

**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*

<b>PARA</b>	<b>EXPLANATION OF CHANGE/REVISION</b>	<b>PURPOSE</b>
070305.A. 070305.F. 070305.L. 070404. 071604.	References to DoD Directive 2140.2, “Recoupment of Nonrecurring Costs on Sales of U.S. Products and Technology,” August 5, 1985, are replaced with Title 32, Code of Federal Regulations, Part 165 (32 CFR 165).	Revision
	<b>NOTE:</b> No other changes have been made to this chapter.	

## CHAPTER 07

PRICING**0701** INTRODUCTION

**070101. Objectives.** The objective of this chapter is to establish policies and procedures that shall ensure that 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 R&D funds to develop new equipment or to purchase assets or facilities. Although the original investment decision was based entirely on DoD requirements, FMS customers 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. Questions concerning Chapter 7 should be referred to DoD Deputy Comptroller (Management Systems).

**070102. Responsibilities.** DoD Components selling materiel or services under authority of the AECA [reference (a)] shall:

A. Ensure that materials and services provided to FMS customers are priced in accordance with the policies established in this chapter.

B. Make reasonable effort to ensure that price estimates provided to FMS customers are 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.

C. Establish a single selling price for any item sold, unless DSAA has authorized provision of more detailed cost information to an FMS customer. When appropriate, the item price shall include the additive charge for nonrecurring RDT&E and production costs, recurring procurement support efforts, transportation costs when the DTS is approved and used, etc.

D. Present prices of defense articles and services to FMS customers in the format of FMS Letters of Offer and Acceptance and, in general, use the LOA unless a waiver is obtained from the Director, DSAA, to use a suitable substitute instrument. Any substitute instrument should contain the same cost elements as those identified on the LOA. The administrative surcharge percentage prescribed in this chapter is subject to change without prior approval of the customer; therefore, the percentage (for example, 3 percent) should not be indicated on the LOA.

E. Cite directly the FMS Trust Fund (97-11X8242) on contractual documents for new procurements initiated as a result of FMS orders, unless the provisions of paragraph 010402 apply. In the event it is necessary to accomplish new procurement on a reimbursable basis, the procuring DoD Component shall obtain obligational authority from the FMS Trust Fund. Payment to contractors for the FMS portion of contracts may not exceed the amount of cash deposited by the FMS customer in the FMS Trust Fund in advance of the payment.

F. The direct cite procedures set forth in subparagraph E., above, shall be used when major items are procured for FMS customers, unless an exception has been granted by the Comptroller, DoD.

G. For other than Defense Business Operations Fund materiel, ensure that transportation of materiel sold to FMS customers 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 Defense Business Operations Fund materiel, the GBL shall be annotated to show that Section 10721 of the Interstate Commerce Act of 1887 [reference (m)] is not applicable and that normal commercial rates shall be billed to the U.S. Government for the shipment.

H. Assign a case manager to each active FMS case. This case manager shall be responsible for the total financial and logistical aspects of the case. This includes ensuring that prescribed pricing policies are followed and that delivery transactions have been processed to SAAC. This case manager shall be responsible for reconciling the FMS case financially and logistically on at least an annual basis, preferably on the anniversary of each major FMS case. The case manager's authority to direct other supporting activities shall be commensurate with these responsibilities. The case manager shall be located at a national inventory control point or command having the primary responsibility for implementing the case. Refer to Chapter 7 of DoD 5105.38-M [reference (e)] for additional discussion on case management responsibilities.

I. Price sales to the Special Defense Acquisition Fund (SDAF) in accordance with the provisions of this chapter with the exception of the charge for nonrecurring costs. Activities reporting the sale of SDAF assets to SAAC will apply nonrecurring recoupment costs to the FMS price charged to the SDAF at the time of the sale to a foreign purchaser (see section 717).

J. Those situations in which the USG "buys back" items from foreign nations initially sold under FMS programs are not considered FMS transactions. Once items are sold, any "buy back" is outside of the FMS program and must be 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 Trust Fund in accordance with the foreign country's instructions.

**070103. Estimating Prices for a Letter of Offer and Acceptance.**

A. The pricing policy of this chapter specifies how costs are to be determined at the time the FMS customer is billed. This policy also provides an indication of how a price estimate is to be developed for the Letter of Offer and Acceptance. An essential difference between the billed price and the estimated price on an offer is the degree of firmness associated with each. On the FMS Billing Statement (DD Form 645), the price, particularly at that point in time in which actual costs are known and reported to SAAC, 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, it is to be a reasonable approximation of the amount which will ultimately be billed, with OSD inflation indices and other factors considered. Typically the analyst must make certain assumptions in order to develop the estimated price. Amounts to be placed on the LOA will be rounded to the next dollar. Cases are written as either defined order, blanket order, or Cooperative Logistics Supply Support Agreement (CLSSA). Pricing for each requires special treatment. Moreover, a case may involve lines which are defined order or blanket order while CLSSA cases have no other lines.

1. Defined Order. Cases for specified items, services, or training usually are written with regard to systems which the U.S. forces are procuring or have procured. Agencies involved in procuring these systems should have available estimates of the expected costs. These estimates may be used as the basis for developing the FMS price, but must be validated for configuration and for delivery. Applicable additives detailed in other sections of this chapter must be applied. When a price estimate must be inflated for delivery of a weapons system several years in the future, use OSD published inflation indices. If other factors apply, those factors must be documented in case files and justified for Comptroller, Department of Defense approval when submitting Letters of Offer to the Defense Security Assistance Agency for counter signature. When developing an estimate for weapon systems in different configurations than those for which service estimates are available, it is advisable to try to obtain contractor estimates at the contract level required to identify the difference. See "Military Standard 881A Work Breakdown Structures for Defense Materiel Items" for the definition of these levels.

2. Blanket Order. These dollar-value cases (or lines incorporated in system sales cases) are written for a category of materiel or services with no definitive listing of items or quantities. 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 customer to requisition such items as publications. In this latter case, the amount written into the offer will be dependent 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 may 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 assume that all items will come from stock and each item will be less than \$10,000. Except for stock fund/Defense Business Operations Fund items, this may allow the analyst to apply the full packing, crating, and handling, and transportation charges (NOTE: These two charges are already included in the standard price for stock fund/Defense Business Operations Fund items). However, at the time of the billing for delivery of an item charged to the case, the appropriate surcharge will be applied in accordance with Chapter 8. Those agencies that have developed an ordering history for certain countries or weapon systems may be able to develop a ratio of items from procurement and items from stock which enables 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. One exception to consider is that once the inflated item price is developed, then apply the FMS replacement surcharge for annual procurement appropriation items to insure that the estimate foresees all additives.

3. Cooperative Logistics Supply Support Arrangement cases may be priced as in subparagraph B. See Section 707 of this Volume for specific guidance.

B. Individuals involved in preparing LOAs must keep in mind how performance or a request for reimbursement is going to be reported to SAAC following acceptance of the offer by the FMS customer. The implementing agency must be able to determine the cost to be billed based on the provisions of this chapter. This task can be particularly difficult when more than one activity is involved in fulfilling the requirements of a line or Record Serial Number (RSN)

of a case. The activity preparing the delivery transactions must be aware of all of the costs they are to report and also the costs that will be added by SAAC in accordance with paragraph 080501 of this Volume. Cases involving items which must be shipped to one or more activities before final shipment to the FMS customer can require several delivery transactions in order to account for all costs. Cases involving major procurements may result in a large volume of progress payments being submitted. These are necessary to ensure that the cost balances are adequate to cover costs as they are incurred. The tables in this chapter and Chapter 8 illustrating these reports must be studied carefully to insure all costs are correctly reported.

#### **070104. Legal Background**

A. General. Section 1 of the AECA [reference (a)] provides that sales are approved only when they will further the security objectives of the United States and the purpose and principles of the United Nations Charter.

#### **B. Pricing Requirements**

1. Price of Services and Stock. Section 21(a) of the AECA [reference (a)] provides 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 thereof.

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 United States Government of furnishing such service, unless the service is training provided under the terms in subparagraph 3.a. below in which case, only the additional costs that are incurred in furnishing such assistance are to be recovered.

2. Charges Applicable to Services, Stocks, and New Procurements. Section 21(e) of the AECA provides that the selling price shall include appropriate charges for:

a. Administrative services, calculated on an average percentage basis to recover the full estimated costs (excluding unfunded civilian retirement costs, military salaries and a pro-rata share of fixed base operations costs) of administration of sales made under the Act to all purchasers of such articles and services.

b. A proportionate amount of any nonrecurring costs of research, development and production of major defense equipment, except of equipment wholly paid for either from U.S. military assistance funds, Section 503(a)(3) of the Foreign Assistance Act of 1961, or from U.S. credit funds made available on a non-repayable basis under Section 23 of this Act.

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 Section 21(e). Under certain conditions less than the full cost of training may be charged:

a. In the case of training sold to a purchaser who is scheduled to receive International Military Education and Training (IMET) during the same fiscal year in which the sale of training is made, only those additional costs that are incurred by the United States Government in furnishing the training shall be charged.

b. Section 21(g) of the AECA [reference (a)] authorizes the President to enter into North Atlantic Treaty Organization standardization agreements in carrying out Section 814 of the Act of October 7, 1975, (P. L. 94-106), and to enter into similar agreements with Japan, Australia, New Zealand, and with other countries which are major non-NATO allies for the cooperative furnishing of training on a bilateral and multilateral basis, if the financial principles of such agreements are based on reciprocity.

Such agreements shall 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 United States Armed Forces occupying comparable accommodations are charged for such accommodations by the United States). Each such agreement shall be transmitted promptly to the Speaker of the House of Representatives and the Committees on Appropriations, Armed Services and Foreign Relations of the Senate.

4. Price of New Procurement. Section 22(a) of the AECA [reference (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 when the U.S. Government enters a contract for a new procurement on their behalf. Payment to the USG by the foreign country or international organization is to be in U.S. dollars.

5. Interest. Section 21(d) and 22(a) of the AECA [reference (a)] require that interest be charged on any net amount by which a country or international organization is in arrears under all of its outstanding unliquidated dependable undertakings considered collectively. The interest charged shall be at a rate not less than a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding short-term obligations of the United States as of the last day of the month preceding the net arrearage and shall be computed from the date of net arrearage.

6. Price of Design and Construction Services. Section 29 of the AECA [reference (a)] requires foreign countries or international organizations to 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 U.S. Government enters into a contract for design and construction services on their behalf.

### C. Cost Recoupment Waivers and Exclusions

1. Waiver of Nonrecurring Cost Recoupment Charges. Section 21(e)(2) of the AECA [reference (a)] provides the President may reduce or waive the charge or charges which would otherwise be considered appropriate under paragraph 070104.C.2 for particular sales that would, if made, significantly advance United States Government interest in North Atlantic Treaty Organization standardization with the Armed Forces of Japan, Australia, or New Zealand, in furtherance of the mutual defense treaties between the United States and those countries, or foreign procurement in the United States under coproduction agreements. This authority has been delegated to the Director, Defense Security Assistance Agency (DSAA).

2. Special Waiver Authority for NATO E-3A. 10 U.S.C. 2350e [reference (n)] provides that the Secretary of Defense, in carrying out the Multilateral Memorandum of Understanding (MMOU) between NATO Ministers of Defense on the NATO E-3A Cooperative Programme, signed by the Secretary of Defense on December 6, 1978, the MOU for operation and support of the NATO Airborne Early Warning and Control Force signed by the US Ambassador to NATO on September 26, 1984; the addendum to the MMOU dated December 7, 1990; and any follow-on support agreement to the NATO E-3A Cooperative Programme may waive reimbursement for:

a. Personnel cost applicable to services performed by personnel other than personnel employed in the Airborne Warning and Control System (AWACS) program office for:

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

(8) Planning, programming, management services

b. Any surcharge for administrative services otherwise chargeable. The law also authorizes the Secretary to assume contingent liability for:

(1) Any program losses resulting from the gross negligence of any contracting offices of the United States.

(2) Identifiable taxes, customs duties, and other charges levied within the United States on the program.

(3) The United States' share of unfunded termination liability. The authority contained in section 2350e currently expires on September 30, 1993. DoD will continue to seek extension of that authority in accordance with the provisions of the MMOU.

3. Waiver of Contract Administration Services (CAS). Section 21(h) of the AECA [reference (a)] provides that the President is authorized to provide (without charge) quality assurance, inspection, contract administration services, and contract audit defense services in connection with:

a. The placement or administration of any contract or subcontract for defense articles, defense services, or design and construction services entered into after October 29, 1979, by, or under the AECA [reference (a)] on behalf of, a foreign government which is a member of NATO, if such government provides such services in accordance with an agreement on a reciprocal basis, without charge, to the United States Government.

b. The placement or administration of any contract or subcontract for defense articles, defense services, or design and construction services pursuant to the NATO Infrastructure Program in accordance with an agreement under which the foreign governments participating in such a program provide such services, without charge, in connection with similar contracts or subcontracts.

c. In carrying out the objectives of subsection 21(h) cataloging data and cataloging services may be provided to NATO or to a member government of NATO, if NATO or the member government provides such services without charge to the United States on a reciprocal basis.

d. The authority set forth in (a) and (b) to negotiate and conclude such agreements has been delegated to the Assistant Secretary of Defense (Acquisition & Logistics).

e. When a waiver has been approved, the cost of contract administration in support of the applicable effort shall be funded by a DoD appropriation. Billings for such actual costs shall not be submitted against the FMS Trust Fund.

f. Countries with waivers are listed in DoD 5105.38-M, Security Assistance Management Manual (SAMM)[reference (e)], Figure 1301-1.

4. Special Waiver Authority for NATO Cooperative Projects.

a. Section 27 of the AECA [reference (a)] provides 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 section 21(e) of the Act (see paragraph 070104.B.2. "Charges Applicable to Services, Stocks, and New Procurements", above) 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 section 27 has been delegated to the Director, DSAA.

c. Administrative surcharges shall not be increased on other sales made under the AECA [reference (a)] 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 shall not be available to reimburse the costs incurred by the United States Government for which waiver or reduction is approved by the President under Section 27 of the Act.

5. Waiver of Cost of Military Pay and Entitlements for Defense Services Funded by the Military Assistance Program (MAP) or Non-Repayable FMS Credit.

a. Section 503(a) of the FAA [reference (a)] of 1961, as amended, provides for elimination of the cost of military pay and entitlements if the sales case for defense services (including training) or for design and construction services is totally financed by the Military Assistance Program (MAP) or by non-repayable FMS credit.

b. Services provided under Sections 21, 22, or 29 of the AECA [reference (a)] shall be priced to exclude military pay and entitlements (including retired pay accrual) only for those cases citing MAP funds and/or FMS Credit (Non-repayable) 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, the pricing applies to services provided after September 30, 1985; for non-repayable credit, the pricing applies to services provided after September 30, 1989. DSAA will commit MAP funds and non-repayable credits on all service cases that cite such funding prior to release to the country. Any subsequent amendment/modification serving to reduce the MAP or non-repayable credit funding below 100 percent shall require repricing to add military pay and entitlements to the entire case.

6. Exchange of Training and Related Support.

Section 30.A. of the AECA [reference (a)] empowers the President to provide training and related support to military and civilian defense personnel of a friendly foreign country or an international organization. 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 pro-

vide 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 which may not be more than one year. If such training is not provided, then the country or international organization receiving such training shall be required to reimburse the United States for the full costs of the training and related support provided by the United States.

7. Special Authorities. In connection with the administration of the European Air Defense Agreements, the Secretary of Defense is authorized under Section 132 of the International Security and Development Cooperation Act of 1985 [reference (a)] to (1) waive any surcharge for administrative services otherwise chargeable under Section 21(e)(1)(A) of the AECA [reference (a)], and (2) waive any charge not otherwise waived for services associated with contract administration for the sale under the Act of Patriot air defense missile fire units to the Federal Republic of Germany (FRG) contemplated in the agreements.

8. Fair Pricing. Under sections 21 and 43 of the Arms Export Control Act, charges for non-recurring costs are not required for foreign military sales cases wholly funded with MAP or non-repayable FMS credits. In addition, asset use charges are no longer applicable to FMS transactions. In addition, military salaries and unfunded costs of civilian retirement and other benefits are not included in the FMS administrative account. However, when such expenses are included in, or are a part of, the standard prices charged for goods and services furnished by working capital funds, a separate price shall not be established for sales from, or services furnished by, working capital funds in connection with FMS cases and the standard price shall be charged as is the case with all other sales and services furnished by working capital funds.

#### D. Payment Terms

1. Sales from Stock of Defense Articles and Services. Payment shall be made in advance, or if the President determines it to be

in the national interest, upon delivery of the defense article or rendering of the defense service. The authority to determine that payment upon delivery is in the national interest has been delegated to the Director, DSAA. If billings are made at delivery, they shall be due and payable upon receipt. Interest shall be charged on any net amount due and payable which is not paid within 60 days. The period may be extended to 120 days if a determination is made that emergency requirements of the purchaser for acquisition of defense articles or defense services exceed the ready availability to the purchaser of funds sufficient to pay in full for them within the 60 day period. If this is done, the determination must be submitted to the Congress along with a special emergency request for the authorization and appropriation of additional funds to finance such purchases.

2. Sales of New Procurement Items and Construction Services. Payment shall be made in advance of the need to meet contract payments required by the contract and any charges and costs that may occur from the cancellation of a contract.

3. Authorization and Appropriation of Emergency Funds. The President may issue letters of offer which provide for billing upon delivery of the defense article or rendering of the defense service and for payment within 120 days after the date of billing. This authority may be exercised, however, only if the President also determines that the emergency requirements of the purchaser for acquisition of such defense articles and services exceed the ready availability to the purchaser of funds sufficient to make payments on a dependable undertaking basis and submits both determinations to the Congress together with a special emergency request for authorization and appropriation of additional funds to finance such purchases under the Act.

4. Special Instructions Applicable to Section 23 (Credit Sales) and Section 24 (Guaranties) of the AECA [reference (a)]

a. Section 23 of the Act provides the authority to finance sales of defense articles and defense services to friendly countries and international organizations, subject to the



availability of appropriations for such purpose. The authority is a method for financing the payment terms set forth in 1 and 2 above. The customer must repay principal used within 12 years after the delivery of applicable articles or the rendering of the service. The interest charged shall be at a rate determined by the President, except that it may not be less than 5 per cent. Currently, such interest on any unpaid balance is paid at a rate equivalent to the current average interest rate, as of the last day of the month preceding the financing of such procurement, that the United States Government pays on outstanding marketable obligations of comparable maturity.

b. Section 24 of the Act provides the President may guarantee loans made by any individual, corporation, partnership, or other juridical entity doing business in the United States (excluding United States Government agencies other than the Federal Financing Bank) to finance FMS purchases or direct commercial purchases by friendly countries and international organizations. Funds previously obligated under Section 24(c) constitute a single reserve for the payment of claims under such guaranties. A fee of 1/4 of 1 percent is charged on each loan guaranteed.

#### **070105. Crediting of Earned Reimbursements**

A. General. DoD appropriation/ fund accounts or Miscellaneous Receipts Account 3041, "Recoveries Under the Foreign Military Sales Program," are entitled to reimbursement when DoD services or inventory items are sold under Section 21. An entitlement to reimbursement also results from 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 appropriation/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 which may be involved in performance of an FMS order and the accounts which are to be credited are shown in Table 701-1.

#### C. Special Defense Acquisition Fund

1. The International Security and Development Cooperation Act of 1981 enacted on December 29, 1981, [reference (a)] authorizes the establishment of a Special Defense Acquisition Fund (SDAF). The SDAF is capitalized by collections that normally would be deposited into Miscellaneous Receipts Account 3041. Deposits may consist of:

a. Collections made from sales under letters of offer issued pursuant to Section 21(a)(1)(A) of the AECA [reference (a)] representing the actual value of defense articles not intended to be replaced in stock under the terms and conditions of section 114(c)(2) of title 10 United States Code, which provide for the deposit of such collections provided that the deposit does not cause the amount in the SDAF to exceed \$1,070,000,000.

b. Collection from sales representing the value of charges for the proportionate recoupment of nonrecurring research and development and production costs.

2. The SDAF has been assigned account symbol 11X4116. A monthly report of disbursing officer credits to 11X4116 shall be provided to DSAA. Separate subheads shall be used under 11X4116 to identify the source of the collections. The subheads that apply are as shown in Table 701-2.

**TABLE 701-1 COST ELEMENTS**

<u>Cost Element</u>	<u>Account Credited</u>
<b>A. Services of military personnel:</b>	
(1) Composite standard military pay rate	Military Personnel (MP) Appropriation
(2) Leave and holidays factor when applicable. See paragraph 070203.	Military Personnel (MP) Appropriation
(3) Personnel support costs Appropriation	Operations and Maintenance (O&M)
(4) Retirement cost prior to 1 Oct 84	Miscellaneous Receipts Account 3041
<b>B. Services of Civilian Personnel:</b>	
(1) Salary cost and wages	O&M Appropriation; Research, Development, Test, and Evaluation (RDT&E) Appropriation; Industrial Fund (IF)/Defense Business Operations Fund, as applicable
(2) Leave and holidays factor when applicable. See para 070102	O&M, RDT&E, IF, as applicable
(3) DoD funded civilian retirement cost	O&M, RDT&E, IF, as applicable
(4) Health and life insurance and other employee e.g., fringe benefits	O&M, RDT&E, IF, as applicable
(5) Civilian retirement cost not funded by DoD appropriations	Miscellaneous Receipts Account 3041
<b>C. Inventory Items:</b>	
(1) Nonexcess Procurement Funded item which requires replacement	Financing procurement appropriations as applicable, current at the time items dropped from inventory
(2) Nonexcess Procurement Funded item that will not be replaced within the obligation availability of current procurement appropriations	Miscellaneous Receipts Account 3041 or Special Defense Acquisition Fund 11X4116.1, as applicable, see para. 070105.C.1.
(3) Excess and Nonexcess Stock Fund/Defense Business Operations Fund items	Defense Business Operations Fund
(4) Excess procurement funded principal items	Miscellaneous Receipts Account 3041 or 11X4116.2, as applicable, see para. 070105.C.1.

**TABLE 701-1 COST ELEMENTS (CONTINUED)**

D. Nonrecurring cost recoupment charges (Collected as a result of Foreign Military Sales or direct commercial sales)	Miscellaneous Receipts Account 3041 or 11X4116.3, as applicable, see para. 070105.C.1.
E. Transportation	Financing appropriation/fund current at the time transportation is provided
F. Logistics Support Charge	MP, O&M, RDT&E, or Defense Business Operations Fund current at the time services are performed or Miscellaneous Receipt Account 3041, as applicable.
G. Royalty fee charges	Miscellaneous Receipts Account 3041 or 11X4116.3, as applicable, see para. 070105.C.1.
H. Charges for the use of DoD assets (includes depreciation on purchased equipment)	Miscellaneous Receipts Account 3041 or 11X4116, as applicable, see para. 070105.C.1. Depreciation which is included in Industrial Fund (IF)/Defense Business Operations Fund shop rates shall be retained by the IF/Defense Business Operations Fund
I. FMS contract costs financed by DoD appropriation or fund accounts	Financing procurement appropriation or Defense Business Operations Fund as applicable
J. TDY costs financed by appropriation or fund accounts	O&M and RDT&E appropriations cur- rent at the time travel is performed, or IF, as applicable
K. Accessorial Surcharge:	
(1) Packing, crating, and handling (PC&H)	O&M appropriation current at the time services are performed, or IF, as applicable
(2) Transportation	O&M appropriation current at the time transportation is provided, or IF, as applicable
L. FMS administrative surcharge (This is a combination of cost elements A., B., and J.)	MP, O&M, RDT&E, or IF current at the time services are performed or Miscellaneous Receipts Account 3041, as applicable
M. Contract Administration Services (This is a combination of cost elements A., B., and J.)	MP, O&M, IF, or Miscellaneous Receipt Account 3041, as applicable

**TABLE 701-1 COST ELEMENTS (CONTINUED)**

N. 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
O. Mailing fee, storage and publications	O&M or revolving fund, as applicable
P. Inventory losses	Applicable procurement or revolving fund, as applicable

Note: DoD Components shall maintain internal records of the dollar amounts applicable to each category of collections deposited into Miscellaneous Receipts Account 3041. One decimal subaccount will be required for each type of collection. For example 3041.3 might be used to designate dollar amounts applicable to nonrecurring cost recoupment, including royalty fees, as a result of direct commercial sales.

**TABLE 701-2 SPECIAL DEFENSE ACQUISITION FUND ACCOUNT SYMBOLS**

<u>Basic Symbol/Limit</u>	<u>Source of Collections</u>
11X4116.1XXX	Nonexcess procurement funded items which will not be replaced within the obligation availability of current procurement appropriations. (See paragraph 70105.C.1.a., this Volume, which pertains.)
11X4116.2XXX	Excess stock fund/Defense Business Operations Fund and procurement funded items. (See paragraph 070105.C.1.a., this Volume, which pertains.)
11X4116.3XXX	Nonrecurring RDT&E and production charges, including royalty fees.
11X4116.7XXX	Payments from FMS or MAP funds for sale of SDAF equity in contracts and inventories.
11X4116.8XXX	Payments from MILDEP appropriations for SDAF items transferred to the MILDEP for temporary use and which are not returned to SDAF.

**0702** PRICING OF PERSONNEL SERVICES

**070201. General.** Except for those costs which may be excluded from charges in certain cases which were discussed in preceding paragraphs, charges to the FMS program for DoD personnel, except for those assigned to DoD training installations or performing contract administration, shall be computed in accordance with this section. This includes personnel costs recouped as direct charges, that is, special management services, mobile training teams (MTTs), technical assistance teams (TATs), or technical assistance field teams (TAFTs). It also includes personnel costs that are recouped indirectly through the administrative surcharge. The calculation of personnel costs shall include travel time, both temporary duty travel and permanent change of station, when the travel directly results from performance of an FMS case. The actual hours of personnel supporting foreign commercial contracts shall be accumulated and priced at the hourly FMS rates prescribed annually by the Office of the Comptroller, DoD memorandum. This memorandum is usually issued in October or November. When industrially funded/Defense Business Operations Fund personnel are utilized other than at the industrial fund site, price civilian personnel using the current annual salary and appropriate acceleration factors without overhead costs.

**070202. Civilian Personnel.** Services performed by DoD civilian personnel shall be priced at standard pay rates in effect at the time the services are performed. Tables in Appendix C contain the general schedule pay rates. The standard pay rates shall be accelerated to recover the funded cost of the U.S. Government's contribution for civilian employee benefits, such as retirement, insurance and health plans, cash awards, and, where applicable, the U.S. Government's share of social security taxes and leave and holidays. Acceleration factors are reviewed by the Office of the Comptroller, DoD and adjusted as appropriate through memoranda. Factors in effect at the date of this publication are listed on the pay tables at Appendix C. Civilian personnel costs shall be based on an average work week of 40 hours. The indicated percentages at the bottom of the tables (or the factors in effect at the time of services, if not in

those tables inclusive time periods) shall be used for acceleration factors. The acceleration factor for leave and holidays shall be applied only when reimbursements are based on time actually worked, that is, when the foreign country does not otherwise pay for costs incurred during leave or holiday periods. See paragraph 070104.C.8. for the impact of "Fair Pricing" legislation on civilian personnel services in calculating charges for administrative services under section 21(e) of the Arms Export Control Act [reference (a)]. Pricing is illustrated in Table 702-1.

**070203. Military Personnel**

A. Military personnel services shall be priced using the composite standard pay rates current at the time services are performed. Tables in Appendix C contain the annual pay rates. Monthly, daily, or hourly rates can be obtained by multiplying the annual rate by the applicable factors shown at the bottom of the table.

B. Since fiscal year 1985, the annual composite standard military rates include the cost of retirement. However, these composite rates must be accelerated to 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 the Department of Defense 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 and are listed as the acceleration factors beneath the composite rates in each table. Pricing computations are illustrated in Tables 702-2, 702-3, and 702-4.

C. For FY 1980 and the prior fiscal year, the composite standard rate shall also be increased by the appropriate permanent change of station (PCS) costs. PCS costs for these years are additive after any other increases for retirement, leave and holidays, and other benefits.

D. Beginning in FY 1981, PCS costs are included in the composite standard pay rates in the appropriate tables in Appendix C and are subject to the acceleration factors beneath the

pay tables. In situations where military personnel are required to make a PCS move to support an FMS case, the PCS rate shall be deleted from the composite rate and the actual PCS cost charged to the case. In the latter situation, the actual PCS cost is not subject to acceleration.

E. FMS cases which are fully financed with MAP funds and/or non-repayable FMS credits shall be priced to exclude the cost of salaries and entitlements of military members. This is effective in FY 86 for MAP-financed cases and in FY 90 for cases financed by non-repayable credits. This exclusion applies only to above-the-line costs and not to associated surcharges, e.g., military salaries included in the administrative surcharge, and the contract administration surcharge.

**070204. Indigenous Personnel.** Indigenous personnel services shall be priced at actual costs or at standard pay rates. Standard pay rates shall not be used when known to be less than actual costs. Both actual cost and the standard pay rate shall 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 indigenous 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 shall be identical to the payments and entitlements of DoD personnel working on direct DoD mission assignments at similar locations. The FMS case shall be priced to include the amount paid to employees or centrally funded through authorized DoD entitlement programs.

**070206. Special -- Instructions -- Applicable to Industrial Funds/Defense Business Operations Funds.** Industrial fund/Defense Business Operations Fund facilities will charge applicable approved non-DoD stabilized inventory rates and prices for services in support of FMS cases except where special rates may be applicable.

**TABLE 702-1 CIVILIAN PERSONNEL SERVICES PRICE COMPUTATION EXAMPLE**

100 HOURS OF CIVILIAN EFFORT (GS-12)  
AT NAVY INSTALLATION IN JANUARY 1989

Direct Labor Hours	100
FY 89 Hourly Rate (Fourth Step) (\$38,039/2087) <sup>1</sup>	<u>\$18.23</u>
Direct Labor	\$1,823.00
Leave and Holiday Acceleration Factor (18%)	<u>328.14</u>
Subtotal	\$2,151.14 =====
Unfunded Retirement Factor (14.7%) <sup>2</sup>	316.22
Fringe Benefits Factor (15.8%) <sup>3</sup>	<u>339.88</u>
Pay Cost and Cost of Acceleration Factors	\$2,807.24
4% Asset Use Charge <sup>4</sup>	<u>112.29</u>
FMS Selling Price <sup>5</sup>	\$2,919.53

<sup>1</sup>To compute the hourly pay rate for FY 84 and beyond, divide the general pay by 2087 hours. For prior years, use 2080 hours.

<sup>2</sup>Credit the unfunded portion of civilian retirement to Miscellaneous Receipts Account 3041.

<sup>3</sup>The fringe benefits factor includes the employer's share of retirement, health benefits, life insurance, etc.

<sup>4</sup>Credit to Special Defense Acquisition Fund or Miscellaneous Receipts Account 3041 as appropriate. Note: Asset use was canceled November 30, 1989.

<sup>5</sup>Administrative surcharge is additive to the selling price.

**NOTES:**

A. See Table 804-5 for billing.

B. For illustrative purposes the above example is based on costs and acceleration factors in effect for FY 1989. Refer to Appendix C or current Comptroller, DoD guidance for costs and acceleration factors to be used in the current year.

**TABLE 702-2 MILITARY PERSONNEL SERVICES PRICE COMPUTATION EXAMPLE**

200 HOURS EFFORT BY NAVY MILITARY PERSONNEL (O-4 AND E-7)  
AT CUSTOMER LOCATION IN JUNE 1984

	O-4	E-7	TOTAL
Direct Labor Hours	100	100	
Hourly Composite Pay Rate (FY 1984)			
O-4 (\$47,040/2080)	22.62		
E-7 (\$27,948/2080)	X -----	X 13.44	
Composite Pay Cost	\$2,262.00	\$1,344.00	
Leave and Holidays <sup>1</sup>	18.0% 407.16	18.0% 241.92	
Subtotal	\$2,669.16	\$1,585.92	
	=====	=====	
Retirement <sup>1</sup>	33.0% 880.82	33.0% 523.35	
Other Personnel Cost <sup>1</sup>	8.0% <sup>2</sup> 213.53	23.0% 364.76	
Pay and Fringe Benefit Costs	\$3,763.51	\$2,474.03	\$6,237.54
4.0% Asset Use Charge <sup>3</sup>			-0-
TDY Cost			2,000.00
FMS Selling Price <sup>4</sup>			\$8,237.54

<sup>1</sup> Before September 9, 1983, the method of applying acceleration factors was to add all factors and apply a single percentage to pay cost. Refer to Appendix C or current Comptroller, DoD guidance for costs and acceleration factors to be used in current year.

<sup>2</sup> Credit to O&M or RDT&E, as applicable.

<sup>3</sup> Asset Use Charge is not applicable because service does not involve use of DoD facilities.  
Note: Asset use was canceled November 30, 1989.

<sup>4</sup> Administrative Surcharge is additive to the selling price.



**TABLE 702-3 MILITARY PERSONNEL SERVICES PRICE COMPUTATION EXAMPLE**

200 HOURS EFFORT BY NAVY MILITARY PERSONNEL (O-4 AND E-7)  
AT NAVY LOCATION<sup>4</sup> IN JUNE 1984

	O-4	E-7	TOTAL
Direct Labor Hours	100	100	
Hourly Composite Pay Rate (FY 1984)			
O-4 (\$47,040/2080)	22.62		
E-7 (\$27,948/2080)	X -----	X 13.44	
Composite Pay Cost	\$2,262.00	\$1,344.00	
Leave and Holidays <sup>1</sup>	18.0% 407.16	18.0% 241.92	
Subtotal	\$2,669.16	\$1,585.92	
	=====	=====	
Retirement <sup>1</sup>	33.0% 880.82	33.0% 523.35	
Other Personnel Cost <sup>1</sup>	8.0% <sup>2</sup> 213.53	23.0% 364.76	
Pay and Fringe Benefit Costs	\$3,763.51	\$2,474.03	
Temporary Duty (TDY) costs (includes per diem and transportation)		200.00	
Total Costs	\$3,763.51	\$2,674.03	\$6,437.54
4.0% Asset Use Charge <sup>3</sup>			257.50
FMS Selling Price			\$6,695.04

<sup>1</sup> Before September 9, 1983, the method of applying acceleration factors was to add all factors and apply a single percentage to pay cost. Refer to Appendix C or current Comptroller, DoD guidance for costs and acceleration factors to be used in current year.

<sup>2</sup> Credit to O&M or RDT&E, as applicable.

<sup>3</sup> Credit to SDAF or Miscellaneous Receipts Account as appropriate. Note: Asset use was canceled November 30, 1989.

<sup>4</sup> For purposes of charging asset use, the service location may be a CONUS/overseas USG-owned activity. Asset use applies to both personnel services and associated TDY costs in this example.

**TABLE 702-4 MILITARY PERSONNEL SERVICES PRICE COMPUTATION EXAMPLE**1 YEAR OF ARMY MILITARY PERSONNEL (O-4 AND E-7) TO  
FMS CUSTOMER INSTALLATION (ALL PCS IN FY 86)

	O-4	E-7	TOTAL
Yearly Composite Pay Rate <sup>1</sup> (FY1986)	\$66,137.0	37,241.00	
Applicable Acceleration Factors <sup>2</sup>			
Other Personnel Cost <sup>3</sup>	6.0%	18.0%	
Cost of Acceleration Factors (less PCS Factor)	3,968.22 (2,928.00)	6,703.38 (1,065.00)	
	1,040.22	5,638.38	
Actual PCS to Installation - Round Trip Transportation of Member and Family	10,000.00	10,000.00	
Round Trip Movement of Household goods	5,000.00	5,000.00	
Living Allowances	6,000.00	6,000.00	
FMS Selling Price <sup>4</sup>	\$88,177.2	\$63,879.38	\$152,056.60

<sup>1</sup> Beginning in FY 1981, PCS costs were included in the composite standard pay rate and must be deleted when actual PCS costs are applied. Beginning in FY 1985 military retirement was included in the composite pay rate.

<sup>2</sup> Refer to Appendix C or current Comptroller, DoD guidance for costs and acceleration factors to be used in current year.

<sup>3</sup> Credit to O&M or RDT&E, as applicable.

<sup>4</sup> Administrative Surcharge is additive to selling price.

**0703** CASH SALES OF DEFENSE ARTICLES ISSUED FROM STOCK

**070301.** General. Section 21 of the AECA [reference (a)] authorizes the sale of defense articles from stock to eligible foreign governments and international organizations. These sales include all sale 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 cooperative logistics supply support arrangements) may not be considered a sale from stock. Procurements initiated to replace stocks sold from DoD inventories are not FMS new procurements.

**070302.** Sale Price of Nonexcess Materiel

A. Nonexcess defense articles are assets within the approved force acquisition objective and approved force retention stock of all DoD Components as defined in DoD Directive 4100.37 [reference (o)]. Also included in the nonexcess category are articles procured in anticipation of military assistance or sales requirements as a result of cooperative logistics supply support arrangements, or pursuant to a military assistance or sales order. The selling price shall be determined when (1) a requisition is edited for shipment by the shipping activity, or (2) the Letter of Offer is prepared, if a firm price is determined in accordance with the provisions of paragraph 070303.

B. Sale of Defense Business Operations Fund Items

1. The selling price of Defense Business Operations Fund issues to FMS customers shall be the current Defense Business Operations Fund price. Shipments from inventory to non-Cooperative Logistics Supply Support Arrangement (non-CLSSA) customers and to CLSSA customers where requisitions are received in advance of achieved inventory stock levels shall be made only when on-hand serviceable inventories of the items being sold are above the item's reorder point on the day the item is dropped from inventory, except as indicated below (see Table 703-1).

2. The inventory manager with first level supervisor coordination may approve the issue of stocks below the reorder point to non-CLSSA customers when directed by the Director, DSAA, or when he or she determines that there will not be an unacceptable impact on U.S. forces or CLSSA customers.

a. If issuance was directed by DSAA and would impact adversely U.S. Armed Forces or CLSSA customers, the ICP shall identify the need for diversion and provide impact data through appropriate DoD Component channels to the Director, DSAA. DoD 5105.38-M, Paragraph 60003.E [reference (e)] provides additional details on processing such impact statements.

b. If 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 shall be requested from Comptroller, DoD. Section 719 of this Volume provides guidance on exception requests. Normally, the exception would be to either add a replacement factor or delay final pricing until the contract for replacement items is financially complete.

3. Each Defense Business Operations Fund organization shall review annually the items under its control to determine if silver or other reclaimed precious metals were provided to the contractor as government-furnished materiel (GFM). A special FMS pricing table shall be established for those items that contain reclaimed precious metals. The price in the FMS pricing table shall be increased annually to reflect the June 30 market price of the precious metal. For example, if an item contains 10 ounces of reclaimed silver and the market price of silver on June 30 increased by \$6.00, then the item's selling price shall be increased by \$60.00

4. If a customer returns a repairable Defense Business Operations Fund item for repair or replacement, overhaul service shall be priced in accordance with paragraph 070802. Under no conditions shall the customer be

granted a credit for this carcass which is to be applied against the selling price determined in subparagraph B.1, above. Credit would represent U.S. procurement of FMS customer-owned assets, and such procurements cannot be mingled with the FMS program.

5. As an invested participant, a CLSSA customer may return a fully serviceable repairable item to the Defense Business Operations Fund for credit, when the item is within the approved acquisition objective (AAO), providing the requirements of paragraph 070102.J. are met. The credit will only be issued after the item is received at the depot. Funds credited may be paid by the DoD paying office into the Trust Fund in accordance with the foreign customer's instruction.

C. Sale of Investment (Procurement Funded) Items. As indicated previously, when an item is sold from the stocks of the Department and that item is not intended to be re-placed, except for amounts which may be credited to the Special Defense Acquisition Fund, the amounts received as payment for that item from the FMS customer are required to be deposited into the miscellaneous receipts of the Treasury under the provisions of 10 U.S.C. 114(c)(2). Therefore, in the case of such sales, it is necessary to decide whether an item will be replaced or not. An item may be replaced either "in kind" or with an improved model of the item sold. Thus, the sale of a C-130B and the replacement of that aircraft with a C-130B would be an "in-kind" replacement. The replacement of the aircraft with a C-130E would be a replacement with an improved model. Both of the cases would be a replacement. On the other hand, the sale of a C-130B and the substitution of a totally different kind of aircraft would not be a replacement. Similarly, the purchase of an upgrading or modification kit, would not be a replacement, even though the upgrade or modification would result in an end-item similar to ones being acquired or that could be acquired. For instance, the procurement from the proceeds of the sale of an M-1 Tank in the inventory of a modification kit to an M-1 Tank currently in the inventory to upgrade an existing M-1 to an M-1A Tank would not be a replacement even though the procure

ment of a new M-1A tank to replace the M-1 sold would be a replacement.

1. Investment Item Not to be Replaced. When an item is not to be replaced, the price of the item is not less than the actual value of the article. Except as provided in subparagraph b., this price is determined as follows:

a. When a determination is made that a procurement funded item will not be replaced, the price of the item shall 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. 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 pro-rated over the interval between the last actual 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. 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 Table 703-2. A request for waiver of the overhaul cost may be submitted to Comptroller, DoD, Accounting Policy, with a copy to the Comptroller, DSAA.

b. In the case of a naval vessel that is 20 or more years old, and 3,000 tons or less, section 21(a)(2) of the AECA [reference (a)] 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.

2. Investment Item to be Replaced. When a determination is made that an item is to be replaced, the price of the item is to be the estimated cost of the replacement, including the contract or production costs of the article less any depreciation in the value of the article. This price is determined as follows:

a. Determine the normal useful peacetime life of the item or equipment to be sold.

b. Determine the percentage of useful life remaining on the item.

c. Apply the percentage developed in paragraph C.2.b., above, to the estimated (or actual) cost of the replacement item. The resultant amount is the base cost to be used in the sale price calculation. Under no condition shall the sale price be lower than the scrap value plus the cost of the last major overhaul or outfitting accomplished within 24 months before the sale.

d. Examples of price computations are shown at Tables 703-3 and 703-4.

3. When a determination is made under subparagraph C.2, above, the FMS selling price on the Letter of Offer to the Purchaser shall be the best estimate available. However, once the item is dropped from inventory, a final bill shall be assessed the purchaser utilizing the best pricing information available if actual replacement procurement cost is not known. This shall 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, then the inventory manager must recommend FMS procurement and not approve a shipment out of stock.

D. Sale of Ammunition. The selling price of an ammunition item shall be the current standard price and any applicable nonrecurring cost recoupment charge for the item being shipped to the customer.

### **070303. Quotation of Firm Prices**

A. 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 Section 21 of the AECA [reference (a)]. Such prices are not subject to further adjustment, provided the purchasing nation 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, provided the price is based on budgetary data or contractor quotation.

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

3. Training tuition rates (only for current year).

B. The objective of 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 Letters of Offer. Firm prices may be quoted only after careful and coordinated development of such pricing data. Letters of Offer (other than for training) which specify firm pricing must be coordinated, at a minimum with the Military Comptrollers, DSAA, and the Office of the Comptroller, DoD.

C. All Letters of Offer authorized to be on a firm price basis shall include a note which specifies that pricing data presented are firm (except for changes authorized in paragraph 071006) and will not be changed, provided the country accepts the Letter of Offer before its expiration date.

### **070304. Excess Materiel**

A. Excess equipment shall be sold in an "as is" condition. Excess defense articles are assets in excess of the approved force acquisition objective and approved force retention stock of all DoD Components (see paragraph 070302 for

additional discussion). The cost of repairing, rehabilitating, or modifying such articles shall be computed in accordance with paragraph 070802. The selling price of excess materiel, exclusive of repair or modification costs, shall be the highest of (1) its market value (which includes nonrecurring costs as computed in paragraph 070305) as hardware, or (2) its scrap value plus nonrecurring costs and the last major overhaul costs incurred (the overhaul costs will be pro-rated over the interval between the last actual overhaul and the next scheduled overhaul. If a future overhaul is not scheduled, the cost of the last overhaul will be pro-rated 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 Table 703-5), or (3) its fair value (plus nonrecurring and pro-rated major overhaul costs) computed using the fair value rates contained in this subsection. A request for waiver of the overhaul cost may be submitted to the Office of the Comptroller, DoD (Accounting Policy), with a copy to the Comptroller, DSAA. Fair value rates are applied to the established inventory price and follow:

Federal Condition Code	Percent of Inventory Price of Materiel
(See DoD 4160.21-M [reference (p)] for specific definitions)	
A-1 (serviceable, unused - good)	50
A-4 (serviceable, used - good)	40
A-2, A-5, B-1, C-1, D-1, B-4, C-4, D-4 (serviceable with qualification, materiel is either unused in fair condition; if used, in good condition).	30
B-2, C-2, D-2, B-5, C-5, D-5, D-7, E-7, F-7, G-7 (serviceable with qualification, if unused in fair condition; if used, in good condition). (Also includes unserviceable items that are in good condition but require minor repairs.)	20

A-3, B-3, C-3, D-3, A-6, B-6, C-6, H-7, F-8 (serviceable, in poor condition; unserviceable, in poor condition; or unserviceable because item requires minor repairs). 10

D-8, H-8, D-9, H-9, F-9, F-X, G-X, H-X (unserviceable, requiring major repairs). 5

B. Illustrations of price computations are at Table 703-6, 703-7, and 703-8.

C. When accountability for excess items has been transferred to "Property Disposal," the provisions of DoD Instruction 7310.1 [reference (q)] shall apply. This Instruction provides specific guidance in the disposition of amounts realized from the sale of such equipment.

D. A request for exception to established pricing policy of excess material for Foreign Military Sales will be submitted to the DoD Comptroller for approval with a copy to the Defense Security Assistance Agency. The request must address the following:

1. Whether the item has been screened for potential sale to customers and whether there is any existing customer 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's nonrecurring costs;

3. Whether demilitarization costs and, if so, the estimated amount of such demilitarization costs;

4. What the price to repair the item would be and its relationship, as a percentage, to 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 United States Government.

#### **070305. Charges for Nonrecurring Cost**

A. Non-USG purchasers shall pay a fair price, determined in accordance with [Title 32, Code of Federal Regulation, Part 165, "Recoupment of Non-Recurring Costs on Sale of U.S. Items," \(32 CFR 165\)](#) [reference (r)], for the values of the DoD nonrecurring investment in the development and production of Major Defense Equipment, as required by law, unless a nonrecurring cost (NC) recoupment charge waiver has been approved by the DoD official designated in [32 CFR 165](#). The policy in [32 CFR 165](#) applies to Major Defense Equipment developed with U.S. Government funds. For FMS, an NC recoupment charge is applicable to all MDE. Major Defense Equipment is any item of Significant Military Equipment (SME) listed on the United States Munitions List having a DoD nonrecurring Research, Development, Test and Evaluation (RDT&E) cost accumulation of \$50 million or a total DoD production cost of more than \$200 million.

B. For determining the pro rata share of NC to be recouped, a cost pool methodology is used. The NC recoupment charge computation (nonrecurring RDT&E and nonrecurring production cost pools divided by benefiting units) are submitted to the Director, DSAA, for approval. The NC recoupment computation shall be supported with the MDE calculation worksheet illustrated at Table 703-9. A summary report on each MDE item shall be provided to DSAA following the report format at Table 703-10. The Director, DSAA, will review each DoD Component's calculations and publish the charge in the SAMM [reference (e)].

C. Each DoD Component shall 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 shall 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.

D. The costs to be included in the nonrecurring RDT&E investment cost pool shall be determined on the budget and accounting classifications established for research, development, test and evaluation appropriations in DoD 7110.1-M [reference (d)]. Paragraph 516.2 of reference (d) establishes the following research and development (R&D) categories:

1. 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 fundamental knowledge required for the solution of military problems. It forms a part of the base for (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, material and structures, and personnel support.

2. Exploratory Development 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 minor development effort. The dominant characteristic of this category of effort is that it is pointed toward specific military problem areas with a view toward developing and evaluating the feasibility and practicability of proposed solutions and determining their parameters. Program control of the exploratory development element shall be exercised normally at a general level of effort.

3. Advanced Development 6.3. Includes all efforts directed toward projects that have moved into the development of hardware for tests. The prime result of this type of effort is proof of design concept, rather than the devel-

opment of hardware for service use. Projects in this category have a potential military application.

#### 4. Engineering Development

6.4. Includes all projects in full-scale engineering development for service use that have not yet received approval for production or had production funds included in the DoD budget submission for the present budget or subsequent fiscal year. This area is characterized by major line item projects, and program control shall be exercised by review of individual projects.

#### 5. Management and Support

6.5. Includes research and development efforts directed toward support of installations or operations required for general research and development use. Included would be test ranges and maintenance of test aircraft and ships, and studies and analyses in support of the R&D program. Cost of laboratory personnel, either in-house or contract-operated, would be assigned to appropriate projects or as a line item in the research, exploratory development, or advanced development program areas, as appropriate. Military construction costs directly related to a major development program shall be included in the appropriate element.

#### 6. Operational System Development

6.6. Includes those projects still in full-scale engineering development that have received approval for production through the Defense Systems Acquisition Review Council (DSARC) or other action, or production funds have been included in the DoD budget submission for the present budget or subsequent fiscal year. 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 shall be exercised by reviewing projects individually. The costs incurred for nonrecurring R&D in the first two budget and accounting classifications (6.1 and 6.2) may not be included in the nonrecurring RDT&E cost pool. The advanced development (6.3) budget and accounting classifications is sometimes further broken down into 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 6.3A classification is tied strictly to research efforts

that involve the production of breadboards or brassboards to model all or part of a design. The 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 shall 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 shall be included in the NC 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 NC cost pool is established and the NC recoupment charge is approved. First, the total life of the item will be projected, then the point in time when half of all projected deliveries to non-DoD customers 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 customers will be included in the weapon system NC 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. 32 CFR 165 [reference (r)] provides that the pool shall 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 nonrecurring cost pool are as follows:

1. Preproduction Cost refers to cost of such activities as tool manufacture and tryout (such as jigs, dies, and fixtures) and the implementation of layout plans. Also, see item 8, License Cost. A lump sum payment is part of preproduction cost.

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 alternation of their use is limited to the development of production of particular supplies or parts thereof, 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 nonserviceable 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 interdepen-

dent 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 pro rates annual cost of the program based upon worldwide asset position (both U.S. and foreign-owned end items). The DoD cost of category (f) shall be recovered as part of the selling price of a modification kit, if the kit is an MDE. Product improvement programs may be accomplished by contractors as an engineering change proposal (ECP), modification work order (MWO), 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 effort:

a. Qualification Testing is a 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.

b. First Article Testing Cost is the cost of testing 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 shall obtain to allow competitive awards for production of an item when its design is owned by a contractor. In effect, the Department of Defense 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 nonrecurring cost pools for items to be sold under FMS, nonrecurring costs for major components that are restricted to U.S. Government use only shall 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 shall be excluded. Estimates may be used if accounting records do not identify associated costs.

H. The number of items that shall include all known or projected DoD production quantities shall be determined as follows.

1. The production quantities of end items required by the Department of Defense shall be obtained from either Selected Acquisition Reports (SARs) or the Five Year Defense Program (FYDP), Procurement Annex.

2. The production quantities of end items to be procured for foreign countries or international organizations under security assistance programs shall be obtained from DoD

Component security assistance plans.

3. The production quantities of end items to be produced by contractor for commercial sales may be obtained from the contractor and validated by contracting officers. The contractor's estimate shall be required only if the applicable commodity manager determines that a potential exists for significant commercial sales.

4. In the event end item data is not available from any of these sources, the developing command shall estimate the total number of end items to be produced.

5. The production quantities of systems components that meet the investment threshold shall be derived from the number of end items to be produced. For example, if 100 aircraft shall be produced (including engines) 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, DSAA, shall make the final determination, in coordination with the Office of the Comptroller, DoD, and OUSD(A), as to the production estimates to be used for determining the NC recoupment charge.

J. The approved pro rata charge shall be recouped, unless a waiver is authorized. When nonrecurring cost recoupment is applicable, the price in a Letter of Offer and Acceptance shall provide for the specific recoupment charge. In instances where the initial rate has not yet been approved, DoD Components shall provide for an initial rate based on an estimation of the best information available to the DoD Component. The LOA shall be modified to provide for 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 appendix for information. Subsequent revisions to the pro rata charge shall be applied to new LOAs and shall not be retroactive.

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

L. 32 CFR 165 [reference (r)] 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 or (4) for ammunition items, the potential exists for additional recoupment of over \$100,000 or more. 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.

M. When a model change occurs, the NC recoupment charge shall be recalculated. That portion of the NC which benefits only one model shall be allocated only to that model. That portion of the NC that benefits old and new models shall 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, i.e., engineering analysis or technology analysis, as appropriate. Sample calculations are illustrated at table 703-13.

N. While a change may be submitted at any time by a DoD Component, it is mandatory that a modification be submitted when a significant change occurs.

O. Reporting Nonrecurring Cost Recoupment Collections.

1. Funds collected for NC recoupment charges shall be disposed of in accordance with paragraph 070105 of this Volume.

2. DoD Components shall

provide a quarterly report on the status of nonrecurring cost collections. The format is at Table 703-12. The report shall be forwarded to the DSAA Comptroller within 45 days following the close of each fiscal quarter, with a copy furnished to the Defense Finance and Accounting Service (DFAS-HQ/ARS). DoD Components shall maintain records of anticipated and actual nonrecurring cost collections for FMS cases and known direct commercial sales (prior to October 7, 1992). Data on direct commercial sales may be obtained from export licenses or from other information provided by DSAA. Reports should be in agreement with amounts deposited to the Treasury miscellaneous receipts account.

P. Waivers.

1. The Director, DSAA, is the waiver approval authority and will state in writing any approvals granted for waivers associated with FMS. A notification of each approved waiver will be forwarded to the Comptroller, DoD and to the concerned DoD Component by the approving authority.

2. The decision on any waiver requires the concurrence of the Director, DSAA; the Comptroller, DoD; and the USD(Acquisition). If an issue concerning the waiver request cannot be resolved, the Director, DSAA, shall prepare an action memorandum on the waiver request to the Deputy Secretary of Defense for final determination. The action memorandum to the Deputy Secretary of Defense shall be coordinated with the Director, DSAA, the Comptroller, DoD, and the USD(Acquisition).

Q. Articles delivered after November 30, 1989 under FMS cases fully financed with MAP funds and/or nonrepayable FMS credit funds shall be priced to exclude the NC charge.

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

S. The Director, Defense Contract Audit Agency, shall 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 on a bid proposal, claim for incurred costs, etc., discloses contractor noncompliance with the requirement

to pay an NC recoupment charge, an audit report shall be issued promptly to the cognizant DoD contracting officer, with a copy of the report submitted to the DFAS-HQ/ARS and DSAA(COMPT).

**TABLE 703-1 PRICE COMPUTATION EXAMPLE NONEXCESS DEFENSE BUSINESS OPERATIONS FUND/ REPAIR PART FROM STOCK**

Standard Price	\$500.00
FMS Selling Price	\$500.00 <sup>1,2</sup>
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<sup>1</sup>The Administrative Surcharge is additive to the selling price.

<sup>2</sup>See Table 804-6 for billing.

**TABLE 703-2 PRICE COMPUTATION EXAMPLE NONEXCESS PROCUREMENT FUNDED ITEM FROM STOCK NOT TO BE REPLACED**

Standard Price	\$50,000.00
Pro-rated overhaul costs before sale date (see Table 703-10)	3,000.00
Pro-rata nonrecurring charges	2,000.00

\*\*\*\*\*

Calculation of reduction for age and condition:

Acquisition Price	\$50,000.00	Adjustment for remaining service life (10-year life, 5 years expired ) (5/10)	50%
			\$25,000.00 <sup>1</sup>
Pro-rated overhaul costs before sale date (see Table 703-10)			3,000.00 <sup>2</sup>
Nonrecurring cost recoupment (50% of \$2,000)			1,000.00 <sup>3</sup>
FMS Selling Price			\$29,000.00 <sup>3,4,5,6</sup>

\_\_\_\_\_ Credit \$25,000 received for articles to Miscellaneous Receipts Account 3041.

<sup>1</sup> Credit \$3,000 previously incurred overhaul costs to the financing account. Credit

<sup>2</sup> \$1,000 to SDAF or Miscellaneous Receipts Account 3041, as applicable. PCH and

<sup>3</sup> Administrative Surcharge are additive to the selling price.

<sup>4</sup>

<sup>5</sup>See Table 804-7 for billing.

<sup>6</sup> Under no condition shall the sale price be lower than the scrap value plus the cost of the last major overhaul or outfitting accomplished before the sale.

**TABLE 703-3 PRICE COMPUTATION EXAMPLE NONEXCESS PROCUREMENT FUNDED  
ITEM FROM STOCK TO BE REPLACED**

Standard Price	\$40,000.00
Pro rata nonrecurring charges	2,000.00
*****	\$100,000.00
<u>Calculation of Price:</u>	50%
	\$50,000.00
Estimated contract price to replace item.	
Adjustment for used service life (10-year life, 5 years expired ) (5/10)	
Reimburse to current procurement account	\$50,000.00
Pro rata nonrecurring charge (5/10) 50% of 2,000	1,000.00 <sup>1</sup>
 FMS Selling Price	 \$51,000.00 <sup>2,3,4</sup>

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<sup>1</sup>Credit recovery for nonrecurring costs to SDAF or Miscellaneous Receipts Account 3041, as applicable.

<sup>2</sup>PCH and Administrative Surcharge are additive to the selling price

<sup>3</sup>See Table 804-8 for billing.

<sup>4</sup>Under no condition shall the sale price be lower than the scrap value plus the cost of the last major overhaul or outfitting accomplished before the sale.

**TABLE 703-4A PRICE COMPUTATION EXAMPLE NONEXCESS PROCUREMENT FUNDED ITEMS FROM STOCK TO BE REPLACED**

Standard Price	\$1,300,000.00
Pro rata nonrecurring charges	32,000.00

\*\*\*\*\*

Calculation of Price

Estimated contract price to replace item.	
Adjustment for Depreciation (constant percentage method of depreciation - 12-1/2% per year this example)	\$2,700,000.00
20 year life-average fleet age = 7 years <sup>1</sup>	
	39%
	\$1,053,000.00
Reimburse to current procurement account	\$1,053,000.00
Pro rata nonrecurring charge (39% of \$32,000)	12,480.00 <sup>2</sup>
FMS Selling Price	\$1,170,780.00 <sup>3,4</sup>

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<sup>1</sup>Constant percentage method of Depreciation  $R_n = (1-d)^n$  (see table 703-4B)  $R_n = 39\%$  remaining useful life factor at the end of n years.  
 $d = 12.5\%$  percentage useful life lost from the remaining value in each year.  $n = 7$  age in years of the item.

Note: Residual value at the end of 20 years (normal service list) is 6.92%.

<sup>2</sup> Credit recovery for nonrecurring costs to SDAF or Miscellaneous Receipts Account 3041, as applicable.

<sup>3</sup> PCH and Administrative Surcharge are additive to selling price.

<sup>4</sup> Under no condition shall the sale price be lower than the scrap value plus the cost of the last major overhaul or outfitting accomplished before the sale.

**TABLE 703-4B CONSTANT PERCENTAGE METHOD OF DEPRECIATION**

**Rn = (1-d)<sup>n</sup>** Rn = remaining useful life factor at the end if n  
years.

d = percentage useful life lost from the remaining value in each year.

n = age in years of the item.

Example below uses d=12.5%

<b>n</b>	<b>d</b>	<b>Rn</b>
1	.125	.875
2	.125	.765625
3	.125	.669922
4	.125	.586182
5	.125	.512909
6	.125	.448795
7	.125	.392696
8	.125	.343609
9	.125	.300658
10	.125	.263076
11	.125	.230191
12	.125	.201417
13	.125	.176240
14	.125	.154210
15	.125	.134934
16	.125	.118067
17	.125	.103309
18	.125	.090395
19	.125	.079096
20	.125	.069209



**TABLE 703-5 PRICE COMPUTATION OF OVERHAUL COSTS PREVIOUSLY INCURRED FOR A PROCUREMENT FUNDED ITEM SOLD TO FOREIGN MILITARY SALES CUSTOMERS**

Assume the following:

1. Aircraft A, tail number 26 is to be sold in May 1991. The last overhaul for that aircraft was accomplished in August 1990 at a cost of \$640,000.
2. The normal interval between overhauls for aircraft A is 60 months.

The price is computed using the following steps:

1. Determine the actual interval since the last overhaul in terms of months:  
August 1990 to May 1991 equals 9 months.
2. 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.

$$\frac{\text{Actual Interval} = 9 \text{ months}}{\text{Normal Interval } 60 \text{ months}} = 15\%$$

3. Determine the amount of the costs to be charged to the customer 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.

$$100\% - 15\% = 85\% \times \$640,000 = \$554,000$$

**TABLE 703-6 PRICE COMPUTATION EXAMPLE EXCESS DEFENSE BUSINESS  
OPERATIONS FUND ITEM**

	<u>NON-FMSO</u>	<u>FMSO II</u>
Standard Price	\$500.00	\$500.00
Adjustment for condition (A-1 and serviceable, unused, good condition - 50% reduction)	<u>250.00</u>	<u>N/A</u>
	\$250.00	\$500.00
Reimburse to Defense Business Operations Fund Account	<u>250.00</u>	<u>\$500.00</u>
FMS Selling Price	\$250.00 <sup>1</sup>	\$500.00 <sup>1</sup>

<sup>1</sup> Administrative Surcharge is additive to the selling price.

**TABLE 703-7 PRICE COMPUTATION EXAMPLE EXCESS PROCUREMENT FUNDED ITEM FROM STOCK**

Standard Price	\$50,000.00
Pro rata nonrecurring charges	2,000.00
Pro rata overhaul costs before sale date (see Table 703-10)	3,000.00
*****	
Condition - A-3 (serviceable, unused, poor) 10%	
Standard Price x 10%	5,000.00
Pro rata nonrecurring charge x 10%	200.00
Pro rata overhaul costs before sale date	<u>3,000.00</u>
FMS Selling Price	\$8,200.00 <sup>1,2,3</sup>

The FMS selling price must be increased if the market price 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 price is defined as a commercial catalog price or quoted price from a commercial vendor, if readily available. The fair value price is determined by the Federal Condition Code.

<sup>2</sup>Credit to SDAF or Miscellaneous Receipts Account 3041, as applicable.

<sup>3</sup> PCH and Administrative Surcharge are additive to the selling price. Credit collections for nonrecurring costs to SDAF or Miscellaneous Receipts Account 3041, as applicable.

**TABLE 703-8 PRICE COMPUTATION EXAMPLE SALE OF EXCESS SHIP**

Value of ship where fair value computation is applicable per para. 070304.A. Fair value is 10% of original cost.

	\$2,250,000.00 <sup>1</sup>
Nonrecurring cost recoupment charge (10% of established charge)	50,000.00 <sup>2</sup>
Pro-rated overhaul costs (See Table 703-10) FMS	<u>1,500,000.00<sup>1</sup></u>
Selling Price	\$3,800,000.00 <sup>3,4,5</sup>

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<sup>1</sup> Credit to Miscellaneous Receipts Account 3041.

<sup>2</sup> Credit to SDAF or Miscellaneous Receipts Account 3041, as applicable.

<sup>3</sup> Administrative Surcharge is additive to the selling price.

<sup>4</sup> See Table 804-9 for billing.

<sup>5</sup> If the item is sold at market value the entire proceeds will be deposited to Miscellaneous Receipts or SDAF as applicable as the sale of an item that does not require replacement.

TABLE 703-9 FORMAT FOR MDE CALCULATIONS

<b>FORMAT FOR MDE CALCULATION</b>									
<b>ITEM DESCRIPTION:</b>									
<b>Date Prepared</b>									
<b>DoD Component</b>									
<b>Preparer's Name, Job Series, Grade</b>									
<b>PART A - NONRECURRING R&amp;D INVESTMENT (NUMERATOR)</b>									
<b>Major Components</b>			<b>R&amp;D Projects</b>			<b>Total</b>			
Air Frame	X	\$80,000,000	Y	Z					\$80,000,000
Engine (JXX)					\$58,000,000				\$58,000,000
Radar						\$5,000,000			\$5,000,000
Avionics		\$1,000,000							\$1,000,000
Undistributed to Component		\$20,000,000							\$20,000,000
<b>Total Air Vehicle</b>									<b>\$164,000,000</b>
<b>PART B - NONRECURRING R&amp;D INVESTMENT (NUMERATOR)</b>									
<b>Major Components</b>			<b>Contract</b>			<b>Total</b>			
Air Frame	AF 1537	1-Sep-91	XX	ZZ					\$5,000,000
Engine (JXX)		\$5,000,000							\$7,000,000
Radar		\$3,000,000							\$3,000,000
Avionics		\$5,000,000							\$5,000,000
Undistributed to Component		\$10,000,000							\$10,000,000
<b>Total Air Vehicle</b>									<b>\$30,000,000</b>
<b>PART C - PROJECTED UNITS (DENOMINATOR)</b>									
<b>Source Documents</b>			<b>MAP/FMS</b>			<b>Commercial Estimate by Contracting Officer</b>			
Air Frame	DoD Quantities	ADP Project 311	5 Year Security Assistance Plans		ADP Project 311	850	2,500	2,000	2,350
			1,500	3,050					
Engine (JXX)									7,550
Radar									3,750
Avionics									2,350
<b>Air Vehicle</b>	<b>1,500</b>				<b>750</b>				<b>2,250</b>

**TABLE 703-9 FORMAT FOR MDE CALCULATIONS (CONTINUED)**

<b>FORMAT FOR MDE CALCULATION</b>						
<b>ITEM DESCRIPTION:</b>						
<b>Identification No.:</b>						
<b>Preparer's Name, Job Series, Grade</b>						
<b>PART D - COMPONENT NC</b>						
Major Components	R&D	Production	Total	Projected Units	Unit NC Recoupment Charge	
Air Frame	\$80,000,000	\$5,000,000	\$85,000,000	2,350	\$36,170 (1)	
Engine (JXX)	\$58,000,000	\$7,000,000	\$65,000,000	7,550	8,609 (1)	
Radar	\$5,000,000	\$3,000,000	\$8,000,000	3,750	2,133'	
Avionics	\$1,000,000	\$5,000,000	\$6,000,000	2,350	2,553'	
Undistributed to Component	\$20,000,000	\$10,000,000	\$30,000,000	2,250	13,334 (2)	
<b>PART E - SYSTEM NC CHARGE</b>						
<b>1. Current Develop Costs:</b>						
Air Frame (1 each system)			\$36,170			
Engine (JXX) (2 each system)			17,218			
Radar (1 each system)			2,133			
Avionics (1 each system)			2,553			
Undistributed to Component (allocated to end items)			13,334			
<b>2. GFM Development Costs:</b>						
ISS Cannon (2 each system)			500			
HR X Radio (1 each system)			250			
XM Bomb Sight (1 each system)			300			
Access II Scat (1 each system)			700			
<b>TOTAL SYSTEM CHARGE</b>			<b>\$73,158</b>		<b>(1)</b>	
<b>NOTES:</b>						
(1) Unit NC recoupment charge calculation for MDE item must be submitted to DSAA for review and approval.						
(2) Undistributed systems' NC is recouped on end items.						

**TABLE 703-10 MDE WORKSHEET FORMAT**

RECOUPMENT OF NONRECURRING COSTS ON SALES OF MDE ITEMS													
SECTION A													
(a) WEAPON SYSTEM OR COMPONENT	(b) NONRECURRING COSTS (\$ THOUSANDS)			(c) PRODUCTION QUANTITY					(d) RECOMMENDED PRO RATA UNIT CHARGE		(e) PREVIOUS UNIT CHARGE		
	RDT&E	PRODUCTION	TOTAL	ARMY	MARINE/NAVY	AIR FORCE	MAP	FMS/DIRECT SALE	TOTAL	RDT&E		PRODUCTION	TOTAL
VEHICLE	300	200	500	1000	0	0	1000	0	2000	150K	100K	250K	NEW ITEM
SECTION B													
PRODUCTION QUANTITIES													
			ACTUAL		PROJECTION		TOTAL						
MAP			0		0		0						
DIRECT SALE			0		0		0						
FMS			1000		1000		1000						
TOTALS													

**TABLE 703-11 NONRECURRING COST CHARGES FOR MDE**

Major Defense Equipment

<u>Inventory Control Point</u>	<u>Description of Item</u>	<u>NSN*</u>	<u>Nonrecurring Charge</u>	<u>Effective Date</u>
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\*NSN, if available.



**TABLE 703-12 RECOUPMENT OF NONRECURRING COSTS ON SALES OR LICENSING OF U.S.G. ITEMS**

<b>RECOUPMENT OF NONRECURRING COSTS ON SALES OR LICENSING OF U.S.G. ITEMS</b> (\$ Thousands)										Department of the Navy Report Preparation Date: 10 Oct 92 Report Cutoff Date: 30 Sep 92		
Case Designator(1)	Purchaser(2)	Item	Quantity	Fiscal Year of Sale	Delivery Date(3)	Total Anticipated NC Charge(4)(5)	Actual Collections		Cumulative Collections(6)			
							Amount Collected This Quarter	Amount Collected This Fiscal Year				
<b>Part 1. Recoveries on USG sales to foreign governments and international organizations (7).</b>												
AT-P-AAA BE-P-LAL	AUSTRALIA BELGIUM	MISSILE AIM-7C (GUIDED BOMB)	70 40	1990 1991	943 933	\$191 \$247	\$27 \$19	\$54 \$62	\$137 \$155			
<b>Part 2. Recoveries on commercial sales to foreign governments, international organizations, and foreign commercial firms (7)(8).</b>												
AB3456 SP-P-001	IHI HEAVY/Japan NAVAL MATL CMD/Spain	T-700-GE-401 TF-34 ENG	100 10	1989 1992	953 924	\$2,970 \$207	\$89 \$21	\$1,010 \$104	\$1,841 \$166			
<b>Part 3. Recoveries on sales to domestic commercial firms (7)(8).</b>												
USA CH	GEN ELECTRIC SIKORSKY	T-64 ENGINES T-2 HELICOPTER	50 75	1992 1990	924 943	\$1,929 \$2,998	\$116 \$400	\$386 \$999	\$1,929 \$1,999			

**Notes:**

- (1) Applicable to USG sales to foreign governments and international organizations. For commercial direct sales, use the license number. For domestic sales, establish a "dummy" case number for control purpose.
- (2) When a license number or "dummy" case number is shown in the case designator column, then the purchaser column should also reflect the name of the contractor who is liable for the payment in addition to the purchaser (country).
- (3) For proposed or pending direct commercial sales, place a "p" in this column.
- (4) When collection results from the use of a TDP, place a (T) after the anticipated charge.
- (5) Place an asterisk after charge when collection is completed.
- (6) Collections that are completed during the fiscal year will be dropped on the first quarterly report of the subsequent fiscal year.
- (7) If payment of a NC recoupment charge is withheld or otherwise not collected, for any reason, the entry, along with the amount of the NC recoupment collection, shall be reported and footed to indicate the reason. If, at a subsequent time, there is a determination, or other determination by the Office of the Comptroller, DoD, that the NC recoupment charge will not be collected, the entry shall be deleted from the first quarterly report of the subsequent fiscal year.
- (8) Recovery not required on sales on or after date of this Directive for items with non-military purpose.

**TABLE 703-13 RECOUPMENT OF NONRECURRING CHARGES FOR MAJOR DEFENSE EQUIPMENT, NEW MODELS DERIVED FROM EXISTING MODELS**

<b>RECOUPMENT OF NC CHARGES FOR MAJOR DEFENSE EQUIPMENT, NEW MODELS DERIVED FROM EXISTING MODELS</b>			
<b>EXAMPLE 1</b>			
<b>FACTS:</b>			
1.	MODEL A(OLD) B(NEW)	COST POOL \$500,000,000 \$100,000,000	QUANTITY 1,000 1,000
2.	OLD MODEL 1,000 Parts	NEW MODEL 1,200 Parts	OLD CHARGE \$500,000
(NOTE: 900 parts are common to both models)			
<b>Step 1:</b>	Determine commonality: Commonality is the percentage of the parts in the new model that are common to the old model.		
COMMONALITY	900 1,000	= 90%	
<b>Step 2:</b>	Determine the amount of the old item cost pool which benefits both old and new items.		
	\$500,000,000 90% \$450,000,000	Old Item Cost Pool Commonality Common Cost Pool	
<b>Step 3:</b>	Calculate NC charge for new item.		
a.	Common Cost Pool \$450,000,000	divided by Benefiting Units 2,000	= \$225,000.00
b.	New Item Cost Pool which does not contain commonality with the old item \$100,000,000	divided by Benefiting Units 1,000	= \$100,000.00
<b>UNIT CHARGE FOR NEW MODEL</b>			
			= \$325,000.00
<b>Step 4:</b>	Determine cost pool of non-common items related to the old item.		
a.	Old Item Cost Pool Less: Common Cost Pool	\$500,000,000 \$450,000,000	
b.	Remainder: Old item cost pool which does not contain commonality with the new item. \$50,000,000		
<b>Step 5:</b>	Recalculate old item NC charge and determine if changed rates should be submitted to DSAA.		
a.	Old Item Cost Pool Common Cost Pool	\$50,000,000 \$450,000,000	Divided by Benefiting Units 1,000 2000 = \$50,000 = \$225,000
b.	Recalculated charge for old item: \$275,000		
c.	Comparison of previous old item NC charge with recalculated NC charge for old item. Recalculated Old Item Charge \$275,000 divided by \$500,000 = 55 percent, a 45 percent decrease and \$225,000 NC Unit Charge decrease.		
<b>Step 6:</b>	Action Required.		
a.	Submit request to Director, DSAA for consideration of change of NC rate on old item.		
b.	Prepare DSAA package because the change in the NC rate in Step 5 Step 5 exceeds 30% and the unit charge decreases by more than \$50,000.		

**TABLE 703-13 RECOUPMENT OF NONRECURRING CHARGES FOR MAJOR DEFENSE EQUIPMENT, NEW MODELS DERIVED FROM EXISTING MODELS (CONTINUED)**

<b>RECOUPMENT OF NC CHARGES FOR MAJOR DEFENSE EQUIPMENT, NEW MODELS DERIVED FROM EXISTING MODELS</b>																																											
<p><b>Step 1:</b> Prove: Verify that cost pool has been fully allocated.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Old item 1,000 QTY X \$275,000 (Old Item Charge) =</td> <td style="text-align: right;">\$275,000,000</td> </tr> <tr> <td>New item 1,000 QTY X \$325,000 (New Item Charge) =</td> <td style="text-align: right;">\$325,000,000</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: right;">\$600,000,000</td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Old Item</td> <td style="text-align: right;">\$500,000,000</td> </tr> <tr> <td>New Item</td> <td style="text-align: right;">\$100,000,000</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: right;">\$600,000,000</td> </tr> </table> <p style="text-align: center;">Difference -0-</p>	Old item 1,000 QTY X \$275,000 (Old Item Charge) =	\$275,000,000	New item 1,000 QTY X \$325,000 (New Item Charge) =	\$325,000,000	Total	\$600,000,000	Old Item	\$500,000,000	New Item	\$100,000,000	Total	\$600,000,000	<p><b>Step 2:</b> Determine the amount of the old item cost pool which benefits both old and new items.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">\$400,000,000 Old Item Cost Pool</td> <td style="text-align: right;">60%</td> </tr> <tr> <td style="text-align: right;">Commonality</td> <td style="text-align: right;">\$240,000,000</td> </tr> <tr> <td style="text-align: right;">Common Cost Pool</td> <td style="text-align: right;">\$240,000,000</td> </tr> </table>	\$400,000,000 Old Item Cost Pool	60%	Commonality	\$240,000,000	Common Cost Pool	\$240,000,000																								
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<p><b>NOTE:</b> The proof is designed only to show that costs are evenly distributed to all units, and the fact that there may have been previous charges at the old rate is to be disregarded for purposes of the calculation.</p>	<p><b>Step 3:</b> Calculate NC charge for new item.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"><b>a.</b> Common Cost Pool</td> <td style="width: 30%; text-align: center;">divided by</td> <td style="width: 20%; text-align: center;">Benefiting Units</td> <td style="width: 20%;"></td> </tr> <tr> <td>\$240,000,000</td> <td></td> <td style="text-align: center;">3,500</td> <td style="text-align: right;">= \$ 68,571.00</td> </tr> </table> <p><b>b.</b> New Item Cost Pool which does not contain commonality with the old item</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">\$200,000,000</td> <td style="width: 30%; text-align: center;">divided by</td> <td style="width: 20%; text-align: center;">Benefiting Units</td> <td style="width: 20%;"></td> </tr> <tr> <td></td> <td></td> <td style="text-align: center;">2,500</td> <td style="text-align: right;">= \$ 80,000.00</td> </tr> </table> <p style="text-align: right;"><b>UNIT CHARGE FOR NEW MODEL</b> = \$148,571.00</p>	<b>a.</b> Common Cost Pool	divided by	Benefiting Units		\$240,000,000		3,500	= \$ 68,571.00	\$200,000,000	divided by	Benefiting Units				2,500	= \$ 80,000.00																										
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<p><b>FACTS:</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;"></td> <td style="width: 15%;"><b>MODEL</b></td> <td style="width: 15%;"><b>COST POOL</b></td> <td style="width: 15%;"><b>QUANTITY</b></td> <td style="width: 15%;"><b>OLD CHARGE</b></td> </tr> <tr> <td>1.</td> <td>A(OLD)</td> <td>\$400,000,000</td> <td>1,000</td> <td>\$400,000</td> </tr> <tr> <td></td> <td>B(NEW)</td> <td>\$200,000,000</td> <td>2,500</td> <td></td> </tr> <tr> <td></td> <td></td> <td style="text-align: right;">\$600,000,000</td> <td style="text-align: right;">3500</td> <td></td> </tr> </table> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">2.</td> <td style="width: 15%;">OLD MODEL</td> <td style="width: 15%;">NEW MODEL</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td></td> <td>1,000 Parts</td> <td>1,200 Parts</td> <td></td> <td></td> </tr> </table>		<b>MODEL</b>	<b>COST POOL</b>	<b>QUANTITY</b>	<b>OLD CHARGE</b>	1.	A(OLD)	\$400,000,000	1,000	\$400,000		B(NEW)	\$200,000,000	2,500				\$600,000,000	3500		2.	OLD MODEL	NEW MODEL				1,000 Parts	1,200 Parts			<p><b>Step 4:</b> Determine cost pool of non-common items related to the old item.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"><b>a.</b> Old Item Cost Pool</td> <td style="width: 30%; text-align: center;">Less:</td> <td style="width: 20%; text-align: center;">Benefiting Units</td> <td style="width: 20%;"></td> </tr> <tr> <td>\$400,000,000</td> <td></td> <td style="text-align: center;">\$400,000,000</td> <td></td> </tr> <tr> <td style="text-align: right;">Commonality</td> <td style="text-align: right;">\$240,000,000</td> <td></td> <td></td> </tr> </table> <p><b>Remainder:</b> Old item cost pool which does not contain commonality with the new item. = \$160,000,000</p>	<b>a.</b> Old Item Cost Pool	Less:	Benefiting Units		\$400,000,000		\$400,000,000		Commonality	\$240,000,000		
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**TABLE 703-13 RECOUPMENT OF NONRECURRING CHARGES FOR MAJOR DEFENSE EQUIPMENT, NEW MODELS DERIVED FROM EXISTING MODELS (CONTINUED)**

<b>RECOUPMENT OF NC CHARGES FOR MAJOR DEFENSE EQUIPMENT, NEW MODELS DERIVED FROM EXISTING MODELS</b>																			
<p><b>EXAMPLE 2 (Continued)</b></p> <p><b>Step 5:</b> Recalculate old item NC charge and determine if changed rates should be submitted to DSAA.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;"></td> <td style="text-align: center;">Divided by Benefiting Units</td> <td></td> </tr> <tr> <td>a. <u>Old Item Cost Pool</u></td> <td style="text-align: center;">1,000</td> <td>= \$160,000</td> </tr> <tr> <td></td> <td></td> <td></td> </tr> <tr> <td>b. <u>New Common Cost Pool</u></td> <td style="text-align: center;">3500</td> <td>= \$ 68,571</td> </tr> </table> <p>Recalculated charge for old item: \$228,571</p> <p>c. Comparison of previous old item NC charge with recalculated NC charge for old item.</p> <p style="margin-left: 40px;">Recalculated <u>Old Item Charge</u> divided by <u>Old Item Charge</u> = 57 percent, a 43 percent decrease and \$171,429 NC Unit Charge decrease.</p>		Divided by Benefiting Units		a. <u>Old Item Cost Pool</u>	1,000	= \$160,000				b. <u>New Common Cost Pool</u>	3500	= \$ 68,571	<p><b>NOTE:</b> The proof is designed only to show that costs are evenly distributed to all units, and the fact that there may have been previous charges at the old rate is to be disregarded for purposes of the calculation.</p>						
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<p><b>Step 7:</b> Proof: Verify that cost pool has been fully allocated.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Old item 1,000 QTY X \$228,571 (Old Item Charge) =</td> <td style="text-align: right;">\$228,571,000</td> </tr> <tr> <td>New item 1,000 QTY X \$148,571 (New Item Charge) =</td> <td style="text-align: right;">\$371,430,800</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: right;">\$600,001,800</td> </tr> <tr> <td style="text-align: right;">Rounded to: Total</td> <td style="text-align: right;">\$600,000,000</td> </tr> <tr> <td colspan="2" style="text-align: center;">Cost Pool</td> </tr> <tr> <td style="text-align: right;">Old Item</td> <td style="text-align: right;">\$400,000,000</td> </tr> <tr> <td style="text-align: right;">New Item</td> <td style="text-align: right;">\$200,000,000</td> </tr> <tr> <td style="text-align: right;">Total</td> <td style="text-align: right;">\$600,000,000</td> </tr> <tr> <td style="text-align: right;">Difference</td> <td style="text-align: right;">-0-</td> </tr> </table>		Old item 1,000 QTY X \$228,571 (Old Item Charge) =	\$228,571,000	New item 1,000 QTY X \$148,571 (New Item Charge) =	\$371,430,800	Total	\$600,001,800	Rounded to: Total	\$600,000,000	Cost Pool		Old Item	\$400,000,000	New Item	\$200,000,000	Total	\$600,000,000	Difference	-0-
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**0704 CASH SALES OF DEFENSE ARTICLES 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 Section 22 of the AECA [reference (a)], for direct delivery shall be priced to recover full contract cost to the Department of Defense, DoD recurring contract support costs, and applicable DoD surcharges. Revised costs may need to be reflected from time to time in order to indicate increases due to escalation of labor and materials or to reflect other changes in production and procurement costs. The purchaser shall be obligated to pay any damages or costs that may accrue from the purchaser's cancellation of the contract. The administrative charge (see paragraph 070602) shall be added to the contract cost and included in billings for incurred costs. An illustration of the price computation is at Table 704-1.

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

**070403. Cost Principles**

A. In general, DoD articles shall be priced on the basis of the same cost principles as are used in pricing DoD contracts covering items for DoD use. However, recognition shall be given to other reasonable and allocable contractor costs and risks to the extent permitted in the Federal Acquisition Regulation (FAR) [reference (g)].

B. Unless the provisions of Section 22b of the AECA are involved, when insufficient funds are available in the FMS Trust Fund account of a foreign government to meet current cash requirements, DSAA shall initiate, through the responsible DoD Component, terminations for convenience or other adjustments to selected

contracts that will balance current cash requirements with available funds. Special attention is directed to Section 502 of this Volume. This condition should not occur without notification to the FMS Customer. Before terminating under these conditions, the contracting officer shall determine whether or not the contractor is willing to continue performance at his or her own risk. If the contractor is so willing, an appropriate contractual agreement shall be bilaterally signed so as to (a) limit the government's contractual liability to the available funds; (b) provide for appropriate passage of title to the FMS customer for any materials or services that have not been accepted but may be covered by progress payments, partial payments, or reimbursed costs; and (c) provide for an equitable adjustment in the event the termination for convenience is not issued in favor of continued performance. When other forms of contractual adjustments are used, they shall provide for equitable adjustment as appropriate and as permitted by reference (g).

**070404. Recovery of Nonrecurring RDT&E and Nonrecurring Production Costs.** The price shall include recovery of nonrecurring research and development test and evaluation, and nonrecurring production costs as specified in [32 CFR 165](#) [reference (r)]. Paragraph 070305 contains further discussion of these costs.

**070405. Recovery of Contract Administration Services Costs Incurred in Support of New Procurements for FMS**

A. **General.** The cost of contract administration services functions as identified in the FAR [reference (g)] and contract audit shall be recovered through the application by the SAAC of a percentage surcharge to the delivery transactions reflecting disbursements to contractors for FMS procurements on which applicable contract administration services have not been waived. This surcharge is subject to waiver in whole or in part under Section 21(h) of the AECA [reference (a)](see paragraph 070104.C.3. of this Volume), and is waived in its entirety for the NATO E3A Cooperative Program (see paragraph 070104.C.2.). A listing of waived programs is included in Section 1301 and Table 1301-1 of DoD 5105.38-M [reference (e)]. The

surcharge shall be reviewed annually by the Office of the Comptroller, DoD to determine if it should be changed. The amounts collected as a result of the application of the surcharge shall be credited to a surcharge account maintained by the SAAC and used to reimburse DoD Components for contract administration services performed.

**B. Responsibilities.**

1. The Office of the Comptroller, DoD shall review annually the contract administration surcharge and revise as necessary.

2. The Security Assistance Accounting Center (SAAC) shall:

- a. Establish and maintain the contract administration services account.
- b. Maintain a list of FMS cases for which complete or partial waivers of the contract administration costs have been granted.
- c. Apply the prescribed surcharge, or the applicable portion in the case of partial waivers, to reported disbursements from delivery transactions received on or after October 1, 1980, for all FMS cases that are not included on the waiver list (see subparagraph B.2.b., above) with delivery source codes BB, DA, DB, DC, DD, DE, DK and ED and price code N (see paragraph 080402).
- d. Pay DoD Components for billing of actual contract administration services costs.
- e. Increase the amount billed to FMS customers as a result of disbursement to contractors by the amount derived by applying the surcharge percentage to these disbursements.

**C. Prescribed Contract Administration Services Surcharge.**

1. The following surcharges are prescribed for SAAC application to disbursement with reimbursable codes and delivery source

codes described in subparagraph B.2.c., above (NATO E-3A Program is exempt):

Quality Assurance and Inspection	0.5%
Other Contract Administration Services	0.5%
Contract Audit	<u>0.5%</u>
Total	1.5%

2. If no waiver has been granted pursuant to Section 21(h) of the AECA [reference (a)], SAAC shall apply the full 1.5 percent surcharge. Waiver of the charges for either the quality assurance and inspection, contract administration services, or contract audit under Section 21(h) of reference (a) shall result in the SAAC application of the remaining surcharges. For example, if quality assurance, inspection, and contract audit costs are waived, SAAC shall apply the 0.5 percent surcharge for "other contract administration services." SAAC shall use the list referenced in paragraph B.2.b., above, as a basis for determining charges. Any cases not on this list shall be assessed the full amount of the surcharge. The waived contract administration cost for FMS cases included on the list shall be charged to DoD appropriations. SAAC shall reject billings from DoD Components for charges that have been waived.

**070406. Recovery of Contract Administration Services 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 manhours expended in support of these commercial contracts shall be accumulated and billed at an FMS contract administrative hourly labor rate published each fiscal year by the Office of the Comptroller, DoD. The hourly rate shall include appropriate charges for TDY, use of DoD assets, and unfunded civilian retirement costs. For further discussion on foreign country commercial contracts, see Section 205 of this Volume.

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

A. GFM provided from inventory shall be billed to the FMS case as "work in process" when the GFM is shipped from a depot to a contractor (see Table 804-13). The billing

price shall be the same as a direct sale to an FMS customer, plus applicable accessorial costs. The various categories of accessorial costs and the method of calculating them are set forth in Section 705.

B. GFM provided from another contractor shall be billed to the FMS case as "work in process" when payments are made to the contractor supplying the GFM. In the event shipment is through a Government Bill of Lading (GBL), the applicable transportation accessorial charge, as set forth in paragraph 070503, should also be billed as "work in process." Contracts with contractors providing GFM directly cite the FMS Trust Funds 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 shall be valued at the market price on the date it is provided to the contractor. Market price shall 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-funded engineering services that are required to solve problems encountered during the production run shall be allocated to FMS customers based upon the number of their items that are in the production run.

B. If components are procured for an FMS customer and assembled by DoD personnel, assembly labor costs shall be assessed in accordance with paragraph 070802.

C. If a contractor is designated as the source of supply for nonstandard items to be procured for FMS customers, the contract price for applicable items will normally include the additional cost 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 the Defense Contract Audit Agency.

**070409. Special Considerations.** Cost of deviations from U.S. Government configuration and special technical data desired by a foreign government shall be included as a charge to the foreign governments.

**0704010. Production by a Foreign Government.** When a portion of the production quantity is to be produced by the purchasing foreign government, costs shall be computed separately, in accordance with cost methods established by the foreign government and accepted by the U.S. Government.

**0704011. Recoupment of Interest Penalties Due to "The Prompt Payment Act of 1982" [reference (s)].** Interest penalties incurred on FMS procurements will be initially financed from funds of the paying activity. An analysis of FMS interest payments will be prepared and submitted to the Security Assistance Accounting Center (DFAS-DE/IR (SAAC)) monthly and will identify the country, case, contract number, and reason for late payment. See paragraph 021102 of this Volume.

A. Any interest penalties incurred under "The Prompt Payment Act of 1982" [reference (s)] will be included in delivery transactions to SAAC. See Table 804-19.

B. Within 50 days after the fiscal year ends, DoD Components shall submit to DSAA a report of Prompt Payment interest penalties which have been included in delivery transactions.

**0704012. Contract Review.** The DoD Components will make every effort to obtain the final price for contract provided items within 180 days of reported delivery.

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**TABLE 704-1 PRICE COMPUTATION EXAMPLE NEW PROCUREMENT**


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Contract Price (See paragraph 070401)	\$1,000,000.00
Pro Rata Share R&D <sup>1</sup> (\$2500 each X 20 items)	50,000.00
Contract Administration Services (1.5%)	15,000.00
Government-Furnished Equipment (GFE)	25,000.00
Packing, Crating, and Handling of GFE (3.5%) <sup>3</sup>	875.00
Transportation of GFE from Depot to Contractor Plant <sup>3</sup>	938.00
<hr/>	
FMS Selling Price (20 items)	\$1,091,813.00 <sup>1,2</sup>
FMS Unit Selling Price	\$54,590.65 <sup>1,2</sup>

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<sup>1</sup>Transportation of end item, if applicable, and administrative surcharges are additive to the selling price.

<sup>2</sup>See Tables 804-10 through 804-14 for billing. Note that in the billing example, the extended value shown in Table 804-10 does include the contract administrative services surcharge, applied by SAAC against contract payments.

<sup>3</sup> PC&H and CONUS transportation are applicable if the GFE are purchased from procurement citing the case funds. For the purpose of this example, the GFE (\$25,000) are 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 GFE is shipped from inventory by the Defense Business Operations Fund, as the cost is included in the standard price of the item.



**0705 ACCESSORIAL COSTS**

**070501. General.** Accessorial costs represent certain expenses incident to issues, sales, and transfers of materiel which are not 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. The costs incurred in 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 customers. (Note: Not applicable to delivery of stock fund/Defense Business Operations Fund items reported after October 1, 1990)

B. Transportation Costs. The cost of DoD-provided or financed inland transportation (L1A)(land, air, inland and coastwise waterways) in the United States and outside the United States, and overseas transportation by vessel or air; includes parcel post (L1D) via surface or air. (Note: Inland CONUS (L1A) not applicable to delivery of stock fund/Defense Business Operations Fund items reported after October 1, 1990; Parcel post (L1D) and commercial package carrier (L1E) charges are not applicable after October 1, 1991).

C. Port Loading and Unloading Costs. The cost of DoD-provided or financed labor, materials or services for loading, unloading and handling at ports of embarkation or debarkation. Transportation charges for the use of the DoD transportation system, as set forth in paragraph 070503 below, include applicable loading and unloading costs.

**070502. Packing, Crating, and Handling.** Standard PC&H rates will be applied to the selling price of materiel sold from DoD inventories to recover the cost described in paragraph 070501.A., above. The PC&H rate will not be assessed on DoD stock fund/Defense Business Operations Fund items delivered after October 1,

1990 since the costs for PC&H are included in the standard stock fund/Defense Business Operations Fund price. 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. Prescribed PC&H rates are:

A. 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.

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

C. Examples of PC&H price computations follow:

- |           |    |                                       |
|-----------|----|---------------------------------------|
| \$8,500:  | 1. | Item with a unit price of             |
|           |    | \$8,500 @ 3.5% = \$297.50 PC&H charge |
| \$62,000: | 2. | Item with a unit price of             |
|           |    | \$50,000 @ 3.5% = \$1,750.00          |
|           |    | <u>\$12,000 @ 1.0% = 120.00</u>       |
|           |    | \$62,000 \$1,870.00                   |

D. The PC&H charge for service/maintenance cases is applied to the unit cost of the item (or items) sold or serviced, not the cost of the service. The rate in subparagraphs A and B above apply.

**070503. Transportation.** For other than Defense Business Operations Fund materiel, transportation of FMS materiel shall be on collect commercial bills of lading. When transportation shall be accomplished through a GBL, the GBL shall be annotated to show that normal commercial rates will be billed to the U.S. Government for the shipment. Section 10721 of the Interstate Commerce Act of 1887 [reference (m)] is not applicable to FMS shipments, including "stock fund" items shipped from the Defense Business Operations Fund.

A. DoD Components shall apply rates contained in Table 705-1 to the selling price of materiel with a unit price of \$10,000 or less to

calculate the cost for billing customers for the use of the DoD Transportation System. When an item has a unit selling price over \$10,000, the applicable rate from Table 705-1 shall be applied to the first \$10,000 of the item's unit cost and 25 percent of the same rate to the remainder of the unit price, to estimate a price for the use of the DOD transportation system. For example, an item priced at \$50,000 with a delivery code to Newfoundland would require a transportation charge of \$3,249 (\$10,000 at 16.25 percent and \$40,000 at 4.06 percent).

B. Costs for the staging of materiel in CONUS DOD (non-Defense Business Operations Fund owned/operated) facilities are additions to DOD transportation system costs, and a 3 per-cent staging charge is applicable, if DSAA has authorized "below-the-line" recoupment of staging. Defense Business Operations Fund owned/operated facilities shall bill actual costs incurred as an "above-the-line" service. Normally, the actual costs of staging shall be recovered as part of an "above-the-line" service charge. Such charges shall not be duplicative of any other accessorial cost. When nonexcess materiel is provided from DOD storage points located outside CONUS, the applicable rates (see Table 705-1) shall be charged as a prepositioning cost. For example, if the materiel being sold is stored in Germany and costs \$10,000 or less, a 14.25 percent prepositioning charge would be applied. If transportation to the FMS customer is necessary, it normally shall be accomplished through the use of collect commercial bills of lading. If DOD transportation is used to move articles from an overseas storage location to a point designated by the FMS customer, actual or estimated transportation costs shall be billed to the FMS customer. In estimating the cost of overseas DOD transportation, a 3 percent factor shall be used for overseas land transportation, 1 percent for overseas port loading, and 1 percent for overseas port unloading. An actual dollar amount shall be determined by the supplying DOD Component to recoup the cost of ocean or air transportation.

C. The use of estimated actual charges is authorized for certain items approved in advance by OASD(C) and DSAA when the established percentages for use of the DTS are

significantly different from the estimated actual charges. DSAA will establish and maintain a look-up table to reflect the estimated actual transportation charges for the DTS shipment of approved items. Only items on this look-up table qualify for the billing of estimated actual rates, unless approval is received from DSAA with OSD(C) concurrence. See Section 805 of this Volume for detailed procedures.

**TABLE 705-1 STANDARD TRANSPORTATION PERCENTAGES**

	Percentages Used When Shipped by the Defense Business <u>Operations Fund</u>	Percentages Used When Shipped by Other Than the Defense Business <u>Operations Fund</u>
1. <u>Delivery Term Code 2</u>		
a. FOB Destination - inland origin to inland destination within CONUS/Canada (except Newfoundland and Labrador).	0.00	3.75
b. FOB destination- inland origin to inland country other than Canada.	0.00	destination in a foreign  3.00 + delivery code 7 charges if material is to be replaced (see subparagraph 070503.C.)
2. <u>Delivery Term Code 4</u> - Recipient Country is responsible for the cost of CONUS transportation and subsequent arrangement for onward movement or when transportation is provided as a case line such as high flight or special assignment airlift mission.	0.00	
3. <u>Delivery Term Codes 3 and 5</u> - DOD movement for FMS customer in CONUS/Canada (except Newfoundland and Labrador).	0.00	0.00
4. <u>Delivery Term Code 6</u> - DOD movement from point of origin to and including ocean transportation to overseas port of discharge:		
a. To Europe, Hawaii, Latin America (Central America and Caribbean Basin) and Mediterranean Ports	6.50	
b. To Newfoundland, Labrador, Thule, Iceland, South America (East and West Coasts), Far East, African ports (other than Mediterranean), and Near East	8.50	3.75
5. <u>Delivery Term Code 7</u> - DOD movement from point of origin to, and including, inland carrier delivery to the specified inland location (includes overseas movement of parcel shipments via the Military Postal Service through APO/FPO channels):		10.25
a. To Europe, Hawaii, Latin America (Central America and Caribbean Basin) and Mediterranean Ports	10.50	

**TABLE 705-1 STANDARD TRANSPORTATION PERCENTAGES (CONTINUED)**

	Percentages Used When Shipped by the Defense Business Operations Fund	Percentages Used When Shipped by Other Than the Defense Business Operations Fund
b. To Newfoundland, Labrador, Thule, Iceland, South America (East and West Coasts), Far East, African ports (other than Mediterranean), and Near East	12.50	16.25
6. <u>Delivery Term Code 8</u> - DOD movement from point of to , and including, unloading, handling, and storage aboard vessel at port of exit	2.50	6.25
7. <u>Delivery Term Code 9</u> - DOD movement from point of origin to, and including, vessel discharge at the point of discharge:		
a. To Europe, Hawaii, Latin America (Central America Caribbean Basin) and Mediterranean Ports	7.50	11.25
b. To Newfoundland, Labrador, Thule, Iceland, South America (East and West Coasts), Far East, African ports (other than Mediterranean), and Near East	9.50	13.25

Note: At the time of preparation of the LOA if it is known and authorized that materiel will be shipped via Special Assigned Airlift the cost should be a line on the case and will be priced as an estimate of cost. This shipment will cite the line on the case for reimbursement.

**0706** ADMINISTRATIVE CHARGES

**070601.** General. An administrative surcharge shall be added to all FMS cases (unless the recoupment of administrative expenses has been waived pursuant to legal authority, see Paragraph 070104) to recover DoD expenses related to the functions of sales negotiations, case implementation, procurement, program control, computer programming, accounting and budgeting, Reports of Discrepancy (RODs) administration, and administration of FMS training cases at command headquarters and higher levels. Applicable DoD Component costs are recouped in accordance with paragraph 070603. The Letter of Offer and Acceptance payment schedule shall include, as a part of the required initial deposit, an amount equal to 50 percent of the administrative charge applied to the basic sale price as specified in paragraph 070602. The remaining 50 percent of the administrative charge shall be included as equal percentage installments within each of the estimated payments.

**070602.** Prescribed Standard Administration Charges

A. Supply Support Arrangements. An administrative charge of 5 percent shall be added to the basic sales price on the initial on-hand portion of Cooperative Logistics Supply Support Arrangements (CLSSA)(See paragraph 070708 for detailed instructions.

B. FMS Orders for Nonstandard Articles and Services. An administrative charge of 5 percent shall be added to the basic sale price of FMS orders for nonstandard articles and services, However, the 3 percent administrative charges shall be applied under the following two conditions:

1. A contractor is designated as the source of supply in lieu of a DoD Component performing additional work for the non-standard articles and services. (See paragraph 070408.)

2. A case management line is included in the Letter of Offer and Acceptance that specifically recovers costs associated with

the tasks performed in support of the sale of nonstandard articles or services.

C. All other FMS Orders. Administrative charges for FMS cases not included in Section A above, are dependent upon the date the applicable LOA or amendment is signed out by the cognizant Military Department or Defense Agency. For cost increases within the scope of the LOA, modifications retain the administrative rates current at the time the applicable LOA or amendment was signed out. While the following administrative rates are applicable for the periods shown below, if an amendment adds a new line to an FMS case implemented prior to October 1, 1977, the 3 percent administrative rate is applicable to the new line:

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

2. March 10, 1977 - September 30, 1977. A uniform 2 percent administrative rate for offers signed out during this period.

3. October 1, 1977 - Present. A uniform 3 percent administrative rate for offers signed out after October 1, 1977.

**070603.** Actual Administrative Expenses. Those DoD organizations which provide general administrative support of the FMS program shall recoup the full cost (excluding a pro rata share of fixed base operations costs) of providing such support. Costs charged in connection with administrative support shall not include costs which are prescribed in this Volume as above-the-line costs. Above-the-line costs include (1) contract administration services, see Section 704; (2) case management, see Section 718); (3) recurring contract support costs, see paragraph 070408, and (4) administration of FMS training cases at the installation level which are to be included in the tuition rates. Administrative support cost also does not include the cost of calculating nonrecurring recoupment charges and royalty fees which is a DoD mission cost.

A. The personnel portion of actual administrative expenses shall include a pro rata share of those personnel who spend 10 percent or more of their time performing FMS duties. If an organization's manpower staffing is based upon routinely maintained workload statistics (such as the number of travel orders processed), the FMS administrative personnel expense shall be determined from equivalent FMS workload statistics. In other words, if FMS workload is 25 percent of total workload, then 25 percent of the organization's payroll cost shall be funded through FMS administrative surcharges. Identification of chargeable personnel in base support activities (such as security and civilian personnel specialists) is determined by the incurrence of additional cost to support non-Base Operations Support (BOS) FMS administrative activities, and not by the criteria used in performing an operational audit (e.g., activity frequency, frequency conversion factor, frequency per month, allowed manhours per accomplishment, allowed manhours per month, etc.). These elements which are used in measuring manpower requirements do not in and of themselves prove that incremental costs have been incurred. Thus, there is a different standard for charging BOS personnel, i.e., conclusive demonstration that actual additional costs are being incurred to support non-BOS FMS administrative activities versus charging non-BOS personnel a pro rata share of those personnel who spend 10 percent or more of their time performing (hands-on) duties. The cost of identified personnel shall be computed in accordance with paragraph 070201.

B. Other actual or estimated actual administrative costs include:

1. Travel costs, including per diem and transportation, incurred in the administration of the FMS program which cannot be directly related to mission requirements of a single case or program. (Special care is required in this area. See Section 718.)

2. Automatic data processing costs, excluding equipment cost or depreciation charges, to support FMS workload based on proration of machine time required to produce general FMS reports or transactions.

3. Printing and reproduction costs incurred primarily for the benefit of the FMS program.

4. Communications, utilities, and office supply costs incurred primarily for the general administration of the FMS program.

5. Equipment costs, both purchased and rental, when such costs are specifically incurred to support the administration of the FMS program.

6. Rental charges at fully dedicated FMS activities for floor space rental.

7. Administrative costs of Reports of Discrepancy (RODs). This cost includes the "net cost" to the Department of Defense for processing RODs for overage, shortage, damage, item deficiency, and duplicate billing. Such costs exclude discrepancies that are attributable to damage or loss, occurring after passage of title. Normally, FMS shipments move from the depot or vendor's plant on collect commercial bills of lading with title passed at point of origin. However, occasionally shipments move under Government Bills of Lading. Under either of these conditions, title passes at the point of origin and if damage or loss occurs subsequent to title passage, payment is not to be made from the administrative fund (this is, claims should be submitted against the common carrier). See Chapter 8, Section 802 of DoD 5105.38-M [reference (e)], for more detailed information.

C. DSAA shall ensure that an appropriate share of the cost of Military Assistance Advisory Groups and military missions shall be charged to administrative expense.

**070604. Administrative Charges on Canceled Cases**

A. Earned reimbursements for administrative surcharges are normally not refundable, i.e., the 50 percent that is earned when the case is accepted.

B. The administrative surcharges may be charged in accordance with the following guidance:

1. For cases under \$25 million that are canceled, SAAC shall retain a portion of the administrative surcharge that equals one-half of the applicable administrative percentage of the estimated articles/services ordered value, or the administrative rate times the actual articles/services delivered at closure, whichever is higher.

2. For cases over \$25 million that are canceled, DSAA Comptroller shall determine the appropriate administrative charge; however, the charge shall normally be at least \$250,000.

C. DSAA may approve waivers or reductions outside of the above parameters if circumstances dictate. Such waivers or reductions shall be fully documented and demonstrate that estimated administrative costs incurred on the case have been recouped.

D. Cases canceled for the convenience of the U.S. Government will not incur an administrative cancellation fee. DSAA shall make this decision.

#### **070605. Waived Administrative Charges**

A. General. Cost of administrative effort applicable to FMS cases on which the normal administrative surcharge has been waived or reduced, pursuant to statute, must be reimbursed to the FMS administrative surcharge account. Therefore, the IA which is the proponent of the case on which the charge has been waived shall obligate its current operation and maintenance appropriations for the full amount being waived annually. The amount of the earned administrative charges, which is the value of the administrative charge (currently 3 percent) is to be charged to Program 10. The SAAC shall then apply the established FMS administrative surcharge to accrued expenditures recorded against the case on which the normal administrative surcharge was waived and submit quarterly SF 1080 "Voucher for Transfer Between Appropriations and/or Funds" billings to the

appropriate IA for the amount that would normally be payable by the FMS customer.

B. Fund Control. A recommendation to approve a waiver of the normal administrative surcharge shall be accompanied by a miscellaneous obligation document which identifies the financing appropriation and the dollar value of the waiver. The IA shall certify that funds are available. The approving officials shall sign the obligating document. The provisions of DoD Directive 7200.1 [reference (f)], "Administrative Control of Appropriations," are applicable.

#### **0707 COOPERATIVE LOGISTICS SUPPLY SUPPORT ARRANGEMENTS**

**070701. General.** DoD Directive 2000.8 [reference (t)] prescribes the policies and criteria for establishing cooperative logistics supply support arrangements. These cooperative logistics supply support arrangements provide for the execution of Foreign Military Sales Orders (FMSOs) covering stockage, consumption, and storage (Note: There is no annual inventory maintenance and storage charge for stock fund/Defense Business Operations Fund items for CLSSAs as the stock fund/Defense Business Operations Fund standard price recoups all costs). Two FMS cases are required for supply support arrangements: the FMSO I and the FMSO II. Both cases shall 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). Both parts of the FMSO I provide obligational authority equal to its value in the DoD Component activity providing the supply support to the customer. 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 customer in connection with the FMSO II case, and in turn creates a new order received and recreates obligational authority back to the FMSO I.

B. The FMSO II case represents the foreign customer's anticipated yearly consumption under the cooperative logistics supply support arrangement. 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, give 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 customer 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. In accordance with the concept, 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 cooperative logistics supply support arrangement is either partly or wholly terminated. The FMSO II case provides obligational authority only to the extent that cash is 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 Stock Agency shall use such cash and obligational authority to increase stock and on-order quantities in anticipation of requisitions from the country which entered into the supply support arrangement.

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 the DoD on-hand and on-order levels for the items being supported. Documentation in support of such determinations shall be retained by the office that developed the supply support arrangement.

**070702. Customer Equity.** Supply support arrangements 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 customer's equity shall remain valued at the cash deposited for the FMSO I. Upon termination, a review shall 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 shall 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 sets forth the pricing requirements.

**070704. Storage Costs.** Storage fees shall be charged based on the on-hand portion of the FMSO I. Normally, the on-hand portion represents 5/17 of the total case value. The annual storage fee is 1.5 percent. For cases not remaining open a full year, a fee of .125 percent a month shall be charged. (Note: There is no annual inventory maintenance and storage charge for stock fund/Defense Business Operations Fund items for CLSSAs as the stock fund/Defense Business Operations Fund standard price recoups all costs).



**070705. Obsolete Materiel.** If an item becomes obsolete or excess to the United States but not to the foreign government, the United States 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 (Paragraph 070304.A., above). If items become obsolete or excess to the requirements of the foreign government but not to the United States, the foreign government may request the United States 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 shall be made for the United States to dispose of the materiel and credit the net proceeds to the foreign government. If the United States has a need for the materiel, appropriate credit to the stock level case for return of the materiel to stocks of the United States shall be made in accordance with the departmental procedures for credit allowance for return of materiel [see DoD 7420.13-R, reference (u)]. If items become obsolete or excess to the requirements of both the United States and the foreign government, arrangements shall be made for the United States to dispose of the materiel and the proportional share of the net proceeds of sale shall 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 shall 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 stock fund/Defense Business Operations Fund items already include in a surcharge for estimated normal operating losses in storage.

**070708. Administrative Surcharge**

A. A one-time nonrefundable, administrative surcharge of 5 percent shall 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 shall 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 shall be charged on the total value of the amendments. Table 707-1 illustrates the 5 percent administrative fee computation.

B. No administrative surcharge shall be charged on the on-order portion (Part B) of the FMSO I case. A 3 percent administrative surcharge shall be charged on requisitions processed under FMSO II cases. If an FMSO I agreement is terminated, an administrative surcharge of 5 percent shall be charged for the inventory over and above the on-hand portion of the case. There shall be no additional surcharge on the on-hand portion of the case, since the customer has made advance payment of the administrative charges applicable to this portion of the case.

**TABLE 707-1 FIVE PERCENT ADMINISTRATIVE FEE COMPUTATION**  
**FMSO I - ON-HAND MATERIEL (PART I)**

Amendment	Revised On-Hand Materiel Value	Increase or Decrease to Previous On-Hand Materiel Value	5% Admin Fee Charge on Increase	5% Admin Fee Accrued Exp.
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)	0	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)	0	350,000

**0708 STORAGE, REPAIR AND/OR MODIFICATION OF CUSTOMER-OWNED MATERIEL**

**070801. Storage.** Costs applicable to storage of customer-owned articles include the functions of receiving, care and preservation in storage, set assembly and related other storage activities, and overhead in storage operations, such as re-warehousing, maintenance of operating equipment, physical inventories, and cleaning storage areas. Storage charges are applicable to the on-hand portion of FMSO I cases and to cases on which DoD is ready to deliver applicable items but has been requested by the customer to delay delivery (Note: There is no annual inventory maintenance and storage charge for stock fund/Defense Business Operations Fund items for CLSSAs as the stock fund/Defense Business Operations Fund standard price recoups all costs). A uniform DoD annual rate of 1.5 percent or .125 percent monthly of the average monthly value of customer-owned materiel will be charged to applicable FMS cases to recover an activity's costs of storage. An illustration of billing for storage, other than FMSO, is at Table 804-17.

**070802. Repair or Modification.** When a foreign government requests the repair and/or modification of items, the actual or estimated cost of the work will be priced on a job order basis. An illustration of price computation is at Table 708-1.

A. Labor cost will be computed in accordance with Section 702 of this Volume.

B. Materials and supplies obtained from the military supply system stocks will be priced in accordance with Section 703 of this Volume.

C. Materials, supplies, or services obtained directly from contractors will be priced in accordance with Section 704 of this Volume.

D. Transportation and related costs incurred in movement of the materials and supplies used incident to repair and/or modification will be priced in accordance with Section 705 of this Volume. (See paragraph 070501.B. for treat-

ment of stock fund/Defense Business Operations Fund materiel).

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

F. Incoming and outgoing transportation costs related to FMS equipment/materiel processed by repair or overhaul facilities will be paid by the FMS customer. If uniform DoD accessorial rates are used, they should be applied to the DoD standard prices of the items being serviced.

**070803. Administrative Surcharge.** The administrative charge will be applied to all direct and indirect costs which are billed in connection with storage, repair and/or modification.

**070804. Special Instructions Applicable to Industrial Funds/Defense Business Operations Funds.** Industrial fund/Defense Business Operations Fund facilities will charge applicable approved non-DoD stabilized rates and prices for services in support of FMS cases. Stock fund/Defense Business Operations Fund materiel, including depot level reparable, will be priced at the standard price in effect at the time of the drop from inventory.

**TABLE 708-1 PRICE COMPUTATION EXAMPLE OVERHAUL OF CUSTOMER-OWNED MATERIEL<sup>3</sup>**

Direct materiel consumed or incorporated (does not include customer-owned materiel)		\$ 1,000.00
Direct labor hours of "funded" civilian personnel	500	
Direct labor hourly rate (employee salary and pro rata overhead)	<u>\$ 20.00</u>	
Direct civilian labor cost recouped (including unpacking and packing, crating and handling)		<u>10,000.00</u>
Funded cost recouped		\$ 11,000.00
"Unfunded" military labor (composite rate, retirement, <sup>1</sup> other personnel costs, leave/holiday & PCS charge)-- E-7, 100 hours		<u>1,472.00</u>
FMS Selling Price		\$ 12,472.00 <sup>2</sup>

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<sup>1</sup>The administrative surcharge is additive to the FMS selling price.

<sup>2</sup> See Table 804-15 for billing.

<sup>3</sup>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 surcharges as appropriate. Also, PCH and transportation charges for the direct material consumed in overhaul items are included in the total overhaul price. (See paragraph 70501.B. for treatment of stock fund/Defense Business Operations Fund materiel). This example assumes that inbound and outbound transportation is paid by the FMS customer. See paragraph 70802.F. If the customer does not pay, the calculation for transportation would be, assuming a \$20,000 item's standard price and the item is not from the Defense Business Operations Fund, is as follows:

$$\$10,000 \times .0375 + \$10,000 \times \frac{.0375}{4} = \$468.75 \text{ for a shipment to a freight forwarder.}$$

4

**0709** COSTS ALLOCABLE FOR JOINTLY USED FACILITIES

**070901. General.** When specific agreements or arrangements are made for the joint use of USG facilities (that is, sharing of storage spaces, dedicated training facilities, etc.), a pro rata share of the operating cost initially financed by operating appropriations shall be charged to the foreign customer.

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

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

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

**0710** TRAINING OF FOREIGN NATIONALS

**071001. General.** Tuition rates for training shall be based on the costs of providing the training. Detailed instructions to be followed in developing the tuition rates are included in Sections 711 and 712 of this Volume. Any special requirement for the exclusive use of a foreign student shall be reimbursed in full.

**071002. Observers.** Observers auditing a course shall be charged the same price as an enrolled student.

**071003. Pricing Military Pay.** Price military pay using the composite standard rates and acceleration factors published in Appendix C.

Price civilian pay using the current annual salary and acceleration factors in Appendix C.

**071004. DoD Course Cancellations.** A charge of 50 percent of the tuition rate for the course or course phase shall be made for a student who is canceled or rescheduled within 60 days before the starting date of the course or phase. For sequential training, the cancellation charge shall apply only to courses or phases scheduled to start within the 60-day period. No charge shall be made for withdrawal from follow-on training when course cancellations or reschedulings are caused by the U.S. Government or for students who attrit due to academic failure beyond the control of the student, injury or illness incurred during training. Cancellations or reschedulings shall be effective on the date notice is presented in writing to the U.S. overseas security assistance organization (SAO) or other duly appointed and recognized U.S. Government representative. Charges for attrited (separated) students shall not be less than 50 percent of the tuition rate. Further, if the student completes more than half of the course, the cost shall be assessed on a pro rata share (e.g., 70 percent) of the tuition rate, or 100 percent of the tuition rate if a pro rata computation is not practicable. The provisions of this paragraph shall be included on any LOA that covers training. For contractor provided courses, the cancellation fee will be 100 percent of the course cost. The 60 day limitation for DoD courses does not apply to contractor provided courses. No cancellation fee will be assessed when the quota for the contractor provided course is filled by another student.

**071005. Inflation Factors.** Tuition rate estimates for future years shall be adjusted for inflation. The Office of the Comptroller, DoD shall provide factors to be used for this purpose.

**071006. Annual Publication of Rates.** Tuition rates shall be computed annually by the Military Departments and published in the Military Articles & Services List (MASL)[see Section 1503 of reference (e)]. Tuition rates shall be those in effect for the year in which the student enters the course or phase of a course. Approved rates shall remain constant for the year. Adjustments shall be made only to correct significant errors in computation, change in syllabus, or major unan-

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

**071007. NATO Rates**

A. Training course tuition rates under North Atlantic Treaty Organization Standardization Agreements ratified by the U.S. Government and for Australia, New Zealand, Japan, and with other countries which are major non-NATO allies if based on similar reciprocity agreements, shall include reimbursement for all direct costs, but will exclude:

1. Indirect costs.
2. Administrative surcharges.

(However, see paragraph 070605.)

3. Cost of billeting trainees (except to the extent that members of the U.S. Armed Forces occupying comparable accommodations are charged for such accommodations by the United States).

B. The above exclusions do not apply for dedicated training, e.g., contractor training, dedicated training courses, mobile training teams (MTT's), and extended training services specialists (ETSS).

C. For training at industrial fund/Defense Business Operations Fund activities, direct costs shall be defined for the purpose of these regulations as including a pro rata share of overhead costs distributed in accordance with the prescribed costing procedures for industrial funds/Defense Business Operations Funds. When industrially funded/Defense Business Operations Fund personnel are utilized other than at the industrial fund/Defense Business Operations Fund site, price civilian personnel using the current annual salary and appropriate acceleration factors without overhead costs.

D. NATO countries who are eligible for IMET shall be charged the incremental FMS

prices instead of NATO prices for training (see paragraph 071008).

**071008. IMET Rates.** Effective October 1, 1985, any student from an IMET-eligible country who is currently receiving IMET funds and who is buying FMS training shall be charged for any incremental cost (additional cost) to the U.S. government for providing the training. Detailed instructions to be followed in developing incremental rates are included in Section 712 of this Volume.

**071009. Liability for Damages.** Training cases that involve the use of U.S. equipment (such as aircraft, trucks, etc.) and that do not include charges for attrition shall include a statement regarding liability for damages. This statement shall state that the foreign government shall be liable for any damage to such equipment due to negligence on the part of the student. The cost of replacing equipment which is destroyed as a result of student negligence shall be reimbursed in full. See Section 703 of this Volume for instructions on pricing replacement equipment.

**071010. Elimination of the Cost of Military Pay and Entitlements.** Public Law (P.L.) 99-83 and P.L. 100-461 amend Sec 503(a) of the FAA [reference (a)] of 1961, as amended, and provide for elimination of the cost of military pay and entitlements if the FMS training case is totally financed by the Military Assistance Program (MAP) and/or by non-repayable FMS credits. Training cases shall be priced to exclude military pay and entitlements (including retired pay accrual) only for those cases citing MAP funds and/or FMS Credit (non-repayable) as the exclusive method of funding on the LOA. The exclusion for non-repayable FMS Credit cases is applicable beginning FY 1990. DSAA will commit MAP funds and non-repayable credits on all FMS training cases excluding military pay and entitlements (including retired pay accrual) prior to FMS training cases being offered to a country. Any subsequent amendment/modification serving to reduce the MAP and/or non-repayable credit financing below 100% shall require repricing to add military pay and entitlements to the entire case. The following additional clarification is offered.

A. A country's IMET training program will be charged on an incremental basis. Furthermore, military salaries and entitlements will be excluded for IMET funded assistance.

B. A country receiving assistance under the IMET program that decides to purchase additional training under a totally MAP funded FMS case will be charged on an incremental basis which will exclude military salaries and entitlements.

C. In the event that the purchaser is a NATO member, Japan, Australia, New Zealand, or major non-NATO ally, and has a reciprocal pricing agreement with the USG, the purchaser will be charged full direct costs less reimbursement for indirect costs, administrative surcharges, costs of billeting trainees (except to the extent that members of the United States Armed Forces occupying comparable accommodations are charged for such accommodations by the United States). See paragraph 071007.A.2.

D. If a country is a MAP but not an IMET recipient, and the country purchases training under a totally MAP funded case, the purchaser will be charged at full cost (i.e., includes both direct and indirect costs) less military salaries and entitlements.

TABLE 710-1 PRICING MATRIX FOR TRAINING

[Effective October 1, 1985 (FY86)]

	FMS	FMS NATO	MAP/IMET	IMET
<b>PAY &amp; FRINGE BENEFITS</b>				
<u>Direct Cost</u>				
Civilian Pay <sup>5</sup>	X	X	I	I
Civilian Fringe Benefits <sup>1</sup>	X	X	X	X
Civilian Unfunded Retirement <sup>1,2</sup>	X	X	-	-
Military Pay <sup>4,5</sup>	X	X	I	-
Military Fringe Benefits <sup>1,4</sup>	X	X	X <sup>3</sup>	-
<u>Indirect Cost</u>				
Civilian Pay <sup>5</sup>	X	-	I	I
Civilian Fringe Benefits <sup>1</sup>	X	-	X	X
Civilian Unfunded Retirement <sup>1,2</sup>	X	-	-	-
Military Pay <sup>4,5</sup>	X	-	I <sup>4</sup>	-
Military Fringe Benefits <sup>1,4</sup>	X	-	X <sup>3</sup>	-
<b>CHARGES FOR USE OF DOD ASSETS</b>				
<u>Attrition</u>				
Insurance Factor	X	-	-	-
Replacement cost of equipment lost as a result of student negligence (not included in training course cost--specific bill will be provided if loss occurs)	-	X	X	-
<b>NON-PERSONNEL COSTS</b>				
<u>Direct Material/Other Costs</u>	X	X	X	X
<u>Indirect Material/Other Costs</u>	X	-	I	I
<u>INFORMATIONAL PROGRAM</u>	X	X	X	X
<u>MAILING FEE</u>	X	X	X	X
<u>ADMINISTRATIVE SURCHARGE</u>	X	-	X	-

Legend: X = Full Cost

I = Incremental

Notes:<sup>1</sup> Applied as a percentage of labor cost.<sup>2</sup> U.S. Government contribution which is not included in DoD appropriations.<sup>3</sup> The full fringe benefit rate is applied to incremental payroll cost.<sup>4</sup> Not charged when case is 100 percent financed by MAP and/or non-repayable FMS credits.<sup>5</sup> See paragraph 070202 and 070203 relative to leave and holidays as part of civilian or military pay.



**0711** INSTRUCTIONS FOR COMPUTING  
FMS TRAINING COST

**071101. Personnel Costs.** Certain costs associated with support of the foreign students or their dependents are considered to be a responsibility of the foreign government but are not included in the tuition rate for training course. Compute and bill these costs as follows:

A. The students pay for meals in the base mess at the rates established in DoD 1338.10-M [reference (v)].

B. Medical care (including outpatient) for students and dependents shall be charged at the rate prescribed by the Office of the Comptroller, DoD. This cost shall be shown as a separate line on the LOA and billed to the foreign country.

C. Normally, student travel and related costs shall be paid to the commercial carrier, etc., by the foreign country or student. For any U.S. services provided, such as, MAC transportation, the nongovernment rate shall be applied and billed to the foreign country or student, as appropriate.

D. DoD policy concerning occupancy of student family housing by foreign students is that they may occupy family housing only after a determination has been made that U.S. student requirements are satisfied and shall be satisfied for the projected duration of the foreign student's occupancy. Under these circumstances, the amount to be charged shall be the cost incurred by the Department of Defense, incident to operation and maintenance of family housing units. Table 711-1 provides guidance for calculating the monthly rental charge for FMS student occupancy of DoD family housing. When foreign students occupy family housing that is not excess to U.S. Military Service needs, the amount to be charged shall be equal to the cost of housing U.S. Military Service personnel on the economy (BAQ and VHA).

E. When foreign students occupy the BOQ/BEQ/VOQ/VEQ, the students shall be required to pay only the local custodial and nonappropriated fund fees.

**071102. Direct Cost and Training Overhead**

A. Certain costs can be directly identified to training courses. Once identified, divide the direct cost by the total number of students enrolled in a course to arrive at a cost per student. In turn, add all of the direct costs per student to be included in the tuition rate.

B. Compute the cost of salaries, allowances, etc., of instructors by dividing the annual instructor cost (see paragraph 071003) 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 a per-student rate. Alternatively, instructor costs may be allocated on a instructor contract hours basis (that is, total instructor costs divided by total platform man-hours) that allows for a more equitable distribution. Compute the costs of salaries, allowances, etc., of administrative and other personnel supporting training by dividing the total annual cost by total course weeks of training and multiplying result by the number of weeks in the applicable course. Divide this cost by the average number of students in the class to develop a per-student rate.

C. The cost of TDY shall be allocated to courses on the basis of a casual or beneficial relationship. Accordingly, TDY must be segregated into two categories: one for TDY that is caused by or benefits a specific course or courses and the other for TDY that benefits the training operation as a whole. TDY that is directly related to (benefits) one or more courses shall be directly allocated to those courses. In order to preclude "double charging" a course for TDY, care must be taken to ensure that all directly allocable travel is eliminated from the TDY included in the indirect cost pool. TDY that benefits the training operation as a whole shall be allocated to sources by dividing the total indirect TDY costs by total number of students and then multiplying the results by the number of students enrolled in each course to arrive at a course cost.

D. Cost for training U.S. instructor pilots, including proficiency and continuation training, shall be limited to special aircraft not in

the active U.S. aircraft inventory. Divide these costs by the normal tour of duty for an instructor pilot to arrive at an annual cost that shall be distributed to courses in the same manner as instructor salaries and allowances.

E. Cost of training materials, equipment, supplies, aids, munitions, flight clothing, and personal equipment shall be charged to the applicable course. Training material and aids prepared above base level, that are readily identifiable to a course, shall be included as a direct cost of the course. If not readily identifiable to a specific course, distribute these costs to courses in the same manner as indirect TDY costs. Care must be taken to ensure against "double charging" a course.

F. Compute the POL cost for aircraft (rotary/fixed wing), motorized equipment, ships, landing craft, etc., using the equipment hourly cost of POL times the number of operating hours for the course.

G. Depot level maintenance cost of aircraft, engines, motorized vehicles, and equipment shall be charged to the applicable course at the budgeted average hourly item repair cost that includes civilian pay, contractual effort, and supplies. These costs shall 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.

H. Base level aircraft and equipment maintenance costs (including munitions maintenance) shall 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 shall include military and civilian pay, supplies and equipment (including replenishment spares), and contractual support. If there are a significant number of transit or nontraining aircraft at the base, aircraft operating costs shall be distributed initially between training and nontraining 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 shall be classified as training aircraft.

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

J. Civil Engineer (Public Works) and other directly relatable support costs allocable to training operations shall be distributed to courses on the basis of total training hour support or any other logical method of measurement; for example, square footage of buildings, etc., (see subparagraph H., above). This category includes: the cost of air operation department; squadron command administration; crash/fire department; maintenance of hangars and airfield pavements and marking; operation and maintenance of communications, navigation aids, airfield lighting, control tower, training facilities, and ground support and refueling equipment. Costs in this category shall include only those that would not be required if the training mission were removed from the installation. If they would remain, were the training mission re-moved, they shall be combined and allocated along with the other indirect base operating costs in paragraph 071103.

K. Range maintenance and operating costs shall 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.

L. Tuition rates shall include the costs of information programs, including transportation, meals, lodging, admission, programs, and incidental costs thereof. The student assumes the personal costs for laundry, cleaning, telephone service, and all other costs not directly associated with the programmed tour.

M. Include attrition rate of 4% for flying training and/or 1% for non-flying training. There will be a year-end analysis of account activity in accordance with paragraph 030210.G. of this Volume.

**071103. Indirect Base Operating Costs**

A. All other indirect base operating costs shall be allocated initially to major claimants (training, tenants, etc.). The amount allocated to training shall then be distributed to areas of training that are significantly different (flying operations, classroom training, equipment maintenance, etc.). All allocations shall be made at the installation level using engineering estimates or some other basis to ensure that allocations are commensurate with the benefits received. Costs to support or operate quarters, a family housing complex, and food service activities that are applicable to instructors and training support personnel may not be allocated to tuition rates if these costs are recouped in base personnel salaries. The amount allocated to each area of training shall 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, for example, chapel, equal rights office, alcohol treatment, special services, etc.

B. Exclude costs associated with combat development, training development (less course development), nonresident 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.

C. Exclude costs associated with units attached to the training activity with duty stations at another location that are not involved in the training of foreign students.

D. Costs related under-utilized capacity and mobilization requirements, when specifically identified and documented, shall be excluded from these allocations.

**071104. Administrative Surcharge.** Apply an overall administrative surcharge of 3 percent to the case cost.

**071105. Shipment of Instructional Materials**

A. Effective October 1, 1983, the shipment of instructional materials shall be

included in the tuition rates for all IMETP/FMS courses based on standard rates. The rates are \$265 for Professional Military Education Courses (Military Articles and Services List, Item identification in the 171 series) and \$65 for all other courses.

B. This material is to be packed and labeled at the training installation and shipped to the Security Assistance Organization (SAO) of the country for delivery to the FMT. A copy of the student's ITO shall be placed inside the package.

C. The training installation shall ensure that no personal baggage or other unauthorized matter is shipped with the instructional material.

**TABLE 711-1 DEVELOPMENT OF FAMILY HOUSING CHARGES FOR FMS STUDENTS**

This table provides guidelines for calculating charges for family housing provided to FMS students. The guidelines shall be used only after a determination has been made that U.S. students' requirements have been satisfied and shall be satisfied for the projected duration of the foreign student's occupancy.

A. Steps to be followed in calculating the monthly rental charges to FMS students are as follows:

Step 1. Use the most recent annual installation family housing cost report to identify the costs incurred in operation and maintenance of installation family housing units.

Step 2. Inflate the annual cost report by the operation and maintenance inflation factor published each year by the Office of the Comptroller, DoD as part of Program Objectives Memorandum and budget guidance.

Step 3. Divide the sum of the amounts determined in Steps 1 and 2 by the number of family housing units located on the installation.

Step 4. Divide the annual average cost to operate and maintain a family housing unit by 12, to arrive at average monthly costs.

Step 5. Add \$100 to the results of Step 4. The \$100 is predicated on average charge for Wherry Housing mortgage amortization and is in lieu of depreciation and interest on investment.

B. A price illustration of the FMS student family housing calculation follows:

1. Total FY 1980 cost incurred by installation in operating and maintaining family housing units	\$ 998,586.00
2. Addition of FY 1981 inflation factor (11.27%)	<u>112,541.00</u>
Subtotal	\$1,111,127.00
3. Annual cost per family unit (449 units).	2,474.67
4. Monthly cost per family housing unit.	206.22
5. Monthly mortgage amortization charge.	<u>100.00</u>
Monthly rental charge to FMS student.	\$306.22

**0712** INCREMENTAL COSTING OF TRAINING**071201.** Instructors and School Support Staff.

Courses shall be reviewed to determine if the incremental cost should be developed for a specific course (for example, 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 shall be considered incremental. If the entire class is composed of foreign students, the instructor and staff shall always be considered incremental.

A. It is anticipated that the incremental cost charged to IMET for instructors shall be minimal for courses or groupings of courses when either the ratios of students to instructors or U.S. students to IMET students is high.

B. For these latter courses (or groups of courses), a projection shall be made as to the estimated number of U.S. students who shall be in the course and the number of instructors and staff required. A second projection shall be made of the total number of students estimated, both U.S. and foreign, and the number of instructors and staff required. Both projections shall 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 foreign students, represents the incremental cost per student for the course (or courses). Although used in the computation to derive incremental IMET costs, FMS students shall still be priced at full cost in accordance with other provisions of this Chapter. In computing full cost for the FMS student, care shall be taken to ensure that the incremental cost charged to IMET students is not included in the FMS computation.

**071202.** Travel and Per Diem. All student travel and per diem associated with the training shall be considered incremental. All travel, per diem, and allowance paid to members of Techni-

cal Assistance Field Teams (TAFTs) and similar teams, established to conduct in-country training, shall be considered incremental.

**071203.** Equipment Overhaul and Maintenance. The overhaul and maintenance of major items of equipment, when computed on an hourly use basis, shall be incremental to a course based on estimated utilization hours.

**071204.** Simulators. Simulator hours shall be incremental. See paragraph 071102.I.

**071205.** Supplies, Materiel, Training Aids, and Ammunition. Incremental cost shall be the replacement price of items that are not returned or reusable (including POL) used in conducting the training. If discrete pricing is not or cannot be developed for publications and Table 716-3 is used, determine IMET pricing at 10 percent of the costs shown in the table.

**071206.** Base Support Cost (i.e., Indirect Costs). Standard weekly rates shall be charged for IMET and IMET(FMS) training. The FY 1981 rates are \$15 per week for IMET and \$18 per week for IMET(FMS). In FY 1984, rates were \$17 and \$19. The rates for FY 1986 are \$22 for IMET and FMS/IMET. These rates shall be adjusted annually for inflation. Once every three years, these rates shall be validated by each Military Service and adjusted by the Office of the Comptroller, DoD as appropriate.

**071207.** Instructor Training. The training of U.S. instructors or other personnel for special courses normally not conducted for U.S. personnel shall be considered incremental. When the required training is conducted at a U.S. training facility, the benefiting country will be charged the course cost established in accordance with Sections 711 and 712 instructions for computing training costs. When the special course is conducted by a Management Service Team (MST) away from the normal training institution, the services of the MST will be treated as a service and priced in accordance with paragraphs 070202 and 070203.

**071208.** Facilities and Equipment. Any facilities or equipment acquired primarily for the support

of foreign students shall be considered incremental.

**071209. Information Program.** The full cost of the information program to the U.S. Government shall be incremental.

**071210. Administrative Surcharge.** The administrative surcharge shall be charged on FMS training sold to IMET-recipient countries, and shall also be charged to cases financed with MAP funds.

**071211. Exclusions.** The unfunded civilian retirement charge that is deposited to the Miscellaneous Receipts Account shall be considered a fixed cost and not included in the FMS training rates for IMET-recipient countries. This exclusion also applies to TAFTs established to conduct in-country training and mobile training teams (MTTs).

### **0713 OTHER CASH SALES AND LEASING OF DEFENSE ARTICLES**

**071301. General.** Cash sales of Defense services other than those heretofore covered specifically in this Chapter shall be priced to recover all elements of identifiable costs.

**071302. DoD Support Costs.** A separate FMS case shall be established to recoup DoD support costs such as those defined in paragraph 070406 when support is furnished by Department of Defense to facilitate direct sales by a U.S. contractor to a foreign government.

**071303. Administrative Surcharge.** The administrative surcharge prescribed in Section 706 shall be applied to identifiable costs.

**071304. Pricing.** When defense articles is leased to a foreign country or international organization under authority of AECA [reference (a)], inspection, restoration, maintenance, and accessorial costs incurred in connection with the lease shall be priced in accordance with paragraph 070802. In addition, depreciation charges on the leased items may be applicable. A worksheet to determine the applicability of depreciation charges and the amount thereof is

contained at Table 713-1. In the event leased defense articles are damaged beyond repair or is not returned, replacement costs calculated in accordance with paragraphs 070302.B. and C., as applicable, shall be collected from the foreign country or international organization. Replacement cost shall be estimated when the equipment is placed on lease and set forth in the lease agreement. Refer to Chapter 12 of DoD 5105.38-M [reference (e)] for procedures on leasing arrangements. Charges for repair or other support of these items will not be made part of this monthly lease payment.

**TABLE 713-1 CALCULATION OF DEPRECIATION CHARGES FOR LEASED DEFENSE ARTICLES WITH ILLUSTRATIVE ENTRIES**

**STEP 1:** Determine purpose of lease.

	<b>Yes</b>	<b>No</b>
a. Cooperative research or development project	( )	(x)
b. Military exercise	( )	(x)
c. Electronics interface project	( )	(x)

(If "yes" is checked on items a., b., or c., depreciation is not applicable and it is not necessary to complete remaining steps.)

**STEP 2:** Determine service life.

a. Date to be leased	June 1982
b. Date item first fielded or actual acquisition date of specific item (if known)	June 1972
c. Calculate age in months of item on lease date	120
d. Number of months to be leased	12
e. Estimated months of service life remaining at conclusion of lease	144
f. Total months of service life (c. + d. + e.)	276
g. Calculate item c. as a percentage of item f.	43%

(If result of step 2.g. is 75 percent or more, depreciation is not applicable and it is not necessary to complete remaining steps.)

**STEP 3:** Determine cost of defense articles leased.

a. Original acquisition cost		\$1,000,000
b. Pro rata share nonrecurring R&D or production costs		100,000
c. Capital improvements		
(1) Major overhauls <sup>2</sup>	\$500,000	
(2) Modifications net of retirements <sup>1</sup>	\$300,000	800,000
Total Cost		<u>\$1,900,000</u>
Less residual value		<u>(100,000)</u>
Amount subject to depreciation		\$1,800,000

**STEP 4:** Calculate monthly depreciation charge.

Divide results of Step 2.F. into results of Step 3	
(\$1,800,000/276) =	\$ 6,522

<sup>1</sup> 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 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.

<sup>2</sup>The overhaul costs will be pro-rated over the interval between the last actual 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 (see paragraph 70302.C.1.).

**0714**     EXPANSION OF FACILITIES

**071401. General.** All costs of construction or expansion of facilities desired by and for the exclusive use of the foreign government shall be financed and funded by the foreign government. Charges by the U.S. Government for labor, materiel, or services shall be reimbursed in accordance with the provisions of Sections 702 and 703 of this Volume. When expansion is required for DoD use but may also be available for FMS, the cost shall be funded through the normal DoD budget process.

**071402. Reimbursement of Proportionate Share.** In addition to the costs as above, a proportionate share of operating costs shall be reimbursed.

**0715**     PRICING FOR USE OF TECHNOLOGY

**071501. General.** A Technical Data Package (TDP) encompasses production designs, drawings, specifications, models, manufacturing techniques and details, and similar information (but excludes information associated with the RDT&E stage) necessary to enable a foreign government to manufacture or have manufactured items of military equipment and repair parts. It does not include technical assistance or know-how by U.S. Government personnel; however, such assistance may be provided at additional cost.

**071502. Pricing of Technical Data Packages.** The Defense Security Assistance Agency (DSAA) 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 shall be priced in accordance with the pricing policies set forth in paragraph 071301. 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.

**0716**     PUBLICATION PRICING

**071601. General.** This section prescribes the method which will be used to determine the

price of DoD publications when they are sold to FMS customers. The term "publications" includes technical orders, technical manuals, supply catalogs, training publications, 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. A publication may be bound or loose-leaf, imprinted form, ADP listing, operator's card, microfilm, slide, motion picture film, etc. Engineering drawings and associated documents will be reviewed to determine if a technology charge is appropriate.

**071602. Publication Pricing Factors.** The following costs shall be included in the development of FMS prices for publications:

A. Acquisition Cost (AC). The contractual and in-house DoD cost required to deliver a reproducible master including, but not limited to, the amounts paid for technical or administrative writing, editing, illustrating, animation, and copy preparation.

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

C. Special Cost (SC). The cost incurred in the sanitization (elimination of nonreleasable information from a DoD publication prior to release to a foreign government), classified handling, development, and maintenance of country-peculiar publications.

**071603. Development of a Per Copy Selling Price**

A. The total cost of a publication is the sum of the costs identified in B., above. The total cost will be reduced to a per-copy expression by dividing the cost by the quantity produced (Q) as per the following formula:

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



B. Recorded actual costs will be used when available. When actual costs for individual publications 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). Table 716-1 provides guidance for developing publication pricing tables. Table 716-2 is a sample pricing guide developed in accordance with this guidance.

C. In the event there is an immediate need for pricing existing inventories of publications, and discrete pricing is not or cannot be developed, Table 716-3 may be used. The pricing in Table 716-3 shall not be used for constant pricing of publications. It is to be used to fill an immediate need when actual or estimated prices cannot be determined. Its design allows a price definition that recognizes the cost of each publication in relation to its unit count, without the need for performing a separate price calculation for each publication. In recognition of the higher per-unit acquisition and copy production cost that occurs in low unit count publications, a minimum price is set to effect related cost recoveries.

**071604. Other Applicable Costs.**

A. A technology charge that shall be collected in accordance with [32 CFR 165](#) [reference (r)] and Section 715 of this Volume shall be an additional charge when applicable.

B. The standard administrative and accessorial charges prescribed in this Chapter shall be recouped as a percentage of publication prices. These charges are not included in the per copy selling price.

C. The FMS price for a joint Military Service publication shall be established by the Military Department responsible for its acquisition and management. That Military Department shall notify the other participating DoD Components of the established FMS price.

**TABLE 716-1 DEVELOPMENT OF FMS PUBLICATION PRICING TABLES**

This table provides instructions for constructing and using publication pricing tables based on factored costs when actual publication costs cannot be readily determined.

A. Using a representative sample of the various types of publications, develop unit prices for each publication category (such as, technical, supply, administrative, training, and engineering drawings) as follows:

Step 1: From reproducible master procurement or production records, determine the average acquisition cost within the category.

Step 2: From copy production records, determine the average copy production cost within the category.

Step 3: Add the results of Steps 1 and 2.

Step 4: Estimate the "typical quantity," as derived from a representative sample of actual usage or from forecasted requirements for publications within the category

Step 5: Divide the total from Step 3 by the estimated number of copies to be produced to derive the price per unit.

Step 6: To determine the selling price of a single copy of the publication, multiply unit or page cost by number of units or pages in the publication.

B. An example of the steps above is shown for a sample of X number of publications in paper form as follows:

Step 1:

Acquisition Cost of <u>Producible Master Samples</u> Total Reproducible Masters Sampled	= Average Acquisition Cost Per Reproducible Master
$\frac{\$234,000}{1,000}$	= \$234

Step 2:<sup>1</sup>

Actual Copy Production Cost Incurred in Reproduction of <u>Reproducible Masters Sampled</u> Production Runs Sampled	= Average Copy Production Cost Total
$\frac{\$52,000}{2,000}$	= \$26



**TABLE 716-2 SAMPLE PRICING GUIDE FOR TECHNICAL PUBLICATIONS**  
(SUBCATEGORY TITLE, WHEN DESIRED)

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UNITS	All pubs 100 Units or Less
PRICE PER COPY	\$16 (based on a 60-unit count average)

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UNITS	All pubs over 100 Units
PRICE PER COPY	Extrapolate from below

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UNITS	1	2	3	4	5	6	7	8	9	10
PRICES (\$)	0.26	0.51	0.78	1.04	1.30	1.55	1.81	2.08	2.34	2.59

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UNITS	50	60	70	80	90	100	200	300	400	500
PRICES (\$)	12.80	16.00	17.60	20.80	24.00	25.60	51.20	78.40	104.00	129.60

---

**INSTRUCTIONS**

1. Determine unit cost of publication.
2. If unit count is at or below the minimum, set price at \$16.00.
3. Extrapolate when unit counts are above the minimum. For example, the calculation for a unit count of 382 would be computed from the table as follows:

	<u>Units</u>	<u>Price</u>
	300	\$78.4
	80	20.80
	2	<u>.51</u>
Total	382	\$99.71

Rounding to the nearest dollar, the price charged to the FMS customer would be \$100.00.

4. Add 20% to price for classified publications.

**TABLE 716-3 GUIDE FOR PUBLICATIONS PRICING (PER COPY)**

CATEGORIES OF PUBLICATIONS (PRICE PER COPY <sup>2</sup> )					
<u>NO. UNITS<sup>1</sup></u>	<u>TECH</u>	<u>TRNG</u>	<u>ADMIN</u>	<u>SUPPLY</u>	<u>OTHER<sup>3</sup></u>
1-100	\$ 16.00	\$10.00	\$ 5.00	\$ 5.00	
101-200	\$ 38.00	\$22.00	\$11.00	\$11.00	
201-300	\$ 66.00	\$38.00	\$19.00	\$19.00	
301-400	\$ 91.00	\$54.00	\$27.00	\$27.00	
401-500	\$117.00	\$67.00	\$34.00	\$34.00	

  

Engr Drawings	All Categories: Aperture or copy cards @ \$.88 per copy Hard copy - \$3.20 per copy
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Letter Type Bulletins and Directives	All Categories: \$3.20 per copy
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Forms	All Categories: \$.08 per copy with a minimum charge of \$3.20. If standard inventory price available, use standard price.
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<sup>1</sup>Unit: A page, a role of microfilm, a microfiche frame, or a running foot of tape or motion picture film.

<sup>2</sup>An additional charge of 20% is added for classified items.

<sup>3</sup>Other selected categories of publications, such as audiovisual products, decals, etc.

**0717** SPECIAL DEFENSE ACQUISITION FUND (SDAF)

**071701. General.** The Special Defense Acquisition fund was authorized in 1981 by an amendment to Chapter 5 of the AECA to fund the procurement of defense articles in anticipation of their sale or transfer to foreign governments. The basic objective of the fund is to facilitate delivery of materiel in advance of normal procurement lead-times. The detail requirements of the fund are discussed in Chapter 14 of the Security Assistance Management Manual (SAMM)[reference (e)].

**071702. Sales Involving the Special Defense Acquisition Fund**

A. Sales to the Fund. Sales of materiel and recurring services in support of purchases to the SDAF will be priced according to the requirements of this section. These pricing elements represent SDAF obligations. Therefore, care must be taken to record and obligate transactions in a timely manner. Over-obligations shall be reported in accordance with DoDD 7200.1 [reference (f)]. The DoD Component with custody of the SDAF asset being purchased will maintain identity of the related unfunded costs until the respective asset is sold to an FMS customer. The following additional guidance on pricing sales to the SDAF is provided to address specific problems:

1. Accessorial costs as prescribed by Section 705 of this Chapter will be charged to the fund only if applicable; e.g., PC&H and transportation will not be charged for shipments in place to change the commodity manager's ownership/purpose code assigned to the asset in stock.

2. Contracts awarded to meet SDAF requirements shall not provide for rental charges under provisions of the Federal Acquisition Regulation (FAR)[reference (g)].

3. The actual CAS cost applicable to procurements for the SDAF shall be included in Standard Form 1080 for billing FMS costs from the DoD Components to the clearing account maintained by the SAAC. The normal

CAS surcharge will be added to billings for contract cost for the purpose of inventory valuation.

4. All unfunded costs other than nonrecurring charges will be charged for sales to the fund. These charges include military and civilian pay for services such as engineering changes, personnel acceleration factors and secondary item replacement factors. Nonrecurring cost recoupment charges will be collected from FMS customers when the materiel is sold from the fund and deposited to the appropriate accounts identified in paragraph 070105.

B. Sales from the Fund. Sales of materiel from the fund will be classified as sales from SDAF stock. This is distinguished from sales of DoD stocks or sales from procurement and is consistent with normal definition of Defense Stocks.

C. Sales to Foreign Governments. The selling price for SDAF items sold to foreign governments will be computed by establishing a base acquisition price as outlined in subparagraph 1 below. Applicable charges for nonrecurring costs will be added to the base price to arrive at the SDAF selling price. PC&H and transportation, and FMS administrative surcharges are additive to and not a component of the item selling price.

1. The SDAF full value base price will be the higher of the SDAF procurement price or the current DoD contract price, if the item is on a contract signed subsequent to the SDAF contract at the time of preparation of an LOA for the sale.

a. The SDAF procurement price is the total estimated unit price as reflected on SDAF procurement requests (direct cite and reimbursable) for the item being priced.

b. The current DoD contract price will be estimated by the DoD Component involved as prescribed in Section 704 of this Volume with identification of all appropriate add-on charges.

2. If the DSAA determines an SDAF item to be of reduced utility, an appropriate reduction to the price may be made in accordance with paragraph 070302.C.1. Such a reduction could conceivably lower the selling price to below the SDAF cost.

D. Sales to a Military Department. The selling price of an item sold to a Military Department will depend on whether the item is in turn sold to an FMS customer or is used by the Military Department.

1. If an SDAF item is sold to a Military Department for further sale to an FMS customer, the selling price for both transactions will be the FMS price prescribed in subparagraph C.1., above.

2. A sale to a Military Department for its own use will be priced to recover the cost incurred by the SDAF. DoD Components are not authorized to pay higher prices than actual DoD contract prices.

**071703. Quotation of Stabilized Prices.** Sales of SDAF items will be quoted as firm prices and LOA will be annotated accordingly. The DSAA is responsible for reviewing SDAF prices to assure full cost recovery and for changing any proposed SDAF prices to achieve that objective.

**071704. Charges for Nonrecurring Costs**

A. Nonrecurring cost will not be charged the SDAF on sales to the fund.

B. Nonrecurring costs will be determined according to paragraph 070305 and collected on sales from the SDAF to a foreign customer.

**071705. Recovery of Contract Administration Costs Incurred in Support of New Procurements for the Fund.** SDAF pays the normal CAS surcharge at the time of procurement and this cost is included as part of the SDAF acquisition cost (see Table 717-1). Therefore, when an SDAF-owned item is sold, it is considered to be a sale from inventory and no additional CAS charge is applied.

**071706. Special SDAF Surcharge.** The purpose of this surcharge is to maintain the solvency of the SDAF account; i.e., the SDAF corpus cannot gain or lose monies as a result of inventory/sales transactions. Accordingly, a special SDAF surcharge will be applied, as necessary, to recover the cost of SDAF inventory losses, pilferage, obsolescence, and any loss of SDAF proceeds resulting from sales at reduced prices. The surcharge percentages will be determined annually by DSAA and applied to the SDAF acquisition cost by SAAC.

**071707. Exceptions.** Requests for exceptions to the preceding pricing policies will be submitted in accordance with Section 719 of this Volume.

**TABLE 717-1 SPECIAL DEFENSE ACQUISITION FUND (SDAF) PRICE COMPUTATION EXAMPLES**

	Sale to SDAF	Sale of Same SDAF Asset to FMS Customer
<b>1. Example-Item Procured for SDAF</b>		
Contract Cost	\$60,000.00	
Contract Administration services (1.5%)	900.00	
Recurring Contract support cost	1,000.00	
GFM (including associated transportation and PCH)	500.00	
	-----	
SDAF Acquisition Cost	\$62,400.00	\$62,400.00
Pro rata nonrecurring charges		2,000.00
Special SDAF Surcharge		XX <sup>1</sup>
FMS Unit Selling price		----- \$64,400.00 <sup>2</sup>
<b>2. Example-Item provided to SDAF from DoD Stock</b>		
Nonexcess procurement funded item (to be replaced shown in Table 703-3)	\$50,000.00	
SDAF Acquisition cost	\$50,000.00	\$50,000.00
Pro rata nonrecurring charges (50% of \$2,000; See table 703-3)		1,000.00
Special SDAF Surcharge		XX <sup>1</sup>
FMS Unit Selling Price		----- \$51,000.00 <sup>3</sup>

<sup>1</sup>The Special SDAF Surcharge is applied, as necessary, by SAAC based on DSAA guidance. See paragraph 071706.

<sup>2</sup> Apply applicable PCH, administrative fee, and applicable transportation surcharges to the FMS unit selling price. Note that a PCH charge is not applied to items procured by the SDAF for direct shipment to an FMS customer.

<sup>3</sup> Apply PCH, if applicable, and the administrative fee to the FMS unit selling price.



**0718 CASE MANAGEMENT LINE**

**071801. General.** DoD Components shall assure 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.

A. A case management line shall be included in FMS cases when there will be provision of non-routine levels of DoD case management effort in support of a case. Non-routine effort may be provided only if a case management line (L8A) has been accepted by the FMS purchaser.

B. Program management lines, as opposed to case management lines, are intended to be used in those instances where it is necessary that the implementing agency undertake some system or program management effort in order to successfully deliver the item that has been ordered by the FMS customer. The costs to be recovered by program management lines differ from those covered by case management lines in that they are directly related to the item or service being delivered as opposed to an extraordinary FMS case management expense associated with the implementation of a specific complex FMS case.

C. Table 718-1 provides a funding matrix of the appropriate funding sources for the cost of various types of activities/functions involved in FMS case implementation. While not all inclusive, it aids in differentiating activities and functions to be funded by FMS administrative funds, hardware or service lines, case management lines, or program management lines."

D. Costs incurred for communications, utilities, automatic data processing, office supplies and equipment, and rental charges are normally recouped as administrative expenses. However, when a case management or program management line has been established, these types of costs shall be charged directly to that line, as appropriate.

**TABLE 718-1 CASE FUNDING MATRIX**

<b>Description of Effort Performed</b>	<b>Funded by</b>			
	<b>FMS Admin Budget</b>	<b>Hardware/ Services Line</b>	<b>Case Mgmt Line</b>	<b>Prog Mgmt Line</b>
Price and Availability (P&A)	X			
Preparation of Letters of Offer and Acceptance (LOA)	X			
Program Requirements/ Survey Team (PRST)		X		
Program Management Reviews (PMR) Overseas or at non-DoD activities				X
At CONUS DoD activities	X			
Quality Assurance Team (QAT) for special purposes as distinguished from Contract Administrative Services (CAS)		X		
Preparation of IL Supply Delivery Plan (ILSDP) or its equivalent.	X			
Update/Revision of the ILSDP or its equivalent.	X			
Cooperative Logistics Supply Support Arrangement Renegotiations	X			
TDY [Dependent on financing source of employee payroll cost]				
Employee paid from Admin/LSC	X			
Employee paid for Hardware/Svc Line		X		
Employee paid from Case Mgt Line			X	
Employee paid from Program Mgt Line				X
Preparation of reports to the customer required by DoD7000.14-M or DoD 5105.38-M	X			
Preparation of reports to the customer not required by DoD 7000.14-M or DoD 5105.38-M				X

**TABLE 718-1 CASE FUNDING MATRIX (CONTINUED)**

<b>Description of Effort Performed</b>	<b>Funded by</b>			
	<b>FMS Admin Budget</b>	<b>Hardware/ Services Line</b>	<b>Case Mgmt Line</b>	<b>Prog Mgmt Line</b>
Preparation and processing of requisitions for articles and services	X			
Preparation of the requisition status-MILSTRIP, DoD 4140.17-M	X			
Processing Reports of Discrepancies (RODs) and the granting of credits for the net cost.	X			
Special configuration management and control				X
Special Weapon/Systems Management				X
Case reconciliation and closure	X			

**0719** EXCEPTION TO PRICING POLICIES AND COST RECOUPMENT WAIVERS

**071901.** General. An exception to prescribed pricing policies refers to approval of an alternative method of identifying applicable cost. A cost recoupment waiver refers to the exercise of legal authority to partially or totally waive recoupment of incurred costs.

**071902.** Request for Exception to Policies or Directives. Requests for exceptions to the policies prescribed herein or waivers of DoD costs shall be submitted to the Office of the DoD Comptroller with a copy to the DSAA Comptroller. Sufficient data shall accompany the request to enable the Comptroller, DoD to evaluate the merits of the proposed deviation. When deviations or waivers are requested, it shall be shown that such deviations or waivers are consistent with statutory requirements and are in the best interest of the U.S. Government. No charges or surcharges based on a percentage rate shall be made to recover any element of cost unless (1) the percentage charge or surcharge is expressly prescribed in this Volume, or (2) the percentage rate is proposed in writing to and is approved by the Office of the Comptroller, DoD.

**0720** PERIODIC REVIEW AND UPDATING OF RATES

**072001.** General. Rates that may be developed to recoup accessorial costs (Section 705) and administrative costs (Section 706) are subject to review. The Office of the Comptroller, DoD, should notify applicable DoD Components when such reviews are being made and request appropriate DoD Component participation. Beginning in FY 1993, the rates for PC&H will be reviewed every two years by the DFAS.

**072002.** Revising Rates. Whenever a Department believes that a prescribed rate should be revised, it should submit an appropriate request to the Office of the Comptroller, DoD with supporting data.

**0721** FINAL ACCOUNTING

**072101.** General. Once a final statement has been sent for an FMS case, the case shall be reclassified by the IA from active to inactive status in accordance with paragraph 021104. Effective October 1, 1992, all closed cases with post closure activity, not subject to accelerated closure procedures, will be reopened to report execution and will be recertified prior to closure.

**0722** LOGISTICS SUPPORT CHARGE

**072201.** Applicability. The logistics support charge is applicable to other than Defense Business Operations Fund materiel.

**072202.** Purpose. A logistics support charge shall be added to FMS case lines for spare parts, supplies, and maintenance of customer owned equipment to recoup an appropriate share of the cost incurred in the logistics support area. The logistics support charge shall be a part of the cost of the item supplied and shall not be shown as a separate add-on charge to the FMS customer in the delivery listing or the DD Form 645, "Foreign Military Sales Billing Statement," provided to the FMS customer. The functions performed in the logistics support area include production control, requisition processing, inventory maintenance, administration of Reports of Discrepancy (RODs), and logistics management.

**072203.** Actual Logistics Support Expenses. Those DOD organizations which provide general logistic support of the FMS program shall recoup the full cost of providing such support. Costs charged in connection with logistic support shall not include costs which are prescribed in this manual for alternative recoupment methods.

A. The personnel portion of the budget for actual logistics support expense shall include a pro rata share of those personnel performing logistics support duties. If an organization's manpower staffing is based upon routinely maintained workload statistics (such as the number of requisitions processed), the cost allocable as a actual logistics support expense shall be determined on a pro rata basis from workload statistics. For example, if the FMS logistics workload is 25 percent of the total workload, then 25 percent of the organization's

payroll shall be funded through FMS logistics support expense charges. If routinely maintained statistics are not available, the costs will be determined based on cost finding techniques or other methods which are appropriate in determining the cost of maintaining the FMS program.

B. Other actual or estimated actual logistics support costs include:

1. Travel costs, including per diem and transportation incurred in the logistics support of the FMS logistics program.

2. Automatic data processing costs to support FMS logistics workload based on proration of machine time required to produce FMS logistics reports, requisition history status, or other transactions.

3. Printing and reproduction cost incurred primarily for the benefit of the FMS logistics program.

4. Communications, utilities, and office supply costs shall be allocated as logistics support expense, on a pro rata basis i.e., a proration of number of phone instruments, etc.

5. Equipment costs, both purchased and rental, when such costs are specifically incurred to support the FMS logistics program.

6. Rental charges at fully dedicated FMS logistics activities for floor space rental, and certain other support services.

7. The "net cost" to the Department of Defense for processing RODs for overage, shortage, damage, item deficiency, and duplicate billing. Such costs exclude discrepancies that are attributable to damage or loss occurring after passage of title. Normally, FMS shipments move from the depot or vendor's plant on collect commercial bill of lading with title passed at point of origin. However, occasionally shipments move under Government Bills of Lading. Under either of these conditions title passes at the point of origin and if damage or loss occurs subsequent to title passage, payment

is not to be made from the administrative fund (that is, claims should be submitted against the common carrier). See Chapter 8, Section IV.F of DOD 5105.38-M [reference (e)], for more detailed information.

8. Materiel costs included in actual logistics support expenses should be the net value of the returned materiel. There is no "net cost" to the Department of Defense in canceling duplicate billings or in shipping an item for which a country had been billed but the Department of Defense cannot confirm it has been shipped.

C. Funded cost must be accelerated to recover unfunded cost where appropriate, i.e., personnel cost must be accelerated for unfunded civilian retirement.

**072204. Prescribed Logistics Support Charge**

A. The SAAC shall recover the earned logistics support expenses by applying a 3.1 percent factor to delivery transactions on FMS case lines with the following specific generic codes:

<u>Generic Code</u> <sup>1</sup>	<u>Description</u>
<u>SPARES:</u>	
A9C	Aircraft Components Parts and Accessories
B9A	Guided Missile Parts, Components
B9C	Free Missile Parts, Components
C9A	Ship spare parts
F9A	Other Weapons Spare Parts
F9B	Naval Ordnance Spare Parts
F9C	Nonstandard Weapon Spare Parts, Components and Accessories
H9A	Communication Equipment Spare Parts
	Equipment
<u>EQUIPMENT MODS:</u>	
A6A	Class IV MOD-Navy/USAF Aircraft
B6A	Missile MOD, Test Equipment and Services
<u>MAINTENANCE:</u>	
M2A	Aircraft Repair and Rehabilitation and Engine Overhaul

M2B	Ship Overhaul
M2C	Other Repair and Rehabilitation
M2D	Combat Vehicle Repair and Rehabilitation
M2E	Tactical/Support Vehicle Repair and Rehabilitation
M2F	Weapons and Support Equipment
M2G	Ammunition Repair and Rehabilitation
M2H	Communication/Electronic/Metero Repair and Rehabilitation
M2J	Support Equipment Repair and Rehabilitation
M2K	Missiles Repair and Rehabilitation

**SECONDARY SUPPORT EQUIPMENT:**

A7A	AGE Follow-on, including Components and Accessories
A7B	Barricade and Equipment, Follow-on
A7C	Launching Equipment, Follow-on
A7D	Special Trucks/Trailers, Follow-on
B1	Ground Launched Missile Support Equipment <sup>2</sup>
B2	Air Launched Missile Support Equipment <sup>2</sup>
B3	Sea Launched Missile Support Equipment <sup>2</sup>
F4A	Chemical Weapons and Equipment
F4B	Camouflage and Deception Equipment
F4D	Fire Control Equipment
F4Z	Miscellaneous
J	Support Equipment

**SUPPLIES:**

K	Supplies
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**NOTES:**

<sup>1</sup>The LSC will not normally be applied to Generic Codes for stock numbers which have an MDE indicator listed in the MASL.

<sup>2</sup>Applies only to the numbers listed in paragraph 72204.B. below.

B. Specific generic codes and Military Articles and Services List (MASL) numbers identified for application of the Logistics Support Charge as cited in codes B1, B2 and B3, above.

National Stock Number      Description

**MISSILE SUPPORT EQUIPMENT**

B1A9B4A00N1KESUP	NIKE Support Equipment
B1C9B4C00HAWKSUP	HAWK Support Equipment
B1G9B1G00PERSSUP	PERSHING Support Equipment
B1J493500TOWSHOP	TOW Support Equipment
B1K9B1K00DRAGSUP	DRAGON Support Equipment
B1N141N00LANCESP	LANCE Support Equipment
B1P9B1P00ST1NSUP	STINGER Support Equipment
B1R144000CHAPSUP	CHAPARRAL Support Equipment
B1S9B1S00SH1LSUP	SHILL Support Equipment
B1W9B1W00R0LSUP	ROLAND Support Equipment
B2A9B2A00SHRKSUP	SHRIKE Support Equipment
B2B1410000AGMSUP	HARM Support Equipment
B2D9B2D000STDSUP	STANDARD Support Equipment
B2F9B4Y00TRGTSUP	TARGET Support Equipment
B2G9B2G00MARVSUP	MAVERICK Support Equipment
B2N9B4N00FACLSUP	FALCON Support Equipment
B2R9B4R00S1DESUP	SIDEWINDER Support Equipment
B2S9B4S00BULPSUP	BULLPUP Support Equipment
B2T9B2T00PHOESUP	PHOENIX Support Equipment
B2W9B4W00SPARSUP	SPARROW Support Equipment
B2Y9B2Y00MATSUPE	MATTADOR Support Equipment
B2Z9B2Z00AMRASUP	AMRAAM Support Equipment
B3P9B3P00TERRSUP	TERRIER Support Equipment
B3Q9B3Q00TARTSUP	TARTAR Support Equipment
B3R9B3R00HARPSUP	HARPOON Support Equipment
B3W9B3W00SPARSUP	SEASPARROW Support Equipment

MISSILE MODS, TEST EQUIPMENT, SERVICES

B1A493500NHKETKS NIKE HERC Tool Kits

B1A493500NHSHOPS NIKE HERC Shop Sets

B1A493500NHTESTE NIKE HERC Test Equip-  
ment

B1C143000HAWKMOD HAWK MOD Kits

B1C493500HAWKSHP HAWK Shop Kits

B1C493500HAWKTKS HAWK Tool Sets

B1C493500HAWKSTE HAWK Test Equipment

B1G493500PERSSHP PERSHING Shop Sets

B1G493500PERSTSE PERSHING Test Equip-  
ment

B1J143000TOWMODS TOW MOD Kits

B1N143000LANMODS LANCE MOD Kits

B1R493500CHAPSHP CHAPARRAL Shop Kits

B2R9B2R00A1N9CMD SIDEWINDER Com-  
ponent MODSB2R9B2R00S1DEWDM SIDEWINDER Class IV  
MODS**072205. Administration of the Logistics Support Charge.**

A. Obligational Authority. At the time of case implementation, the SAAC shall retain 3.1% of the customer ordered value (Obligational Authority) by the designated generic codes in paragraph 072204. The amount of obligational authority retained by the SAAC shall be provided to the applicable IA for information purposes only. Actual logistics support expense will be in accordance with section 030211.A. and 080601.A. Future logistics support charge percentage rates will be determined in accordance with paragraph 030211.G.

B. Billing. The SAAC shall compute and charge the logistics support charge based on the IA delivery reports and header information contained in the SAAC data file. The SAAC shall provide the Logistics Support disbursement and the applicable delivery feedback to the IA's in accordance with Section 809 of this Volume for inclusion in the FMS case closure certificate.

C. Reports of Discrepancy. The SAAC will credit the LSC included in the billed price of any item being credited on an approved Report of Discrepancy. The inclusion of the credit LSC will be accomplished at the time an adjusting delivery "NZ" transaction is processed. Implementing activities must insure that the

original ship date of the article being credited is reported in positions 61-64 of the transaction.

D. FMS Case Closure. At the time of case closure, the IAs shall be responsible for determining from the SAAC the total amount of the SAAC Logistics Support Charge for each implemented FMS case. This charge shall be included within the IA's FMS case closure certificate to be submitted to SAAC.

**TABLE 722-1 PRICE COMPUTATION EXAMPLES - LOGISTICS SUPPORT CHARGE (LSC)**

Example #1:

Given: Materiel selling price is \$1,000 Sale  
is I.A.W. Section 21, AECA

Calculation:

Materiel Selling Price	\$1,000.00	
Logistics Support Charge (3.1% x \$1,000)	31.00	(credit Acct 5060)
FMS SELLING PRICE	\$1,031.00 <sup>3</sup>	

Example #2:

Given: Materiel selling price is \$20,000, EACH  
Sale is for 2 items IAW Section 22, AECA  
Delivery to Europe  
NC is \$200.00 per item

Calculation:

(a)	Four Progress payments \$10,000 report as WIP (N price Code) (4 x 10,000)	\$40,000.00	
	SAAC Applied CAS (1.5% x \$10,000 x 4) <sup>1</sup>	600.00	(credit Acct 5020)
	NC reported as WIP with "A" price code	400.00	
	TOTAL WIP	\$41,000.00	
(b)	Delivery of 2 items ("E" Price Code)		
	Materiel Cost (2 X \$20,000)	\$40,000.00	
	CAS (applied by SAAC to W.I.P.) <sup>2</sup>	600.00	
	NC (2 x \$200)	400.00	
	Value of the delivery transactions	\$41,000.00	
	Logistics Support Charge (3.1% x \$41,000) <sup>1</sup>	1,271.00	
	FMS SELLING PRICE	\$42,271.00 <sup>3</sup>	
(c)	Final Price Revision with Increase ("A" Price Code)		
	Requires a credit delivery with values from "b" above followed by:		
	Materiel Cost (2 x \$21,000)	\$42,000.00	
	CAS (1.5% x \$42,000)	630.00	
	NC (2 x \$200)	400.00	
	Value of the delivery transactions	\$43,030.00	
	Logistics Support Charge (3.1% x \$43,030)	1,333.93	
	FMS SELLING PRICE	\$44,363.93	
(d)	WIP report required as a result of price increase		
	Revised WIP ("N" price Code)	\$2,000.00	
	CAS applied (1.5% x \$2,000) <sup>1</sup>	30.00	(credit Acct 5020)
	TOTAL WIP	\$2,030.00	



**TABLE 722-1 PRICE COMPUTATION EXAMPLES - LOGISTICS SUPPORT CHARGE**  
**(LSC)(CONTINUED)**

Notes:

<sup>1</sup>These costs are calculated and transferred to applicable surcharge accounts based upon performance reported as work-in-process ("N" price code reports).

<sup>2</sup>IAs may use any reasonable allocation procedure to spread the cumulative CAS value among the delivered items.

<sup>3</sup>PCH&T. 1% Asset Use Charge and Administrative Surcharge are additive to the selling price as applicable. Transportation charges for reports "b" and "c" are computed as follows:

(b) Transportation Charge  
 $[(14.25\% \times \$10,000) + (14.25\% \div 4 \times 11,135.50)] \times 2 = 3,643.40$

(c) Transportation Charge  
 $[(14.25\% \times \$10,000) + (14.25\% \div 4 \times 12,181.97)] \times 2 = 3,717.97$