Section 21(m).	Add
070405.A	Added information for waiver of CAS surcharges.	Add
070405.B	Updated CAS rates per DSCA policy memorandum 02-14.	Update
070406	Replaced information on developing the hourly rate for CAS performed with a link to the OUSD(C) reimbursable rates Web site.	Update
070411	Specified that prompt payment penalties will be applied to a unique line of accounting in lieu of the case.	Update
070411.A	Changed the reporting requirement for prompt payment interest penalties from monthly to quarterly.	Update
070412	Revised the policy to require estimated pricing for deliveries of major end items if an actual price is not available within 90 days of shipment.	Update
070501.D	Added paragraph on accessorial charges for excess priced goods.	Add
070502.C	Added paragraph on the calculation of the PC&H charge for excess items.	Add
070502.D	Added paragraph on calculation of the PC&H charge on blanket orders.	Add
070503	Revised section to add paragraph for the transportation computation on excess items and updated the location of transportation cost look-up table to the Security Assistance Management Manual. Removed Table 705-1, Standard Transportation Percentages.	Update/Add

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070504	Replaced paragraphs 070503.B and 070503.C from the previous version with a paragraph explaining the cost of staging defense articles.	Update
070601	Clarified FMS Administrative surcharge applies to the FMS selling price with the exception of program management lines and small case management lines.	Update
070602.A	Updated administrative surcharge rates from June 1, 1999 to present.	Update
070603	Updated policy to address administrative support costs. Deleted 070603.A and 070603.B from the previous version.	Update
070604	Revised and added policy so that the administrative charge must be applied on cancelled cases, whether or not deliveries occur. Updated surcharge application information.	Update
070701.A	Added on-hand inventory list specifications. Clarified information about CLSSA progress payments when the required progress payment varies from the Part A inventory value by more than 10%.	Add
070801	Clarified when storage charge begins. Added storage related costs should have a separate line on the LOA.	Update
070802.F	Added that transportation costs will be added to the FMS selling price of repaired items if the repair facility ships the item to the purchaser.	Add
070804	Included requirement for recouping unfunded civilian retirement and post-retirement health benefits costs for DWCF activities.	Update
0710	Combined and revised 0710-0712 from the previous version to clarify and update training pricing policy. All subsequent paragraphs have been renumbered. Changed foreign students to international students.	Update

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PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
0711	Revised to clarify the policy on the leasing of defense articles. Added guidance stating administrative surcharges do not apply to lease payments.	Update
071203	Added requirement for notification when FMS work is performed at Department of Defense (DoD) Test facilities and laboratories.	Add
071204	Added paragraph on embedded computer software facilities specifying that DoD owns and operates the facility.	Add
071401	Revised to clarify guidance on publication pricing. Added information on FMS Purchaser Unique publications	Update
071402	Updated information on costs associated with developing publications or software solely for the use of FMS customers.	Update
071603.C (previous)	Deleted policy for pricing existing inventories when discrete pricing cannot be used.	Delete
071404.A	Updated the application of NC recoupment for the sale of publications and software.	Update
0715	Deleted obsolete information about the Special Defense Acquisition Fund.	Delete
0716	Revised to reflect current work environment and refer to program management in lieu of case management. Added guidance on the costs associated with the standard level of service and above standard level of service.	Update
071702	Revised process for requesting exceptions to policy to include coordination with DSCA Directorate for Business Operations (DBO).	Update
071802	Revised process for rate revision to include DSCA DBO.	Update
0719	Updated to include the Implementing Agency must obtain a new closure certificate after reopening a case to report execution.	Update

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0720	Deleted specific details concerning logistic support charges, as the surcharge was discontinued October 1, 2007.	Delete

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CHAPTER 7

PRICING0701 INTRODUCTION070101. Purpose

A. The purpose of this chapter is to establish policies and procedures to ensure the Department of Defense (DoD) Components uniformly and consistently apply pricing principles and methodologies that recoup current period costs and a reasonable contribution to sunk investment costs. Sunk investment costs represent historical decisions to expend research and development (R&D) funds to develop new equipment or to purchase assets or facilities. Although the original investment decision was based entirely on DoD requirements, Foreign Military Sales (FMS) purchasers benefit from the investment decision when they purchase related equipment, or use of the assets and facilities is necessary in order to provide ordered services or to deliver ordered materiel.

* B. This chapter applies to the sale of defense articles or services under the authority of the Arms Export Control Act (AECA), Public Law 90-629, as amended, codified as Title 22 United States Code (U.S.C.) 2751 et seq., and the Foreign Assistance Act (FAA), Public Law 87-195, as amended, codified as Title 22 U.S.C. 2151 et seq.

* C. For pricing guidance on authorities other than the AECA and FAA that sell or transfer defense articles or services (such as annual defense appropriation acts or supplemental appropriation acts), consult the authorizing legislation and relevant financial management policy.

070102. Responsibilities. The DoD Components that sell defense articles or services under authority of the AECA must:

A. Ensure that defense articles and services provided to FMS purchasers are priced in accordance with the policies established in this chapter.

* B. Establish a single selling price for defense articles and services. A single selling price includes the additional charges for nonrecurring research, development, test and evaluation (RDT&E) and production costs, costs for recurring procurement support efforts, transportation costs when the use of DoD transportation is approved, and other applicable surcharges.

C. Ensure that each price estimate provided to an FMS purchaser is a reasonable approximation of the final price. However, the fact that an estimate is not consistent with the final cost accumulation does not negate the requirement to establish a final price (actual cost) in accordance with this chapter.

* D. Provide detailed price and cost information upon request by the FMS purchaser. Proprietary cost and pricing data must not be disclosed unless there is prior

authorization of the contractor concerned.

* E. Present prices of defense articles and services to FMS purchasers in the format of FMS Letters of Offer and Acceptance (LOAs). The administrative surcharge percentage prescribed in this chapter is subject to change without prior approval of the purchaser. The administrative surcharge applicable to each line on the LOA is to be specified as a note to each LOA document. The LOA should be used unless a waiver is obtained from the Director, Defense Security Cooperation Agency (DSCA), to use a suitable substitute instrument. Any substitute instrument should contain the same cost elements as those identified on the LOA.

F. Cite directly the FMS Trust Fund (11X8242) purchaser(s) subaccount(s) on contractual documents for new procurements initiated as a result of FMS orders.

G. Ensure that the transportation of materiel, other than Defense Working Capital Fund (DWCF) materiel, sold to FMS purchasers is accomplished through the use of collect commercial bills of lading to the maximum possible extent. When transportation is accomplished through the use of Government Bills of Lading (GBLs) including DWCF materiel, the GBL must be annotated to show that Interstate Commerce Act, Section 10721 ([Title 49 U.S.C. 10721](#)) is not applicable and that normal commercial rates must be billed to the United States Government (USG) for the shipment. Refer to the DoD 5105.38-M, [Security Assistance Management Manual \(SAMM\)](#), Chapter 7 for guidance on the use of the Defense Transportation System.

H. Assign a case manager to each active FMS case. The case manager is responsible for the total financial and logistical aspects of the case, including:

1. Ensuring that prescribed pricing policies are followed.
2. Ensuring delivery reports have been processed to the Defense Finance and Accounting Service, Security Cooperation Accounting (DFAS SCA).
3. Ensuring the reconciliation of the FMS case financially and logistically throughout the life of the FMS case, and not less than annually:
 - (a) On the anniversary of each major case, and/or
 - (b) In preparation for a review with the FMS purchaser.

The case manager's authority to direct other supporting activities must be commensurate with these responsibilities. Refer to SAMM, Chapter 2 for additional discussion on case management responsibilities.

* I. Ensure that the USG "buy back" of items from foreign governments initially sold under FMS programs is conducted in accordance with procurement rules involving the obligation of DoD appropriations. Monies due as a result of such procurement may be paid by the DoD paying office into the FMS Trust Fund in accordance with the foreign government's

instructions (e.g., applied to a case or a cash refund). The FMS purchaser's "buy back" holding account is used as an audit trail for the transaction. A direct exchange is permitted for a reparable item of the same type under certain circumstances (see paragraphs 070302.B.2 and 070302.B.3 of this chapter).

* 070103. Estimating Prices and Billed Values for an LOA. The pricing policy in this chapter stipulates how costs are determined when the FMS purchaser is billed. This policy also establishes how to develop a price estimate for an LOA. An essential difference between the billed price and the estimated price on an offer is the degree of firmness associated with each pricing method. On the FMS Billing Statement (Department of Defense (DD) Form 645), the price, particularly at the point in time when actual costs are known and reported to DFAS SCA, should be firm and exact (the exception being "E" (Estimated) price code transactions). The billed cost (except when a rounded dollar indicator code is utilized) is detailed in dollars and cents. On the LOA, the estimated price is to be a reasonable approximation of the amount which will ultimately be billed, to include the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) inflation indices and other factors. Amounts to be placed on the LOA, except unit price, will be rounded to the next whole dollar. LOAs are written either as a defined order, blanket order, or as a cooperative logistics supply support agreement (CLSSA). Pricing for each type of LOA requires special treatment. Moreover, an LOA may involve lines which are defined order or blanket order, while CLSSA cases have no other lines. An LOA must include only prices for defense articles and services sold to FMS purchasers and must not be adjusted for any reason other than authorized by this chapter (such as for inflation or for contingencies).

* A. Defined Order. Defined Order LOAs are for specified defense articles or services and are usually written for the acquisition of systems. Orders are normally placed by the Implementing Agency (IA) following LOA implementation. IAs involved in procuring such systems should have available estimates of the expected costs as the basis for developing the FMS price. These estimates, however, must be validated for the configuration to be delivered. Additional charges detailed in other sections of this chapter must also be applied. When a price estimate must be inflated for delivery of a weapon system several years in the future, OUSD(C) published inflation indices must be used. If other price inflation or alternate OUSD(C) published factors apply, those factors must be documented in case files and justified to OUSD(C) for approval before finalizing LOAs. When developing estimates for weapon systems in different configurations than those for which IA estimates are available, the IA should obtain contractor estimates for the different configurations.

* B. Blanket Order. Blanket Order LOAs are for categories of defense articles or services with no definitive listing of items or quantities to be provided. For hardware support items, the price developed may be based on either a computer listing of specified parts, or a percentage of the cost of the major system to be supported. In other instances, the price on the LOA may simply be a dollar value line to enable the purchaser to requisition those items up to the dollar ceiling in the Letter of Request and specified in the corresponding LOA. In this latter case, the amount written into the LOA can rely in part on the estimated activity in the country's program. In developing a price for LOA purposes where a blanket order is involved, the source of supply might not be known. In this case, certain assumptions must be made. For example, in

writing a blanket order case for spare parts for an aircraft, an agency may have to [make assumptions about the source and value of items in order to estimate various pricing elements](#). This [allows](#) the analyst to apply the [appropriate costs](#) and charges. At the time of the billing for delivery of an item charged to the case, the appropriate [surcharges must be applied by DFAS SCA](#) in accordance with [Chapter 8](#) of this volume. Those agencies that have developed an ordering history for certain countries or weapon systems may be able to develop a ratio of items [using procurement data](#) and items from stock [that enable](#) a more precise application of surcharges for the estimate. When developing a price for items to be delivered beyond the period for which pricing data is available, it will again be necessary to apply inflation factors as in defined order cases.

* C. [Cooperative Logistics Supply Support Arrangement \(CLSSA\)](#). CLSSA LOAs are designed to [provide responsive and continuous supply support at the depot level for U.S.-made military materiel possessed by foreign countries and international organizations](#). The CLSSA is normally the most effective means for [providing common repair parts and secondary item support for equipment of U.S. origin which is in allied and friendly country's inventories](#). Pricing for CLSSA LOAs [must be estimated per section 0707 of this chapter](#).

070104. [Legal Background](#)

A. [General](#). [AECA](#), Section 1 [states](#) that sales are approved only when they [are consistent with the foreign policy interest](#) of the United States (U.S.), and the purpose and principles of the United Nations Charter.

B. [Pricing Requirements](#)

1. [Defense Articles and Services from Stock](#). [AECA](#), Section 21(a)(1) [states](#) that a foreign country or international organization pay in U.S. dollars:

a. In the case of a defense article not intended to be replaced at the time a sales agreement is entered into, not less than the actual value.

b. In the case of a defense article intended to be replaced at the time a sales agreement is entered into, the estimated cost of replacement of such article, including the contract or production costs less any depreciation in the value of such article.

c. In the case of a sale of a defense service, the full cost to the [USG](#) of furnishing such service, unless the service is training provided under the terms in [paragraph 070104.B.3 of this chapter](#). In [this latter](#) case, only the additional costs that are incurred in furnishing such assistance [must](#) be recovered.

2. [Charges Applicable to the Sale of Defense Articles or Services](#). [AECA](#), Section 21(e)(1) [states](#) that the selling price [must](#) include appropriate charges for:

a. Administrative services, calculated on an average percentage basis to recover the full estimated costs (excluding a pro rata share of fixed base operations costs) of administration of sales made under the [AECA](#) to all purchasers of such

defense articles and services as specified in AECA, Section 43(b) and (c).

b. A proportionate amount of any nonrecurring costs (NC) for R&D and production of major defense equipment (MDE), except for equipment wholly paid for either from U.S. military assistance funds, [FAA](#), Section 503(a)(3), or from U.S. credit funds made available on a non-repayable basis under [AECA](#), Section 23.

c. The recovery of ordinary inventory losses associated with the sale of defense articles that are being stored at the expense of the purchaser of such articles.

3. Training Price Exceptions to [AECA](#), Section 21. Less than the full cost of training may be charged under the following specific conditions:

a. [AECA](#), Section 21(a)(1)(C) allows for countries concurrently (same fiscal year (FY)) in receipt of International Military Education and Training (IMET) or designated as a high-income foreign country to be charged only those additional costs that are incurred by the USG in furnishing the training.

b. [AECA](#), Section 21(g) authorizes the President to enter into North Atlantic Treaty Organization (NATO) Standardization Agreements. The President also is authorized to enter into similar agreements with countries which are major non-NATO allies for the cooperative furnishing of training on a bilateral or multilateral basis, if the financial principles of such agreements are based on reciprocity. Such agreements must include reimbursement for all direct costs but may exclude reimbursement for indirect costs, administrative surcharges, and costs of billeting of trainees (except to the extent that members of the U.S. Armed Forces, occupying comparable accommodations, are charged for such accommodations by the U.S.). Each such agreement must be transmitted promptly to the Speaker of the House of Representatives and the Committees on Appropriations, Armed Services, and Foreign Relations of the Senate. See [SAMM](#), Chapter 10, Table C10.T4 for reciprocal agreement participants.

4. Price of New Procurement. [AECA](#), Section 22(a) requires eligible countries or international organizations to pay the full amount of the contract and any damages and costs that may accrue due to the cancellation of such contracts (termination liability) when the USG enters into a contract for a new procurement on their behalf. Payment to the USG by the foreign country or international organization must be in U.S. dollars.

5. Price of Design and Construction Services. [AECA](#), Section 29 requires that foreign countries or international organizations pay the full cost of design and construction services and any damages and costs that may accrue due to the cancellation of such contracts when the USG enters into a contract for design and construction services on their behalf.

C. Cost Recoupment Waivers and Exclusions

*

1. Waiver of Nonrecurring Cost (NC) Recoupment Charges

a. AECA, Section 21(e)(2)(A) authorizes the President to reduce or waive the NC recoupment charge or charges which would otherwise be considered appropriate under AECA, Section 21(e)(1)(B) for particular sales that would, if made, significantly advance USG interest in NATO standardization, and standardization with the Armed Forces of Japan, Australia, the Republic of Korea, or New Zealand, in furtherance of the mutual defense treaties between the U.S. and those countries, or foreign procurement in the U.S. under coproduction agreements.

b. AECA, Section 21(e)(2)(B) authorizes the President to waive NC recoupment charges for a particular sale if it is determined that: (1) imposition of the charge or charges would result in the loss of the sale, or (2) the waiver of the charge or charges for MDE would result in a savings to the U.S. that substantially offsets the revenue due to this waiver.

c. AECA, Section 21(e)(2)(C) gives the President the authority to waive, for particular sales of MDE, any increase in a charge or charges previously considered appropriate under AECA, Section 21(e)(1)(B). This authority is given if the increase results from a correction of an estimate (reasonable when made) of the production quantity base that was used for calculating the charge or charges for purposes of such paragraph.

d. These authorities have been delegated to the Director, DSCA. All waiver requests must be coordinated with the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) (OUSD(AT&L)) and the OUSD(C).

* 2. Special Waiver Authority for NATO Airborne Warning and Control System (AWACS). Notwithstanding paragraph 070605.A of this chapter, Title 10 U.S.C. 2350e authorizes the Secretary of Defense, in carrying out the NATO AWACS program, to:

a. Waive reimbursement for the costs of the following functions performed by personnel other than personnel employed in the United States Air Force AWACS program office:

- (1) Auditing,
- (2) Quality assurance,
- (3) Codification,
- (4) Inspection,
- (5) Contract administration,
- (6) Acceptance testing,
- (7) Certification services, and

- (8) Planning, programming, and management services.
- b. Waive any surcharge for administrative services otherwise chargeable.
- c. Assume contingent liability for:
 - (1) Any program losses resulting from the gross negligence of any contracting offices of the U.S.
 - (2) Identifiable taxes, customs duties, and other charges levied within the U.S. on the program.
 - (3) The U.S. share of unfunded termination liability.

* 3. Waiver of Contract Administration Services (CAS) and Cataloging Services. AECA, Section 21(h) authorizes the President to provide (without charge) quality assurance, inspection, CAS, contract audit defense services, cataloging data and cataloging services.

a. This provision applies to any contract or subcontract for defense articles, services, or design and construction services entered into after October 29, 1979, under FMS or direct commercial sales on behalf of a foreign government that is a member of NATO or the Governments of Australia, New Zealand, Japan, the Republic of Korea, or Israel. The authority applies only if the foreign government provides these services in accordance with an agreement on a reciprocal basis, without charge, to the USG.

b. This provision applies to any contract or subcontract for defense articles, services, or design and construction services pursuant to the NATO Security Investment Program. The authority applies only in accordance with a reciprocal agreement under which the foreign governments participating in the NATO Security Investment Program provide such services, without charge, in connection with similar contracts or subcontracts.

c. Cataloging data and cataloging services may be provided to NATO, to a member government of NATO, or to the Governments of Australia, New Zealand, Japan, the Republic of Korea, or Israel, if that member, organization, or country provides such data and services without charge to the U.S. in accordance with a reciprocal agreement.

d. The authority to negotiate and conclude these reciprocal agreements has been delegated to OUSD(AT&L). Upon approval of the agreement, the OUSD(AT&L) will provide a copy of that agreement to DSCA.

e. When a waiver has been approved, the cost of CAS in support of the applicable effort must be funded by a DoD appropriation. Billings for such actual costs must not be submitted against the FMS Trust Fund. The waiver under each agreement

applies only to new FMS LOAs with implementation dates (as recorded in the Defense Security Assistance Management System) on or after the effective date of the reciprocal agreement.

f. Countries with waivers are listed in the [SAMM](#), Chapter 9, Tables C9.T3 through C9.T5. DSCA is responsible for updating and maintaining the CAS waiver table.

4. Special Waiver Authority for NATO Cooperative Projects

a. [AECA](#), Section 27(e)(1) stipulates that the President may reduce or waive the charge or charges in connection with cooperative projects or agreements entered into under the authority of that section. The charges that may be reduced or waived are those that are otherwise considered appropriate under AECA, Section 21(e) (see paragraph 070104.B.2 of this chapter) in connection with sales of defense articles and services from stocks or new procurements when the other participants agree to waive or reduce such charges.

b. Waiver authority of the President under [AECA](#), Section 27 has been delegated to the Director, [DSCA](#).

c. Administrative surcharges must not be increased on other sales made under the AECA in order to compensate for any cost waivers which are granted pursuant to Section 27 of the Act. Funds received pursuant to such other sales must not be available to reimburse the costs incurred by the USG for which waiver or reduction is approved by the President under [AECA](#), Section 27.

5. Exclusion of the Cost of Military Pay and Entitlements for Defense Services Funded by the Military Assistance Program Merger (MAP Merger) or Non-Repayable Foreign Military Financing (FMF)

a. [FAA](#), Section 503(a)(3) permits the exclusion of salaries of members of the Armed Forces (other than Coast Guard) if the sales case for defense articles, services (including training), or for design and construction services is totally financed by MAP Merger or by non-repayable FMF.

b. The pricing of services provided under AECA, Sections 21, 22, 29, or 30 must be priced to exclude military pay and entitlements (including retired pay accrual) only for those cases citing MAP Merger funds and/or non-repayable FMF as the exclusive method of funding on the LOA. This pricing applies when services are performed regardless of the date of the LOA. For MAP Merger, this pricing applies to services provided after September 30, 1985; for non-repayable FMF, this pricing applies to services provided after September 30, 1989. Any subsequent amendment or modification that reduces MAP Merger or non-repayable FMF funding below 100 percent requires re-pricing to add military pay and entitlements to the entire case.

* c. A separate price for DWCF goods and services must not be established to exclude military pay and entitlements when the FMS case is fully funded by MAP

Merger or non-repayable FMF.

* 6. Exchange of Unit Training and Related Support. AECA, Section 30A empowers the President to provide training and related support to military and civilian defense personnel of a friendly foreign country or an international organization. This authority applies only to established military units, not to ad hoc units or individual members of units. Such training and related support is specifically to be provided by a Secretary of a Military Department and only when the recipient foreign country or international organization agrees, pursuant to an agreement or other arrangement, to provide comparable training and related support on a reciprocal basis to personnel under the jurisdiction of the Secretary providing the training. The reciprocal training must be provided within a reasonable period of time that is not later than one year after the provision of training and related support. If such training is not provided, then the country or international organization receiving the training must be required to reimburse the U.S. See Volume 11A, Chapter 10 of this Regulation and SAMM, chapter 10 for the financial policies associated with this reciprocal program.

7. Special Authorities. In connection with the administration of the European Air Defense Agreements, the Secretary of Defense is authorized under the International Security and Development Cooperation Act of 1985, Section 132 (see AECA) to: (a) waive any surcharge for administrative services otherwise chargeable under AECA, Section 21(e)(1)(A), and (b) waive any charge not otherwise waived for services associated with contract administration for the sale (under the AECA) of Patriot air defense missile fire units to the Federal Republic of Germany contemplated in the agreements.

8. Fair Pricing. Under AECA, Sections 21 and 43, the recoupment of NC is not required for FMS cases wholly funded with MAP Merger or non-repayable FMF. Effective with delivery reports after December 1, 1989, asset use charges are no longer applicable to FMS transactions. When such asset use expenses are included in, or are a part of, the standard prices/stabilized rates charged for defense articles and services furnished by DWCF, a separate price must not be established for sales from, or services furnished by, DWCF in connection with FMS cases. In addition, military salaries and the unfunded costs of civilian retirement and other benefits are not included in the FMS administrative account.

070105. Crediting of Earned Reimbursements

A. General. DoD appropriation or fund accounts, or Miscellaneous Receipts Account 3041, "Recoveries Under the Foreign Military Sales Program, Army, Navy, Air Force, Defense" must be reimbursed when DoD services or inventory items are sold under AECA, Section 21. Reimbursement must also be made under AECA, Section 22 procurement actions if direct cite procedures for financing applicable contracts are not used. The general rule applicable to the sale of DoD services is that the financing account current at the time of performance is credited with applicable budget authority and subsequent cash collections. When items are sold from inventory, the financing account current at the time items are dropped from inventory is credited with applicable budget authority and subsequent cash collections. When items not to be replaced in kind (free assets) are sold from inventory, those receipts are credited to Miscellaneous Receipts. When appropriation or fund accounts are used to finance

FMS procurements, the account current at the time the order is accepted is credited with budget authority and subsequent cash collections.

B. Elements. The various cost elements that may be involved in performance of an FMS order and the appropriations that are to be reimbursed are shown in Table 7-1.

0702 PRICING OF PERSONNEL SERVICES

070201. General. The FMS rates are included with other reimbursable rates on the OUSDC(C) reimbursable rates Web site. Historical rates are available in Appendix C Archive of this volume. Charges to the FMS program for DoD personnel must be computed in accordance with this section.

A. The pricing of DoD personnel services in support of the FMS program, including personnel costs recouped indirectly through the administrative surcharge, and those recouped as direct charges, such as special management services, Mobile Training Teams (MTTs), Mobile Education Teams, Technical Assistance Teams, or Technical Assistance Field Teams (TAFTs) must be calculated in accordance with this section. This section excludes personnel assigned to DoD training installations (see section 0710 of this chapter), and those costs that may be waived or excluded from charges in certain cases discussed throughout this chapter.

B. The calculation of personnel costs must include travel time, for both temporary duty travel (TDY) and permanent change of station (PCS), when the travel directly results from performance of an FMS case. When determining the pricing for personnel services, every attempt should be made to use actual costs. If actual cost data is not available, estimated pricing is acceptable. The costs must be substantiated by a reliable audit trail.

* 070202. Civilian Personnel. Services performed by DoD civilian personnel must be priced at rates in effect at the time the services are performed. Salary tables are available at the Office of Personnel Management (OPM) Web site. Base salary rates must be accelerated as discussed in this paragraph. An illustration of civilian personnel pricing computation is shown in Figure 7-1.

A. The leave and holidays acceleration factor of 18 percent is applied to the base salary only when the employee is not reimbursed by FMS on a full time basis.

B. The Civilian Personnel Fringe Benefit Rate is applied to the base salary, with leave and holiday acceleration when applicable, to recover the USG's contribution of civilian employee benefits such as retirement, insurance and health plans, cash awards, and, when applicable, the USG's share of social security taxes and leave and holidays. The Civilian Fringe Benefit Rates are published annually at the OUSDC(C) reimbursable rates Web site. Historical rates are available in Appendix C Archive of this volume.

C. The Unfunded Civilian Retirement (UCR) factor is applied to the base

salary, with leave and holiday acceleration when applicable, to recover retirement, post-retirement health benefits and post-retirement life insurance costs incurred by the USG. The UCR factor is published annually with Civilian Fringe Benefit Rates. The UCR factor is not applied when calculating personnel costs to be reimbursed by the FMS Administrative Surcharge Budget, see paragraph 070104.C.8 of this chapter.

D. See paragraph 070104.C.8 of this chapter for the impact of "Fair Pricing" legislation on civilian personnel services in calculating charges for administrative services under [AECA](#), Section 21(e)(1)(A).

* 070203. Military Personnel

A. Military personnel services **must** be priced using the composite standard pay rates current at the time services are performed. Current reimbursable rate tables are available at the [OUSD\(C\) reimbursable rates](#) Web site. Rates applicable to FMS are computed using the "Annual Rate Billable to Other Federal Agencies" plus the Medicare-Eligible Retiree Health Care accrual. Monthly, daily, or hourly rates can be determined from these tables by using factors listed in the notes at the bottom of each page. Historical rates are available in the Appendix C Archive of this volume. Prior to November 30, 1989, an Asset Use acceleration factor would have applied to the total of costs of TDY and military composite pay costs if the service was performed at a military installation.

B. Since FY 1985, the annual composite standard military rates include the cost of retirement. These composite rates, however, must **also** recover the cost of other benefits. Leave and holiday costs are added when reimbursements are based on time actually worked, such as when the foreign country does not otherwise pay for the personnel costs incurred by DoD during leave and holiday periods. The additive amounts for retirement, leave and holidays, and other benefits are expressed as percentages of the composite standard pay rate. Pricing computations are illustrated in [Figure 7-2](#).

C. PCS costs are included in the composite standard pay rates and are subject to the reimbursement factors. For cases prior to FY 2005, if military personnel were required to make a PCS move to support an FMS case, the PCS rate **must** be deleted from the composite rate and the actual PCS cost charged to the case is not subject to **any additional reimbursement factor**. Effective FY 2005, military personnel services for FMS **must** be priced using the composite rates that already include the PCS expense and **must no longer use the actual PCS expense for PCS moves to support an FMS case**.

070204. Foreign National Personnel. Foreign national personnel services **must** be priced at actual costs or at standard pay rates. Standard pay rates **must** not be used when known to be less than actual costs. Both the actual cost and the standard pay rate **must** include an estimated amount to cover such benefits as sick leave, maternity leave, death, accident, unemployment, and retirement (separation) when such benefits are paid to **these** employees or specifically required by the laws of the foreign government.

070205. Travel and Living Allowances. Travel, per diem, living allowance

payments, and other entitlements to DoD personnel working on FMS cases **must** be identical to the payments and entitlements of DoD personnel working on direct DoD mission assignments at similar locations; refer to [Volume 9](#) of this Regulation. Waivers from the normal travel procedures **must** be granted to Security Assistance (SA) travelers on the same basis and in the same manner as provided for DoD personnel traveling on regular defense business. The FMS case **must** be priced to include the amount paid to employees or centrally funded through authorized DoD entitlement programs.

* 070206. Special Instructions Applicable to Defense Working Capital Funds (DWCF). DWCF facilities **must** charge approved DoD stabilized rates and prices for services in support of FMS cases except where special rates **have been approved by OUSD(C) or where actual cost reimbursement is appropriate**. The stabilized rate to be charged is the rate in effect when the order is received and accepted (as opposed to when performed by DWCF supply management). See [Volume 2B, Chapter 9](#) and [Volume 11B](#) of this Regulation for additional information. The price or rate charged to FMS purchasers of DWCF activities for defense articles and services **must** be adjusted to include an amount for unfunded civilian retirement and post-retirement health benefits costs. Amounts collected for unfunded civilian retirement and post-retirement health benefits costs **must not** be retained by DWCF activities; rather, such amounts **must** be deposited into the Miscellaneous Receipts Account 3041. To determine the adjustment to the price or rate for unfunded civilian retirement and post-retirement health benefits costs, the civilian salary costs (not including benefits or overtime costs) that are included in the price or rate, **must** be multiplied by the unfunded civilian retirement and post-retirement health benefits costs rate. The DoD reimbursable rates can be found on the [OUSD\(C\) reimbursable rates](#) Web site.

0703 CASH SALES OF DEFENSE ARTICLES ISSUED FROM STOCK

070301. General. [AECA](#), Section 21 authorizes the sale of defense articles from stock to eligible foreign governments and international organizations. These sales include all **sales** of items from DoD inventories, whether delivered from storage or from procurements that were initiated to maintain adequate DoD inventory levels. Procurements specifically for FMS requirements (excluding [CLSSAs](#)) may not be considered a sale from stock. Procurements initiated to replace stocks sold from DoD inventories are not FMS new procurements.

070302. Sale of Defense Articles

A. Sale Price of Non-excess Defense Articles. Non-excess defense articles are assets within the approved force acquisition objective and approved force retention stock of all DoD Components. Also included in the non-excess category are articles procured in anticipation of military assistance or sales requirements as a result of [CLSSAs](#), or pursuant to a military assistance or sales order. The selling price **must** be determined when: (1) **the item is dropped from inventory**, or (2) the **LOA** is prepared, if a firm price is determined in accordance with the provisions of paragraph 070303 of this chapter. **An illustration of the price computation is at Figure 7-3.**

B. Sale of Defense Working Capital Fund (DWCF) Articles

* 1. The selling price of DWCF articles to FMS purchasers must be determined at the time the article is dropped from inventory. The standard price charged to FMS purchasers for DWCF articles must be adjusted to include an amount for unfunded civilian retirement and post-retirement health benefits costs (see paragraph 070206 of this chapter). See Volume 2B, Chapter 9, Volume 11A, Chapter 1, and Volume 11B, Chapter 11 of this Regulation for additional information.

* 2. If a purchaser returns a reparable DWCF item for repair or replacement, the overhaul service must be priced in accordance with paragraph 070802 of this chapter. The price of the replacement/exchange item would be the exchange price or net price (standard price less credit) basis adjusted for the unfunded retirement and benefits.

3. As an invested participant, a CLSSA purchaser may return a fully serviceable reparable item to the appropriate DWCF activity for credit, when the item is within the activity's approved acquisition objective. The credit will only be issued after the item is received and inspected at the activity. Funds credited may be paid by the DoD disbursing office into the FMS Trust Fund in accordance with the instruction of the foreign purchaser or DSCA.

* 4. Beginning October 1, 2001, the selling price of petroleum, oil, and lubricants (POL) will be the replacement cost of the POL during the period of the sale plus associated overhead. See Volume 11A, Chapter 1 and Volume 11B, Chapter 11 of this Regulation for additional information on overhead (prior to October 1, 2001, POL was priced at standard (stabilized) prices).

C. Sale of Non-DoD Working Capital Fund (non-DWCF) Articles. The pricing and treatment of reimbursements of non-DWCF articles sold are dependent upon whether the item(s) being sold requires replacement.

1. Item Not to be Replaced. When an item is sold from the stocks of DoD and is not intended to be replaced, it is considered a free asset. The free asset price is not less than the actual value of the article. The amounts received as payment for free assets from the FMS purchaser must be deposited into the miscellaneous receipts of the U.S. Treasury. See Volume 3, Chapter 15 of this Regulation for additional information.

* a. When a determination is made that the item will not be replaced, the price of the item must be the most recent actual procurement cost of the series and model being sold, plus the cost of any modifications or improvements incorporated after production and the applicable NC recoupment charge. Reductions to the sale price may be made when there is an actual difference in utility or desirability among units of issue of an item due to age or condition. The cost of the last major overhaul or outfitting accomplished before the sale date is added to the calculated price and is not reduced for age or condition. The overhaul costs will be prorated over the interval between the last actual overhaul and the next scheduled overhaul. If a future overhaul is not scheduled, the cost of the previous overhaul will be prorated over the normal average interval between overhauls. If an overhaul schedule is not

available, the most appropriate time span for that series and model should be used. In the case where actual costs are not available for the last overhaul, a reasonable estimate from the facility normally performing overhauls for the type of item to be sold may be used. In the case where a maintenance schedule has not been established, a period of at least five years should be used. An illustration of price computation is at [Figure 7-4](#). A request for waiver of the overhaul cost may be submitted to OUSD(C) in accordance with section 0717 of this chapter.

b. In the case of a naval vessel that is 20 or more years old, and 3,000 tons or less, [AECA](#), Section 21(a)(2) provides that the actual value is not less than the greater of the scrap value or the fair value (including conversion costs) as determined by the Secretary of Defense. An illustration of the price computation is at [Figure 7-5](#).

* 2. [Item to be Replaced](#). When an item is sold from the stocks of DoD and the item is intended to be replaced, the replacement may be either with an end item which is of identical type, model, and series designation (replacement-in-kind, e.g., sale of a C-130B and a purchase of a C-130B), a later series or modified version of the same basic model being sold (e.g., sale of C-130B and the purchase of a C-130E), or an acceptable substitute item that provides at least the same capability or readiness as the item being sold (e.g., sale of an M-48 tank and purchase of an M-60 tank). In addition, items sold from inventory with a unit cost of less than \$5,000 will be treated as replacement-in-kind if an improved model of the same end item being procured performs the same war-fighting capability, and the inventory objective presented to the Congress is not exceeded. Both the sale and “buy back” of a replacement-in-kind item will be executed as part of the reimbursable program. Reimbursement from the sale of items when the replacement item is not identical to the item sold is included in the reimbursable financing, but the “buy back” of the replacement must be shown under the direct budget program and reprogramming action taken prior to replacement. See [Volume 2A, Chapter 1](#), [Volume 3, Chapter 15](#), and [Volume 11A, Chapter 1](#) of this Regulation for additional guidance on sales from inventory. An illustration of the price computation is at [Figure 7-6](#).

a. The price of the item to be replaced must be the best estimated cost of the replacement item available at the time the item is dropped from inventory, plus the nonrecurring recoupment charge of the item being sold, adjusted for the remaining service life of the item being sold. The final bill will utilize the best pricing information available if actual replacement procurement cost is not known. This must be the final cost to the purchaser regardless of the actual cost of final replacement procurement. Inventory managers must realize that this prescribed pricing methodology may not result in a one-for-one replacement. If exact quantities are needed in inventory in order to maintain readiness, the inventory manager must recommend FMS procurement and not approve a shipment out of stock.

b. When it is imperative that stock be replaced through accelerated procurements, and normal pricing policies will not adequately recoup replacement costs, an exception to DoD pricing policies must be requested from the OUSD(C). Section 0717 of this chapter specifies guidance on exception requests. Normally, the exception would be to add a replacement factor or delay final pricing until the contract for replacement items is financially complete.

D. Sale of Ammunition. The selling price of an ammunition item **must** be the current standard price plus any applicable **NC** recoupment charge.

070303. Quotation of Firm Prices

A. **The** DoD Components are authorized to quote firm prices for items to be sold from stock and for in-house services to be furnished, pursuant to **AECA**, Section 21. Such prices are not subject to further adjustment, provided the **purchaser** accepts the LOA before the expiration date. A firm price may be quoted only for:

1. An actual or estimated replacement price for a procurement funded end item, including ammunition, or major items to be sold from inventory as authorized in **paragraph 070302.C.2 of this chapter**, **when** the price is based on budgetary data or contractor quotation.

2. A price for procurement funded or major item developed under provisions of paragraph 070302.C.1 and **paragraph 070304 of this chapter**.

3. Training tuition rates (only for current year). **Refer to section 0710 of this chapter for additional information**.

B. **The reason for** quoting firm prices is to minimize difficulties that might arise should prices undergo several revisions due to budgetary decisions made subsequent to country acceptance of **LOAs**. Firm prices may be quoted only after careful and coordinated development of such pricing data. **LOAs** (other than for training) **that** specify firm pricing **must** be coordinated, at a minimum, with the **OUSD(C), the Offices of the Assistant Secretaries of the Military Departments (Financial Management and Comptroller) and DSCA**.

C. All **LOAs** authorized to be on a firm price basis **must** include a note **that** specifies that pricing data presented are firm (except for changes authorized in **paragraph 071001.D of this chapter**) and will not be changed, provided the country accepts the **LOA** before its **offer** expiration date.

070304. Excess Defense Articles

* A. Excess defense articles are assets in excess of the approved force acquisition objective and approved force retention stock of all **the** DoD Components (see **paragraph 070302 of this chapter** for additional discussion). Excess **Defense Articles must** be sold in an "as is" condition. The cost of repairing, rehabilitating, or modifying such articles **must** be computed in accordance with **paragraph 070802 of this chapter**. Excess articles may be sold at reduced prices to recognize depreciation for the age and condition of the article. Packing, Crating and Handling (PC&H) and Transportation (PCH&T) is computed on the original acquisition value and not on the reduced price. The level of effort for the PCH&T is not less for an article that is considered excess; therefore, the expenses for the PCH&T do not decrease and must be recovered in total from purchasers. This policy applies regardless if the article is financed from procurement appropriations or DWCF. The selling price of excess

articles, exclusive of repair or modification costs, **must** be the highest of:

1. Its market value for which the applicable NC recoupment charge must be assumed to be included (market value is the price at which bona fide sales have been consummated for products of like kind, quality, and quantity), or;
2. Its scrap value plus NC recoupment charge and the last major overhaul costs incurred (scrap value is the amount that would be expected to be obtained from selling the asset at the end of its useful life), or;
3. Its fair value, plus NC recoupment charge and prorated major overhaul costs (fair value is the price for which an item can be bought or sold in an arm's length transaction between unrelated parties). The fair value is computed using the fair value rates associated with the Federal Condition Code of the asset multiplied by the established inventory price. See Table 7-2 and the Defense Logistics Agency *Federal Condition Code reference* for more information. If the IA proposes the price of materiel to be less than the 5 percent minimum threshold indicated in Table 7-2 of this chapter or to waive the overhaul costs, a detailed justification must be sent to the DSCA Directorate for Business Operations (DBO) in accordance with section 0717 of this chapter. If DSCA endorses the IA proposal, it will forward that package to OUSD(C) for final approval.

B. The overhaul costs will be prorated over the interval between the **most recent prior** overhaul and the next scheduled overhaul. If a future overhaul is not scheduled, the cost of the last overhaul will be prorated over the normal average interval between overhauls. In the case where actual costs are not available for the last overhaul, a reasonable estimate from the facility normally performing overhauls for the type of item to be sold may be used. In the case where a maintenance schedule has not been established, a period of at least five years should be used. An example of computing these costs is illustrated at **Figure 7-4 of this chapter**.

C. When accountability for excess items has been transferred to "Property Disposal," the provisions of the **Defense Materiel Disposition Manual, *DoD 4160.21-M, Chapter 3*** must apply. This manual provides specific guidance for the disposition of amounts realized from the sale of such equipment. **Defense Reutilization and Marketing Service** will calculate PC&H based on the fair value of assets sold or transferred, notwithstanding paragraph 070501.D of this chapter.

D. A request for exception to established pricing policy of excess materiel for **FMS** will be submitted **in accordance with section 0717 of this chapter and** must address the following:

1. Whether the item has been screened for potential sale to **purchasers** and whether there is any existing **purchaser** interest at the price determined in accordance with the established pricing policy;
2. Whether the alternative proposed price is equal to or greater than the scrap value plus the established recoupment charge for DoD **NC**;

3. Whether demilitarization costs **will be incurred by DoD if the item is sold** and, if so, the estimated amount of such demilitarization costs;

4. What the price to repair the item would be and its percentage **of the original acquisition cost of the item**; and

5. Whether the proposed sale has any other economic or political benefit to the DoD and/or the **USG**.

070305. Charges for Nonrecurring Cost (NC)

A. Non-USG purchasers **must** pay a fair price, determined in accordance with [Title 32, Code of Federal Regulation\(CFR\), Part 165](#), “Recoupment of Nonrecurring Costs on Sales of U.S. Items” for the **value** of the DoD nonrecurring investment in the development and production of **MDE**, as required by law, unless a NC recoupment charge waiver has been approved by the **Director, DSCA**. For FMS, an NC recoupment charge is applicable to all MDE. **MDE** is any item of Significant Military Equipment (SME) listed on the **U.S. Munitions List** having a DoD nonrecurring RDT&E cost accumulation of \$50 million or a total DoD production cost of more than \$200 million. **A listing of MDE with associated NC charges can be found in the [SAMM](#), Appendix 1.**

B. **A cost pool methodology is used to determine** the pro rata share of NC to be recouped. The NC recoupment charge computation (nonrecurring RDT&E and nonrecurring production cost pools divided by **estimated** benefiting units) **is** submitted to the Director, **DSCA**, for approval. The NC recoupment computation **must** be supported with **an MDE calculation worksheet**, illustrated **in Figures 7-7, 7-8, and 7-9**. The Director, **DSCA**, will review each DoD Component’s calculations and publish the **approved** charge in the SAMM.

C. Each DoD Component **must** establish a system to accumulate cost pools, recognize when a cost pool meets recoupment thresholds, and calculate an NC recoupment charge for items releasable to foreign countries and international organizations when FMS sales are anticipated. The NC recoupment charge **must** be based upon information recorded in DoD accounting records or DoD budget justification documents. Cost estimates may be used to determine the NC expected to be incurred in periods not covered by budget justification documents **or when supporting documentation is not available**.

* D. **The nonrecurring RDT&E cost pool includes costs funded by RDT&E appropriations to develop or improve the product or technology under consideration**. The costs to be included in the nonrecurring RDT&E investment cost pool **must** be determined on the budget and accounting classifications established for **RDT&E** appropriations in [Volume 2B of this Regulation](#). **Volume 2B, Chapter 5, paragraph 050201 of this Regulation** establishes the following R&D categories:

1. **Budget Activity 1, Basic Research 6.1** includes all efforts of scientific study and experimentation directed toward increasing knowledge and understanding in those fields of the physical, engineering, environmental, and life sciences related to long term

national security needs. It provides the basis for technological progress. Further, it may lead to (a) subsequent exploratory and advanced development in DoD-related technologies, and (b) new and improved military functional capabilities in areas such as communications, detection, tracking, surveillance, propulsion, mobility, guidance and control, navigation, energy conversion, materials and structures, and personnel support.

2. Budget Activity 2, Applied Research 6.2 includes all efforts directed toward the solution of specific military problems, short of major development projects. This type of effort may vary from fairly fundamental applied research to quite sophisticated "breadboard" hardware, study, programming, and planning efforts. It would thus include studies, investigations, and non-system specific technology efforts. The dominant characteristic of this category of effort is that it is pointed toward general military needs with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Program control of the Applied Research program element is exercised normally at a general level of effort.

3. Budget Activity 3, Advanced Technology Development (ATD) 6.3 includes all efforts for the development of subsystems and components, and efforts to integrate subsystems and components into system prototypes for field experiments and/or tests in a simulated environment. The prime result of this type of effort is proof of technological feasibility and assessment of a subsystem and component operability and producibility, rather than the development of hardware for service use. Projects in this category have a direct relevance to identified military needs.

4. Budget Activity 4, Advanced Component Development and Prototypes 6.4 includes system specific efforts that help expedite technology transition from the laboratory to operational use. Emphasis is on proving component and subsystem maturity prior to integration in major and complex systems and may involve risk reduction initiatives. Program control is exercised at the program and project level.

5. Budget Activity 5, System Development and Demonstration 6.5 is characterized by major line item projects and program control is exercised by review of individual programs and projects. Prototype performance is near or at planned operational system levels. Characteristics involve mature system development, integration, demonstration, conducting live fire test and evaluation and initial operational test and evaluation of production representative articles.

6. Budget Activity 6, RDT&E Management Support 6.6 includes research and development, test and evaluation efforts and funds to sustain and/or modernize the installations or operations required for general R&D use. Included would be test ranges and maintenance of test aircraft and ships, and studies and analyses in support of the RDT&E program. Cost of laboratory personnel, either in-house or contract-operated, would be assigned to appropriate projects or as a line item in the Basic Research, Applied Research, or ATD program areas, as appropriate. Military construction costs directly related to a major development program are included.

7. **Budget Activity 7**, Operational System Development 6.7 includes development efforts to upgrade systems that have been fielded or have received approval for full rate production funding in the current or subsequent FY. All items in this area are major line item projects that appear as RDT&E Costs of Weapon System Elements in other programs. Program control **must** be exercised by reviewing projects individually.

8. The costs incurred for nonrecurring RDT&E in the first two budget activities (6.1 and 6.2) may not be included in the nonrecurring RDT&E cost pool. The advanced development (6.3) budget activity classification is sometimes further broken down into budget activities 6.3A and 6.3B. Although both types of effort are a "proof-of-design" concept rather than the development of hardware for service use, the budget activity 6.3A classification is tied strictly to research efforts that involve the production of breadboards or brass boards to model all or part of a design. The budget activity 6.3B classification may be applied to projects to produce a prototype which, although not suitable for fielding, is closer to representation of an end item for military application. Therefore, costs incurred for nonrecurring R&D in classification 6.3A may not be included in the nonrecurring RDT&E cost pool. However, costs in classification 6.3B and the remaining R&D classifications are subject to recoupment and **must** be included in the nonrecurring R&D cost pools upon which the pro rata charge is calculated.

E. All applicable NC efforts, including in-house or multiple contractors **must** be included in the nonrecurring RDT&E cost pool. In other words, the source of the NC effort to develop a product is not relevant to the calculation of the NC recoupment charge. The costs of improvement programs that are designed to continuously improve the safety, reliability, availability, and maintainability of an end item or major component over the projected life of the item will be shared equitably by all users of the item. Normally, each user will pay a share of the total annual cost through a Component Improvement Program (CIP) or comparable program. All users are expected to participate in such a program. The cost sharing calculation will be established at the time the nonrecurring RDT&E cost pool is established and the NC recoupment charge is approved. First, the total life of the item will be projected, **and** then the point in time when half of all projected deliveries to non-DoD purchasers will occur will be estimated. Using actual cost data and data from historical files for similar CIP or comparable programs, the total U.S. investment costs over the life of the program will be estimated. The amount of U.S. investment projected to be incurred up to the previously determined point of half of the deliveries to non-DoD purchasers will be included in the weapon system nonrecurring RDT&E cost pool. The annual cost of operating the CIP or comparable program will be shared in proportion to the number of items in the possession of each user. This will ensure that the remaining costs of operating the CIP or comparable program will be shared equally by all users of the item.

F. The costs to be included in the nonrecurring production cost pool are those financed by, or to be financed in the future by, procurement or operations and maintenance appropriations that benefit current and future production runs. [Title 32 CFR 165 stipulates](#) that the pool **must** capture such costs as preproduction, special tooling, special testing equipment, production engineering, product improvement, destructive testing and product model production, and testing and evaluation. Other costs may be included if they benefit both current and future production runs. Descriptions of the major categories of costs to be

accumulated in this NC pool are as follows:

1. Preproduction cost refers to the cost of such activities as tooling manufacture and tryout (i.e., jigs, dies, and fixtures) and the implementation of layout plans. A lump sum payment for license cost is part of the preproduction cost. See paragraph 070305.F.8 of this chapter.

2. Special tooling cost refers to the costs of all jigs, dies, fixtures, molds, patterns, taps, gauges, other equipment and manufacturing aids, and replacement thereof, that are of such a specialized nature that substantial modifications or alteration of their use is limited to the development of production of particular supplies or parts, or the performance of particular services. The term includes all components of such items, but does not include: (a) material; (b) special testing equipment; or (c) building and non-serviceable structures (except foundations and similar improvements necessary for the installation of special tooling), general or special machine tools, or similar capital items.

3. Special test equipment cost refers to the cost funded by procurement appropriations for either single or multipurpose integrated test units engineered, designed, fabricated, or modified to accomplish special purpose testing in the performance of the contract. Such testing units comprise electrical, electronic, hydraulic, pneumatic, mechanical, or other items or assemblies of equipment that are mechanically, electrically, or electronically interconnected so as to become a new functional entity, causing the individual item or items to become interdependent and essential in the performance of special test equipment procured with RDT&E appropriations.

4. Developmental production engineering cost includes the cost of product design improvement intended to enhance producibility of an item; and examination of available manufacturing processes to determine the need for new techniques (and their development, if necessary); the optimum marshalling of resources for efficient manufacturing (such as optimum lot size, scheduling, production control, production line design and balancing and plant layout); and tool design and detailed manufacturing planning. Although a continuing activity, most of this effort is rightfully considered a nonrecurring production cost.

5. Product improvement is subdivided into six distinct types of effort: (a) safety; (b) cost reduction; (c) reliability, availability, and maintainability; (d) deficiency corrections; (e) compatibility standardization, and simplification; and (f) new or improved operational capability. Categories (a) through (e) are to be included in the end item nonrecurring production cost pool, even though a participating product improvement program has been established that prorates the annual cost of the program based upon worldwide asset position (both U.S. and foreign-owned end items). The DoD cost of category (f) must be recovered as part of the selling price of a new model item, if the item is an MDE. Product improvement programs may be accomplished by contractors as an engineering change proposal, modification work order, or an in-house project.

6. Destructive testing is a technique for performing tests on a component, assembly, or an end item. It involves the testing of an article beyond its design

limits (and ultimately its destruction), or the actual consumption of the article to determine if it is performing to design specifications.

7. Pilot model testing includes the following efforts:

a. Qualification testing is very severe testing to determine if a product will do what it is designed to do. It usually involves the testing of a product to the limits of its performance. It is often destructive and the test articles are not intended to be used operationally [in the future](#).

b. First article testing is [performed](#) to evaluate a new manufacturer's ability to produce a specified design (could be the new manufacturer's design or that of another manufacturer). It is normally more stringent and costly than routine acceptance testing, but less stringent and costly (and less destructive) than qualification testing.

8. License cost refers to the cost of the license DoD [obtains](#) to allow competitive awards for production of an item when its design is owned by a contractor. In effect, DoD buys the rights to allow other contractors to produce an item for DoD purposes through the payment of royalties or a lump sum fee. These royalties are customarily on a per item basis and should be charged as recurring production costs. The lump sum fee is a nonrecurring production cost.

G. In computing [NC](#) pools for items to be sold under FMS, [NC](#) of major components that are restricted to [USG](#) use [must](#) not be included. For example, the costs of nuclear devices and features, countermeasure devices and features, security devices (black boxes), carrier-peculiar adaptations, and special fuel tank devices [must](#) be excluded. Estimates may be used if accounting records do not identify associated costs.

H. [Benefiting units](#) is the number of items that [must be included](#) in all known or projected DoD production quantities and [must](#) be determined as follows:

1. The production quantities of end items required by DoD [must](#) be obtained from either Selected Acquisition Reports or the [Future Years](#) Defense Program (FYDP) Procurement Annex.

2. The production quantities of end items to be procured for foreign countries or international organizations under [SA](#) programs [must](#) be obtained from the DoD Component [SA](#) plans.

* 3. [If](#) end item data is not available from any of these sources, [then](#) the developing command [must](#) estimate the total number of end items to be produced.

4. The production quantities of systems components that meet the investment threshold [must](#) be derived from the number of end items to be produced. For example, if 100 aircraft [must](#) be produced ([assume one engine for each aircraft](#)) and spare part support requires 150 engines, the production quantity of engines is 250.

I. In the event of a disagreement on the production quantity and sales projections, the Director, [DSCA](#), **must** make the final determination, in coordination with [OUSD\(C\)](#) and [OUSD\(AT&L\)](#), of the production estimates to be used for determining the NC recoupment charge.

J. The approved pro rata charge **must** be recouped unless a waiver is authorized. When NC recoupment is applicable, the price **on an LOA must include** the specific recoupment charge. In instances where the initial rate has not yet been approved, the DoD Components **must** provide for an **estimated** rate based on the **most accurate** information available to the DoD Component. The LOA **must** be modified to **specify** the subsequently approved rate and only that approved rate is to be billed. When a recoupment charge is revised, the previous value is retained in the [SAMM](#), Appendix 1. Subsequent revisions to the pro rata charge **must** be applied to new LOAs and **must** not be retroactive. **An exception to this rule of application is not authorized.**

K. When the price is reduced because of age, condition, or supply status (excess), the same percentage reduction **must** be made to the pro rata share of NC.

L. [Title 32 CFR 165](#) requires a biennial review of approved MDE charges to determine if there has been a significant change in factors or assumptions used to compute the currently approved recoupment for a model. A significant change occurs when: (1) a new calculation shows a change of 30 percent of the current system NC charge for an MDE item, or (2) the NC unit charge increases or decreases by \$50,000 or more, or (3) where the potential for a \$5 million change in recoupment exists. A revision to the NC recoupment for MDE will not be applied retroactively to signed LOAs. Rather, the new charge applies to all sales following the date of approval. **An exception to this rule of application is not authorized.**

M. When a model change occurs, the NC recoupment charge **must** be recalculated. That portion of the NC which benefits only one model **must** be allocated only to that model. That portion of the NC that benefits old and new models **must** be prorated between cost pools related to the old and new model items. Commonality between old and new models may be determined either on the basis of the ratio of old model parts in the new item or on some other common acceptable basis for allocation of costs between the models (e.g., engineering analysis or technology analysis, as appropriate). Sample calculations are illustrated in [Figures 7-8 and 7-9](#).

N. While a change may be submitted at any time by a DoD Component, it is mandatory that a modification **to the NC recoupment charge** be submitted when a significant change occurs.

O. Reporting NC Recoupment Collections

1. Funds collected for NC recoupment charges **must** be disposed of in accordance with paragraph 070105 of this volume.

2. DoD Components **must** provide a quarterly report on the status of

NC collections. The report **must** be forwarded to the **Director, DSCA DBO**, within 45 days following the close of each fiscal quarter. **The DoD components must** maintain records of anticipated and actual **NC** collections.

P. Waivers

* 1. The Director, **DSCA**, has been delegated the authority to waive **NC costs on FMS sales** (see paragraph 070104.C of this chapter). **DSCA must issue**, in writing, any approvals granted for waivers of the **NC recoupment charge that otherwise would be collected under FMS**. **DSCA must forward** a notification of each approved waiver to the applicable DoD Component.

2. The decision on any waiver requires the concurrence of **OUSD(C) and OUSD(AT&L)**. If an issue concerning the waiver request cannot be resolved, the Director, **DSCA**, **must submit an official** waiver request to the Deputy Secretary of Defense for final determination. **That request** to the Deputy Secretary of Defense **must** be coordinated with **OUSD(C) and OUSD(AT&L)**.

Q. Articles delivered after November 30, 1989, under FMS cases fully financed with MAP **Merger** funds and/or non-repayable **FMF** funds, **must** be priced to exclude the **NC recoupment charge, in accordance with AECA, Section 21(e)(1)(B)**.

R. The established **NC recoupment charge must** be included in the **FMS unit price**.

S. The Director, Defense Contract Audit Agency (**DCAA**), **must** ensure that any evaluation of a contractor accounting system includes an analysis of the internal controls established to ensure compliance with the requirement to pay **NC recoupment charges** for sales made prior to October 7, 1992. If **DCAA** audit work (e.g., on a bid proposal or claim for incurred costs) discloses contractor noncompliance with the requirement to pay an **NC recoupment charge**, an audit report **must** be issued promptly to the cognizant DoD contracting officer, with a copy of the report submitted to **OUSD(C)**, **DFAS SCA** and **DSCA DBO**.

* T. "Special" RDT&E and Nonrecurring Production Costs

1. **Title 32 CFR 165.6(d)** requires the purchaser to pay for "special" **RDT&E and nonrecurring production costs** that are incurred for the benefit of a particular **FMS purchaser**. Documentation must be maintained to show that the **FMS purchaser** requested the feature for its own benefit.

2. **Title 32 CFR 165.6(d)** also stipulates that the **USG** must not be charged a **recoupment charge** for "special" **RDT&E and nonrecurring production costs** even if the **USG** also adopts those features for its own use, or provides equipment with such features under a U.S. grant, aid or similar program. This provision applies without regard to whether the adoption of such features by the DoD occurs before, during or after full development of the feature. For purposes of this paragraph, a "special" feature or unique requirement includes, but

is not limited to, features that the DoD initially may not have adopted or purchased due to the non-availability of funds, lack of authorization from the Congress, or lack of an approved DoD requirement, but subsequently adopts or purchases when otherwise authorized.

3. Title 32 CFR 165.6(d) also permits the recoupment of "special" RDT&E and nonrecurring production costs incurred by FMS purchasers or participants of a coproduction, co-development, and cooperative development, or cooperative production programs, only if such "special" costs exceed \$50 million for each FMS purchaser or cooperative participant. The "special" recoupment charge is determined by the DoD Component as a result of the distribution of the total costs divided by the total production, which is the same methodology used for determining the DoD NC recoupment charge. The reimbursements may be collected by the Department from other purchasers or participants on behalf of the purchaser or cooperative participant incurring the "special" costs. The reimbursements must not be collected after 10 years from the date the "special" recoupment charge is established.

* 070306. Returns. In accordance with AECA, Section 21(m), returns may be accepted if the defense article (a) previously was supplied under the AECA, (b) is not SME, and (c) is in fully functioning condition without need of repair or rehabilitation. DoD must have a funded requirement, including FMS requirements, for the defense article. The purchaser must not be reimbursed directly; rather the purchaser's FMS Trust Fund account must be credited to reflect the transaction, using DoD appropriations or other purchaser funds, dependent on the buyer.

0704 CASH SALES OF DEFENSE ARTICLES AND SERVICES FROM NEW PROCUREMENT FOR DIRECT DELIVERY AND PARTICIPATION IN NEW PRODUCTION

070401. General. Defense articles procured for cash sales to an eligible foreign government or international agency, pursuant to AECA, Section 22, for direct delivery **must** be priced to recover the full contract cost to DoD, **including** DoD recurring contract support costs and applicable DoD surcharges. Costs may be revised **for** increases **in** labor and materials, or **for** other changes in production and procurement costs. The purchaser is obligated to pay any damages or costs that may accrue from the purchaser's cancellation of the contract (**termination liability**). **Applicable surcharges must** be added to the contract cost and included in billings for incurred costs. An illustration of the price computation is at [Figure 7-10](#).

070402. Items to be Replaced by Later Production (Diversions). Sale of items from new production and procurement, when such items are diverted from Military Department delivery schedules to be replaced by later production, **must** be priced at the current production cost or the replacement production cost, whichever is higher.

070403. Cost Principles

A. In general, DoD articles **must** be priced on the basis of the same cost principles used in pricing DoD contracts covering items for DoD use. Recognition **must** be given to other reasonable, **allowable**, and allocable contractor costs and risks **as** permitted in the

Federal Acquisition Regulation and Defense Federal Acquisition Regulation Supplement, unless the purchase is wholly funded through non-repayable FMF credits.

B. When insufficient funds are available in the FMS Trust Fund account of a foreign government to meet current cash requirements, DSCA must initiate, through the responsible DoD Component contracting officer, appropriate contractual actions that will balance current cash requirements with available funds, unless the provisions of AECA, Section 22(b) are involved. Special attention is directed to Chapter 5, section 0502 of this volume. This condition should not occur without notification to the FMS purchaser.

070404. Recovery of Nonrecurring RDT&E and Nonrecurring Production Costs. The price must include recovery of nonrecurring RDT&E costs, and nonrecurring production costs as specified in Title 32 CFR 165. Paragraph 070305 of this chapter contains further discussion of these costs.

070405. Recovery of Contract Administration Services (CAS) Costs Incurred in Support of New Procurements for FMS

* A. General. DFAS SCA recovers the cost of CAS by applying a percentage surcharge to the delivery transactions reflecting disbursements to contractors for FMS procurements on which applicable CAS have not been waived. This surcharge is subject to waiver in whole or in part under AECA, Section 21(h) see paragraph 070104.C of this chapter. A listing of waived programs is included in the SAMM, Chapter 9. CAS waivers apply only to those cost elements approved for the entire LOA, not only to a specific line/sub-line. CAS waivers are case-based and apply to new cases implemented on or after the waiver date. They are not retroactive nor applied to amendments on cases implemented prior to the waiver. The surcharge amounts collected are deposited to an account maintained by DFAS SCA and are used to reimburse the DoD Components for CAS performed. The waived CAS element must be charged to DoD appropriations. DFAS and DSCA must reject billings to the FMS Trust Fund CAS Surcharge Account for charges that were waived.

* B. Prescribed CAS Surcharge. The following surcharges are prescribed for DFAS SCA application to disbursement with reimbursable codes, specific delivery source codes, and price code "N":

FMS CAS Component	For LOAs Implemented Before October 1, 2002	For LOAs Implemented After October 1, 2002
Contract Administration/Management	.50%	.65%
Quality Assurance and Inspection	.50%	.65%
Contract Audit	.50%	.20%
Subtotal , continental United States (CONUS) FMS CAS	1.50%	1.50%
Outside the CONUS (OCONUS)	Previously included above	.20%
Total , CONUS + OCONUS FMS CAS	1.50%	1.70%

* 070406. Recovery of CAS Costs Incurred in Support of Foreign Country Commercial Contracts. DoD support of commercial contracts awarded by foreign countries and international organizations represents an FMS sale of services. The Defense Contract Management Agency is responsible for performing this function. The hours expended in support of these commercial contracts must be accumulated and billed at an FMS contract administrative hourly labor rate published each FY by OUSD(C). These rates can be found at the OUSD(C) reimbursable rates Web site under Tab E, Contract Administration.

070407. Recovery of Costs for Government-Furnished Materiel (GFM)

A. All GFM supplied from inventory must be billed to the FMS case as "work in process" when the GFM is shipped from a depot to a contractor (refer to Chapter 8 of this volume). The billing price must be the same as a direct sale to an FMS purchaser, plus applicable accessorial costs.

B. All GFM supplied from another contractor must be billed to the FMS case as "work in process" when payments are made to the contractor supplying the GFM. GFM should be shipped via a collect commercial bill of lading or prepaid by the supplying contractor. Contracts with contractors supplying GFM should directly cite the FMS Trust Fund as the financing source to the maximum extent possible.

C. When precious metals recovered under the precious metals recovery program are provided as GFM to a contractor, the materiel must be valued at the market price on the date it is supplied to the contractor. Market price must be determined from any authoritative publication, such as *The Wall Street Journal*.

070408. Recovery of Other DoD-Funded Services in Support of FMS Procurements

A. The cost of DoD-provided or DoD-funded engineering services that are required to solve problems encountered during a production run must be allocated to FMS purchasers based upon the number of their items that are in the production run.

B. If components are procured for an FMS purchaser and assembled by DoD personnel, assembly labor costs must be assessed in accordance with section 0702 of this chapter.

C. If a contractor is designated as the source of supply for nonstandard items to be procured for FMS purchasers, the contract price for the applicable items will normally include the additional cost(s) incurred to research and procure the nonstandard items. Any reasonable method of allocating these additional costs is acceptable. The test of the reasonableness of the contractor's costing allocation would be acceptance of the method by DCAA.

070409. Special Considerations. The cost of deviations from USG configuration and special technical data desired by a foreign government must be included as a charge to that

foreign government.

070410. Production by a Foreign Government. When a portion of the production quantity is to be produced by the purchasing foreign government, costs **must** be computed separately in accordance with cost methods established by the foreign government and accepted by the **USG**.

* 070411. Recoupment of Interest Penalties Due to [Title 5 CFR 1315: Prompt Payment](#). The FMS Trust Fund must pay or reimburse any prompt payment interest penalty payments that are incurred. Vouchers for interest penalties incurred on FMS procurements must cite the same line of accounting supplied by DFAS SCA prior to the beginning of each FY. If, at the time of occurrence, the appropriate fund cite is unknown, contact DFAS SCA. DFAS SCA has assigned a unique accountable station number for each Military Department for the purposes of accounting for prompt payment interest penalty reporting.

* A. Within 30 days after the end of each quarter, each assigned DFAS SCA accountable station must submit the FMS Prompt Payment Act Report to DSCA. This report contains three sections reflecting the interest penalties paid by number of transactions, the dollar amount, and a reason code.

B. Each assigned DFAS SCA accountable station must submit a FY end-of-year report annually. Since the fourth quarter report is an aggregate of the entire FY, the quarterly report must also serve as the annual requirement. This report is due to DSCA 45 days after the end of the FY.

* 070412. Contract Review. The DoD Components will make every effort to obtain the final price for contract **supplied** items within 180 days of reported delivery. **However, the use of estimated price codes is approved for reporting the deliveries of major end items if an actual price code is not available within 30 days after date of shipment. Moreover, the use of estimated price codes is mandatory for reporting the deliveries of major end items if an actual price code is not available within 90 days after date of shipment.**

0705 ACCESSORIAL COSTS

070501. General. Accessorial costs represent certain expenses incident to issues, sales, and transfers of materiel **that may or may not be** included in the standard price or contract cost of materiel. A description of the various types of accessorial costs which may be applicable to FMS shipments follows:

A. Packing, Crating and Handling (PC&H) Costs. **These are** costs incurred **at** DoD facilities for labor, materials, or services in removing requisitioned articles from storage locations, preparing them for shipment from the storage or distribution points, and processing necessary materiel release confirmation documents. The costs are incurred on all articles sold from stock to FMS **purchasers**. **Effective October 1, 1990, PC&H costs are included in the prices of DWCF item deliveries.**

B. Transportation Costs. These are the costs of DoD-supplied or DoD-financed transportation (land, air, inland and coastwise waterways) within and outside the U.S., and overseas transportation by vessel or air. This includes parcel post via surface or air. Effective October 1, 1990, inland CONUS transportation costs are included in the price of items funded by DWCF.

C. Port Loading and Unloading Costs. These are the costs of DoD-supplied or DoD-financed labor, materials or services for loading, unloading and handling at ports of embarkation or debarkation.

* D. Special Instructions for Accessorial Charges for Excess Priced Goods. PC&H and Transportation are computed on the original acquisition value, not the reduced price. Compute the accessorial charges on the original acquisition cost of the goods if the price of the goods has been reduced in accordance with paragraph 070304 of this chapter. Exceptions to this are in paragraph 070304.C of this chapter.

070502. Packing, Crating, and Handling (PC&H)

A. PC&H costs will be included in the selling price of materiel sold from DoD inventories to recover the cost described in paragraph 070501.A of this chapter, except for DWCF items delivered after October 1, 1990. Additionally, PC&H will not be assessed on articles shipped directly from the manufacturer since no in-house DoD labor, material, or services are involved. The use of actual costs, when known, is highly encouraged. If actual costs are not available or are not cost effective to obtain, a surcharge rate can be used. Prescribed PC&H rates are:

1. A PC&H rate of 3.5 percent will be added to the selling price of materiel with a unit price of \$50,000 or less.

2. An additional charge will be added equal to 1 percent of that portion of the selling price of materiel over \$50,000.

3. Examples of PC&H price computations follow:

a. Item with a unit price of \$8,500:

\$8,500 @ 3.5% = \$297.50 PC&H charge

b. Item with a unit price of \$62,000:

\$50,000.00 @ 3.5% = \$1,750.00

\$12,000.00 @ 1.0% = \$ 120.00

\$62,000.00 \$1,870.00

B. The PC&H charge for service/maintenance cases is applied to the acquisition cost of the item(s) sold or serviced, not the cost of the service. The rate(s) in

paragraphs 070502.A.1 and 070502.A.2 of this chapter apply.

* C. For excess items, PC&H is computed on the original acquisition value and not the excess reduced value, except as provided for in paragraph 070304.C of this chapter. The use of actual costs, when known, is highly encouraged.

* D. For pricing blanket order lines on LOAs, use 3.5 percent on the line value since the unit price is unknown.

* 070503. Transportation. The transportation of FMS materiel **must** be on collect commercial bills of lading, **except** for DWCF materiel. When transportation **is** accomplished through a GBL, the GBL **must** be annotated to show that normal commercial rates **are** billed to the **USG** for the shipment. Section 10721 of the Interstate Commerce Act of 1887 is not applicable to FMS shipments, including items shipped from the DWCF.

A. DWCF standard pricing includes transportation costs within CONUS. If the first destination transportation is accomplished through GBLs, it must contain the DWCF fund cite. Shipping activities must clearly identify materiel as DWCF or non-DWCF to ensure the appropriate fund cite is issued for inland CONUS transportation.

B. The DoD Components **must** apply rates contained in the SAMM, Appendix 2. The transportation cost look-up table is used to estimate the actual transportation cost for an item normally shipped in the DoD Transportation System (e.g., sensitive/hazardous end items) when costs using standard transportation percentages are significantly different from actual charges. See the SAMM, Appendix 2 for procedures to develop the cost and current rates.

C. Price transportation on LOAs as follows:

1. Above the Line Transportation Services. When FMS customers use the Defense Transportation System, an estimated amount is placed above the line to pay for transportation services that are not appropriate to be funded with below-the-line estimates. Examples of these transportation services include premium transportation such as Special Assignment Airlift Mission flights, securing a vessel for a one time only shipment, staging cost for consolidating shipments, Radio-Frequency Identification tagging and tracking devices, special security (guards hired to escort the shipment), and other unique requirements.

2. Below the Line Transportation Services. When FMS customers use the Defense Transportation System, a Delivery Term Code (DTC) percentage is applied to the line to compute an estimated amount for these costs on the LOA. DTC percentages are based on the mode of transportation provided (e.g., port-to-port, depot-to-in-country destination) and the rate area where articles are being delivered.

D. For excess items, transportation is computed on the original acquisition value and not the excess reduced value, except as provided in paragraph 070304.C of this chapter. The use of actual costs, when known, is highly encouraged.

* 070504. Staging. Costs for the staging of materiel in CONUS DoD (non-DWCF owned/operated) facilities are **additional** to DoD Transportation System costs, and a 3 percent staging charge is applicable, if **DSCA** has authorized "below-the-line" recoupment of staging. **DWCF activities must** bill actual costs incurred as an above-the-line service. Normally, the actual costs of staging **must** be recovered as part of an above-the-line service charge. Such charges **must** not be duplicative of any other accessorial cost. When non-excess materiel is **supplied for** DoD storage points located **OCONUS**, the applicable rates **must** be charged as a prepositioning cost.

0706 FMS ADMINISTRATIVE SURCHARGE

* 070601. General. An administrative surcharge **must** be added to all FMS cases (unless waived pursuant to legal authority, see paragraph 070104 of this chapter) to recover DoD expenses **described in paragraph 070603 of this chapter**. It is applied to the FMS selling price with the exception of program management lines and small case management lines (SCML). See paragraph 070602 of this chapter. Applicable DoD Component costs are recouped in accordance with paragraph 070603 of this chapter. **SAMM**, Chapter 5, gives further guidance on the current administrative surcharges and how they are applied.

070602. Prescribed Standard FMS Administrative Surcharge

* A. FMS Administrative Surcharge. The applicable administrative surcharge for FMS is dependent upon **variables associated with the LOA**. For cost increases within the scope of the LOA, modifications retain the administrative rates **associated with the lines modified**. When an amendment adds a new line to an **existing FMS case**, the administrative surcharge rate **in effect at that time is applied**. The following FMS administrative surcharge rates are applicable for **LOA standard cases/lines and for the periods shown**:

1. January 29, 1970 - March 9, 1977. A 2 percent **FMS administrative surcharge is applied**, unless the supplying Military Department determined that the rate was either insufficient or in excess of actual administrative expenses, for any single FMS case. The use of actual FMS case administrative expenses was authorized.

2. March 10, 1977 - September 30, 1977. A uniform 2 percent **FMS administrative surcharge was used** for **LOAs signed by the IA** during this period.

3. October 1, 1977 - May 31, 1999. A uniform 3 percent for **LOA standard articles/services lines implemented during this period**.

4. June 1, 1999 - July 31, 2006. A uniform 2.5 percent for standard lines and 5 percent for nonstandard lines on **LOAs implemented during this period**.

5. Effective August 1, 2006. A uniform 3.8 percent **FMS administrative surcharge is used** for all new LOA lines accepted by the purchaser after August 1, 2006. Program Management Lines are no longer applicable to new cases accepted on or after this date. **USG services, over or above those covered by the FMS administrative**

surcharge, are provided on well-defined line items. All cases “accepted” on or after August 1, 2006, must collect a minimum charge to ensure sufficient funds to prepare and implement each case are collected by including SCMLs. The surcharge rate is not applied against the SCML.

B. Supply Support Arrangements. An administrative surcharge of 5 percent must be added to the basic sales price of the initial on-hand portion of CLSSA. See paragraph 070708 of this chapter.

C. FMS Orders for Nonstandard Articles and Services. For cases accepted prior to August 1, 2006, an administrative surcharge of 5 percent must be added to the basic sales price of FMS orders for nonstandard articles and services. However, the standard rate in effect must be applied under the following circumstances:

1. A contractor is designated as the source of supply in lieu of a DoD Component performing additional work for the nonstandard articles and services.

2. A case/program management line is included in the LOA that specifically recovers costs associated with the tasks performed in support of the sale of nonstandard articles or services.

* 070603. DoD Component Administrative Expenses. Administrative expenses capture the manpower costs (USG and contractor furnished) required to develop, execute, and close FMS cases. These functions may be indirect (e.g., support across multiple purchasers/cases) or direct (e.g., support to a specific case or program). DoD organizations that provide general administrative support to the FMS program must recoup the full cost (excluding a pro rata share of fixed base operations costs) to provide such support. The DoD Component administrative support costs must not include costs prescribed in this volume as above-the-line costs. The administrative support cost also does not include the cost of calculating nonrecurring recoupment charges and royalty fees which is a DoD mission cost. See SAMM, Chapter 5 for case related manpower functions and appropriate funding sources.

* 070604. FMS Administrative Surcharge on Cases Closed at Reduced or No Value

A. For any case that is closed, the USG will retain funds to pay for estimated administrative costs associated with the case, even if no articles or services have been delivered (\$0 delivered value). The minimum, nonrefundable amount will be: the value when combining the SCML and the administrative surcharge value; or one half of the administrative surcharge estimated on the case; or the standard administrative surcharge percentage of the expended value, whichever is greater. See SAMM, Chapter 6.

B. DSCA DBO may approve reductions to this policy when it can be clearly shown that the actual values of administrative costs on the case are less than these values or if the case is cancelled for the convenience of the USG.

C. If a SCML was not included on the basic case and the case was “accepted” on or after August 1, 2006, a SCML must be added if the case value is reduced such that a SCML is needed to reach the minimum value of administrative collections current at the time of closure.

D. Case Managers wishing to request that a case be closed at \$0 articles and/or services value, must contact DSCA DBO for approval. The DSCA DBO reply is sent to the Case Manager and DFAS SCA.

E. Cases canceled for the convenience of the USG may not incur an administration cancellation fee, but require the amount of administrative charges assessed be approved by DSCA DBO.

F. For cases closing with a case value greater than or equal to \$25,000,000, the IA will submit a recommended nonrefundable administrative charge amount to DSCA DBO for approval.

070605. Waived FMS Administrative Surcharge

A. General. Normally, the amount of the FMS administrative surcharge which has been waived or reduced for a particular FMS case, pursuant to statute, must be reimbursed to the FMS administrative surcharge account. For such reimbursements, the IA (which is the proponent of the case on which the charge has been waived) must obligate its current available appropriations for the full amount being waived when the case is implemented. DFAS SCA calculates the amount of the earned FMS administrative surcharge on cases with waived administrative surcharge and submits quarterly billings to the appropriate IA.

B. Funds Control. The LOA package for cases with waived FMS administrative surcharge must cite the authority, dollar amount waived and obligating document number in a case note. The IA must include a copy of the certified document committing the funds as part of the LOA coordination package. See Volume 14 of this Regulation for guidance on the administrative control of appropriations.

0707 COOPERATIVE LOGISTICS SUPPLY SUPPORT ARRANGEMENTS

070701. General. DoD Directive 2010.6, “Materiel Interoperability and Standardization with Allies and Coalition Partners” and the SAMM, Chapter 5 prescribe the policies and criteria for establishing CLSSAs. CLSSAs provide for the execution of FMS Orders (FMSOs) covering stockage, consumption, and storage. There is no annual inventory maintenance and storage charge for DWCF items for CLSSAs, as the DWCF standard (stabilized) price recoups all costs. Two FMS cases are required for supply support arrangements: a FMSO I case and a FMSO II case. Both cases must be executed in order for FMS requirements to be anticipated and to be satisfied on an equal footing with U.S. requirements.

* A. The FMSO I case is subdivided into two parts: Part A represents the on-

hand portion of the inventory (normally 5 months) and Part B represents an on-order dependable undertaking (normally a 12 month period). For new FMSO I cases accepted on or after September 20, 2005, the on-hand portion of the inventory list will be 30 percent of the total investment/equity list. For FMSO I cases accepted prior to September 20, 2005, the on-hand portion of the inventory list will remain at 5/17 of the total investment/equity list. Both parts of the FMSO I provide obligational authority equal to its value in the DoD Component activity giving the supply support to the purchaser. Cash paid on acceptance of the FMSO I is to equal the Part A on-hand portion of the inventory and administrative surcharge. The cash required to liquidate obligations incurred with suppliers for the on-order portion is the cash paid by the purchaser in connection with the FMSO II case and, in turn, creates a new order received and recreates obligational authority back to the FMSO I. If the amount of progress payments required by the IA varies by more than 10 percent of the Part A value, the DoD Component must either: (1) amend the case to bring the Part A value in line with the DoD Component progress payment requirement, or (2) request additional progress payments to equal the Part A value.

B. The FMSO II case represents the foreign purchaser's anticipated yearly consumption under CLSSA. Cash to cover requisitions is paid in advance of each quarter covered by the case. The cycle of obligation, acquisition, requisition, issuance, and payment can be summarized as follows:

1. FMSO I, Parts A and B, grant the DoD Components obligational authority up to the case amount.
2. The cash provided under FMSO I, Part A, finances the on-hand inventory.
3. Requisitions made by the purchaser are filled from the on-hand inventory.
4. Replenishment of on-hand inventory is made from contracts awarded under obligational authority granted by FMSO I, Part B.
5. Payments to contractors are made from funds provided in accordance with FMSO II terms.
6. Liquidation of obligations by payment to contractors in effect recreates obligational authority granted by FMSO I, Part B, and the cycle commences again.

C. The entire amount of the FMSO I case represents obligational authority. Normally, no cash billings are required against the FMSO I, Part B, unless the CLSSA is either partly or wholly terminated. The FMSO II case provides obligational authority only to the extent purchaser orders are received. Thus, proper working of the FMSO I and II should result in a constant 12 months of obligational authority in the applicable appropriation or fund account, never more or less, after the on-hand inventory of FMSO I, Part A, has been acquired.

D. The cash and obligational authority derived from the FMSO I and FMSO II are to be transferred to the commodity command or [supply](#) agency that is expected to provide supply support to the foreign country. This command or [supply](#) agency **must** use such cash and obligational authority to increase stock and on-order quantities in anticipation of requisitions from the country which entered into the [CLSSA](#).

E. In unusual circumstances, it may be determined that the 5-month on-hand and 12-month on-order levels are inappropriate for the particular equipment being supported. In these circumstances, the on-hand and on-order requirements may be adjusted to more realistically reflect DoD on-hand and on-order levels for the items being supported. [A renegotiation of the CLSSA may be necessary](#). The office that developed the [CLSSA must retain](#) documentation in support of such determinations.

070702. [Purchaser Equity](#). [CLSSAs](#) are written in terms of an absolute dollar amount of support to be provided under the arrangement. A listing of the specific items required to support the weapon system is not developed. Under this "dollar value" concept, the FMS [purchaser's equity must](#) remain valued at the cash deposited for the FMSO I. Upon termination, a review **must** be made of the foreign country's demand data for specific items. When these demand data result in the procurement of stock above the DoD-approved retention levels, the foreign country **must** be informed that applicable stocks owned by that country must be drawn down or that a settlement agreeable to both parties must be reached.

070703. [Pricing](#). Paragraph 070302.B [of this chapter](#) sets forth the pricing requirements.

070704. [Storage Costs](#). There is no annual inventory maintenance and storage charge for [DWCF](#) items for [CLSSAs](#), as the [DWCF](#) standard ([stabilized](#)) price recoups all costs. [For non-DWCF items, storage fees must](#) be charged based on the on-hand portion of the FMSO I. The annual storage fee is 1.5 percent. For cases not remaining open a full year, a fee of .125 percent a month **must** be charged.

070705. [Obsolete Materiel](#). If an item becomes obsolete or excess to the [U.S.](#) but not to the foreign government, the [U.S.](#) may request the foreign government to withdraw its undelivered quantity of the item. Additional quantities may be offered to the foreign government at fair value prices ([see paragraph 070304.A of this chapter](#)). If items become obsolete or excess to the requirements of the foreign government but not to the [U.S.](#), the foreign government may request the [U.S.](#) to consider cancellation of its order and to apply its equity in the undelivered quantity to subsequent orders for other items. If cancellation is not agreed to, arrangements **must** be made for the [U.S.](#) to dispose of the materiel and credit the net proceeds to the foreign government. If the [U.S.](#) has a need for the materiel, appropriate credit to the stock level case for return of the materiel to stocks of the [U.S.](#) **must** be made in accordance with departmental procedures for credit allowance for return of materiel. If items become obsolete or excess to the requirements of both the [U.S.](#) and the foreign government, arrangements **must** be made for the [U.S.](#) to dispose of the materiel and the proportional share of the net proceeds of sale **must** be credited to the foreign government.

070706. Unusual Inventory Loss. Stock losses due to enemy action, major disaster, or other casualty from a natural phenomenon **must** be assessed against the foreign government in an amount proportionate to the ratio that the value of its stock case bears to the total value of stocks in storage.

070707. Normal Operating Inventory Loss. The standard prices paid by the foreign government for stock level of DWCF items already include a surcharge for estimated normal operating losses in storage.

070708. Administrative Surcharge

A. A one-time nonrefundable, administrative surcharge of 5 percent **must** be charged on the on-hand portion (Part A) of the FMSO I case. For amendments that decrease the value of the on-hand portion (Part A), there **must** be no adjustment made to the administrative surcharge. However, for amendments that increase the value of the on-hand portion (Part A), the 5 percent nonrefundable administrative surcharge **must** be charged on the total value of the increase. The following is an example of the administrative fee computation:

Document	Revised On-Hand Materiel Value	Increase or (Decrease) to Previous On-Hand Materiel Value	5% Admin Fee Charge on Increase	Admin Fee Accrued Expenditures
Basic LOA	\$3,000,000	\$3,000,000	\$150,000	\$150,000
Amend 1	4,000,000	1,000,000	50,000	200,000
Amend 2	2,000,000	(2,000,000)	N/A (Decrease)	200,000
Amend 3	3,000,000	1,000,000	50,000	250,000
Amend 4	5,000,000	2,000,000	100,000	350,000
Amend 5	4,000,000	(1,000,000)	N/A (Decrease)	350,000

B. No administrative surcharge **must** be charged on the on-order portion (Part B) of the FMSO I case. The current administrative surcharge (see paragraph 070602 of this chapter) **must** be charged on requisitions processed under FMSO II cases. If a FMSO I agreement is terminated, the current administrative surcharge **must** be charged for the inventory over and above the on-hand portion of the case. There **must** be no additional surcharge on the on-hand portion of the case, since the purchaser has made advance payment of the administrative charges applicable to this portion of the case.

0708 STORAGE, REPAIR OR MODIFICATION OF PURCHASER-OWNED MATERIEL

* 070801. Storage. Costs applicable to storage of purchaser-owned articles include the functions of receiving, care and preservation, set assembly and related activities, and overhead operations (such as re-warehousing, maintenance of operating equipment, physical inventories, and cleaning areas.) Storage charges are applicable to the non-DWCF on-hand portion of FMSO I cases, to cases on which DoD is ready to deliver applicable items but has been requested by the purchaser to delay delivery; and to cases on which DoD cannot deliver due to legal or policy restrictions. Charges commence 15 days following the date of availability (there is no annual inventory maintenance and storage charge for DWCF items for CLSSAs, as

the DWCF standard (stabilized) price recoups all costs). A uniform DoD annual rate of 1.5 percent or .125 percent monthly of the average monthly value of purchaser-owned materiel will be charged to applicable FMS cases to recover an activity's storage cost unless a separate charge is negotiated with the storage facility. A separate line on the LOA(s) should capture the storage-related costs. If this line did not previously exist, it can be added via an LOA modification. An illustration of a billing for storage, other than FMSO, is in [Chapter 8](#) of this volume.

070802. Repair or Modification. When a foreign government requests the repair and/or modification of items from non-DWCF activities, the actual or estimated cost of the work will be priced on a job order basis. An illustration of price computation is at [Figure 7-11](#) of this chapter.

A. Labor costs will be computed in accordance with section 0702 of this chapter.

B. Materials and supplies obtained from the military supply system stocks will be priced in accordance with section 0703 of this chapter.

C. Materials, supplies, or services obtained directly from contractors will be priced in accordance with section 0704 of this chapter.

D. Transportation and related costs incurred in movement of the materials and supplies used during repair and/or modification must be priced in accordance with section 0705 of this chapter. See paragraph 070501.B of this chapter for treatment of DWCF materiel.

E. Indirect labor, material, and contractual services will be priced in accordance with the guidance in this chapter and allocated to job orders.

* F. Appropriate incoming and outgoing transportation costs related to FMS equipment or materiel processed by repair or overhaul facilities will be paid by the FMS purchaser. If the repair facility ships the repaired item to the purchaser, then the transportation costs must be included in the FMS selling price.

070803. FMS Administrative Surcharge. The FMS administrative surcharge must be applied to all direct and indirect costs billed in connection with storage, repair and/or modification.

* 070804. Special Instructions Applicable to DWCF Activities. DWCF activities must charge approved DoD stabilized rates and prices for defense articles and services in support of FMS cases. Materiel funded by the DWCF, including depot level reparable, must be priced at the standard (stabilized) price in effect at the time the item is dropped from inventory or at the net/exchange price, if applicable, for a direct exchange transaction. The standard (stabilized) price or rate charged to FMS purchasers of DWCF activities for defense articles and services must be adjusted to include an amount for unfunded civilian retirement and post-retirement health benefits costs in accordance with paragraph 070206.

0709 COSTS ALLOCABLE FOR JOINTLY USED FACILITIES

070901. General. When specific agreements or arrangements are made for the joint use of USG facilities (e.g., sharing of storage spaces, dedicated training facilities), a pro rata share of the operating cost financed by operating appropriations **must** be charged to the foreign **purchaser**.

A. When jointly used storage or office space is involved, the pro rata share of operating costs **must** be determined on the basis of space assigned to the foreign government versus total space available for assignment.

B. Operating costs **must** include, but are not necessarily limited to, **the** cost of maintenance and upkeep of the facilities including access roads, security, communications, utilities, and rent, if the **USG** must make rental payments under lease agreements.

070902. Joint Use of Satellites. When jointly used satellites are involved, the launch cost **must** be allocated to each participant based on pre-launch negotiations that consider the expected benefits accruing to each participant. Recurring operating costs **must** be prorated **based** on the time each participant actually uses the satellite.

*0710 TRAINING OF INTERNATIONAL STUDENTS

071001. General. The legal authorities related to training are in paragraph 070104 of this chapter. Any special requirement for the exclusive use of **an international student or international program** **must** be reimbursed in full.

A. Tuition-Based Training. Tuition rates for training **must** be based on the costs of providing the training. There are several factors that impact the tuition rate for which an international student is eligible. The source of financing is one determinant (e.g., whether a country uses its national funds to purchase training or whether U.S. appropriated funds are used to purchase the training). Other factors include whether a country is a high-income country, whether it has signed a reciprocal training agreement with the U.S., and/or whether the country is concurrently in receipt of IMET. A general guide for pricing training is also addressed in Table 7-3 of this chapter. Detailed instructions to be followed in developing the tuition rates are included in paragraph 071002 of this chapter.

1. Standard Formal Training. Formal training provided to international students may consist of flying training courses, technical training courses, language training, and other training not specifically addressed in paragraph 071001.A.2 of this chapter. Course costs are generally shown as a cost per student or cost per student week.

2. Nonstandard Formal Training. Nonstandard formal training courses follow the same pricing concepts as formal training with the following noted exceptions:

a. Observer Training. International students who audit a course **must** be charged the same price as enrolled students.

b. Distance Learning or Other Technology Based Training

(1) Material Only. A training course that is provided solely by computer media (e.g., computer disc), satellite video teleconference (VTC) or closed circuit VTC, is non-resident and is being developed solely for the training of international students (one country or a group of cooperating countries), must be priced to fully recoup all costs to the USG including the costs (in-house and contractual) to develop and produce the training, and the costs of the materials (such as a computer disc). See paragraph 071402 of this chapter.

(2) Material and Proctor/On-Line Service. A non-resident training course developed solely for the training of international students (one or more countries) that is provided by computer media (e.g., computer disc), plus on-line services (proctor) to include testing must be priced to recoup all costs (in-house and contractual) to develop and produce the training; the costs of the materials (such as a computer disc); and the actual, or estimated costs of the services. See paragraph 071002 and 071402 of this chapter.

(3) Resident Courses. A resident training course developed solely for the training of international students that is on computer media (e.g., computer disc), plus on-line services (proctor) must be priced to recoup all costs (in-house and contractual) to develop and produce the training; the costs of materials (such as computer disc); the actual, or estimated costs of the services; and the costs for resident training. See paragraph 071002 and 071402 of this chapter.

c. Inter-American Air Forces Academy and Western Hemisphere Institute for Security Cooperation. Training costs associated with courses offered at these schools must exclude the fixed costs of operating and maintaining the schools (e.g., costs that do not vary with student load).

d. Dedicated Training Courses. For purposes of this section, a dedicated training course is a training course developed or provided solely for the training of international students (one or more countries). Note: The indirect and administrative surcharge exclusions for NATO do not apply for dedicated training courses.

3. Recoupment of Nonrecurring Development Costs. International student participation in any of the aforementioned types of courses that have been developed for use by U.S. DoD personnel must not include the recoupment of nonrecurring development costs. The costs of providing unique training material based on U.S. developed course/courseware (e.g., sanitizing, customizing, and country standardization) must be recouped, as well as the costs associated with the provision of any material (e.g., computer discs, tapes, and compact disks (CDs)), packing, transportation, and/or handling. However, since these courses/courseware are not items of SME or MDE, the nonrecurring development costs of the original U.S. courses/courseware must not be included in the price.

B. Non Tuition-Based Training

1. Dedicated Training Programs. Dedicated training programs (e.g., Euro-NATO Joint Jet Pilot Training Program, Euro-NATO Helicopter Pilot Training Program, PEACE CARVIN, PEACE FENGHUANG) must be priced in accordance with the terms and conditions established via formal agreement between the IA and the recipient country/countries. While each program is different, generally accepted full cost pricing principles (refer to paragraph 071002.D. of this chapter) must be applied taking into consideration appropriate legislative authority and terms of the formal agreement.

2. Training by Security Cooperation Teams (SCTs)/Security Assistance Teams (SATs). When a special course is conducted by an SCT or SAT (e.g., Management Service Team, TAFT, or MTT) away from the normal training institution, the services of the team must be treated as a service and priced in accordance with paragraphs 070202 and 070203 of this chapter. All travel, per diem, and allowances paid to members of the team established to conduct in-country training must be considered incremental costs. Exclude military pay and allowances as well as civilian unfunded retirement from the costs established for teams conducting in-country training fully financed by MAP Merger or FMF, or financed under the IMET program.

3. Training at DWCF Activities. DWCF activities must charge on an actual cost basis. Training pricing at DWCF activities must be based on direct labor hours dedicated to the training, priced at the standard (stabilized) rate, any specific student consumable material costs, plus any applicable military manpower costs incurred. When DWCF civilian personnel conduct training at a location other than the work site, their effort should be priced similarly, less the overhead component.

C. Liability for Damages

1. Training cases that involve the use of U.S. equipment (e.g., aircraft, trucks), but do not include charges for attrition, must include a statement regarding liability for damages. Refer to Chapter 3 of this volume for a discussion on attrition charges. This statement must reflect that the foreign government is liable for any damage to such equipment due to negligence on the part of the student. The cost of replacing equipment that is destroyed as a result of student negligence must be reimbursed in full. See section 0703 of this chapter for instructions on pricing replacement equipment.

2. Claims arising out of combined exercise activities with the USG under an LOA with NATO countries must be dealt with under the Agreement between the Parties to the North Atlantic Treaty regarding the Status of their Forces, Article VII. This also applies to the Parties to the Partnership for Peace regarding the Status of their Forces.

D. Annual Publication of Rates. Tuition rates must be computed annually by the Military Departments and published in the Training Military Articles and Services List. Refer to the SAMM, Chapter 13.6.2. Every effort should be made to publish these rates by October 1st of each year. Tuition rates must be those in effect for the year in which the student enters the course or phase of a course. Approved rates must remain constant for the year. Adjustments must be made only to correct significant errors in computation, change in syllabus,

or major unanticipated increases or decreases in the cost of such items as POL and salaries. The foreign country **must** be billed for the actual time the student is in training when it varies from the scheduled length of the course. Any adjustments **must** be made as soon as possible, but not later than 90 days after completion of the course.

E. DoD Course Cancellations

1. Dedicated/Contract Training. Once a contract is awarded or a quota is confirmed, a 100 percent charge (penalty fee) will apply to any country that fails to send a student to the identified training, unless another international student is identified and the quota is filled. Dedicated/contract training will only apply to certain courses. This training will include courses that rely on contract support and courses that are designated for international students only. A list of these courses will be identified by the IAs.

2. All Other Confirmed Training. A 50 percent charge will apply for all confirmed training cancelled or rescheduled with less than 60 days notification unless training is reallocated and filled by another international student. The cancellation policy will be applied to all confirmed training within the 60 day window. Additionally, the penalty will be applied to all training that falls within and outside the 60 day window if the training is part of a sequential pipeline that a student would attend as part of a complete curriculum.

3. Other Penalty Charges. The IA will determine all other penalty charges. Request for waivers to these penalty charges should be addressed to the IA. The funding status of a training line has no bearing on whether the cancellation charge applies. The cancellation penalty will not be applied when the cancellation is due to (1) decisions by the USG, such as deletion or rescheduling of classes; (2) unavoidable circumstances within a country, such as national disaster; or (3) the quota being used by another country.

F. Student Costs. Certain costs associated with support of international students and/or their dependents are considered to be a responsibility of the foreign government and are not included in the tuition rate for a training course(s). Compute and bill these costs as follows:

1. Meals. Students pay the discounted rate for meals in the base dining facility, as food preparation costs are included as part of the course tuition for all international students. The rates are set annually by OUSD(C) and published on the [OUSD\(C\) reimbursable rates](#) Web site.

2. Medical. Medical care (including outpatient) for students and dependents **must** be charged in accordance with the procedures identified in the [SAMM](#), Chapter 10. If included on the LOA, these costs **must** be shown as a separate line and billed to the foreign country.

3. Travel. Student travel and related costs **must** be paid to the commercial carrier, or other service provider, by the foreign country or student. For any U.S. services supplied (e.g., Air Mobility Command transportation), the non-government rate **must** be

applied and billed to the foreign country or student, as appropriate. The government rate applies for IMET or non-repayable FMF.

4. Lodging

a. Family Housing. International students may occupy DoD student family housing only after a determination has been made that U.S. student requirements are satisfied and **must** be satisfied for the projected duration of the international student's occupancy. Under these circumstances, the amount to be charged **must** be, **at a minimum**, the cost incurred by DoD for the operation and maintenance of family housing units. When international students occupy family housing that is not excess to U.S. military service needs, the amount to be charged **must** be equal to the cost of housing U.S. military service personnel on the economy.

b. Government Quarters. When international students occupy government quarters, they **must** be required to pay, **at a minimum**, the local custodial and nonappropriated fund fees.

071002. Pricing of Tuition Rates

A. General. The pricing of training tuition rates falls under one of two costing schemes – full cost or incremental cost. Within these schemes, costs are segregated into three categories – direct costs, indirect costs, and other billable costs.

1. Full Cost. Full cost is the sum of direct and indirect costs required in the training of students, including the costs of activities performed by other entities, regardless of funding sources.

2. Incremental Cost. Incremental cost is the additional cost incurred above and beyond the full cost of training due to the addition of international students.

3. Direct Cost. A direct cost is any cost that is identified specifically with the training of a student. Direct costs also include directly associated costs that would not have been incurred had the other direct costs not been incurred (e.g., costs that are allocated on a specific measurable basis- cost per student week, cost per flying hour/sortie, costs per steaming hour, costs per range hour).

4. Indirect Cost. Indirect costs are costs of resources that are jointly or commonly used by all activities at an installation, but are not specifically identifiable with any of the users. These costs are not directly related to training, but instead are associated with a variety of activities and services.

5. Other Billable Cost. Other billable costs are those required by legislation or policy that are additive to the cost of training an international student (e.g., FMS administrative surcharge, Field Studies Program (FSP), attrition, and retainable instructional material (RIM)).

B. Pricing of Personnel

1. Military Personnel. Price military pay using the FMS composite standard rates and acceleration factors published at OUSD(C) reimbursable rates Web site, Tab K. See also paragraph 070203 and Figure 7-2 of this chapter.

2. Civilian Pay. Price civilian pay in one of two ways: (1) actual costs plus inflation and applicable acceleration factors (recommended for tuition pricing) or (2) in accordance with paragraph 070202 and Figure 7-1 of this chapter.

C. Inflation Factors. Tuition rate estimates for future years must be adjusted for inflation. OUSD(C) published rates will be used. See OUSD(C) Web site, Budget Materials, National Defense Budget Estimates (Green Book), Chapter 5.

D. Full Cost of Training. When developing the full cost of training, take into account the cost of training both U.S. and international students. Full cost includes all direct costs and a proportional share of indirect costs to the USG for providing the training. For international students, full cost will also include the other billable costs. Rates priced using full cost principles include Rates A and B in Table 7-3. Exceptions are found in paragraph 070104 of this chapter.

1. Direct Costs. Certain costs can be directly identified to training courses. Once identified, the direct cost is divided by the total number of students enrolled in a course to determine the cost per student. Add together all direct costs per student to be included in the tuition rate.

a. Instructors and School Support Staff

(1) Instructors. The cost of instructor salaries, allowances, and other entitlements is computed by dividing the annual instructor cost (see paragraph 071002.B of this chapter) by 52 weeks and multiplying the result by the number of weeks in the applicable course. Divide this cost by the average number of students in the class to develop the instructor cost per student. Alternatively, instructor costs may be allocated on an instructor contact-hours basis (e.g., total instructor costs divided by total platform work hours); this allows for a more equitable distribution.

(2) School Support Staff. Compute the cost of salaries, allowances, and other entitlements of administrative and other personnel supporting training (e.g., International Military Student Officer) by dividing the total annual cost by total course weeks of training and multiplying the result by the number of weeks in the applicable course. Divide this cost by the average number of students in the class to develop the school support staff cost per student.

b. Temporary Duty (TDY) and Per Diem. The cost of TDY must be allocated to courses based on a causal or beneficial relationship. Accordingly, TDY must be segregated into two categories: (1) direct TDY that is caused by or benefits a specific

course or courses and (2) indirect TDY that benefits the training operation as a whole. TDY that is directly related to (or benefits) one or more courses **must** be directly allocated to those courses. To preclude "double charging" TDY to a course, care **must** be taken to ensure that all directly allocable travel is eliminated from the TDY included in the indirect cost pool.

c. Equipment Overhaul and Maintenance

(1) Depot Level Maintenance. The depot level maintenance cost of aircraft, engines, motorized vehicles, and equipment **must** be charged to the applicable course at the budgeted average hourly item repair cost that includes civilian pay, contractual effort, and supplies. These costs **must** be adjusted to include military pay and centrally procured equipment and parts. Multiply this average hourly cost by the hours programmed for use in the specific course.

(2) Base Level Maintenance. Base level aircraft and equipment maintenance costs (including munitions maintenance) **must** be allocated to courses on the basis of total maintenance costs divided by the total training hours supported, if not identifiable and chargeable on a job order basis. Costs **must** include military and civilian pay, supplies and equipment (including replenishment spares), and contractual support. If there are a significant number of transit or non-training aircraft at the base, aircraft operating costs **must** be distributed initially between training and non-training on the basis of percentage of number of takeoffs, number of sorties per year, or maintenance direct labor hours, whichever results in the best allocation of costs in relation to the benefits received. For this purpose, aircraft used by personnel supporting training for proficiency flying **must** be classified as training aircraft.

(3) Range Maintenance. Range maintenance and operating costs **must** be computed and allocated to courses based on the percentage of sorties or rounds fired in the course compared to the total sorties or rounds fired or any other basis that results in an equitable allocation of these costs.

d. Simulators. Simulator costs **must** include pay of the operators, supplies, and equipment maintenance. Simulator costs **must** be allocated to the course in the same ratio as hours used bears to the total hours available.

e. Supplies, Materiel, Training Aids, and Ammunition

(1) The cost of POL for aircraft (rotary/fixed wing), motorized equipment, ships, landing craft, and other equipment **must be computed by multiplying** the equipment hourly cost of POL times the number of operating hours for the course.

(2) The costs for training materials, equipment, supplies, aids, munitions, flight clothing, and personal equipment **must** be charged to the applicable course. Training material and aids prepared above base level that are readily identifiable to a course, **must** be included as a direct cost of the course. If not readily identifiable to a specific course, these costs **must be distributed** to courses in the same manner as indirect

TDY costs. Care must be taken to ensure against "double charging" a course.

f. Directly Associated Costs

(1) Other directly associated costs allocable to training operations **must** be distributed to courses on the basis of total training hour support or any other logical method of measurement (e.g., square footage of buildings, flying hours/sorties, or any other usage factor). Costs in this category include costs generated as a result of the incurrence of another cost and would not have been incurred had the other cost not been incurred (e.g., flight line operations costs in direct support of flying training and port operations in direct support of shipboard training, without which there would be no flying training operations or shipboard training operations).

(2) The cost for training U.S. instructor pilots, including proficiency and continuation training, **must** be limited to special aircraft not in the active U.S. aircraft inventory. These costs **must be divided** by the normal tour of duty for an instructor pilot to arrive at an annual cost that **must** be distributed to courses in the same manner as instructor salaries and allowances.

2. Indirect Costs

a. Indirect Base Operating Support Costs. Indirect base operating costs **must** be allocated initially to major claimants (e.g., training activities and tenants). The amount allocated to training **must** then be distributed to areas of training that are significantly different (e.g., flying operations, classroom training, and equipment maintenance). All allocations **must** be made at the installation level using engineering estimates or some other basis to ensure that allocations are commensurate with the benefits received. No costs to support or operate quarters, a family housing complex, and food service activities **which** are applicable to instructors and training support personnel may be allocated to tuition rates if these costs are recouped in base personnel salaries. The amount allocated to each area of training **must** then be distributed to the tuition rate by dividing the amount allocated by the annual estimated student weeks of training. Reduce by 5 percent the amount allocated to foreign students to allow for costs considered inappropriate for allocation (e.g., the chapel, equal rights office, alcohol treatment, and special services).

b. Maintenance and Repair of Facilities. Maintenance and repair of facilities **must** be considered part of the normal base operating support costs, unless these costs can be directly identified to a specific user (e.g., dedicated facility, specific to a course or courses). When non-dedicated facilities are used for training, the costs are included as indirect costs under Non-Personnel Costs in the tuition rates. These costs may be combined with other indirect costs and allocated at the installation level or allocated based on a separate cost pool. If allocated as a separate cost pool, do not reduce by 5 percent.

c. Indirect TDY. TDY that is caused by or benefits the training operation as a whole **must** be allocated to courses by dividing these total indirect TDY costs by total number of students to determine the course cost per student. Do not reduce by 5

percent.

d. Training Material and Aids. Training material and aids not readily identifiable to a specific course must be distributed to courses in the same manner as indirect TDY costs.

e. Exclusions. Exclude the following from indirect allocations:

(1) Costs associated with combat development, training development (less course development), non-resident instruction, or other activity that offers no support to the training mission, and a pro rata share of school overhead costs to support these elements.

(2) Costs associated with units attached to the training installation with duty stations at another location that are not involved in the training of international students.

(3) Costs related to underutilized capacity and mobilization requirements, when specifically identified and documented.

3. Other Billable Costs

a. Attrition Rate/Liability Statement. Tuition Rate A in Table 7-3 includes an attrition rate of 1 percent for courses whenever the training or education course includes the use of training equipment or operational equipment used as training aids. All other FMS tuition rates will include a liability statement on the LOA: "The Purchaser is liable for any damages to U.S. Government equipment caused by negligence on the part of the student." AECA, Section (a)(1)(C) states the full cost of the service must be paid by the purchaser.

b. Field Studies Program (FSP). Tuition rates must include the costs of the FSP, including transportation, meals, meal preparation, lodging, admission, programs, and incidental costs thereof. The student is responsible for the personal costs of laundry, cleaning, telephone service, and all other costs not directly associated with the programmed tour. SAMM, Chapter 10.11 provides further detail on the FSP.

c. Shipment of Retainable Instructional Materials (RIM). Much of the RIM issued to international military students (IMS) is provided via CD; however, if there is a need to ship RIM, include the cost of the shipment in the tuition rate. RIM must be packed and labeled at the training installation and shipped to the Security Assistance Office of the country for delivery to the IMS. A copy of the student's invitational travel order must be placed inside the package. The training installation must ensure that no personal baggage or other unauthorized matter is shipped with the RIM.

d. FMS Administrative Surcharge. The current FMS administrative surcharge must be applied to the course cost, where applicable. Exceptions are

contained in the SAMM, Chapter 10, Table C10.T4.

E. Incremental Pricing of Training. AECA, Section 21(a)(1)(C) provides the authority to apply incremental pricing to training sold to an IMET-recipient purchaser or a purchaser designated as a high-income country. FAA, Section 541(b) provides the authority for FMF recipients to be charged at a rate comparable to IMET. FAA, Section 503(a)(3) provides the authority to exclude military salaries from incremental pricing when the training is funded with U.S. appropriated funds.

1. Direct Costs

a. Instructors and School Support Staff

(1) Courses **must** be reviewed to determine if the incremental cost should be developed for a specific course (e.g., pilot training) or a group of courses. For classroom or technical courses that are similar or that utilize instructors who teach more than one course, such courses may be grouped for computation purposes. When there is a one-for-one or one-for-two relationship of instructor to student, the instructor in all cases **must** be considered incremental. If the entire class is composed of international students, the instructor and staff **must** always be considered incremental.

(2) It is anticipated that the incremental cost charged for instructors **must** be minimal for courses or groupings of courses when the ratio is high either of students to instructors or U.S. students to international students.

(3) For the types of courses (or groups of courses) identified in paragraph 071002.E.1.a.(1) of this chapter, a projection **must** be made as to the estimated number of U.S. students projected to be in the course and the number of instructors and staff required for that student load. A second projection **must** be made of the total number of students estimated, both U.S. and international, and the number of instructors and staff required. Both projections **must** be based on the maximum number of students who can be taught by instructors or staff rather than on optimum class size. The difference in instructor and staff between the two projections represents the incremental costs. This value, divided by the total number of international students, represents the incremental cost per student for the course(s). The price of courses for FMS students (Rates A and B in Table 7-3) must still be computed to include the full costs in accordance with other provisions of this chapter. In computing the full cost for those students, care **must** be taken to ensure that the incremental cost is not included in the full computation.

b. Travel and Per Diem. The costs for all student travel and per diem associated with the training **must** be considered incremental. Refer to paragraph 071002.D.1.b of this chapter.

c. Equipment Overhaul and Maintenance. The cost for overhaul and maintenance of major items of equipment, when computed on an hourly use basis, **must** be incremental to a course based on estimated utilization hours. Refer to paragraph

071002.D.1.c of this chapter.

d. Simulators. The cost for simulator hours must be incremental. Refer to paragraph 071002.D.1.d of this chapter.

e. Supplies, Materiel, Training Aids, and Ammunition. The associated incremental cost must be the replacement price of items that are not returned or reusable (including POL) used in conducting the training.

f. Directly Associated Costs

(1) Instructor Training. The training of U.S. instructors or other personnel for special courses normally not conducted for U.S. personnel must be considered an incremental cost. When the required training is conducted at a U.S. training facility, the benefitting country must be charged the course cost established in accordance with instructions for computing training costs in paragraph 071002 of this chapter.

(2) Facilities and Equipment. The costs for any facilities or equipment acquired primarily for the support of international students, and the support costs thereof, must be considered incremental.

2. Indirect Costs. Standard weekly rates for base operating support must be charged to incremental training rates, as developed by the IAs, and adjusted annually. Include only those additional base operating support costs that are incurred as a result of international student attendance.

3. Other Billable Costs

a. Attrition Rate/Liability Statement. The attrition rate is not applicable to IMET Tuition Rate E in Table 7-3. For all other FMS training sold using incremental pricing (Tuition Rates C-D in Table 7-3), include the liability statement. Refer to paragraph 071001.C and 071002.D.3.a of this chapter.

b. Field Studies Program (FSP). The full cost to the USG of the FSP must be considered incremental. Refer to paragraph 071002.D.3.b of this chapter as well as SAMM, Chapter 10.11.

c. Shipment of Retainable Instructional Materials (RIM). If RIM is applicable for a course, then the costs must be considered an incremental cost. Refer to paragraph 071002.D.3.c of this chapter.

d. FMS Administrative Surcharge. The current FMS administrative surcharge must be charged on FMS training cases/lines receiving incremental pricing (Tuition Rates C-D in Table 7-3). Tuition Rate E (IMET) is exempt from paying the FMS administrative surcharge. Refer to paragraph 071002.D.3.d. of this chapter.

4. Exclusions. The unfunded civilian retirement charge that is deposited to the Miscellaneous Receipts Account of the U.S. Treasury must be considered a fixed cost and not included in incremental priced training rates (Tuition Rates C-E in Table 7-3).

*0711 LEASING OF DEFENSE ARTICLES

071101. General. Defense articles are leased to a foreign country or international organization under authority of AECA, Section 61. Inspection, restoration, maintenance, accessorial costs, or other support costs incurred in connection with the lease must be priced in accordance with this chapter and included on a separate LOA. Lease charges must apply except for cooperative R&D projects, military exercises, communications, and/or electronics interface projects. Reimbursement of the lease charge for any defense article which has passed 75 percent of its normal service life may be waived if it is determined that to do so is important to the national security interest of the U. S. This waiver authority has been delegated to the Director, DSCA or in the absence of the Director, the Deputy Director.

071102. Pricing of Leased Defense Articles. The amount to be charged for the lease of defense articles is the depreciation incurred during the period of the lease. The depreciation charge is dependent upon the following (See Figure 7-12):

- A. Date the item is to be leased.
- B. Date the item was first fielded or actual acquisition date.
- C. The total estimated service life of the item.
- D. Duration of the lease.
- E. The original acquisition cost of the item.
- F. A pro rata share of nonrecurring RDT&E and production costs.
- G. Capital improvements made to the item.

071103. Replacement Costs. Replacement costs must be estimated when the item is placed on lease and reflected in the lease agreement. In the event a leased defense article is damaged beyond repair, or is not returned, the replacement cost must be collected from the leasing foreign country or international organization. The replacement cost must be calculated in accordance with paragraph 070302.B and C of this chapter. Refer to SAMM, Chapter 11.10 for procedures on leasing arrangements.

071104. FMS Administrative Surcharge. The FMS administrative surcharge does not apply to lease rental payments.

0712 USE OR EXPANSION OF DOD FACILITIES AND EQUIPMENT

071201. General. All costs of construction or expansion of facilities desired by and for the exclusive use of the foreign government **must** be financed and funded by the foreign government. Charges by the **USG** for labor, materiel, or services **must** be reimbursed in accordance with the provisions of sections **0702** and **0703** of this **chapter**. **Any expansion of facilities or equipment** required for DoD use, **which** may also be available for FMS, **must** be funded through the normal DoD budget process.

071202. Reimbursement of Proportionate Share. In addition to the costs **identified in paragraph 071201 of this chapter**, a proportionate share of operating costs **must** be reimbursed.

* **071203.** Work at DoD Test Facilities and Laboratories. Case and line managers must inform performing activities when work requested at DoD test facilities and laboratories involves FMS. Work is priced to ensure full reimbursement of direct, indirect, and overhead costs to the test facility or laboratory for the FMS effort.

* **071204.** Embedded Computer Software (ECS) Facilities

A. ECS support is normally supplied through a services case (or line) of a system sale. A requirement for a new facility or augmentation of an existing facility that is funded by the FMS purchaser is incidental to the service. Regardless of the costs charged to an FMS purchaser for use or augmentation of a facility, DoD owns and operates the facility.

B. Software support may be supplied by a separate facility dedicated to FMS or from a facility supporting both DoD and FMS programs. The FMS purchaser pays a prorated share of the total software costs.

0713 PRICING FOR USE OF TECHNOLOGY TRANSFER

071301. General. A Technical Data Package (TDP) encompasses production designs, drawings, specifications, models, manufacturing techniques and details, and similar information necessary to enable a foreign government to manufacture, or have manufactured, items of military equipment and repair parts, **excluding** information associated with the RDT&E stage. It **also** does not include technical assistance or know-how by **USG** personnel; however, such assistance may be provided at additional cost. **Refer to the SAMM, Chapter 3.**

071302. Pricing of Technical Data Packages (TDPs). **DSCA** may authorize release of a TDP to a foreign government for in-country manufacture of military equipment and repair parts. Costs incurred in the preparation, reproduction, and handling of the TDP **must** be priced in accordance with the pricing policies set forth in **section 0714 of this chapter**. When the pricing of the TDP is subject to an international agreement of which the DoD is a party or is otherwise bound, the sale will be determined consistent with the terms of the agreement.

0714 PUBLICATION PRICING

* **071401.** General. This section prescribes the method **to use when determining** the

price of DoD publications sold to FMS purchasers. Generally, the cost for a DoD standard publication is the incremental cost to produce another copy. Effective October 1, 2004, acquisition and development costs are excluded in determining the costs of a DoD standard publication.

A. Definition of Publications. The term "publications" includes technical orders, technical manuals, supply catalogs, training publications, courseware, computer based tutorials, administrative publications, engineering drawings and associated documents, Integrated Logistics Support publications and associated documents, equipment component lists, special file extracts, decals, forms, and audio-visual products.

B. Medium of Publications. A publication may be in bound or loose-leaf format, imprinted form, Automated Data Processing (ADP) listing, operator's card, microfilm, slide, motion picture film, computer disc, or internet accessible.

C. FMS Purchaser-Unique Publication. Unique publications are DoD standard publications sanitized for the elimination of non-releasable information or publications developed for a country's unique specification. Engineering drawings and associated documents will be reviewed to determine if a technology charge is appropriate. Refer to paragraph 070302.B of this chapter when pricing DWCF publications.

* 071402. Publication/Software Pricing Factors. Publications or software developed solely for the use of an FMS purchaser(s), such as a country-unique technical order/software, instructions, or other publications and programs, must be priced to recover the total costs (including both in-house and contractual efforts) of development and delivery of the end product. These costs must include, but are not limited to, the amounts paid for technical or administrative writing, editing, illustrating, animation, copy preparation, documentation, royalty fees for intellectual property, and distribution services. The costs of additional copies or masters must be limited to the actual costs of reproduction to include media (e.g., disk, tape, CD, and hardcopy) and distribution/delivery. The following costs must be included in the development of FMS prices for current, standard publications or software programs/products of the DoD:

A. Copy Production Cost (CPC). The costs incurred in the printing or reproduction of copies from the reproducible master.

B. Special Cost (SC). The cost incurred in the elimination of non-releasable information from a DoD publication/software program prior to release to a foreign government. The cost of classified handling, development, and maintenance of country-peculiar publications or programs, including costs associated with updating manuals/programs for nonstandard items (such as items out of inventory or out of production).

071403. Development of a Per Copy Selling Price

A. The total cost of a publication or software program is the sum of the incremental costs identified in paragraph 071402 of this chapter. The total cost must be reduced

to a per copy expression by dividing the [total incremental](#) cost by the quantity produced (Q) as per the following formula:

$$\frac{(CPC + SC)}{Q} = \text{Price per copy}$$

B. Recorded actual costs will be used when available. When actual costs for individual publications [or programs](#) cannot be readily determined, a factored expression of historical costs will be developed from the most current cost records available. Uniform pricing tables can be developed from the cost per "unit" ("unit" being either a page, a roll of microfilm/microfiche page, or a running foot of tape or motion picture film). [Paragraph 071402 of this chapter includes](#) guidance for developing publication pricing tables.

071404. [Other Applicable Costs](#)

* A. [Recoupment of NC does not normally apply to the sale of publications or software. However, if the item is MDE, then NC recoupment charges would apply. Applicable NCs are a part of the cost included in the pricing formula set forth in paragraph 071403 of this chapter.](#)

B. The standard administrative and accessorial charges prescribed in this chapter [must](#) be recouped as a percentage of publication/[software](#) prices. These charges are not included in the per copy selling price.

C. The FMS price for a joint Military Service publication [or software program must](#) be established by the Military Department responsible for its acquisition and management. That Military Department [must](#) notify the other participating DoD Components of the established FMS price.

[*0715 SPECIAL DEFENSE ACQUISITION FUND \(SDAF\)](#)

The [SDAF](#) was authorized in 1981 by an amendment to [AECA](#), Chapter 5 to fund the procurement of defense articles in anticipation of their sale or transfer to foreign governments. The basic objective of the fund [was](#) to facilitate delivery of materiel in advance of normal procurement lead-times. [As of October 1, 2007, the SDAF account was closed by DFAS SCA, although the authority still exists.](#) The detail requirements of the fund are discussed in the [SAMM](#), Chapter 11.14.

[*0716 PROGRAM MANAGEMENT SERVICES](#)

071601. [General.](#) The DoD Components [must ensure](#) that each type of cost is allocated only once and only on one basis to [an](#) FMS case. Additional discussion on consistency in allocating costs incurred for the same purpose is contained in [Volume 4](#) of this Regulation. [Care must be taken to ensure against "double charging" for the same costs.](#)

071602. [FMS Case Related Manpower Functions and Funding Source.](#) The

SAMM, Chapter 5, Table C5.T6 describes in detail the manpower functions that may be funded on FMS cases and the funding source for those related costs.

A. Standard Level of Service. There is a certain level of routine support provided to an FMS customer on each case. Costs associated with this workload are captured via the FMS Administrative Surcharge assessed against the case.

B. Above Standard Level of Service. An IA may determine there are additional services directly related to the defense articles or services being provided that are over or above the routine level of support generally provided to an FMS customer. These costs may be included on an FMS case as an above-the-line cost at the request of the FMS purchaser or by the USG based on the analysis of what will be required to successfully implement and execute the requested program/case. An auditable methodology must be used to document all costs included on these lines.

0717 EXCEPTION TO PRICING POLICIES AND COST RECOUPMENT WAIVERS

071701. General. An exception to prescribed pricing policies refers to approval of an alternative method of identifying applicable cost(s). A cost recoupment waiver refers to the exercise of legal authority to partially or totally waive recoupment of incurred costs.

* 071702. Request for Exception to Policies or Directives. Requests for exceptions to the policies prescribed herein or waivers of DoD costs for which DSCA is not delegated as the waiver authority, must be submitted to OUSD(C), through the DoD Component Senior Financial Manager, and DSCA DBO. DSCA DBO will conduct its assessment of the request and provide either endorsement or objections to OUSD(C). Sufficient data must accompany the request to enable OUSD(C) to evaluate the merits of the proposed deviation.

0718 PERIODIC REVIEW AND UPDATING OF RATES/SURCHARGES

071801. General. Rates that may be developed to recoup accessorial costs and surcharges (see sections 0704 through 0706 of this chapter) are subject to periodic review. OUSD(C) should notify the applicable DoD Components when such reviews are being conducted and request the DoD Components' participation.

* 071802. Revising Rates. No charges, or surcharges based on a percentage rate, must be made to recover any element of cost unless: (a) the charge or percentage charge is expressly prescribed in this volume, or (b) the charge based on the percentage rate is proposed in writing to and is approved by OUSD(C). Whenever a DoD Component believes a prescribed rate should be revised, it should submit its request with supporting data to OUSD(C), through the DoD Component Senior Financial Manager and DSCA DBO. DSCA DBO will conduct its assessment of the request and provide either its endorsement of or objection to OUSD(C). Sufficient data must accompany the request to enable evaluation of the merits of the proposed revision.

***0719 FINAL ACCOUNTING**

Once a final statement has been sent for an FMS case, the case must be reclassified by the IA from active to inactive status in accordance with [Chapter 2](#), paragraph 020903 of this volume. Since October 1, 1992, all closed cases with post closure activity, not subject to accelerated closure procedures, must be reopened as authorized by DSCA, to report execution. The IA must cancel the original closure certificate and submit a new certificate prior to case closure. Cases for countries subject to accelerated closure procedures may be reopened only as authorized by DSCA and in accordance with Chapter 2, paragraph 020905 of this volume.

***0720 LOGISTICS SUPPORT CHARGE (LSC)**

LSC was applicable to materiel and services identified on the Military Articles and Services List, excluding DWCF materiel. LSC was assessed at 3.1 percent of the articles and services reported delivered on or after April 1, 1987 and prior to October 1, 2007. The [SAMM](#), Chapter 9 explains the elimination of the LSC and how to treat prior year LSC charges.

Cost Elements

<u>Cost Element</u>	<u>Appropriation Reimbursed</u>
A. Services of Military Personnel	
1. Composite standard military pay rate	Military Personnel (MILPERS)
2. Leave and holiday factor when applicable (see paragraph 070203)	MILPERS
3. Personnel support costs	Operation and Maintenance (O&M), Defense Health Program (97*0130)
4. Retirement cost prior to October 1, 1984	Miscellaneous Receipts Account 3041
5. Retirement cost after September 30, 1984	MILPERS
6. Medicare-Eligible Retiree Health Care accrual	Miscellaneous Receipts Account 3041
B. Services of Civilian Personnel including Defense Working Capital Funded (DWCF) Personnel	
1. Salary cost and wages	O&M, Research, Development, Test, Evaluation (RDT&E), and DWCF as applicable
2. Leave and holiday factor when applicable	O&M, RDT&E, and DWCF as applicable (see paragraph 070202 of this chapter)
3. DoD-funded civilian retirement costs	O&M, RDT&E, and DWCF as applicable
4. Health and life insurance and other employee fringe benefits	O&M, RDT&E, and DWCF as applicable
5. Civilian unfunded retirement costs and post-retirement health benefits not funded by DoD appropriations	Miscellaneous Receipts Account 3041
C. Inventory Items	
1. Non-excess procurement funded items which require replacement	Financing procurement appropriations, as applicable, current at the time items are dropped from inventory
2. Non-excess procurement funded item that is not to be replaced within the obligation availability of current procurement appropriations	Miscellaneous Receipts Account 3041
3. DWCF items, including the cost recovery elements for operating costs	DWCF
4. Excess procurement funded principal items	Miscellaneous Receipts Account 3041 Funds items in accordance with Title 10 United States Code (U.S.C.) Section 114(c)(2)

*Table 7-1. Cost Elements

Cost Elements

<u>Cost Element</u>	<u>Appropriation Reimbursed</u>
D. Nonrecurring cost recoupment charges (Collected as a result of FMS)	Miscellaneous Receipts Account 3041
E. Transportation	Financing appropriation/fund current at the time transportation is supplied
F. Logistics Support Charge (LSC)	FMS Trust Fund Administrative Account
G. DoD Royalty fee charges	Miscellaneous Receipts Account 3041
H. Charges for the use of DoD assets (includes depreciation on purchased equipment)	Miscellaneous Receipts Account 3041 Depreciation which is included in DWCF shop rates must be retained by the DWCF
I. Asset Use	Miscellaneous Receipts Account 3041
J. FMS contract costs financed by DoD appropriation or fund accounts	Financing procurement appropriation or DWCF , as applicable
K. Temporary Duty (TDY) costs financed by appropriation or fund accounts	O&M and RDT&E appropriations current at the time travel is performed, or DWCF , as applicable
L. Accessorial charge	
1. Packing, crating, and handling (PC&H)	FMS Trust Fund PC&H Account
2. Transportation	FMS Trust Fund Transportation Account
M. FMS administrative surcharge	FMS Trust Fund Administrative Account
N. FMS Contract Administration Services (CAS) Surgcharge	FMS Trust Fund CAS Account
O. Contract Administration Services (This is a combination of cost elements A, B, and K)	MILPERS , O&M, DWCF, or Miscellaneous Receipts Account 3041, as applicable
P. Interest charge resulting from late payment of billings (DD Form 645, "Foreign Military Sales Billing Statement") for accrued expenditures	Miscellaneous Receipts Account 3210, General Fund Proprietary Receipts, Defense Military not otherwise classified
Q. Mailing fee, storage, and publications	O&M or DWCF , as applicable
R. Inventory losses	Applicable procurement or DWCF , as applicable
S. Attrition	FMS Trust Fund Attrition Account

DoD Components **must** maintain internal records of the dollar amounts applicable to each category of collections deposited into Miscellaneous Receipts Account 3041. One decimal subaccount **must** be **used** for each type of collection. For example, 3041.3 might be used to designate dollar amounts applicable to **NC** recoupment.

*Table 7-1. Cost Elements (continued)

Federal Condition Code

			Supply Condition Code				
			A	B	C	D	
			SERVICEABLE				
			Issuable without qualification	Issuable without qualification	Priority Issue	Test/Modification	
DISPOSAL CONDITION CODES	1	UNUSED	GOOD	50%	30%	30%	30%
			FAIR	30%	20%	20%	20%
			POOR	10%	10%	10%	10%
	2	USED	GOOD	40%	30%	30%	30%
			FAIR	30%	20%	20%	20%
			POOR	10%	10%	10%	
	3	REPAIRS REQUIRED	GOOD				20%
			FAIR				5%
			POOR				5%
	X	SALVAGE					
	S	SCRAP					

*Table 7-2. Federal Condition Code

Federal Condition Code

			Supply Condition Code					
			E	F	G	H	S	
			UNSERVICEABLE					
			Limited Restoration	Reparable	Incomplete	Condemned	Scrap	
DISPOSAL CONDITION CODES	1	UNUSED	GOOD					
	2		FAIR					
	3		POOR					
	4	USED	GOOD					
	5		FAIR					
	6		POOR					
	7	REPAIRS REQUIRED	GOOD	20%	20%	20%	10%	
	8		FAIR		10%		5%	
	9		POOR		5%		5%	
	X	SALVAGE		5%	5%	5%		
	S	SCRAP						

*Table 7-2. Federal Condition Code (continued)

Tuition Rate Pricing Structure

Cost Elements	National Funds		
	FULL		INCREMENTAL
	RATE A Full FMS	RATE B NATO	RATE C FMS ¹
Direct Costs			
Military Pay	Full	Full	Incremental
Mil Fringe Benefits and Other Personnel Support Costs	Full	Full	N/A
Civilian Pay	Full	Full	Incremental
Civ Fringe Benefits	Full	Full	Full of Incremental ²
Civ Unfunded Retirement	Full	Full	N/A
Non-Personnel/Material	Full	Full	Incremental
Indirect Costs			
Military Pay	Full	N/A ³	Incremental
Mil Fringe Benefits and Other Personnel Support Costs	Full	N/A ³	N/A
Civilian Pay	Full	N/A ³	Incremental
Civ Fringe Benefits	Full	N/A ³	Full of Incremental ²
Civ Unfunded Retirement	Full	N/A ³	N/A
Non-Personnel/Material	Full	N/A ³	Incremental
Additive Costs			
Attrition Factor	Apply	Liability Statement	Liability Statement
FSP	Full	Full	Full
RIM	If applicable	If applicable	If applicable
<i>FMS Admin</i>	Apply	N/A ³	Apply

¹ **RATE C – FMS:** Countries concurrently in receipt of IMET that elect to purchase training using national funds receive this rate. Countries designated as high-income countries also receive this rate.

² Full of Incremental: The entire factor will be charged against the incremental cost. There is no reduction to the factor because incremental pricing is being used.

³ Refer to AECA Section 21(g). The President is authorized to enter into NATO Standardization Agreements if the principles of such agreements are based on reciprocity. Such agreements may exclude reimbursement of indirect costs and the FMS administrative surcharge.

***Table 7-3. Tuition Rate Pricing Structure**

Tuition Rate Pricing Structure

Cost Elements	U.S. Appropriated Funds	
	INCREMENTAL	
	FMS	IMET
	RATE D FMF ⁴	RATE E IMET
Direct Costs		
Military Pay	N/A	N/A
Mil Fringe Benefits and Other Personnel Support Costs	N/A	N/A
Civilian Pay	Incremental	Incremental
Civ Fringe Benefits	Full of Incremental ²	Full of Incremental ²
Civ Unfunded Retirement	N/A	N/A
Non-Personnel/Material	Incremental	Incremental
Indirect Costs		
Military Pay	N/A	N/A
Mil Fringe Benefits and Other Personnel Support Costs	N/A	N/A
Civilian Pay	Incremental	Incremental
Civ Fringe Benefits	Full of Incremental ²	Full of Incremental ²
Civ Unfunded Retirement	N/A	N/A
Non-Personnel/Material	Incremental	Incremental
Additive Costs		
Attrition Factor	Liability Statement	N/A
FSP	Full	Full
RIM	If applicable	If applicable
<i>FMS Admin</i>	Apply	N/A

² Full of Incremental: The entire factor will be charged against the incremental cost. There is no reduction to the factor because incremental pricing is being used.

⁴ **RATE D – FMF**: This rate applies to courses provided to countries that use U.S. appropriated dollars as their source of funding (except IMET). If the training is not wholly funded with U.S. appropriated funds (e.g., 100% MAP Merger, 100% non-repayable FMF), then the training must be re-priced to include military salaries and benefits.

*Table 7-3. Tuition Rate Pricing Structure (continued)

Civilian Personnel Services Price Computation Example**Assumptions:**

- A. Navy GS-12 within Atlanta, GA locality pay area. When the GS step is not known, use step 5 pay rates. \$38.23 per hour is used for this computation example.
- B. 100 hours performed in August 2009 against an FMS Case
- C. FY 2009 Unfunded Civilian Retirement (UCR) Factor = 10.0%
- D. FY 2009 Navy Civilian Personnel Fringe Benefits Factor = 29.6%
- E. Leave and Holiday (L&H) Acceleration Factor = 18%

	FMS Case		FMS Admin	
	Less than Full Time	Full Time	Less than Full Time	Full Time
(1) Direct Labor Cost [A x B]	\$ 3,823.00	\$ 3,823.00	\$ 3,823.00	\$ 3,823.00 ¹
(2) Leave & Holiday Costs [(1) x E]	\$ 688.14	\$ ----	\$ 688.14	\$ ---- ²
(3) Total Civilian Labor Costs [(1) + (2)]	\$ 4,511.14	\$ 3,823.00	\$ 4,511.14	\$ 3,823.00
(4) Unfunded Retirement Cost [(3) x C]	\$ 451.11	\$ 382.30	\$ ----	\$ ---- ³
(5) Fringe Benefits Cost [(3) x D]	\$ 1,335.30	\$ 1,131.61	\$ 1,335.30	\$ 1,131.61 ⁴
(6) FMS Selling Price [(3) + (4) + (5)]	\$ 6,297.55	\$ 5,336.91	\$ 5,846.44	\$ 4,954.61 ⁵

¹ Pay rates in effect at the time services are performed. Hourly and annual locality salary tables are available at [OPM](#) Web site. Tables through 2008 are available at the [Appendix C Archive](#) of this volume.

² The leave and holiday acceleration factor is applied as a percentage of direct labor cost when the individual is not reimbursed on a full time basis by FMS. Effective October 5 1980, the leave and holiday factor is 18%.

³ The unfunded retirement acceleration factor is applied as a percentage of total civilian labor costs when the individual is not reimbursed from FMS Admin. Credit unfunded civilian retirement to the Miscellaneous Receipts Account 3041. Current rates are available at the [OUSD\(C\) reimbursable rates](#) Web site. Historical rates are available in Appendix C Archive of this volume.

⁴ The fringe benefits factor is applied as a percentage of the total civilian labor costs and includes the employer's share of retirement, health benefits, life insurance, and other benefits. Rates are available at the [OUSD\(C\) reimbursable rates](#) Web site for FY 1997 and forward. Historical rates for FYs 1989- 2008 are available at the Appendix C Archive of this volume.

⁵ The FMS Administrative Surcharge is additive to the FMS selling price.

***Figure 7-1. Civilian Personnel Services Price Computation Example**

Military Personnel Services Price Computation Example**Assumptions:**

- A. Scenario 1: Navy O-4 and E-7 Full time FMS effort in FY2010 at an overseas location
 B. Scenario 2: Navy O-4 and E-7 Part-time FMS effort; each performing 100 hours service in FY 2010. TDY cost is \$5,600.
 C. Navy O-4 FMS Composite Rate ($\$169,096 + \$9,586 = \$178,682$)¹
 D. Navy E-7 FMS Composite Rate ($\$105,214 + \$9,586 = \$114,800$)¹
 E. Navy O-4 Hourly Composite Rate ($\$178,682 \times .00055 = \98.28)²
 F. Navy E-7 Hourly Composite Rate ($\$114,800 \times .00055 = \63.14)²

FMS CASE – FULL TIME FMS EMPLOYEE**Computation Scenario 1:**

	O-4	E-7	Total
FMS Composite Pay Cost ¹	\$178,682	\$114,800	
FMS Selling Price ³			\$293,482

FMS CASE – LESS THAN FULL TIME FMS EMPLOYEE**Computation Scenario 2:**

FMS Composite Pay Hourly Rate	\$ 9,828	\$ 6,314	\$ 16,142
x hours of service performed ²			
TDY Cost			\$ 5,600
FMS Selling Price ³			\$ 21,742

¹ Refer to [OUSDC\(C\) reimbursable rates](#) Web site to obtain the current FMS Composite Rate. The FMS Composite Rate is computed by taking the Annual DoD Composite Rate and adding the acceleration factor (for FY 2010 the amount is \$9,586) to cover medical health care costs of active duty personnel and their dependents. These are the costs financed by the Defense Health Program.

² To compute the hourly rate, multiply the FMS Composite Rate by .00055. This computation includes a 14% leave and holiday factor.

³ The FMS Administrative Surcharge is additive to the FMS selling price.

***Figure 7-2. Military Personnel Services Price Computation Example**

Price Computation Example: Non-Excess Procurement Funded Item from Stock**Assumptions:**

Market Value	None Available
Most Recent Acquisition Price	\$50,000.00
New Contract Price	\$100,000.00
Modification Costs	\$5,000.00
Nonrecurring Recoupment Charge, <u>SAMM</u> , Appendix 1	\$2,000.00
Prorated overhaul costs before sale date (see Figure 7-4)	\$5,203.20
Service Life	10 Years
Age at transfer	6 Years
Remaining Service Life	4 Years

Calculation**Not to Be Replaced**

Adjusted Price: $(\$50,000 + \$5,000) \times (4/10)$ ¹	\$22,000.00
Adjusted nonrecurring cost recoupment: $\$2,000 \times (4/10)$ ^{2,3}	800.00
Prorated overhaul costs before sale date (see Figure 7-4) ⁴	+ 5203.20
FMS Selling Price ^{5,6,7}	<u>\$28,003.20</u>

To Be Replaced

Adjusted Price: $\$100,000 \times (4/10)$ ⁸	\$40,000.00
Adjusted nonrecurring cost recoupment: $\$2,000 \times (4/10)$ ^{2,3}	+ 800.00
FMS Selling Price ^{5,6,7}	<u>\$40,800.00</u>

¹ (Most Recent Acquisition Price + Modification Costs) x Remaining Service Life

² Nonrecurring Recoupment Charge x Remaining Service Life

³ Credit to Miscellaneous Receipts Account 3041.

⁴ Credit previously incurred overhaul costs to the financing account.

⁵ Any administrative, PC&H, and transportation surcharges are additive to the selling price.

⁶ FMS selling price cannot be less than the Market Value if one exists.

⁷ If this is a sale of a ship, the FMS selling price cannot be lower than the scrap value or fair value plus the cost of the last major overhaul or outfitting accomplished before the sale.

⁸ New Contract Price X Remaining Service Life

***Figure 7-3. Price Computation Example: Non-Excess Procurement Funded Item from Stock**

Price Computation Example: Overhaul Costs Previously Incurred for a Procurement Funded Item Sold to Foreign Military Sales Purchasers

Assume the following:

1. Item is to be sold in May 2009. The last overhaul for that aircraft was accomplished in June 2007 at a cost of \$ 8,672.
2. The normal interval between overhauls for the item is 60 months.

The price is computed using the following steps:

- A. Determine the actual interval since the last overhaul in terms of months.

June 2007 to May 2009 equals 24 months.

- B. Determine the percentage of overhaul costs applicable to the DoD by comparing the actual interval since the last overhaul with the normal interval between overhauls.

$$\begin{array}{l} \text{Actual Interval} = 24 \text{ months} = 40\% \\ \text{Normal Interval} \quad 60 \text{ months} \end{array}$$

3. Determine the amount of the costs to be charged to the purchaser by subtracting the resulting percentages in step 2 from 100 percent and applying the result to the overhaul costs. If actual overhaul costs are not known, a reasonable estimate should be obtained from the facility normally performing overhauls for the type of item that is to be sold.

$$100\% - 40\% = 60\% \times \$8,672 = \$5,203.20$$

***Figure 7-4. Price Computation Example: Overhaul Costs Previously Incurred for a Procurement Funded Item Sold to Foreign Military Sales Purchasers**

Price Computation Example: Sale of Ship
(Greater than 3,000 Tons or More Than 20 Years Old) Not to be Replaced

Assumptions:

Acquisition Value	\$22,500,000.00
Condition Code (A-3, see Table 7-2)	10%
Nonrecurring Charge	\$500,000.00
Prorated overhaul costs before sale date (see Figure 7-4 for how to compute)	\$1,500,000.00
Scrap Value	\$1,000,000.00
Fair Value (Acquisition Value x Federal Condition Code Rate) (\$22,500,000 x 10%)	\$2,250,000.00

Computation:

Greater of Scrap or Fair Value ¹	\$2,250,000.00
Adjusted Nonrecurring Cost Recoupment (10% x \$500,000) ¹	\$50,000.00
Prorated overhaul costs ²	+ \$1,500,000.00
FMS Selling Price ³	<u>\$3,800,000.00</u>

¹ Credit to Miscellaneous Receipts Account 3041.

² Credit previously incurred overhaul costs to the financing account.

³ The administrative surcharge is additive to the selling price.

***Figure 7-5. Price Computation Example: Sale of Ship**
(Greater than 3,000 Tons or More Than 20 Years Old) Not to be Replaced

**Price Computation Example: Excess Procurement (Non-DWCF) Funded Item from
Stock/Inventory**

Assumptions:

Acquisition Value ¹	\$50,000.00
Federal Condition Code (B-1, see Table 7-2)	30%
Nonrecurring Charge	\$2,000.00
Prorated overhaul costs before sale date (see Figure 7-4)	\$5203.20
Market Value	\$10,000.00
Scrap Value	\$5,000.00
Fair Value (Acquisition Value * Federal Condition Code Rate) (\$50,000 x 30%)	\$15,000.00

Computation:

Greater of Market, Scrap, or Fair Value	\$15,000.00
Adjusted Nonrecurring Cost Recoupment (30% x \$2,000) ²	\$600.00
Prorated overhaul costs before sale date (see Figure 7-4) ³	+ \$5,203.20
FMS Selling Price ^{4,5}	<u>\$20,803.20</u>

¹ If the method used to determine an estimated actual PCH&T cost is based on the cost or price of the excess item, acquisition cost must be used.

² Credit to Miscellaneous Receipts Account 3041.

³ Credit previously incurred overhaul costs to the financing account.

⁴ The FMS selling price must be increased if the market value or the scrap value plus the nonrecurring cost recoupment charge and the prorated value of the last major overhaul costs incurred are higher than the fair value FMS selling price. The market value is the price at which bona fide sales have been consummated for products of like kind, quality, and quantity. The scrap value is the amount that would be expected to be obtained from selling the asset at the end of its useful life. The fair value price is determined by the Federal Condition Code.

⁵ Any administrative, PC&H, and transportation surcharges are additive to the selling price.

***Figure 7-6. Price Computation Example: Excess Procurement (Non-DWCF) Funded Item from Stock/Inventory**

Recoupment of Nonrecurring Cost of Major Defense Equipment Example: Two-Level

RECOUPMENT OF NONRECURRING COST ON SALES OF MAJOR DEFENSE EQUIPMENT										DATE PREPARED:		DOD COMPONENT:		
B/B Model MASL _____										As of Date:		Prepared By:		
SECTION A														
(a) Weapon System or Component	(b) Nonrecurring Cost (in Whole Dollars)			(c) Production Quantity (Qty Each)						(d) Recommended Pro Rata Unit Charge			(e) Previous Unit Charge	
														RDT&E
B/B Model														
Common Cost Pool (with A/B Model)	\$2,956,674	\$0	\$2,956,674							67,158 ¹	\$44.03	\$0.00	\$44.03	
Unique	\$76,294	\$0	\$76,294	0	0	600	250	0	850	\$89.76	\$0.00	\$89.76	\$133.79	NC New Item
Backup Data														
A/B Model Commonality	\$4,223,820	\$0	\$4,223,820 70%	0	64,627	0	1,681	0	66,308	\$63.70	\$0.00	\$63.70		

SECTION B														
PRODUCTION QUANTITIES														
					Actual	Projected	Total							
					USG	400	200	600						
					MAP	0	0	0						
					Direct Sales	0	0	0						
					FMS	0	250	250						
					Total	400	450	850						

NOTES:

¹ A/B Model Common (66,308) + B/B Model Unique (850) = 67,158

***Figure 7-8. Recoupment of Nonrecurring Cost of Major Defense Equipment Example: Two-Level**

Recoupment of Nonrecurring Cost of Major Defense Equipment Example: Two-Level

SECTION C		
QUANTITY PROJECTION BREAKOUT		
B/B Model		
MASL _____		
MAP		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Total MAP	0	
Direct Sales		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Total Direct Sales	0	
FMS		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Country B	75	
Country E	20	
Country H	75	
Country J	80	
Total FMS	250	
TOTAL	250	

***Figure 7-8. Recoupment of Nonrecurring Cost of Major Defense Equipment Example: Two-Level (continued)**

Recoupment of Nonrecurring Cost of Major Defense Equipment Example: Multi-Level

RECOUPMENT OF NONRECURRING COST ON SALES OF MAJOR DEFENSE EQUIPMENT ABC Blk II NC Charge - Summary Calculation MASL _____							DATE PREPARED:		DOD COMPONENT:	
							As of Date:		Prepared By:	
SECTION A										
(a)	(b)			(c)			(d)			(e)
Weapon System or Component	Nonrecurring Cost (in Whole Dollars)			Benefiting Units (Qty Each)			Recommended Pro Rata Unit Charge			Previous Unit Charge
	RDT&E	Production	Total	New	Remanufactured	Total	RDT&E	Production	Total	Charge
ABC Block II										
Common Cost Pool (with ABC Blk I)	\$324,126,237	\$116,970,421	\$441,096,658	821	463	1,284	\$252,434.76	\$91,098.46	\$343,533.22	
Common Cost Pool (with ABC Block 0)	\$235,896,300	\$48,990,000	\$284,886,300	463	927	1,390	\$169,709.57	\$35,244.60	\$204,954.17	
Unique	\$1,516,253,000	\$287,960,000	\$1,804,213,000	221	751	972	\$1,559,931.07	\$296,255.14	\$1,856,186.21	
									\$2,404,673.60	NC New Item
Backup Data										
ABC Block I Commonality	\$589,320,430	\$212,673,493	\$801,993,923 55%							
Backup Data										
ABC Block 0 Commonality	\$786,321,000	\$163,300,000	\$949,621,000 30%							
SECTION B										
PRODUCTION QUANTITIES										
Remarks:				Actual	Projected	Total				
				200	752	952				
				0		0				
				0		0				
				0	332	332				
			Total	200	1,084	1,284				

Figure 7-9. Recoupment of Nonrecurring Cost of Major Defense Equipment Example: Multi-Level

Price Computation Example: New Procurement

Contract Price (20 items)	\$1,000,000.00
Nonrecurring Cost (\$2,500 each x 20 items)	50,000.00
Contract Administration Services (1,000,000 x .015)	15,000.00
Government-Furnished Materiel (GFM)	25,000.00
Packing, Crating, and Handling of GFM (3.5%) ¹	875.00
Transportation of GFM from Depot to Contractor Plant ¹	+ 938.00
	<hr/>
FMS Selling Price (20 items) ²	\$1,091,813.00
FMS Unit Selling Price ² (1,091,813/20)	\$54,590.65

¹ PC&H and CONUS transportation are applicable, if the GFM is purchased from procurement citing the case funds. Actual costs should be used whenever known. However, in the absence of actual costs, a percentage-based computation must be used. For the purpose of this example, the GFM (\$25,000) is considered to be all procurement-funded items with unit costs of less than \$10,000. PC&H and Inland CONUS Transportation are not applicable, if the GFM is shipped from inventory by the DoD Working Capital Funds, as the cost is included in the standard (stabilized) price of the item.

² Transportation of end item, if applicable, and administrative surcharges are additive to the selling price.

***Figure 7-10. Price Computation Example: New Procurement**

Price Computation Example: Overhaul of Purchaser-Owned Materiel¹**Assumptions:**

Civilian Direct Labor Hours	500
Direct labor hourly rate (employee salary and pro rata overhead)	\$36.72
Unfunded Civilian Retirement Rate FY 2009	10%
Army Military Labor Hours (E-7)	100
Foreign Purchaser paid for inbound and outbound transportation	

Computation:

Direct materiel consumed or incorporated (does not include purchaser-owned materiel)	\$ 1,000.00
Direct civilian labor cost recouped (including unpacking and packing, crating and handling) (500 x \$36.72)	\$18,360.00
Unfunded Civilian Rate costs (\$18,360 x 10%)	\$ 1,836.00
Military Composite Standard Pay Reimbursement (104,429 x .00055) x 100	\$ 5,743.60
Transportation ¹	+ -----
FMS Selling Price ²	\$26,939.60

¹ This table is general in nature and does not show all costs that may be included. For example, direct materiel consumed or incorporated should include transportation, replacement prices and charges as appropriate. (See paragraph 070501.B, for treatment of DWCF materiel). This example assumes that inbound and outbound transportation is paid by the FMS purchaser. See paragraph 070802.F. If the purchaser does not pay via the freight forwarder, the cost is included in the FMS selling price.

² The administrative surcharge is additive to the FMS selling price.

***Figure 7-11. Price Computation Example: Overhaul of Purchaser-Owned Materiel**

Calculation of Charges for Leased Defense Articles
With Illustrative Entries

STEP 1: Determine Service Life.

a.	Date to be leased	June 2008
b.	Date item first fielded or actual acquisition date of specific item (if known)	June 1998
c.	The total estimated service life of the item	240 months
d.	Item age in months as of the lease date	120
e.	Number of months to be leased	12
f.	Estimated months of service life remaining at conclusion of lease	<u>+ 108</u>
g.	Total months of service life (d. + e. + f.) ¹	240

STEP 2: Determine cost of defense articles leased to be depreciated.

a.	Original acquisition cost	\$1,000,000
b.	Pro rata share nonrecurring R&D and production costs ²	20,000
c.	Capital improvements	
	(1) Major overhauls in past 24 months (see paragraph 70302.C.1)	500,000
	(2) Modifications net of retirements ³	<u>+ 300,000</u>
	Total Cost	\$1,820,000
	Less residual value Amount subject to depreciation (see Volume 4, Chapter 6, paragraph 060207)	

STEP 3: Calculate monthly charge.

Divide results of Step 2 by results of Step 1. \$1,820,000/240 = \$7,583.33

¹ In the event the service life is zero, the life would be extended to include the lease period.

² The pro rata share of nonrecurring R&D and production costs is additive when determining the full cost of the equipment to be depreciated. This cost is not authorized to be waived under section 070305.P. of this chapter.

³ Retirements represent serviceable components and weapons that are replaced by a modified version and that are returned to inventory upon removal. Normally, retired items are valued at standard (stabilized) inventory price, if repair is not necessary. If repair is required before the item may be reissued, the retirement item is valued at standard inventory price less estimated repair cost.

***Figure 7-12. Calculation of Charges for Leased Defense Articles with Illustrative Entries**