

VOLUME 15, CHAPTER 7: “PRICING”**SUMMARY OF MAJOR CHANGES**

Changes are identified in this table and also denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [bold, italic, blue, and underlined font](#).

The previous version dated [January 2021](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
All	Updated references, hyperlinks, and terminology.	Revision
4.2.3.2	Added requirement to exclude indirect or “below-the-line” charges from Building Partner Capacity cases funded with Title 10, United States Code authority pursuant to Defense Security Cooperation Agency (DSCA) Policy Memorandum 20-47, “Department of Defense Appropriated Building Partner Capacity (BPC) Accounting Interim Solution,” dated September 29, 2020.	Addition
5.1.1	Added language to expound upon within-scope and material changes to scope of contracts. Clarified that DSCA will make determinations on changes in scope for U.S. Government-provided goods and services, and consult and coordinate with the cognizant contracting officers to determine changes in scope for contractor-provided goods and services.	Addition
5.2	Clarified that Components must include a pro rata share of manpower and contractor-provided support costs when calculating direct and indirect administrative service costs for Security Assistance.	Revision
15.2.3.1.5	Revised to update that proceeds received from the sale of free assets are to be posted to the Special Defense Acquisition Fund pursuant to DSCA Memorandum “Updated and Clarifying Memorandum for the Transfer of Authorized Offsetting Collections to the Special Defense Acquisition Fund, DSCA Policy 20-20 [SAMM E-Change 476],” Dated April 22, 2020.	Revision
23.3.1.1.2	Added additional cost calculation methodology for “Total Training Man Weeks” to more equitably distribute school support staff costs.	Addition

Table of Contents

VOLUME 15, CHAPTER 7: “PRICING”	1
1.0 GENERAL.....	7
1.1 Purpose	7
1.2 Authoritative Guidance	7
2.0 RESPONSIBILITIES	7
2.1 Price Establishment	7
2.2 Price Information.....	7
2.3 Transportation	8
2.4 Case Management	8
2.5 Buy Back	9
3.0 ESTIMATING PRICES AND BILLED VALUES FOR AN LOA.....	9
3.1 Pricing Requirements	9
3.2 LOA Values.....	10
3.3 Billing Values.....	11
4.0 ACCESSORIAL COSTS	12
4.1 PC&H	12
4.2 Transportation	12
4.3 Port Loading and Unloading Costs	14
4.4 Staging.....	14
5.0 FMS ADMINISTRATIVE SURCHARGE.....	14
5.1 Prescribed Standard FMS Administrative Surcharge.....	14
*5.2 DoD Component Administrative Expenses	16
5.3 FMS Administrative Surcharge on Cases Closed at Reduced or No Value.....	16
5.4 Waived FMS Administrative Surcharge	17
6.0 LOGISTICS SUPPORT CHARGE (LSC).....	17
7.0 PROGRAM MANAGEMENT SERVICES.....	17
7.1 Level of Service.....	17
7.2 Cost Allocation.....	19
8.0 CLSSA.....	19
8.1 CLSSA Management.....	19
8.2 General Pricing.....	21
8.3 FMS Administrative Surcharge.....	21

Table of Contents (Continued)

8.4	Storage Costs.....	22
8.5	Normal Operating Inventory Loss.....	22
8.6	Unusual Inventory Loss.....	22
8.7	Obsolete Materiel	22
8.8	Purchaser Equity.....	22
9.0	STORAGE, REPAIR, OR MODIFICATION OF PURCHASER-OWNED MATERIEL	23
9.1	Storage.....	23
9.2	Repair or Modification	23
9.3	FMS Administrative Surcharge.....	24
9.4	Special Instructions Applicable to DWCF Activities.....	24
10.0	USE OR EXPANSION OF DOD FACILITIES AND EQUIPMENT	24
10.1	Reimbursement of Proportionate Share	24
10.2	Work at DoD Test Facilities and Laboratories.....	24
10.3	Embedded Computer Software (ECS) Facilities.....	24
11.0	COSTS ALLOCABLE FOR JOINTLY USED FACILITIES.....	25
11.1	Joint Use of Office or Storage Space	25
11.2	Joint Use of Satellites	25
12.0	PERIODIC REVIEW AND RATES/SURCHARGE REVISION.....	25
12.1	Periodic Review	25
12.2	Rate Revision	25
13.0	COST RECOUPMENT WAIVERS AND EXCLUSIONS.....	26
13.1	Waiver of NC Recoupment Charges	26
13.2	Special Waiver Authority for NATO Airborne Warning and Control System (AWACS)	26
13.3	Waiver of Contract Administration Services (CAS) and Cataloging Services	27
13.4	Special Waiver Authority for NATO Cooperative Projects.....	28
13.5	Exclusion of the Cost of Military Pay and Entitlements for Defense Services Funded by the Military Assistance Program (MAP) or Non-Repayable Foreign Military Financing (FMF).	28
13.6	Exchange of Unit Training and Related Support	29
13.7	Special Authorities	30
13.8	Fair Pricing	31
14.0	EXCEPTION TO PRICING POLICIES.....	31

Table of Contents (Continued)

15.0	CASH SALES OF DEFENSE ARTICLES ISSUED FROM STOCK.....	31
15.1	General	31
15.2	Sale of Defense Articles	31
15.3	Excess Defense Articles	34
15.4	Quotation of Firm Prices	36
15.5	Charges for NC.....	36
15.6	Returns.....	43
16.0	CASH SALES OF DEFENSE ARTICLES AND SERVICES FROM NEW PROCUREMENT FOR DIRECT DELIVERY AND NEW PRODUCTION.....	44
16.1	Cost Principles.....	44
16.2	Nonrecurring RDT&E and Nonrecurring Production Costs	44
16.3	CAS Costs Incurred in Support of New Procurements for FMS	44
16.4	CAS Costs Incurred in Support of Foreign Country Commercial Contracts	45
16.5	Costs for Government-Furnished Materiel (GFM)	45
16.6	Other DoD-Funded Services in Support of FMS Procurements	46
16.7	Customization Costs.....	46
16.8	Items to be Replaced by Later Production (Diversion)	46
16.9	Production by a Foreign Government	46
16.10	Recoupment of Interest Penalties Due to Prompt Payment Act.....	47
16.11	Price Codes.....	47
17.0	LEASING OF DEFENSE ARTICLES	47
17.1	Pricing of Leased Defense Articles	47
17.2	Replacement Costs	48
18.0	TECHNOLOGY TRANSFER.....	48
18.1	Technical Data Package (TDP)	48
18.2	Pricing of TDPs	48
19.0	PUBLICATIONS	49
19.1	Terms.....	49
19.2	Publication/Software Pricing Factors	49
19.3	Development of a Per Copy Selling Price.....	50
19.4	Other Applicable Costs	50
20.0	PRICING OF PERSONNEL SERVICES.....	50
20.1	Civilian Personnel	50
20.2	Military Personnel (MP).....	51

Table of Contents (Continued)

20.3	Foreign National Personnel.....	52
20.4	Travel and Living Allowances	52
20.5	Special Instructions Applicable to DWCF	53
21.0	TRAINING OF INTERNATIONAL STUDENTS.....	53
21.1	General	53
21.2	International Student Training Price Exceptions.....	53
22.0	STANDARD GUIDELINES FOR TUITION-BASED TRAINING.....	54
22.1	Types of Training	54
22.2	Courseware Development	55
22.3	Liability for Damages.....	56
22.4	Training Obligation	56
22.5	Annual Publication of Tuition Rates	57
22.6	Adjustments to Tuition Rates and Training Obligations.....	57
22.7	Training Cancellations	57
22.8	Student Costs	58
22.9	Field Studies Program (FSP).....	58
22.10	Retainable Instructional Materials (RIM)	60
23.0	PRICING OF TUITION-BASED TRAINING.....	60
23.1	Cost Categories.....	60
23.2	Pricing of Personnel	61
23.3	Pricing of Full Cost of Training (Tuition Rates A and B).....	62
23.4	Pricing of Additional Cost Training (Rates C, D, and E).....	66
24.0	PRICING OF SPECIALIZED/DEDICATED TRAINING PROGRAMS	68
24.1	Air Force Specialized/Dedicated Training Programs.....	68
24.2	Army Specialized/Dedicated Training Programs.....	69
24.3	Personnel	70
24.4	Inflation Factors	70
24.5	Start-up Costs	70
24.6	Direct Costs	70
24.7	Indirect Costs.....	71
24.8	Other Billable Costs	71
25.0	PRICING OF TRAINING TEAMS	71
25.1	Teams Fully Financed by FSF Funding	71
25.2	Teams Fully Financed by MAP Merger, FMF, IMET, or BPC Funding.....	71
25.3	Teams Financed by an IMET-Recipient Country/High-Income Country	72
25.4	Teams Using National Guard/Reserve Personnel	72

Table of Contents (Continued)

Table 7-1. Federal Condition Code	73
Table 7-2. Tuition Rate Pricing Structure	75
Exhibit 7-1. Price Computation Example: Overhaul of Purchaser-Owned Materiel ¹	77
Exhibit 7-2. Price Computation Example: Non-Excess Procurement Funded Item from Stock	78
Exhibit 7-3. Price Computation Example: Overhaul Costs Previously Incurred for a Procurement Funded Item Sold to FMS Purchasers.....	79
Exhibit 7-4. Price Computation Example: Sale of Ship (Greater than 3,000 Tons or More Than 20 Years Old) Not to be Replaced.....	80
Exhibit 7-5. Price Computation Example: Excess Procurement (Non-DWCF) Funded Item from Stock/Inventory	81
Exhibit 7-6. Recoupment of NC on MDE Example: Base Level.....	82
Exhibit 7-7. Recoupment of NC on MDE Example: Two-Level	84
Exhibit 7-8. Recoupment of NC on MDE Example: Multi-Level	86
Exhibit 7-9. Price Computation Example: New Procurement.....	88
Exhibit 7-10. Calculation of Charges for Leased Defense Articles with Illustrative Entries...	89
Exhibit 7-11. Civilian Personnel Services Price Computation Example	90
Exhibit 7-12. MP Services Price Computation Example	91
Exhibit 7-13. Tuition Training Pricing Guide	92
Exhibit 7-14. Incremental Tuition Based Pricing (Rate C)	93

CHAPTER 7

PRICING

1.0 GENERAL

1.1 Purpose

The purpose of this chapter is to establish pricing policy for articles, services, and training and to ensure the DoD Components [engaged in Security Cooperation \(SC\)](#) uniformly and consistently apply pricing methodologies that recoup current period costs and a reasonable contribution to nonrecurring Research, Development, Test, and Evaluation (RDT&E) and production costs. Nonrecurring RDT&E and production costs represent historical decisions to expend RDT&E funds to develop new equipment or to purchase assets or facilities. Foreign Military Sales (FMS) customers and Building Partner Capacity (BPC) partner nations benefit from the investment decision, although it is based entirely on DoD requirements when they purchase related equipment or when the use of the assets and facilities is necessary to provide ordered services or to deliver ordered materiel.

1.2 Authoritative Guidance

The Arms Export Control Act (AECA), Public Law 90-629, as amended, codified as Title 22, United States Code ([U.S.C.](#)) Chapter 39 ([22 U.S.C. Chapter 39](#)) and the Foreign Assistance Act (FAA), Public Law 87-195, as amended, codified as [22 U.S.C. Chapter 32](#), provide the authority and general rules for FMS pricing policy.

2.0 RESPONSIBILITIES

2.1 Price Establishment

The DoD Components that sell defense articles or services under the authority of the AECA and/or the FAA must:

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

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

2.2 Price Information

The DoD Components must:

2.2.1. Ensure each price estimate provided to a FMS purchaser is a reasonable approximation of the final price. However, the fact that an estimate is not consistent with the final

cost accumulation does not negate the requirement to establish a final price (actual cost) in accordance with this chapter;

2.2.2. Provide detailed price and cost information upon request by the FMS purchaser. Proprietary cost and pricing data must not be disclosed unless there is prior authorization of the contractor concerned;

2.2.3. Present prices of defense articles and services to FMS purchasers and DoD Components in the format of FMS Letters of Offer and Acceptance (LOAs) or BPC pseudo-LOAs (unless otherwise specified, references to an LOA in this chapter apply to both types of documents). Surcharges prescribed in this chapter are subject to change without prior approval of the purchaser. The administrative surcharge applicable to each line on the LOA is to be specified in a note in each LOA document. The LOA must be used unless a waiver is obtained from the Director, Defense Security Cooperation Agency (DSCA), to use a suitable substitute instrument. Any substitute instrument must contain the same cost elements as those identified on the LOA; and

2.2.4. Directly cite the FMS Trust Fund (11X8242) purchaser(s) subaccount(s) on contractual documents for new procurements initiated as a result of accepted and implemented FMS LOAs. When funds are provided by another Implementing Agency (IA), when possible, coordinate to directly cite the FMS Trust Fund (11X8242) purchaser(s) subaccount(s) on contractual documents for new procurements.

2.3 Transportation

The DoD Components must ensure that the transportation of materiel, other than Defense Working Capital Fund (DWCF) materiel, sold to FMS purchasers is accomplished through the use of Collect Commercial Bills of Lading (CCBL) to the maximum extent possible. When transportation is accomplished through the use of Government Bills of Lading (GBLs), including DWCF materiel, the GBL must be annotated to show that Interstate Commerce Act, Section 10721 ([49 U.S.C. Section 10721](#)) is not applicable and that normal commercial rates must be billed to the U.S. Government (USG) for the shipment. Refer to the DSCA 5105.38-M, Security Assistance Management Manual ([SAMM C7.6](#) and [SAMM C15](#)) for guidance on the use of the Defense Transportation System (DTS) in support of FMS and BPC cases.

2.4 Case Management

2.4.1. The DoD Components must assign a case manager to each active FMS case. The case manager is responsible for the total financial and logistical aspects of the case, to include ensuring:

2.4.1.1. Prescribed pricing policies are followed;

2.4.1.2. Delivery reports have been submitted to the Defense Finance and Accounting Service (DFAS), Security Cooperation Accounting (SCA) Directorate; and

2.4.1.3. Reconciliation of the FMS case financially and logistically throughout the life of the FMS case has occurred, and not less than annually:

2.4.1.3.1. On the anniversary of each major case, and/or

2.4.1.3.2. In preparation for a review with the FMS purchaser.

2.4.2. The case manager's authority to direct other supporting activities must be commensurate with the responsibilities in subparagraphs 2.4.1.1-3. Refer to [SAMM C2](#) for additional discussion on case management responsibilities.

2.5 Buy Back

The DoD Component must ensure that the USG "buy back" of items from foreign governments initially sold under FMS programs is conducted in accordance with procurement rules involving the obligation of DoD appropriations. Monies due as a result of such procurement may be paid by the DoD Payment Activity into the FMS Trust Fund in accordance with the foreign government's instructions (e.g., applied to a case or a cash refund). The FMS purchaser's "buy back" holding account is used as an audit trail for the transaction. A direct exchange is permitted for a reparable item of the same type under certain circumstances (see subparagraphs 15.2.2.2-3).

3.0 ESTIMATING PRICES AND BILLED VALUES FOR AN LOA

FMS pricing policy for an LOA stipulates how costs are determined when the FMS purchaser is billed and establishes how to develop a price estimate. An essential difference between the billed price and the estimated price on an offer is the degree of firmness associated with each pricing method. [22 U.S.C. § 2751](#) states that sales are approved only when they are consistent with the foreign policy interest of the United States and the purpose and principles of the United Nations Charter.

3.1 Pricing Requirements

3.1.1. Defense Articles and Services from Stock. [Title 22 U.S.C. § 2761\(a\)\(1\)](#) states that a foreign country or international organization pays in U.S. dollars for:

3.1.1.1. Defense articles not intended to be replaced at the time a sales agreement is entered into, not less than the actual value;

3.1.1.2. Defense articles 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; or

3.1.1.3. Defense services, for the full cost to the USG of furnishing such service, except in the case of training sold to a purchaser under the terms in paragraph 21.1. In this latter case, only those additional costs that are incurred in furnishing such assistance must be recovered.

3.1.2. Charges Applicable to the Sale of Defense Articles or Services. Title 22, U.S.C. § 2761(e)(1) states that the selling price must include appropriate charges for:

3.1.2.1. Administrative services, calculated on an average percentage basis to recover the full estimated costs (excluding a pro rata share of fixed base operations costs) of administration of sales made to all purchasers of such defense articles and services as specified in [22 U.S.C. § 2792](#)(b) and (c);

3.1.2.2. A proportionate amount of any nonrecurring costs (NC) of Research and Development (R&D) and production of major defense equipment (MDE), except for equipment wholly paid for either from U.S. military assistance funds under [22 U.S.C. § 2311\(a\)\(3\)](#), or from U.S. credit funds made available on a non-repayable basis under [22 U.S.C. § 2763](#); and

3.1.2.3. 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.

3.1.3. Price of New Procurement. [22 U.S.C. § 2762](#) requires eligible countries or international organizations to pay the full amount of the contract and any damages and costs that may accrue due to the cancellation of such contracts (termination liability) when the USG enters into a contract for a new procurement on their behalf. Payment to the USG by the foreign country or international organization must be in U.S. dollars.

3.1.4. Price of Design and Construction Services. [22 U.S.C. § 2769](#) requires that foreign countries or international organizations pay the full cost of design and construction services, and any damages and costs that may accrue due to the cancellation of such contracts, when the USG enters into a contract for design and construction services on their behalf.

3.2 LOA Values

On the LOA, the estimated price is to be a reasonable approximation of the amount which will ultimately be billed, to include the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) inflation indices and other factors. Amounts to be placed on the LOA, except unit price, will be rounded to the next whole dollar. LOAs are written either as a defined order, blanket order, or as a Cooperative Logistics Supply Support Agreement (CLSSA). Pricing for each type of LOA requires special treatment. Moreover, an LOA may involve lines that are defined order or blanket order, while CLSSA cases have no other lines. An LOA must include only prices for defense articles and services sold to FMS purchasers and must not be adjusted for any reason other than authorized by this chapter (such as for inflation or for contingencies).

3.2.1. Defined Order LOAs. Defined Order LOAs are for specified defense articles or services and are usually written for the acquisition of systems. Orders are normally placed by the IA following LOA implementation.

3.2.1.1. Cost Estimates. IAs involved in procuring such systems should have available estimates of the expected costs as the basis for developing the FMS price. These estimates, however, must be validated for the configuration to be delivered. Additional charges

detailed in other sections of this chapter must also be applied. When developing estimates for weapon systems in different configurations than those for which IA estimates are available, the IA should obtain contractor estimates for the different configurations.

3.2.1.2. Inflation. When a price estimate must be inflated for delivery of a weapon system several years in the future, OUSD(C)-published inflation indices must be used. If other price inflation or alternate OUSD(C)-published factors apply, those factors must be documented in case files and justified to OUSD(C) for approval before finalizing LOAs.

3.2.2. Blanket Order LOAs. Blanket Order LOAs are for categories of defense articles or services with no definitive listing of items or quantities to be provided.

3.2.2.1. Cost Estimates

3.2.2.1.1. For hardware support items, the price developed may be based on either a computer listing of specified parts, or a percentage of the cost of the major system to be supported. In other instances, the price on the LOA may simply be a dollar value line to enable the purchaser to requisition those items up to the dollar ceiling in the Letter of Request. In the latter case, the amount written into the LOA can rely in part on the estimated activity in the country's program.

3.2.2.1.2. In developing a price for LOA purposes where a blanket order is involved, the source of supply might not be known. In this case, certain assumptions must be made. For example, in writing a blanket order case for spare parts for an aircraft, an agency may have to make assumptions about the source and value of items in order to estimate various pricing elements. This allows the analyst to apply the appropriate costs and charges. At the time of the billing for delivery of an item charged to the case, the appropriate surcharges must be applied by DFAS SCA in accordance with Chapter 8. Agencies that have developed an ordering history for certain countries or weapon systems may be able to develop a ratio for items using procurement data and items from stock that enable a more precise application of surcharges for the estimate.

3.2.2.2. Inflation. When developing a price for items to be delivered beyond the period for which pricing data is available, it will be necessary to apply inflation factors as in defined order cases.

3.2.3. CLSSA. CLSSA LOAs are designed to provide responsive and continuous supply support at the depot level for U.S.-made military materiel possessed by foreign countries and international organizations. CLSSAs are normally the most effective means for providing common repair parts and secondary item support for equipment of U.S. origin that is in allied and friendly country's inventories. Pricing for CLSSA LOAs must be estimated per section 8.0.

3.3 Billing Values

On the DoD (DD) Form 645, FMS Billing Statement, or automated equivalent, the price, at the point in time when actual costs are known and reported to DFAS SCA, should be firm and

exact (the exception being “E” (Estimated) price code transactions). The billed cost (except when a rounded dollar indicator code is utilized) is detailed in dollars and cents.

4.0 ACCESSORIAL COSTS

Accessorial costs represent certain expenses incidental to issues, sales, and transfers of materiel that may or may not be included in the standard price or contract cost of materiel. The various types of accessorial costs that may be applicable to FMS shipments include packing, crating, and handling (PC&H); transportation; port loading and unloading; and staging.

4.1 PC&H

PC&H includes the costs incurred at DoD facilities for labor, materials, or services in removing requisitioned articles from storage locations, preparing them for shipment from the storage or distribution points, and processing necessary materiel release confirmation documents.

4.1.1. PC&H costs will be based on the original acquisition value of materiel sold from DoD inventories to recover the cost, except for DWCF items delivered after October 1, 1990, since DWCF standard pricing already includes PC&H. PC&H will not be assessed on articles shipped directly from the manufacturer since no in-house DoD labor, materials, or services are involved. Actual costs should be used when known. If actual costs are not available, or are not cost effective to obtain, a surcharge rate can be used. Prescribed PC&H rates are:

4.1.1.1. A PC&H rate of 3.5 percent added to the original acquisition value of materiel with a unit price of \$50,000 or less ([SAMM C9.T4](#)); and

4.1.1.2. An additional charge added at a rate equal to 1 percent of that portion of the original acquisition value of materiel with a unit price over \$50,000 (SAMM C9.T4).

4.1.2. The PC&H charge for service/maintenance cases is applied to the acquisition cost of the item(s) sold or serviced, not the cost of the service. The rate(s) in subparagraphs 4.1.1.1-2 apply.

4.1.3. For items, PC&H is computed on the original acquisition value and not the reduced value. Actual costs should be used when known.

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

4.2 Transportation

Transportation costs include DoD-supplied or DoD-financed transportation (land, air, inland and coastwise waterways) within and outside the United States, and overseas transportation by vessel or air. This includes parcel post via surface or air.

4.2.1. Non-DWCF. The transportation of FMS materiel must be on CCBLs to the maximum extent possible. When transportation is accomplished using a GBL, it must show that 49 U.S.C. § 10721 is not applicable and that normal commercial rates must be billed to the USG for the shipment. Shipping activities must clearly identify materiel as DWCF or non-DWCF to ensure the appropriate fund cite is issued for inland Continental United States (CONUS) transportation.

4.2.2. DWCF. Effective October 1, 1990, DWCF standard pricing includes transportation costs within CONUS. If the first destination transportation is accomplished through GBLs, it must contain the DWCF fund cite, and show that 49 U.S.C. § 10721 is not applicable and that normal commercial rates must be billed to the USG for the shipment. Shipping activities must clearly identify materiel as DWCF or non-DWCF to ensure the appropriate fund cite is issued for inland CONUS transportation.

4.2.3. Pricing Transportation. Price transportation on LOAs as follows.

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

* 4.2.3.2. Below-the-Line Transportation Services. When FMS purchasers use DTS, a Delivery Term Code (DTC) percentage is applied to the line to compute an estimated amount for these costs on the LOA. DTC percentages are based on the mode of transportation provided (e.g., port-to-port, depot-to-in-country destination) and the rate area where articles are being delivered. For more information on DTC percentages, see the [SAMM C7](#). Pursuant to [DSCA Policy Memorandum 20-47](#), "Department of Defense Appropriated Building Partner Capacity (BPC) Accounting Interim Solution," dated September 29, 2020, effective fiscal year (FY) 2021, all new BPC cases funded with Title 10, U.S.C. authority must not include any indirect, or below-the-line, charges. All indirect charges are excluded from these cases and will be paid for through a separate program-wide support case or funded via a Funding Authorization Document coordinated through the applicable supporting entity.

4.2.3.3. Exception. The DoD Components must apply estimated actual totals contained in the [SAMM, Transportation Cost Look-Up Tables, Appendix 2](#), to estimate transportation costs for items normally shipped in DTS (e.g., sensitive/hazardous end items) when costs using standard transportation percentages are significantly different from actual charges.

4.2.3.4. Items. For items, transportation is computed on the original acquisition value and not the reduced value, except when accountability for excess items has been transferred to "Property Disposal." The provisions of the [DoD Manual \(DoDM\) 4160.21](#), "Defense Materiel Disposition: Reutilization, Transfer, and Sale of Property," Volume 3 must apply. The use of actual costs, when known, is highly encouraged.

4.3 Port Loading and Unloading Costs

Port loading and unloading costs include DoD-supplied or DoD-financed labor, materials, or services for loading, unloading, and handling at ports of embarkation or debarkation.

4.4 Staging

The actual costs of staging must be recovered as part of an above-the-line service charge. Such charges must not be duplicative of any other accessorial cost.

4.4.1. Costs for the staging of materiel in CONUS DoD (non-DWCF owned/operated) facilities are additional to DTS costs, and a 3 percent staging charge is applicable, if DSCA has authorized below-the-line recoupment of staging.

4.4.2. DWCF activities must bill actual costs incurred as an above-the-line service.

4.4.3. When non-excess materiel is supplied for DoD storage points located Outside CONUS (OCONUS), the applicable rates must be charged as a prepositioning cost.

5.0 FMS ADMINISTRATIVE SURCHARGE

An administrative surcharge must be added to all FMS cases (unless waived pursuant to legal authority, see section 13.0) to recover DoD expenses. SAMM C9.T4 gives further guidance on the current FMS administrative surcharges and how they are applied.

5.1 Prescribed Standard FMS Administrative Surcharge

* 5.1.1. FMS Administrative Surcharge. The applicable FMS administrative surcharge is dependent upon variables associated with the LOA. For cost increases within the scope of the LOA, modifications retain the FMS administrative surcharge rates associated with the lines modified. With respect to contracts issued in support of an LOA, a within-scope change is a unilateral change to the general scope of the contract, subject to the applicable changes clause. A within-scope change to the contract includes, but is not limited to, cost growth, or an equitable price adjustment such as cost overruns, a Period of Performance (PoP) extension granting the contractor additional time to complete the deliverables specified in the existing Statement of Work, or a change in PoP due to excusable delays beyond the control of the contractor and without the fault or negligence of the contractor. A change in scope occurs when there is a material change to the product or service from the requirements of the original purpose of a case line or note changes. A material change to a supporting contract to an LOA can include changes which exceed the scope of the original contract by adding new work through an increase to the total estimated cost of the contract as a result of increases or changes to the specification (form, fit, function/type of work), increases in quantity, increase in the number of hours worked/deliverable services, or an increase to the time of performance/extending the PoP. DSCA will determine within-scope and scope changes for USG-provided goods and services. DSCA will coordinate and consult with the cognizant contracting officer to determine within-scope and scope changes for contractor-provided goods and services. See SAMM C6.7 for additional guidance on Amendments and

Modifications. When an amendment adds a new line to an existing FMS case, [or changes the scope of the LOA](#), the FMS administrative surcharge rate in effect at that time is applied. The following FMS administrative surcharge rates are applicable for LOA standard cases/lines and for the periods shown.

5.1.1.1. Effective June 1, 2018. A uniform 3.2 percent FMS administrative surcharge is effective for all new LOA lines accepted by the purchaser on or after June 1, 2018.

5.1.1.2. November 1, 2012 – May 31, 2018. A uniform 3.5 percent FMS administrative surcharge was used for all new LOA lines accepted by the purchaser during this period.

5.1.1.3. August 1, 2006 – October 31, 2012. A uniform 3.8 percent FMS administrative surcharge rate was used for all new LOA lines accepted by the purchaser during this period. Program Management Lines were no longer applicable to new cases accepted on or after this date. USG services, over or above those covered by the FMS administrative surcharge, were provided on well-defined line items. All cases accepted on or after August 1, 2006 through October 31, 2012, collected a minimum charge to ensure sufficient funds to prepare and implement each case by including small case management lines (SCML). The FMS administrative surcharge rate is not applied against the SCML. This application was suspended for cases accepted, implemented, or decreased on or after July 3, 2012. Refer to the [SAMM C9.4.7](#) for specific information concerning the application of the SCML.

5.1.1.4. June 1, 1999 - July 31, 2006. A uniform 2.5 percent FMS administrative surcharge rate was used for standard LOA lines implemented during this period. See [5.1.3](#) for nonstandard lines.

5.1.1.5. October 1, 1977 - May 31, 1999. A uniform 3 percent FMS administrative surcharge rate was used for standard LOA lines implemented during this period. See [5.1.3](#) for nonstandard lines.

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

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

5.1.2. Supply Support Arrangements. An FMS administrative surcharge of 5 percent must be added to the basic sales price of the initial on-hand portion of CLSSA. See paragraph [8.3](#) and SAMM C9.T4.

5.1.3. FMS Administrative Surcharges for Nonstandard Articles and Services. For case lines accepted prior to August 1, 2006, an FMS administrative surcharge rate of 5 percent must

be added to the basic sales price of LOA lines for nonstandard articles and services. However, the standard rate in effect must be applied under the following circumstances:

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

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

*5.2 DoD Component Administrative Expenses

Administrative services cost calculations (as identified in paragraph 3.1) of component [Security Assistance \(SA\)](#) direct and indirect costs must include a pro rata share of manpower and [contractor-provided support costs for SA administrative functions](#). The DoD Component administrative support costs must not include costs prescribed in Volume 15 as above-the-line costs, nor should the costs include DoD mission costs. See [SAMM C9.4](#) for case-related manpower functions and appropriate funding sources.

5.2.1. The personnel portion of actual administrative expenses must include a pro rata share of those personnel performing [and supporting SA](#) duties. This same measure applies to contractor-provided support for [SA administrative functions](#). These functions may be indirect (e.g., support across multiple purchasers/cases) or direct (e.g., support to a specific case or program).

5.2.2. DoD organizations that provide general administrative support to [SA programs](#) must recoup the full cost (excluding a pro rata share of fixed base operations costs) to provide such support.

5.3 FMS Administrative Surcharge on Cases Closed at Reduced or No Value

5.3.1. For any case that is closed, the USG will retain funds to pay for estimated administrative costs associated with the case, even if no articles or services have been delivered (\$0 delivered value). The minimum, nonrefundable amount will be the value when combining the SCML (if applicable) and the FMS administrative surcharge value; one-half of the FMS administrative surcharge estimated on the case; or the standard FMS administrative surcharge percentage of the expended value, whichever is greater. See [SAMM C6.8](#).

5.3.2. DSCA [Office](#) of Business Operations (OBO) may approve reductions to the minimum nonrefundable amount when it can be clearly shown that the actual values of administrative costs on the case are less than the minimum nonrefundable amount, or if the case is cancelled for the convenience of the USG.

5.3.3. Case Managers wishing to request that a case be closed at \$0 articles and/or services value, must contact DSCA [OBO](#) for approval. The DSCA [OBO](#) reply is sent to the Case Manager and DFAS SCA.

5.3.4. Cases cancelled for the convenience of the USG may not incur an administrative cancellation fee, but require the amount of the FMS administrative surcharge assessed be approved by DSCA OBO.

5.3.5. For cases with an ordered value greater than or equal to \$25,000,000, and closing at \$0 delivered articles and/or service value, the IA will submit a recommended, nonrefundable FMS administrative surcharge amount to DSCA OBO for approval.

5.4 Waived FMS Administrative Surcharge

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

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

6.0 LOGISTICS SUPPORT CHARGE (LSC)

LSC was applicable to materiel and services identified on the Military Articles and Services List, excluding DWCF materiel. LSC was assessed at 3.1 percent of the articles and services reported delivered on or after April 1, 1987 and prior to October 1, 2007. The SAMM C9.T4 explains the elimination of the LSC and how to treat prior year LSC charges.

7.0 PROGRAM MANAGEMENT SERVICES

7.1 Level of Service

7.1.1. FMS Administrative Surcharge Funded Manpower. There is a certain level of routine support provided to an FMS customer on each case. Costs associated with this workload are captured via the assessed FMS administrative surcharge.

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

7.1.3. DoD Component Operating Funds. In accordance with OUSD(C) Memo, “Budget Policy on use of DoD Component Operating Funds in Support of Foreign Security Forces,” Military Departments have the responsibility to develop, maintain, and institutionalize the capabilities of Service members and DoD Expeditionary Civilian personnel to support DoD efforts to organize, train, equip, and advise foreign military forces and relevant supporting institutions. DoD Components are to budget in their operating accounts all costs for DoD military and civilian personnel in Afghanistan, Iraq, and other countries, as well as reach back support, encompassed by DoD Assistance Appropriations.

7.1.3.1. Costs include, but are not limited to: military pay, special pay, transportation, pre-deployment training and training in theater, forward base operating costs, life support, communications, vehicle maintenance, program management, and contracts for linguists, logistics, security, and infrastructure needed to support such DoD personnel in-country.

7.1.3.2. Where the Military Department has discretion, as a matter of budget policy, the following activities will be budgeted and paid from DoD Assistance Appropriations and not budgeted or paid from DoD Component operating accounts:

7.1.3.2.1. In circumstances where DSCA provides services pursuant to the Economy Act to the organization designated by the Secretary of Defense or Deputy Secretary of Defense to have management responsibility for the DoD Assistance Appropriation (Managing Organization), amounts from such DoD Assistance Appropriation will be used to reimburse DSCA for its administrative expenses in providing the ordered services;

7.1.3.2.2. In circumstances where the Multi-National Aviation Special Project Office (MASPO) provides services pursuant to the Economy Act to the Managing Organization, amounts from such DoD Assistance Appropriation will be used to reimburse MASPO for the actual costs of the procurement, sustainment, and technical support services;

7.1.3.2.3. In circumstances where the U.S. Army Corps of Engineers (USACE) provides services to the Managing Organization, amounts from such DoD Assistance Appropriation will be used to reimburse USACE for its project design, contract preparation and award, and supervision and administration expenses in providing the ordered services;

7.1.3.2.4. In circumstances where an organization funded by a DWCF provides supplies or services pursuant to [10 U.S.C. § 2208](#) to the Managing Organization, amounts from such DoD Assistance Appropriation will be used to pay the working capital-funded organization for the costs of providing the ordered supplies or services;

7.1.3.2.5. In circumstances where the Managing Organization arranges for a member of an eligible foreign security force to receive education or training at a U.S. Service

school, amounts from such DoD Assistance Appropriation will be used to reimburse the Service school at the lowest rate charged to other foreign countries; and

7.1.3.2.6. In circumstances where the Managing Organization arranges for a member of an eligible foreign security force to attend a U.S. Service Academy, amounts from such DoD Assistance Appropriation will be used to reimburse the U.S. Service Academy at the lowest rate charged to other foreign countries, unless reimbursement for the cost of attendance is waived pursuant to [10 U.S.C. § 347\(a\)\(6\)\(B\)](#).

7.2 Cost Allocation

DoD Components must ensure that each type of cost is allocated only once and only on one basis to an FMS case. Additional discussion on consistency in allocating costs incurred for the same purpose is contained in Volume 4. Care must be taken to ensure against “double charging” for the same costs. The FMS Case-Related Manpower Functions and Funding Source Manpower Matrix ([SAMM C9.T2](#)) describes in detail the manpower functions that may be funded on FMS cases and the funding source for those related costs.

8.0 CLSSA

8.1 CLSSA Management

[DoD Instruction \(DoDI\) 2010.06](#), “Materiel Interoperability and Standardization with Allies and Coalition Partners,” and the [SAMM C5.4.3.3](#) prescribe the policies and criteria for establishing CLSSAs. CLSSAs provide for the execution of Foreign Military Sales Orders (FMSO) covering stock, consumption, and storage. Two FMS cases are required for supply support arrangements, an FMSO I case and an FMSO II case. Both cases must be executed in order for FMS requirements to be anticipated and to be satisfied on an equal footing with U.S. requirements.

8.1.1. FMSO I

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

8.1.1.2. For new FMSO I cases accepted on or after September 20, 2005, the on-hand portion of the inventory list will be 30 percent of the total investment/equity list. For FMSO I cases accepted prior to September 20, 2005, the on-hand portion of the inventory list will remain at 5/17 of the total investment/equity list.

8.1.2. FMSO II. The FMSO II case represents the foreign purchaser's anticipated yearly consumption under CLSSA.

8.1.3. Cash Requirements

8.1.3.1. Cash paid on acceptance of the FMSO I should equal the Part A on-hand portion of the inventory and administrative surcharge. The cash required to liquidate obligations incurred with suppliers for the on-order portion is the cash paid by the purchaser in connection with the FMSO II case and, in turn, creates a new order received and recreates obligational authority (OA) back to the FMSO I.

8.1.3.2. If the amount of progress payments required by the IA varies by more than 10 percent of the Part A value, the DoD Component must:

8.1.3.2.1. Amend the case to bring the Part A value in line with the DoD Component progress payment requirement; or

8.1.3.2.2. Request additional progress payments to equal the Part A value.

8.1.3.3. 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:

8.1.3.3.1. The FMSO I, Parts A and B, grant the DoD Components OA up to the case amount;

8.1.3.3.2. The cash provided under the FMSO I, Part A, finances the on-hand inventory;

8.1.3.3.3. Requisitions made by the purchaser are filled from the on-hand inventory;

8.1.3.3.4. Replenishment of on-hand inventory is made from contracts awarded under OA granted by the FMSO I, Part B;

8.1.3.3.5. Payments to contractors are made from funds provided in accordance with the FMSO II terms; and

8.1.3.3.6. Liquidation of obligations by payment to contractors in effect recreates OA granted by the FMSO I, Part B, and the cycle commences again.

8.1.4. OA

8.1.4.1. The entire amount of the FMSO I case represents OA. Normally, no cash billings are required against the FMSO I, Part B, unless the CLSSA is either partly or wholly terminated. The FMSO II case provides OA only to the extent purchaser orders are received.

Thus, proper working of the FMSO I and II should result in a constant 12 months of OA in the applicable appropriation or fund account, never more or less, after the on-hand inventory of the FMSO I, Part A, has been acquired.

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

8.1.5. Both parts of the FMSO I provide OA equal to its value in the DoD Component activity giving the supply support to the purchaser.

8.2 General Pricing

Use the pricing requirements in subparagraph 15.2.2 to price CLSSA cases.

8.3 FMS Administrative Surcharge

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

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

8.3.2. FMSO I (Part B). No administrative surcharge will be charged on the on-order portion (Part B) of the FMSO I case. The current administrative surcharge (3.2 percent) must be charged on requisitions processed under FMSO II cases. If an FMSO I agreement is terminated, the current administrative surcharge must be charged for the inventory over and above the on-hand portion of the case. There must be no additional surcharge on the on-hand portion of the case, since the purchaser has made advance payment of the administrative charges applicable to this portion of the case.

8.4 Storage Costs

There is no annual inventory maintenance and storage charge for DWCF items for CLSSAs, as the DWCF standard (stabilized) price recoups all costs. For non-DWCF items, storage fees must be charged, on the value of stored assets, based on the on-hand portion of the FMSO I. The annual storage fee is 1.5 percent. For cases not remaining open a full year, a fee of 0.125 percent per month must be charged (SAMM C9.T4).

8.5 Normal Operating Inventory Loss

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

8.6 Unusual Inventory Loss

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

8.7 Obsolete Materiel

8.7.1. Obsolete or Excess to the United States. 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 (see subparagraphs [15.3.1-2](#)).

8.7.2. Obsolete or Excess to the Foreign Government. 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 must 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, credit the stock level for the return of materiel to U.S. stocks in accordance with departmental procedures.

8.7.3. Obsolete or Excess to the United States and Foreign Government. If items become obsolete or excess to the requirements of both the United States and the foreign government, arrangements must be made for the United States to dispose of the materiel, and the proportional share of the net proceeds of sale must be credited to the foreign government.

8.8 Purchaser Equity

CLSSAs are written in terms of an absolute dollar amount of support to be provided under the arrangement. A listing of the specific items required to support the weapon system is not developed. Under this "dollar value" concept, the FMS purchaser's equity must remain valued at the cash deposited for the FMSO I. Upon termination, a review must be made of the foreign country's demand data for specific items. When demand data results in the procurement of stock

above the DoD-approved retention levels, the foreign country must be informed that applicable stocks owned by that country must be drawn down or that a settlement agreeable to both parties must be reached.

9.0 STORAGE, REPAIR, OR MODIFICATION OF PURCHASER-OWNED MATERIEL

9.1 Storage

Costs applicable to storage of purchaser-owned articles include the functions of receiving, care and preservation, set assembly and related activities, and overhead operations (such as re-warehousing, maintenance of operating equipment, physical inventories, and cleaning areas).

9.1.1. Storage charges are applicable to the non-DWCF, on-hand portion of FMSO I cases, cases on which DoD is ready to deliver applicable items, but the purchaser has requested to delay delivery, and cases on which DoD cannot deliver due to legal or policy restrictions.

9.1.2. Charges commence 15 days following the date of availability (there is no annual inventory maintenance and storage charge for DWCF items for CLSSAs, as the DWCF standard (stabilized) price recoups all costs).

9.1.3. A uniform DoD annual rate of 1.5 percent or 0.125 percent of the average monthly value of purchaser-owned materiel will be charged to applicable FMS cases to recover an activity's storage cost, unless a separate charge is negotiated with the storage facility.

9.1.4. A separate line on the LOA(s) should capture the storage-related costs. If this line did not previously exist, it can be added via an LOA modification.

9.2 Repair or Modification

When a foreign government requests the repair and/or modification of items from non-DWCF activities, the actual or estimated cost of the work will be priced on a job order basis [or through the contract procurement process](#). An illustration of price computation is at Exhibit 7-1.

9.2.1. Labor costs will be computed in accordance with section [20.0](#).

9.2.2. Materials and supplies obtained from the military supply system stocks will be priced in accordance with section [15.0](#).

9.2.3. Materials, supplies, or services obtained directly from contractors will be priced in accordance with section [16.0](#).

9.2.4. Transportation and related costs incurred in movement of the materials and supplies used during repair and/or modification must be priced in accordance with [paragraph 4.2](#). See subparagraph [4.2.2](#) for treatment of DWCF materiel.

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

9.2.6. Appropriate incoming and outgoing transportation costs related to FMS equipment or materiel processed by repair or overhaul facilities will be paid by the FMS purchaser. If the repair facility ships the repaired item to the purchaser, then the transportation costs must be charged to the FMS case.

9.3 FMS Administrative Surcharge

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

9.4 Special Instructions Applicable to DWCF Activities

DWCF activities must charge approved DoD stabilized rates and prices for defense articles and services in support of FMS cases. Materiel funded by DWCF, including depot level reparable, must be priced at the standard (stabilized) price in effect at the time the item is dropped from inventory or at the net/exchange price, if applicable, for a direct exchange transaction. The standard (stabilized) price or rate charged to FMS purchasers of DWCF activities for defense articles and services must be adjusted to include an amount for unfunded civilian retirement (UCR) and post-retirement health benefits costs in accordance with paragraph [20.5](#).

10.0 USE OR EXPANSION OF DOD FACILITIES AND EQUIPMENT

All costs of construction, or expansion of facilities, desired by and for the exclusive use of the foreign government must be financed and funded by the foreign government. Charges by the USG for labor, materiel, or services must be reimbursed in accordance with the provisions of sections [15.0](#) and [20.0](#). Any expansion of facilities or equipment required for DoD use, which may also be available for FMS, must be funded through the normal DoD budget process.

10.1 Reimbursement of Proportionate Share

In addition to the costs identified in [paragraph 10.0](#), a proportionate share of operating costs must be reimbursed.

10.2 Work at DoD Test Facilities and Laboratories

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

10.3 Embedded Computer Software (ECS) Facilities

10.3.1. ECS support is normally supplied through a services case (or line) of a system sale. A requirement for a new facility, or augmentation of an existing facility, that is funded by the FMS

purchaser is incidental to the service. Regardless of the costs charged to an FMS purchaser for use or augmentation of a facility, DoD owns and operates the facility.

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

11.0 COSTS ALLOCABLE FOR JOINTLY USED FACILITIES

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

11.1 Joint Use of Office or Storage Space

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

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

11.2 Joint Use of Satellites

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

12.0 PERIODIC REVIEW AND RATES/SURCHARGE REVISION

12.1 Periodic Review

Rates that may be developed to recoup accessorial costs and surcharges (see sections 4.0, 5.0, and 16.3.1) are subject to periodic review. OUSD(C) should notify the applicable DoD Components when such reviews are being conducted and request the DoD Components' participation.

12.2 Rate Revision

No charges, or surcharges based on a percentage rate, may be made to recover any element of cost unless the charge or percentage charge is expressly prescribed in Volume 15, or the charge based on the percentage rate is proposed in writing to and is approved by OUSD(C). Whenever a DoD Component believes a prescribed rate should be revised, it should submit its request with supporting data to OUSD(C), through the DoD Component Senior Financial Manager and

DSCA OBO. DSCA OBO will conduct its assessment of the request and provide either its endorsement of or objection to OUSD(C). Sufficient data must accompany the request to enable evaluation of the merits of the proposed revision.

13.0 COST RECOUPMENT WAIVERS AND EXCLUSIONS

A cost recoupment waiver is the exercise of legal authority to partially or totally waive recoupment of incurred costs. A cost recoupment waiver is not an exception to pricing policy.

13.1 Waiver of NC Recoupment Charges

13.1.1. Title 22, U.S.C. § 2761(e)(2)(A) authorizes the President to reduce or waive the NC recoupment charge or charges, which would otherwise be considered appropriate under 22 U.S.C. § 2761(e)(1)(B) for particular sales that would, if made, significantly advance USG interest in North Atlantic Treaty Organization (NATO) standardization; standardization with the Armed Forces of Japan, Australia, the Republic of Korea, Israel, 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.

13.1.2. Title 22, U.S.C. § 2761(e)(2)(B) authorizes the President to waive NC recoupment charges for a particular sale if it is determined that:

13.1.2.1. Imposition of the charge or charges likely would result in the loss of the sale; or

13.1.2.2. The waiver of the charge or charges for MDE would result in a savings to the United States that substantially offsets the revenue due to this waiver.

13.1.3. Title 22, U.S.C. § 2761(e)(2)(C) gives the President the authority to waive, for particular sales of MDE, any increase in a charge or charges previously considered appropriate under 22 U.S.C. § 2761(e)(1)(B). This authority is given if the increase results from a correction of an estimate (reasonable when made) of the production quantity base that was used for calculating the charge or charges for purposes of such paragraph.

13.1.4. The authority to waive NC recoupment charges has been delegated to the Director, DSCA. All waiver requests must be coordinated with OUSD for Research and Engineering (R&E), OUSD for Acquisition and Sustainment (A&S), and OUSD(C).

13.2 Special Waiver Authority for NATO Airborne Warning and Control System (AWACS)

Notwithstanding subparagraph 5.4.1, [10 U.S.C. § 2350e](#) authorizes the Secretary of Defense in carrying out the NATO AWACS program, to:

13.2.1. Waive reimbursement for the costs of the following functions performed by personnel other than personnel employed in the U.S. Air Force AWACS program office:

13.2.1.1. Auditing;

13.2.1.2. Quality assurance;

13.2.1.3. Codification;

13.2.1.4. Inspection;

13.2.1.5. Contract administration;

13.2.1.6. Acceptance testing;

13.2.1.7. Certification services; and

13.2.1.8. Planning, programming, and management services;

13.2.2. Waive any surcharge for administrative services otherwise chargeable; and

13.2.3. Assume contingent liability for:

13.2.3.1. Any program losses resulting from the gross negligence of any contracting officer of the United States;

13.2.3.2. Identifiable taxes, customs duties, and other charges levied within the United States on the program; and

13.2.3.3. The U.S. share of unfunded termination liability.

13.3 Waiver of Contract Administration Services (CAS) and Cataloging Services

13.3.1. Title 22, U.S.C. § 2761(h) authorizes the President to provide (without charge) quality assurance, inspection, CAS, contract audit defense services, cataloging data, and cataloging services. Title 22, U.S.C. § 2761(h) applies to:

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

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

13.3.1.3. Cataloging data and cataloging services provided to NATO, to any member government of NATO, or to the Governments of the Republic of Korea, Australia, New Zealand, Japan, or Israel, if that organization, member government, or the Governments of the Republic of Korea, Australia, New Zealand, Japan, or Israel provide such data and services without charge to the United States in accordance with a reciprocal agreement.

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

13.3.3. When a waiver is approved, the cost of CAS in support of the applicable effort must be funded by a DoD appropriation. Billings for such actual costs must not be submitted against the FMS Trust Fund. The waiver under each agreement applies only to new FMS LOAs with implementation dates (as recorded in the Defense Security Assistance Management System) on or after the effective date of the reciprocal agreement.

13.3.4. Countries with CAS waivers are listed in the [SAMM C9.T5](#), [SAMM C9.T6](#), and [SAMM C9.T7](#). DSCA is responsible for updating and maintaining the CAS waiver tables.

13.4 Special Waiver Authority for NATO Cooperative Projects

13.4.1. [Title 22 U.S.C. § 2767\(e\)\(1\)](#) stipulates that the President may reduce or waive the charge or charges in connection with cooperative projects or agreements entered into under the authority of that section. The charges that may be reduced or waived are those that are otherwise considered appropriate under 22 U.S.C. § 2761(e) (see subparagraph [13.1.2](#)) for sales of defense articles and services from stocks or new procurements when the other participants agree to waive or reduce such charges.

13.4.2. Waiver authority of the President under 22 U.S.C. § 2767 has been delegated to the Director, DSCA.

13.4.3. Administrative surcharges must not be increased on other sales made under the U.S.C. in order to compensate for any cost waivers that are granted pursuant to 22 U.S.C. § 2767(d). Funds received pursuant to such other sales must not be available to reimburse the costs incurred by the USG for which waiver or reduction is approved by the President under 22 U.S.C. § 2767.

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

13.5.1. Title 22, U.S.C. [§ 2311\(a\)\(3\)](#) permits the exclusion of salaries of members of the Armed Forces (other than Coast Guard) if the sales case for defense articles, services (including training), or for design and construction services is totally financed by MAP Merger or by non-repayable FMF.

13.5.2. For cases with LOAs exclusively citing MAP Merger funds and/or non-repayable FMF or BPC and Foreign Security Forces (FSF) cases, which are funded with DoD or Department of State (DoS) appropriated funds, services provided under 22 U.S.C. §2761, 22 U.S.C. §2762, 22 U.S.C. §2769, or [22 U.S.C. § 2770](#) must be priced to exclude military pay and entitlements (including retired pay accrual). Examples of DoD and DoS appropriated funds are: Pakistan Counterinsurgency Fund, Pakistan Counterinsurgency Capability Fund, Coalition Readiness Support Program, FSF: authority to build capacity under [10 U.S.C. § 333](#), Counter-Islamic State in Iraq and Syria, Counter-Islamic State of Iraq and the Levant Train and Equip Fund, Afghanistan Security Forces Fund, and Iraq Train and Equip Fund.

13.5.2.1. The exclusion of military pay and entitlements in pricing applies when services are performed regardless of the date of the LOA. For MAP Merger, this pricing applies to services provided after September 30, 1985; for non-repayable FMF, this pricing applies to services provided after September 30, 1989.

13.5.2.2. Any subsequent amendment or modification that reduces MAP Merger or non-repayable FMF funding below 100 percent requires re-pricing to add military pay and entitlements to the entire case.

13.5.3. A separate price for DWCF goods and services must not be established to exclude military pay and entitlements when the case is fully funded by MAP Merger, is a non-repayable FMF, or is a BPC case.

13.6 Exchange of Unit Training and Related Support

Title 22, U.S.C. § 2770a authorizes the reciprocal unit exchange of training and related support between the United States and a friendly foreign country or an international organization. This authority applies only to established military units, not to ad hoc units or individual members of units. DoD Directive ([DoDD](#)) [5530.03](#), “International Agreements,” provides that unit exchanges must only be arranged as part of an international agreement.

13.6.1. As outlined in [SAMM C10](#), each country should pay its students Travel and Living Allowance. In addition, exchanges can be made on either an individual-to-individual or unit-to-unit basis.

13.6.2. Reciprocal unit exchanges or related support arrangements must use the following pricing guidelines.

13.6.2.1. The Military Department official with the delegated authority to negotiate agreements must perform a price analysis based on prior experience and/or current supporting data. The price determined for the unit exchange of training or related support must be fair and reasonable. If a pricing determination cannot be made, the training may not be performed and the related support may not be exchanged.

13.6.2.2. Reciprocal unit exchanges of any training or related support by the United States are subject to the applicable pricing provisions contained throughout [this chapter](#).

The estimated cost of the reciprocal unit exchange to be provided, and the value of the unit to be received, must be computed and documented by the Military Department's designated resource management function. The documented estimated cost is the basis for reporting costs incurred and for reimbursement purposes in the event exchanges are not reciprocated.

13.6.3. Compensation for the acquisition or transfer of a unit exchange of training and related support must be accomplished through either of the following methods.

13.6.3.1. Reciprocal Exchange. Training or related support that is to be exchanged requires a written determination by the approving U.S. organization that the reciprocal unit exchange of training or related support has a substantially comparable value. Comparable value received is the sum of those monetary and nonmonetary values that comprise the total exchange value. Methodologies depicting comparable value, both monetary and nonmonetary, must be retained and available for audit purposes.

13.6.3.2. Reimbursable. Payments for training and related support are to be in the currency of the supplying nation and must be provided in the event reciprocity is not achieved within 12 months from the date the training began.

13.6.4. The servicing accounting and finance office must take the following actions when reciprocal training or related support is not provided or not received.

13.6.4.1. Actions to be Taken When the United States Does Not Provide Reciprocal Training or Related Support. When the United States does not provide reciprocal training and related support within 12 months after such training or support begins, the exchange transaction must be converted to a reimbursable transaction and an obligation must be recorded. The obligation must be recorded against the appropriation current at the time the determination is made that reciprocal training will not be provided or 12 months from the date the training began, whichever occurs first. The resulting accounts payable is to be paid 30 days from the date established. The accompanying documentation must fully explain the reasons for not providing reciprocal training or related support during the preceding 12 months.

13.6.4.2. Actions to be Taken When the United States Does Not Receive Reciprocal Training or Related Support. When the United States does not receive reciprocal training or related support within 12 months after such training or support begins for a foreign country, the exchange transaction must be converted to an accounts receivable. The accounts receivable must be established against miscellaneous receipt account 3210, "General Fund Proprietary Receipts, Defense Military, Not Otherwise Classified." See Volume 16, Chapter 6, "Debt Owed to the Department of Defense (DoD) by Foreign Entities" for procedures for billing foreign countries.

13.7 Special Authorities

In accordance with the administration of the European Air Defense Agreements, the Secretary of Defense is authorized under the International Security and Development Cooperation Act of 1985, Section 132 (see 22 U.S.C. § 2767(e)) to:

13.7.1. Waive any surcharge for administrative services otherwise chargeable under 22 U.S.C. § 2761(e)(1)(A), and

13.7.2. Waive any charge not otherwise waived for services associated with contract administration for the sale (under the AECA) of Patriot Air Defense Missile Fire units to the Federal Republic of Germany contemplated in the agreements.

13.8 Fair Pricing

Under 22 U.S.C. §§ 2761 and 2792, the recoupment of NC is not required for FMS cases wholly funded with MAP Merger or non-repayable FMF, BPC, or FSF cases which are funded with DoD or DoS appropriated funds. Effective with delivery reports after December 1, 1989, DFAS no longer applies asset use charges to FMS transactions. When such asset use expenses are included in, or are a part of, the standard prices/stabilized rates charged for defense articles and services, a separate price must not be established for sales from, or services furnished by, DoD Components in connection with FMS cases. In addition, military salaries and the unfunded costs of civilian retirement and other benefits are not included in the FMS administrative account.

14.0 EXCEPTION TO PRICING POLICIES

An exception to prescribed pricing policies refers to approval of an alternative method of identifying applicable cost(s). Requests for exceptions to the policies prescribed herein, or waivers of DoD costs for which DSCA is not delegated as the waiver authority, must be submitted to OUSD(C), through the DoD Component Senior Financial Manager, and DSCA OBO (Note: A cost recoupment waiver is not an exception to pricing policy). DSCA OBO will conduct its assessment of the request and provide either endorsement or objections to OUSD(C). Sufficient data must accompany the request to enable OUSD(C) to evaluate the merits of the proposed deviation.

15.0 CASH SALES OF DEFENSE ARTICLES ISSUED FROM STOCK

15.1 General

Title 22, U.S.C. § 2761 authorizes the sale of defense articles from stock to eligible foreign governments and international organizations. These sales include all sales of items from DoD inventories, whether delivered from storage or from procurements that were initiated to maintain adequate DoD inventory levels. Procurements specifically for FMS requirements (excluding CLSSAs) may not be considered a sale from stock. Procurements initiated to replace stocks sold from DoD inventories are not FMS new procurements.

15.2 Sale of Defense Articles

15.2.1. Sale Price of Non-Excess Defense Articles. Non-excess defense articles are assets within the approved force acquisition objective and approved force retention stock of all DoD Components. Also included in the non-excess category are articles procured in anticipation of military assistance or sales requirements as a result of CLSSAs, or pursuant to a military

assistance or sales order. The selling price must be determined when the item is dropped from inventory or the LOA is prepared, if a firm price is determined in accordance with the provisions of paragraph 15.4.

15.2.2. Sale of DWCF Articles

15.2.2.1. The selling price of DWCF articles to FMS purchasers must be determined at the time the article is dropped from inventory. The standard price charged to FMS purchasers for DWCF articles must be adjusted to include an amount for unfunded civilian retirement and post-retirement health benefits costs (see paragraph 20.5). See Volume 2B, Chapter 9; Volume 11A, Chapter 1; and Volume 11B, Chapter 11 for additional information.

15.2.2.2. If a purchaser returns a reparable DWCF item for repair or replacement, the overhaul service must be priced in accordance with paragraph 9.2. The price of the replacement/exchange item would be the exchange price or net price (standard price less credit) basis adjusted for the unfunded retirement and benefits.

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

15.2.2.4. Prior to October 1, 2001, petroleum, oil, and lubricants (POL) was priced at standard (stabilized) prices. Effective October 1, 2001, the selling price of POL is the replacement cost of the POL, during the period of the sale, plus associated overhead. See Volume 11A, Chapter 1 and Volume 11B, Chapter 11 for additional information on overhead.

15.2.3. Sale of Non-DWCF Articles. The pricing and treatment of reimbursements of non-DWCF articles sold are dependent upon whether the item(s) being sold requires replacement. An illustration of the price computation is in Exhibit 7-2.

15.2.3.1. Item Not to be Replaced. When an item is sold from the stocks of DoD and is not intended to be replaced, it is considered a free asset. The free asset price is not less than the actual value of the article.

15.2.3.1.1. The price of the item must be the most recent actual procurement cost of the series and model being sold, plus the cost of any modifications or improvements incorporated after production and the applicable NC recoupment charge.

15.2.3.1.2. 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.

15.2.3.1.3. The cost of the last major overhaul or outfitting accomplished before the sale date is added to the calculated price and is not reduced for age or condition. The

overhaul costs will be prorated over the interval between the last actual overhaul and the next scheduled overhaul (see [Exhibit 7-3](#)).

15.2.3.1.3.1. If a future overhaul is not scheduled, the cost of the previous overhaul will be prorated over the normal average interval between overhauls.

15.2.3.1.3.2. If an overhaul schedule is not available, the most appropriate time span for that series and model should be used.

15.2.3.1.3.3. 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.

15.2.3.1.3.4. In the case where a maintenance schedule has not been established, a period of at least five years should be used.

15.2.3.1.3.5. A request for waiver of the overhaul cost may be submitted to OUSD(C) in accordance with section 13.0.

15.2.3.1.4. In the case of a naval vessel that is 20 or more years old, and 3,000 tons or less, 22 U.S.C. § 2761(a)(2) provides that the actual value is not less than the greater of the scrap value or the fair value (including conversion costs) as determined by the Secretary of Defense. See Exhibit 7-4 for an example of the price computation for a ship that is greater than 3,000 tons.

* 15.2.3.1.5. The amounts received as payment for free assets from the FMS purchaser must be deposited into the [Special Defense Acquisition Fund \(SDAF\)](#). See Volume 3, Chapter 15, [subparagraph 3.5.6.](#) and [SAMM C11.9](#) for additional information on proceeds from assets sold.

15.2.3.2. Item to be Replaced. The sale from stock with replacement represents the sale of assets for cash and the subsequent replacement of assets with cash proceeds. The sale and replacement represent two separate transactions generally occurring months or years apart.

15.2.3.2.1. Like Items. Title 22, U.S.C. § 2761 authorizes the replacement of materiel using proceeds from sales without further congressional approval, so long as the item sold will be replaced with an item of the identical type, model, and series (e.g., the sale of C-130E aircraft and purchase of C-130E aircraft) or a modified version of the same basic model. Obligations to replace the assets will be recognized as direct obligations.

15.2.3.2.1.1. The price of the item to be replaced must be the best-estimated cost of the replacement item available at the time the item is dropped from inventory, plus the NC recoupment charge of the item being sold, adjusted for its remaining service life. The final bill will utilize the best pricing information available if actual replacement procurement cost is not known. This must be the final cost to the purchaser regardless of the actual cost of final replacement procurement. Inventory managers must realize that this prescribed

pricing methodology may not result in a one-for-one replacement. If exact quantities are needed in inventory in order to maintain readiness, the inventory manager must recommend FMS procurement and not approve a shipment out of stock.

15.2.3.2.1.2. When it is imperative that stock be replaced through accelerated procurements, and normal pricing policies will not adequately recoup replacement costs, an exception to DoD pricing policies must be requested from the OUSD(C). Section 14.0 specifies guidance on exception requests. Normally, the exception would be to add a replacement factor or delay final pricing until the contract for replacement items is financially complete.

15.2.3.2.2. Dissimilar or Modified Items. Congress authorizes the replacement of materiel using proceeds from sales of dissimilar or modified items. The replacement item must be a later series, modified version of the same basic model (e.g., sale of a C-130A aircraft and the purchase of a C-130E aircraft), or an acceptable substitute item (e.g., sale of an M-48 tank and the purchase of an M-60 tank). The purchase of upgrading or a modification kit is not considered a replacement even though the upgrade or modification would result in an end item similar to the items that are being acquired. In this situation, an item of materiel sold will require replacement to compensate DoD inventories for the resultant loss of capability or readiness. The replacement must be shown under the direct budget program and reprogramming action taken prior to replacement. The obligations to replace the assets will be recognized and accounted for as direct obligations, rather than as reimbursements to annual procurement appropriations.

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

15.3 Excess Defense Articles

Excess defense articles are assets in excess of the Approved Force Acquisition Objective and Approved Force Retention Stock of all the DoD Components (see paragraph 15.2 for additional discussion). Excess defense articles must be sold in an "as is" condition. The cost of repairing, rehabilitating, or modifying such articles must be computed in accordance with paragraph 9.2.

15.3.1. Excess articles may be sold at reduced prices to recognize depreciation for the age and condition of the article. PC&H and Transportation (PCH&T) is computed on the original acquisition value and not on the reduced price. The level of effort for the PCH&T is not less for an article that is considered excess; therefore, the expenses for the PCH&T do not decrease and must be recovered in total from purchasers. This policy applies to procurement appropriations and DWCF. An illustration of the price computation for Non-DWCF is in Exhibit 7-5.

15.3.2. The selling price of excess articles, exclusive of repair or modification costs, must be the highest of:

15.3.2.1. Its market value for which the applicable NC recoupment charge must be assumed to be included (market value is the price at which bona fide sales have been consummated for products of like kind, quality, and quantity);

15.3.2.2. Its scrap value plus NC recoupment charge and the last major overhaul costs incurred (scrap value is the amount that would be expected to be obtained from selling the asset at the end of its useful life); or

15.3.2.3. Its fair value, plus NC recoupment charge and prorated major overhaul costs (fair value is the price for which an item can be bought or sold in an arm's length transaction between unrelated parties).

15.3.3. The fair value is computed using the fair value rates associated with the Federal Condition Code of the asset multiplied by the established inventory price. See Table 7-1. If the IA proposes the price of materiel to be less than the 5 percent minimum threshold indicated in Table 7-1 or proposes to waive the overhaul costs, a detailed justification must be sent to the DSCA OBO in accordance with section 13.0. If DSCA endorses the IA proposal, it will forward that package to OUSD(C) for final approval.

15.3.4. The overhaul costs will be prorated over the interval between the most recent prior overhaul and the next scheduled overhaul. If a future overhaul is not scheduled, the cost of the last overhaul will be prorated over the normal average interval between overhauls. In the case where actual costs are not available for the last overhaul, a reasonable estimate from the facility normally performing overhauls for the type of item to be sold may be used. In the case where a maintenance schedule has not been established, a period of at least five years should be used. An example of computing these costs is illustrated at Exhibit 7-3.

15.3.5. When accountability for excess items has been transferred to "Property Disposal," the provisions of the DoDM 4160.21, Volume 3 must apply. This manual provides specific guidance for the disposition of amounts realized from the sale of such equipment. Defense Logistics Agency Disposition Services will calculate PC&H based on the original acquisition value of assets sold or transferred.

15.3.6. A request for exception to established pricing policy of excess materiel for FMS will be submitted in accordance with section 14.0 and must address the following:

15.3.6.1. Whether the item has been screened for potential sale to purchasers and whether there is any existing purchaser interest at the price determined in accordance with the established pricing policy;

15.3.6.2. Whether the alternative proposed price is equal to or greater than the scrap value plus the established recoupment charge for DoD NC;

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

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

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

15.4 Quotation of Firm Prices

15.4.1. The DoD Components are authorized to quote firm prices for items to be sold from stock and for in-house services to be furnished, pursuant to 22 U.S.C. § 2761. Such prices are not subject to further adjustment, provided the purchaser accepts the LOA before the expiration date. A firm price may be quoted only for:

15.4.1.1. 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 subparagraph [15.2.3.2](#), when the price is based on budgetary data or contractor quotation;

15.4.1.2. A price for procurement-funded or major item developed under provisions of subparagraph [15.2.3.1](#) and paragraph [15.3](#); and

15.4.1.3. Training tuition rates (only for current year). Refer to section [21.0](#) for additional information on rates for training of international students.

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

15.4.3. All LOAs authorized to be on a firm price basis must include a note that specifies that pricing data presented is firm (except for changes authorized in paragraph [22.5](#)) and will not be changed, provided the country accepts the LOA before its offer expiration date.

15.5 Charges for NC

Non-USG purchasers must pay a fair price, determined in accordance with [DoDD 2140.02](#), “Recoupment of Nonrecurring Costs (NCs) on Sales of U.S. Items,” for the value of DoD nonrecurring investment in the development and production of MDE, as required by law, unless an NC recoupment charge waiver has been approved by the Director, DSCA. For FMS, an NC recoupment charge is applicable to all MDE. MDE is any item of Significant Military Equipment (SME) listed on the U.S. Munitions List having a DoD nonrecurring RDT&E cost accumulation of \$50 million or a total DoD production cost of more than \$200 million. A listing of MDE with associated NC charges can be found in the [SAMM Appendix 1](#). The NC recoupment charge is not applicable to BPC cases.

15.5.1. Cost Pool Methodology

15.5.1.1. A cost pool methodology is used to determine the pro rata share of NC to be recouped. The NC recoupment charge computation (nonrecurring RDT&E and nonrecurring production cost pools divided by estimated benefiting units) is submitted to the Director, DSCA for approval. The NC recoupment computation must be supported with an MDE calculation worksheet, illustrated in [Exhibits 7-6, 7-7, and 7-8](#). The Director, DSCA will review each DoD Component's calculations and publish the approved charge in the SAMM Appendix 1.

15.5.1.2. Each DoD Component must establish a system to accumulate cost pools, recognize when a cost pool meets recoupment thresholds, and calculate an NC recoupment charge for items releasable to foreign countries and international organizations when FMS sales are anticipated. The NC recoupment charge must be based upon information recorded in DoD accounting records or DoD budget justification documents. If adequate documentation is unavailable, the DoD Component will calculate the pro rata NC at 5 percent of the last known DoD acquisition cost.

15.5.2. Nonrecurring RDT&E Cost Pool

15.5.2.1. The nonrecurring RDT&E cost pool includes costs funded by RDT&E appropriations to develop or improve the product or technology under consideration. The costs to be included in the nonrecurring RDT&E investment cost pool must be determined on the budget and accounting classifications established for RDT&E appropriations in Volume 2B. Volume 2B, Chapter 5, paragraph [10.5](#) establishes the following RDT&E categories:

15.5.2.1.1. Budget Activity 1, Basic Research;

15.5.2.1.2. Budget Activity 2, Applied Research;

15.5.2.1.3. Budget Activity 3, Advanced Technology Development (ATD). ATD is sometimes further broken down into budget activities 3A (strictly research efforts that involve the production of breadboards or brass boards to model all or part of a design) and 3B (applied to projects to produce a prototype, which although not suitable for fielding, is closer to representation of an end item for military application);

15.5.2.1.4. Budget Activity 4, Advanced Component Development and Prototypes;

15.5.2.1.5. Budget Activity 5, System Development and Demonstration;

15.5.2.1.6. Budget Activity 6, RDT&E Management Support; and

15.5.2.1.7. Budget Activity 7, Operational System Development.

15.5.2.2. Costs in budget activities 3B, 4, 5, 6, and 7 are subject to recoupment and must be included in the nonrecurring RDT&E cost pools upon which the pro rata charge is calculated. The costs incurred for nonrecurring RDT&E in budget activities 1, 2, and 3A may not be included in the nonrecurring RDT&E cost pool.

15.5.2.3. All applicable NC efforts, including in-house or multiple contractors, must be included in the nonrecurring RDT&E cost pool; 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.

15.5.2.3.1. 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.

15.5.2.3.2. The cost sharing calculation will be established at the time the nonrecurring RDT&E cost pool is established and the NC recoupment charge is approved. First, the total life of the item will be projected, and then the point in time when half of all projected deliveries to non-DoD purchasers will occur will be estimated. Using actual cost data and data from historical files for similar CIP or comparable programs, the total U.S. investment costs over the life of the program will be estimated. The amount of U.S. investment projected to be incurred up to the previously determined point of half of the deliveries to non-DoD purchasers will be included in the weapon system nonrecurring RDT&E cost pool.

15.5.2.3.3. 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.

15.5.3. Nonrecurring Production Cost Pool. 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. DoDD 2140.02 stipulates that the pool must capture such costs as preproduction, special tooling, special testing equipment, production engineering, product improvement, destructive testing and product model production, and testing and evaluation. Other costs may be included if they benefit both current and future production runs. Descriptions of the major categories of costs to be accumulated in this NC pool are as follows.

15.5.3.1. Production Cost. Preproduction cost refers to the cost of such activities as tooling manufacture and tryout (i.e., jigs, dies, and fixtures) and the implementation of layout plans. A lump sum payment for license cost is part of the preproduction cost. See subparagraph [15.5.3.8](#) for more information on license cost.

15.5.3.2. Special Tooling Cost. Special tooling cost refers to the costs of all jigs, dies, fixtures, molds, patterns, taps, gauges, other equipment and manufacturing aids, and

replacement thereof, that are of such a specialized nature that substantial modifications or alteration of their use is limited to the development of production of particular supplies or parts, or the performance of particular services. The term includes all components of such items, but does not include:

15.5.3.2.1. Material;

15.5.3.2.2. Special testing equipment; or

15.5.3.2.3. Building and non-serviceable structures (except foundations and similar improvements necessary for the installation of special tooling), general or special machine tools, or similar capital items.

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

15.5.3.4. Developmental Production Engineering Cost. Developmental production engineering cost includes the cost of product design improvement intended to enhance producibility of an item; 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.

15.5.3.5. Product Improvement Cost. Product improvement programs may be accomplished by contractors as an engineering change proposal, modification work order, or an in-house project. Categories listed in subparagraphs 15.5.3.5.1 – 15.5.3.5.5 are to be included in the end item nonrecurring production cost pool, even though a participating product improvement program has been established that prorates the annual cost of the program based upon worldwide asset position (both U.S. and foreign-owned end items). The DoD cost of category listed in subparagraph 15.5.3.5.6 must be recovered as part of the selling price of a new model item, if the item is MDE. Product improvement is subdivided into six distinct types of effort:

15.5.3.5.1. Safety;

15.5.3.5.2. Cost reduction;

15.5.3.5.3. Reliability, availability, and maintainability;

15.5.3.5.4. Deficiency corrections;

15.5.3.5.5. Compatibility standardization, and simplification; and

15.5.3.5.6. New or improved operational capability.

15.5.3.6. Destructive Testing Cost. 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.

15.5.3.7. Pilot Model Testing Cost. Pilot model testing includes the following efforts:

15.5.3.7.1. Qualification testing, 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 in the future; and

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

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

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

15.5.5. Benefiting Units

15.5.5.1. Benefiting units is the number of items that must be included in all known or projected DoD production quantities and must be determined as follows.

15.5.5.1.1. The production quantities of end items required by DoD must be obtained from either Selected Acquisition Reports or the Future Years Defense Program Procurement Annex.

15.5.5.1.2. The production quantities of end items to be procured for foreign countries or international organizations under SA programs must be obtained from DoD Component SA plans.

15.5.5.1.3. If end item data is not available from any of these sources, then the developing command must estimate the total number of end items to be produced.

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

15.5.5.2. In the event of a disagreement on the production quantity and sales projections, the Director, DSCA must make the final determination in coordination with OUSD(C) and OUSD(A&S/R&E) of the production estimates to be used for determining the NC recoupment charge.

15.5.6. NC Charge Revisions. A revision may be submitted at any time by a DoD Component. It is mandatory that a modification to the NC recoupment charge be submitted when a significant change occurs.

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

15.5.6.2. Biennial Review. DoDD 2140.02 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:

15.5.6.2.1. A new calculation shows a change of 30 percent of the current system NC charge for an MDE item;

15.5.6.2.2. The NC unit charge increases or decreases by \$50,000 or more;
or

15.5.6.2.3. The potential for a \$5 million change in recoupment exists.

15.5.6.3. Model Change. When a model change occurs, the NC recoupment charge must be recalculated. That portion of the NC that benefits only one model must be allocated only to that model. That portion of the NC that benefits old and new models must be prorated between cost pools related to the old and new model items. Commonality between old and new models may be determined either on the basis of the ratio of old model parts in the new item or on some other common acceptable basis for allocation of costs between the models (e.g., engineering analysis or technology analysis, as appropriate). Sample calculations are illustrated in [Exhibits 7-6 through 7-8](#).

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

15.5.8. Reporting NC Recoupment Collections. NC Recoupment Collections must be reported.

15.5.8.1. Funds collected for NC recoupment charges must be disposed of in accordance with Chapter 3, paragraph 9.2.

15.5.8.2. DoD Components must provide a quarterly report on the status of NC recoupment collections. The report must be forwarded to the Director, DSCA OBO within 45 days following the close of each fiscal quarter.

15.5.8.3. DoD components must maintain records of anticipated and actual NC recoupment collections.

15.5.9. Waivers

15.5.9.1. The Director, DSCA has been delegated the authority to waive NC recoupment charges on FMS sales in accordance with paragraph 13.1. DSCA must issue, in writing, any approvals granted for waivers of the NC recoupment charge that otherwise would be collected under FMS. DSCA must forward a notification of each approved waiver to the applicable DoD Component.

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

15.5.9.3. Articles delivered after November 30, 1989, under FMS cases fully financed with MAP Merger funds and/or non-repayable FMF funds, must be priced to exclude the NC recoupment charge, in accordance with 22 U.S.C. § 2761(e)(1)(B).

15.5.10. "Special" RDT&E and Nonrecurring Production Costs

15.5.10.1. DoDD 2140.02 requires the purchaser to pay for "special" RDT&E and nonrecurring production costs that are incurred for the benefit of a particular FMS purchaser. Documentation must be maintained to show that the FMS purchaser requested the feature for its

own benefit. For purposes of this paragraph, a “special” feature or unique requirement includes, but is not limited to, features that DoD initially may not have adopted or purchased due to the non-availability of funds, lack of authorization from the Congress, or lack of an approved DoD requirement, but subsequently adopts or purchases when otherwise authorized.

15.5.10.2. DoDD 2140.02 stipulates that the USG must not be charged a recoupment charge for "special" RDT&E and nonrecurring production costs even if the USG also adopts those features for its own use, or provides equipment with such features under a U.S. grant, aid, or similar program. This provision applies without regard to whether the adoption of such features by DoD occurs before, during, or after full development of the feature.

15.5.10.3. DoDD 2140.02 permits the recoupment of "special" RDT&E and nonrecurring production costs incurred by FMS purchasers or participants of a coproduction, co-development, and cooperative development, or cooperative production program.

15.5.10.3.1. Recoupment is allowable only if such "special" costs exceed \$50 million for each FMS purchaser, or if the “special” costs of participants of a cooperative agreement exceed \$50 million in aggregate.

15.5.10.3.2. The "special" recoupment charge is determined by the DoD Component as a result of the distribution of the total costs divided by the total production, which is the same methodology used for determining the DoD NC recoupment charge.

15.5.10.3.3. The reimbursements may be collected by the Department from other purchasers or participants on behalf of the purchaser or cooperative participant incurring the “special” costs. Unless otherwise authorized by the USD, Policy, reimbursements must not be collected after 10 years have passed since the date the original FMS customer accepted the FMS LOA that included the special NC charges. IAs should coordinate with DSCA to obtain approval.

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

15.6 Returns

In accordance with 22 U.S.C. § 2761(m), returns may be accepted if the defense article was previously supplied under the U.S.C., is not SME, and is in full functioning condition without need of repair or rehabilitation. DoD must have a funded requirement, including FMS requirements, for the defense article. The purchaser must not be reimbursed directly; the purchaser's FMS Trust Fund account must be credited to reflect the transaction, using DoD appropriations or other purchaser funds, dependent on the buyer.

16.0 CASH SALES OF DEFENSE ARTICLES AND SERVICES FROM NEW PROCUREMENT FOR DIRECT DELIVERY AND NEW PRODUCTION

Defense articles procured for cash sales to an eligible foreign government or international agency for direct delivery, pursuant to 22 U.S.C. § 2762, must be priced to recover the full contract cost to DoD, including DoD recurring contract support costs and applicable DoD surcharges. Costs may be revised for increases in labor and materials, or for other changes in production and procurement costs. The purchaser is obligated to pay any damages or costs that may accrue from the purchaser's cancellation of the contract (termination liability). Applicable surcharges must be added to the contract cost and included in billings for incurred costs. An illustration of the price computation is in Exhibit 7-9.

16.1 Cost Principles

16.1.1. DoD articles must be priced based on the same cost principles used in pricing DoD contracts covering items for DoD use. Recognition must be given to other reasonable, allowable, and allocable contractor costs and risks as permitted in the [Federal Acquisition Regulation](#) and [Defense Federal Acquisition Regulation Supplement](#), unless the purchase is wholly funded through non-repayable FMF funds.

16.1.2. When insufficient funds are available in the FMS Trust Fund account of a foreign government to meet current cash requirements, DSCA must initiate, through the responsible DoD Component contracting officer, appropriate contractual actions that will balance current cash requirements with available funds, unless the provisions of 22 U.S.C. § 2762(b) are involved. This condition should not occur without notification to the FMS purchaser. See Volume 16, Chapter 6 for information on debt owed to the DoD by foreign entities.

16.1.3. The \$250,000 expense/investment threshold stated in [10 U.S.C. 2245a](#) does not apply to investment items funded by expense appropriations in support of BPC programs.

16.2 Nonrecurring RDT&E and Nonrecurring Production Costs

The price must include recovery of nonrecurring RDT&E costs and nonrecurring production costs as specified in DoDD 2140.02. Paragraph [15.5](#) contains further discussion of these costs.

16.3 CAS Costs Incurred in Support of New Procurements for FMS

16.3.1. CAS Surcharge. DFAS SCA recovers the cost of CAS by applying a percentage surcharge to the delivery transactions reflecting disbursements to contractors for FMS procurements on which applicable CAS have not been waived. The surcharge amounts collected are deposited to an account maintained by DFAS SCA and used to reimburse the DoD Components for CAS performed. The following surcharges are prescribed for DFAS SCA application to disbursement with reimbursable codes, specific delivery source codes, and price code "N":

FMS CAS Component	For LOAs Implemented Before October 1, 2002	For LOAs Implemented October 1, 2002 - November 30, 2014	For LOAs Implemented December 1, 2014 – January 31, 2020	For LOAs Implemented On or After February 1, 2020
Contract Administration/Management	0.50%	0.65%	0.50%	0.45%
Quality Assurance and Inspection	0.50%	0.65%	0.50%	0.45%
Contract Audit	0.50%	0.20%	0.20%	0.10%
Subtotal , Continental United States (CONUS) FMS CAS	1.50%	1.50%	1.20%	1.00%
Outside the CONUS (OCONUS)	Previously included above	0.20%	0.20%	0.20%
Total , CONUS + OCONUS FMS CAS	1.50%	1.70%	1.40%	1.20%

16.3.2. CAS Waivers. CAS is subject to waiver in whole or in part under 22 U.S.C. § 2761(h). See paragraph 13.3 for more information on CAS waivers. A listing of waived programs is included in the SAMM C9. CAS waivers apply only to those cost elements approved for the entire LOA, not only to a specific line/sub-line. CAS waivers are case-based and apply to new cases implemented on or after the approved waiver date. They are not retroactive nor applied to amendments on cases implemented prior to the waiver. The waived CAS element must be charged to DoD appropriations. DFAS and DSCA must reject billings to the FMS Trust Fund CAS Surcharge Account for charges that were waived.

16.4 CAS Costs Incurred in Support of Foreign Country Commercial Contracts

DoD support of commercial contracts awarded by foreign countries and international organizations represents an FMS sale of services. The Defense Contract Management Agency is responsible for performing this function. The hours expended in support of these commercial contracts must be accumulated and billed at an FMS contract administrative hourly labor rate published each FY by OUSD(C). For the current rate, see “Financial Management, Reports, Department of Defense Reimbursable Rates,” Contract Administration (Tab E).

16.5 Costs for Government-Furnished Materiel (GFM)

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

16.5.2. Supplied From a Contractor. All GFM supplied from another contractor must be billed to the FMS case as "work-in-process" when payments are made to the contractor supplying the GFM. GFM should be shipped via a [CCBL](#) or prepaid by the supplying contractor. Contracts with contractors supplying GFM should directly cite the FMS Trust Fund as the financing source to the maximum extent possible.

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

16.6 Other DoD-Funded Services in Support of FMS Procurements

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

16.6.2. If components are procured for an FMS purchaser and assembled by DoD personnel, assembly labor costs must be assessed in accordance with section [20.0](#).

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

16.7 Customization Costs

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

16.8 Items to be Replaced by Later Production (Diversions)

When new production and procurement items are diverted from Military Department delivery schedules, and will be replaced by later production, these items must be priced at the current production cost or the replacement production cost, whichever is higher.

16.9 Production by a Foreign Government

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

16.10 Recoupment of Interest Penalties Due to Prompt Payment Act

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

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

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

16.11 Price Codes

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

17.0 LEASING OF DEFENSE ARTICLES

Defense articles are leased to a foreign country or international organization under authority of [22 U.S.C. § 2796](#). Inspection, restoration, maintenance, accessorial costs, or other support costs incurred in connection with the lease must be priced in accordance with [this chapter](#) and included on a separate LOA. Lease charges must apply except for cooperative R&D projects, military exercises, communications, and/or electronics interface projects. Reimbursement of the lease charge for any defense article that has passed 75 percent of its normal service life may be waived if it is determined that to do so is important to the national security interest of the United States. This waiver authority has been delegated to the Director, DSCA or in the absence of the Director, the Deputy Director.

17.1 Pricing of Leased Defense Articles

The amount to be charged for the lease of defense articles is the depreciation incurred during the period of the lease. The depreciation charge is dependent upon the following (see Exhibit 7-10):

- 17.1.1. Date the item is to be leased,
- 17.1.2. Date the item was first fielded or actual acquisition date,
- 17.1.3. The total estimated service life of the item,
- 17.1.4. Duration of the lease,
- 17.1.5. The original acquisition cost of the item,
- 17.1.6. A pro rata share of nonrecurring RDT&E and production costs, and
- 17.1.7. Capital improvements made to the item.

17.2 Replacement Costs

Replacement costs must be estimated when the item is placed on lease and reflected in the lease agreement. In the event a leased defense article is damaged beyond repair, or is not returned, the replacement cost must be collected from the leasing foreign country or international organization. The FMS administrative surcharge does not apply to lease rental payments. The replacement cost must be calculated in accordance with subparagraphs [15.2.2](#) and [15.2.3](#). Refer to [SAMM C11](#) for procedures on leasing arrangements.

18.0 TECHNOLOGY TRANSFER

18.1 Technical Data Package (TDP)

A TDP encompasses production designs, drawings, specifications, models, manufacturing techniques and details, and similar information necessary to enable a foreign government to manufacture, or have manufactured, items of military equipment and repair parts, excluding information associated with the RDT&E stage. It also does not include technical assistance or knowledge by USG personnel; however, such assistance may be provided at additional cost. Refer to [SAMM C3](#) for additional information on TDP.

18.2 Pricing of TDPs

DSCA may authorize release of a TDP to a foreign government for in-country manufacture of military equipment and repair parts. Costs incurred in the preparation, reproduction, and handling of the TDP must be priced in accordance with section [19.0](#). When the pricing of the TDP is subject to an international agreement of which DoD is a party or is otherwise bound, the sale will be determined consistent with the terms of the agreement.

19.0 PUBLICATIONS

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

19.1 Terms

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

19.1.2. Medium of Publications. The medium of publication refers to the format of the publication; it may be in bound or loose-leaf format, imprinted form, Automated Data Processing listing, operator's card, microfilm, slide, motion picture film, computer disc, or internet accessible.

19.1.3. FMS Purchaser-Unique Publication. Unique publications are DoD standard publications sanitized for the elimination of non-releasable information or publications developed for a country's unique specification. Engineering drawings and associated documents will be reviewed to determine if a technology charge is appropriate. Refer to subparagraph [15.2.2](#) when pricing DWCF publications.

19.2 Publication/Software Pricing Factors

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

19.2.1. CPC. CPC are the costs incurred in the printing or reproduction of copies from the reproducible master.

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

19.3 Development of a Per Copy Selling Price

19.3.1. Calculation. The total cost of a publication or software program is the sum of the incremental costs identified in paragraph 19.2. The total cost must be reduced to a per copy expression by dividing the total incremental cost by the quantity produced.

19.3.2. Use of Actual Cost. Recorded actual costs will be used when available. When actual costs for individual publications or programs cannot be readily determined, a factored expression of historical costs will be developed from the most current cost records available. Uniform pricing tables can be developed from the cost per "unit" ("unit" being either a page, a roll of microfilm/microfiche page, or a running foot of tape or motion picture film). Paragraph 19.2 includes guidance for developing publication pricing tables.

19.4 Other Applicable Costs

19.4.1. Recoupment of NC does not normally apply to the sale of publications or software. However, if the item is MDE, then NC recoupment charges would apply. Applicable NC recoupment charges are a part of the cost included in the pricing formula set forth in paragraph 19.3.

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

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

20.0 PRICING OF PERSONNEL SERVICES

The pricing of DoD personnel services in support of the FMS program, including personnel costs recouped indirectly through the FMS administrative surcharge and those recouped as direct charges, such as special management services, Mobile Training Teams, Mobile Education Teams, Technical Assistance Teams, or Technical Assistance Field Teams, must be calculated in accordance with this section. See section 21.0 for the pricing of personnel assigned to DoD training installations and for those costs that may be waived or excluded from charges in certain cases discussed throughout this chapter. When determining the pricing for personnel services, every attempt should be made to use actual costs. If actual cost data is not available, estimated pricing is acceptable. The costs must be substantiated by a reliable audit trail.

20.1 Civilian Personnel

Services performed by DoD civilian personnel must be priced at rates in effect at the time the services are performed. Salary tables are available at the Office of Personnel Management ([OPM](#)) website.

Base salary rates must be accelerated as discussed in this paragraph. An illustration of civilian personnel pricing computation is shown in Exhibit 7-11.

20.1.1. Accelerated Rates and Factors

20.1.1.1. Fringe Benefits Rate is used to recover the USG's contribution of civilian employee benefits such as retirement, insurance and health plans, and cash awards, and is published annually at OUSD(C) DoD Reimbursable Rates, "Civilian Personnel Fringe Benefit (Tab D)".

20.1.1.2. Leave and Holiday (L&H) Factor is used to compensate for wages paid during leave or holiday period, and is currently set at 18 percent. L&H is not applied to civilian personnel assigned full time to a given requirement.

20.1.1.3. Unfunded Civilian Retirement (UCR) Factor is applied to recover retirement, post-retirement health benefits, and post-retirement life insurance costs incurred by USG, and is published annually at OUSD(C) DoD Reimbursable Rates. UCR does not apply to BPC Case- or FMS Admin-funded personnel.

20.1.2. The cost of civilian personnel assigned full time to FMS Case-funded requirements should reflect the annual salary for the applicable pay grades plus the Fringe Benefit Rate plus the UCR Factor. Otherwise, an hourly rate of 1/2087 of the annual rate plus the L&H Factor will be used, and the Fringe Benefits Rate and UCR Factor are then applied to the calculated hourly rate.

20.1.3. The cost of civilian personnel assigned full time to BPC Case-funded requirements, or funded 100 percent from the FMS Administrative Surcharge Budget, should reflect the annual salary for the applicable pay grades plus the Fringe Benefit Rate. Otherwise, an hourly rate of 1/2087 of the annual rate plus the L&H Factor will be used, and the Fringe Benefits Rate is then applied to the calculated hourly rate.

20.1.4. See paragraph [13.8](#) for the impact of "Fair Pricing" legislation on civilian personnel services in calculating charges for administrative services under 22 U.S.C. § 2796(e)(1)(A).

20.2 Military Personnel (MP)

20.2.1. MP services must be priced using the composite standard pay [and reimbursable](#) rates current at the time services are performed. MP service costs are not included in cases solely citing MAP Merger, FMF, or BPC funding.

20.2.1.1. DoD Reimbursable Rates, "Military Personnel Composite Standard Pay and Reimbursement Rates (Tab K)," are published, and periodically revised, by the OUSD(C). FMS costs are calculated using the "[Rate](#) Billable to FMS Entities." Monthly, daily, or hourly rates can be determined from these tables by using factors listed in the notes at the bottom of each page.

20.2.1.2. Historical rates are available by applicable FY, as noted in the DoD Reimbursable Rates. Prior to November 30, 1989, an Asset Use acceleration factor would have applied to the total costs of temporary duty (TDY) and military composite pay costs if the service was performed at a military installation.

20.2.2. Since FY 1985, the annual composite standard military rates include the cost of retirement. These composite rates, however, must also recover the cost of other benefits. L&H costs are added when reimbursements are based on time actually worked, such as when the foreign country does not otherwise pay for the personnel costs incurred by DoD during L&H periods. The additive amounts for retirement, L&H, and other benefits are expressed as percentages of the composite standard pay rate. Pricing computations are illustrated in Exhibit 7-12.

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

20.3 Foreign National Personnel

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

20.4 Travel and Living Allowances

20.4.1. The calculation of personnel costs must include travel time, for both TDY travel and PCS, when the travel directly results from performance of an FMS or BPC case (PCS does not apply to BPC).

20.4.2. Travel, per diem, living allowance payments, and other entitlements to DoD personnel working on FMS cases must be identical to the payments and entitlements of DoD personnel working on direct DoD mission assignments at similar locations. Refer to Volume 9 for additional information.

20.4.3. Waivers from the normal travel procedures must be granted to SA travelers on the same basis, and in the same manner, as provided for DoD personnel traveling on regular defense business.

20.4.4. An FMS case must be priced to include the amount paid to employees or centrally funded through authorized DoD entitlement programs.

20.5 Special Instructions Applicable to DWCF

20.5.1. Rates. DWCF facilities must charge approved DoD stabilized rates and prices for services in support of FMS cases, except where special rates have been approved by OUSD(C) or where actual cost reimbursement is appropriate. The stabilized rate to be charged is the rate in effect when the order is received and accepted (as opposed to when work is performed by DWCF supply management). See Volume 2B, Chapter 9 and Volume 11B for additional information on DWCFs.

20.5.2. UCR and Post-Retirement Health Benefits. The price or rate charged to FMS purchasers of DWCF activities for defense articles and services must be adjusted to include an amount for UCR and post-retirement health benefits costs. UCR would not be applied to any personnel funded by the FMS administrative account (see paragraph 13.8). To determine the price or rate adjustment, the civilian salary costs (not including benefits or overtime costs) included in the price or rate, must be multiplied by the UCR and post-retirement health benefits costs rate. Amounts collected for UCR and post-retirement health benefits costs must not be retained by DWCF activities; rather, such amounts must be deposited into the Miscellaneous Receipts Account 3041. The DoD Reimbursable Rates can be found at OUSD(C) DoD Reimbursable Rates website.

21.0 TRAINING OF INTERNATIONAL STUDENTS

21.1 General

Any special requirement for the exclusive use of an international student or international program must be reimbursed in full. Less than the full cost of training may be charged under training price exceptions, 22 U.S.C. § 2761.

21.2 International Student Training Price Exceptions

21.2.1. Title 22, U.S.C. § 2761(a)(1)(C) allows for countries concurrently (same FY) in receipt of International Military Education and Training (IMET) or designated as a high-income foreign country to be charged only those additional costs that are incurred by the USG in furnishing the training.

21.2.2. Title 22, U.S.C. § 2761(g) authorizes the President to enter into NATO Standardization Agreements (STANAG). The President also is authorized to enter into similar agreements with countries that are major non-NATO allies for the cooperative furnishing of training on a bilateral or multilateral basis, if the financial principles of such agreements are based on reciprocity.

21.2.2.1. Such agreements must include reimbursement for all direct costs but may exclude reimbursement for indirect costs, administrative surcharges, and costs of billeting of trainees (except to the extent that members of the U.S. Armed Forces, occupying comparable accommodations, are charged for such accommodations by the United States).

21.2.2.2. Each such agreement must be transmitted promptly to the Speaker of the House of Representatives and the Committees on Appropriations, Armed Services, and Foreign Relations of the Senate. See [SAMM C10.T13](#) and [SAMM C10.T14](#) for more information on Reciprocal Agreements.

22.0 STANDARD GUIDELINES FOR TUITION-BASED TRAINING

Training provided to international students must be based on the costs of providing the training. Several factors affect the tuition rate for which an international student is eligible. The source of financing is one determinant (e.g., whether a country uses its national funds to purchase training or whether U.S. appropriated funds are used to purchase the training). Other factors include whether a country is a high-income country, whether it has signed a reciprocal training agreement with the United States, and/or whether the country is concurrently in receipt of IMET funding. A general tuition rate pricing structure for pricing training is in [Exhibit 7-13](#).

22.1 Types of Training

22.1.1. Standard Formal Training. Formal training provided to international students may consist of flying training courses, technical training courses, language training, and other training not specifically addressed in subparagraph [22.1.2](#). Tuition rates are generally shown as a cost per student or cost per student week. Refer to section [23.0](#) for pricing of tuition-based training.

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

22.1.2.1. Observer Training. Observer training where International students, who audit a course, must be charged the same price as enrolled students; and

22.1.2.2. Distance Learning. Distance learning or other technology-based training as follows:

22.1.2.2.1. A material only training course that is provided solely by computer media (e.g., computer disc), satellite video teleconference (VTC) or closed circuit VTC, is non-resident, and is being developed solely for the training of international students (one country or a group of cooperating countries), must be priced to fully recoup all costs to the USG including the costs (in-house and contractual) to develop and produce the training, and the costs of the materials (such as a computer disc) (see paragraph [19.2](#) for publication/software pricing);

22.1.2.2.2. A material and proctor/on-line service, non-resident training course developed solely for the training of international students (one or more countries) that is provided by computer media (e.g., computer disc), plus on-line services (proctor), to include testing, must be priced to recoup all costs (in-house and contractual) to develop and produce the training; the costs of the materials (such as a computer disc); and the actual, or estimated, costs of the services (see paragraph [23.1](#) for training cost categories and paragraph [19.2](#) for publication/software pricing); and

22.1.2.2.3. Resident courses developed solely for the training of international students that is on computer media (e.g., computer disc), plus on-line services (proctor), must be priced to recoup all costs (in-house and contractual) to develop and produce the training; the costs of materials (such as computer disc); the actual, or estimated, costs of the services; and the costs for resident training (see paragraph 23.1 for training cost categories and paragraph 19.2 for publication/software pricing).

22.1.2.3. Dedicated Training Courses. For purposes of this section, a dedicated training course is a training course developed or provided solely for the training of international students (one or more countries). Pricing of dedicated training courses must be in accordance with section 24.0.

22.1.2.4. Contractor-Provided Courses. Contractor-provided courses must include the applicable contract costs. If taught at a government-owned/government operated facility, pricing of indirect costs must be in accordance with section 23.0.

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

22.1.2.6. Specialized/Dedicated Training Programs. Refer to section 24.0 for specialized/dedicated training program guidance.

22.1.2.7. Training Teams. Refer to section 25.0 for pricing guidance for training team.

22.2 Courseware Development

22.2.1. Recoupment of Nonrecurring Development Costs

International student participation in any of the aforementioned types of courses that have been developed for use by U.S. DoD personnel must not include the recoupment of nonrecurring development costs. Since these courses/courseware are not items of SME or MDE, the nonrecurring development costs of the original U.S. courses/courseware must not be included in the price. The costs of providing unique training material based on U.S. developed course/courseware (e.g., sanitizing, customizing, and country standardization) must be recouped.

22.2.2. Pricing of Non-Inventory Courseware

22.2.2.1. When an international partner has requested that specific courseware be developed to meet its training requirements, either for training in the U.S. or for its own in-country training purposes, and the United States does not currently offer or have such courseware developed, the full costs of developing that courseware must be charged to the international partner. Assumptions used in pricing include: courseware does not currently exist,

country-specific requirements being addressed/developed, work hours required to prepare/develop the courseware, courseware may require materials, and courseware may be used in the future for another country if deemed appropriate.

22.2.2.2. The cost must include, but is not limited to, the personnel or contractor costs incurred in the development of the courseware material, and/or supply costs incurred for the cost of publishing the courseware, and any shipping costs that may be incurred if delivering the courseware in-country. The guidance for applying costs to publications, if applicable, may be found in section 19.0.

22.2.2.3. When determining the pricing for personnel services, every attempt should be made to use actual costs. If actual cost data is not available, estimated pricing is acceptable. The costs must be substantiated by a reliable audit trail. Pricing of civilian/MP will be in accordance with section 20.0.

22.3 Liability for Damages

22.3.1. Training cases that involve the use of U.S. equipment (e.g., aircraft, trucks, or simulators), but do not include charges for attrition, must include the statement regarding liability for damages, “The Purchaser is liable for any and all damages to U.S. Government equipment caused by negligence on the part of the student.” For students attending training under the IMET program, the student’s Invitational Travel Order (ITO) must include the liability statement. The cost of replacing equipment that is destroyed as a result of student negligence must be reimbursed in full. See section 15.0 for instructions on pricing replacement equipment. Refer to Chapter 3 for guidance on attrition charges.

22.3.2. Claims arising out of combined exercise activities with USG under an LOA with NATO countries must be dealt with under the Agreement between the Parties to the North Atlantic Treaty, regarding the Status of their Forces, Article VIII. This also applies to the Agreement among the States Parties to the North Atlantic Treaty and the other States participating in the Partnership for Peace regarding the Status of their Forces.

22.4 Training Obligation

22.4.1. General. In general, a training course is an entire effort. This is particularly evident with USG contracted training. However, USG provided training funded by DoD or DoS appropriations must end by the funds expiration date, as this training is severable and must not cross a FY, unless crossing a FY is authorized for a specific authority or program (i.e., FSF: authority to build capacity under 10 U.S.C. § 333, IMET, Combating Terrorism Fellowship Program and the Regional Centers).

22.4.2. Obligations. Funds for training are obligated on the date the student enters the course. In some cases, due to the long-range nature of planning required to support students’ participation in a training course, funds can be obligated prior to the start date of the course, so long as the obligation meets a bona fide need of the current FY and are obligated during the appropriated period of availability.

22.5 Annual Publication of Tuition Rates

Tuition rates must be computed annually by the Military Departments and published in the Training Military Articles and Services List ([SAMM C10.4.3](#)). Every effort should be made to publish these rates by October 1st of each year. Tuition rates must be those in effect for the year in which the student enters the course or phase of a course. Approved rates must remain constant for the year.

22.6 Adjustments to Tuition Rates and Training Obligations

22.6.1. Current Year. Adjustments must be made only to correct significant errors in computation, change in syllabus, or major unanticipated increases or decreases in the cost of such items as POL and salaries. The foreign country must be billed for the actual time the student is in training when it varies from the scheduled length of the course. Any adjustments must be made as soon as possible, but not later than 90 days after completion of the course.

22.6.2. Future Year. Tuition rate estimates for future years must be adjusted for inflation. OUSD(C) published rates will be used. See [OUSD\(C\) DoD Budget Request](#), “National Defense Budget Estimates (Green Book),” for treatment of inflation.

22.7 Training Cancellations

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

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

22.7.3. Other Cancellation Charges. The IA will determine all other cancellation charges. To the extent there are costs that would not exist but for the international student, such costs must be considered by the IA in determining the appropriate cancellation charge (e.g., cost of the International Military Student Office (IMSO)). Request for waivers to these cancellation charges should be addressed to the IA. The funding status of a training line has no bearing on whether the cancellation charge applies. The cancellation charge will not be applied when the cancellation is due to:

22.7.3.1. USG decisions, such as deletion or rescheduling of classes;

22.7.3.2. Unavoidable circumstances within a country, such as national disaster; or

22.7.3.3. The quota being used by another country.

22.8 Student Costs

Certain costs associated with support of international students and/or their dependents are considered to be a responsibility of the foreign government and are not included in the tuition rate for a training course(s). The student's ITO will contain details about the level of support provided in accordance with the FMS LOA; see [SAMM C10.11](#) for more information. Compute and bill these costs as follows.

22.8.1. Meals. Meal rates are set annually by OUSD(C) and published on the OUSD(C), DoD Reimbursable Rates, "Food Service Charges at Appropriated Fund Dining Facilities (Tab G)."

22.8.2. Medical. Medical care (including outpatient) for students and dependents must be charged in accordance with the procedures identified in [SAMM C10.9](#). If included on the LOA, these costs must be shown as a separate line and billed to the foreign country.

22.8.3. Travel. Student travel, living allowances, and related costs must be paid to the commercial carrier, or other service provider, by the foreign country or student. For any U.S. services supplied (e.g., Air Mobility Command transportation), the non-government rate must be applied and billed to the foreign country or student, as appropriate. The government rate applies for IMET or non-repayable FMF.

22.8.4. Lodging

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

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

22.8.4.3. NATO STANAG/Reciprocal Pricing Agreement Countries. Lodging costs may be excluded from reimbursement for billeting of trainees except to the extent that members of the Armed Forces occupying comparable accommodations are charged for such accommodations by the United States.

22.9 Field Studies Program (FSP)

In accordance with [DoDI 5410.17](#), “United States Field Studies Program (FSP) for International Military and Civilian Students and Military-Sponsored Visitors,” tuition rates must include the costs associated with implementation of FSP.

22.9.1. Included Costs. Costs that may be included in the computation of the FSP include the following:

22.9.1.1. Transportation – car, bus, rail, air (if applicable to the Washington D.C. trip), and baggage (non-excess);

22.9.1.2. Meals – costs should be limited to those rates as specified in the Joint Travel Regulations, ([JTR](#));

22.9.1.3. Lodging – if applicable, the costs of lodging will be based on double occupancy for those International Military Students (IMS) in the rank/equivalent grade of O-6 and below. Single room accommodations are allowed for escorts and those IMS in the rank/equivalent grade of O-7 or higher;

22.9.1.4. Admission (except as noted in subparagraph [22.9.2.4](#));

22.9.1.5. Tours and associated fees (e.g., brochures, pamphlets, maps);

22.9.1.6. Appropriate gratuities, where applicable;

22.9.1.7. Service charges (e.g., tolls and parking fees);

22.9.1.8. Costs associated with authorized guests at FSP functions such as luncheons, dinners, and receptions planned to facilitate IMS and U.S. personnel meeting and engaging in conversation. The ratio of IMS to guests will not be less than 20 percent in gatherings of fewer than 30 persons. When 30 or more persons are present, the ratio of IMS to guests will not be less than 50 percent;

22.9.1.9. Mementos (e.g., coins and plaques) for sponsors, guest speakers, and other individuals/institutions that support the FSP at a cost not to exceed \$25 (rate to be adjusted annually by OUSD(C) [in each year’s Program and Budget Review](#) Inflation Guidance); and

22.9.1.10. Distinctive medallions, plaques, or ornaments, one per IMS, which serve to commemorate the IMS’s experience for participating in a particular FSP activity.

22.9.2. Excluded Costs. Funds may not be obligated or expended to pay for the following:

22.9.2.1. Alcoholic beverages;

22.9.2.2. Excess baggage;

22.9.2.3. Support for purely academic objectives (i.e., costs for trips that are an integral part of the training curriculum must be included in the course tuition rate);

22.9.2.4. Entertainment expenses for activities that are substantially of a recreational character, including but not limited to entrance fees at sporting events, theatrical and musical productions, and amusement/theme parks;

22.9.2.5. Personal costs of the IMS for laundry, cleaning, telephone service, room service, and all other costs not directly associated with the programmed tour; and

22.9.2.6. Dependents authorized to accompany an IMS in the United States participating in selected FSP activities; such participation is subject to space availability and at no cost to the FSP. Costs related to such participation must be paid by the IMS in advance of the event.

22.9.3. IMSO Costs

22.9.3.1. Local area travel costs are reimbursable in accordance with the JTR.

22.9.3.2. Washington, D.C. trip costs will include all appropriate costs for the IMS as well as the escort officer(s) (e.g., transportation, meals, lodging, and admissions). For more information on visits to Washington, D.C., see [SAMM C10.18.5](#).

22.10 Retainable Instructional Materials (RIM)

Much of the RIM issued to an IMS is provided via compact disk; however, if there is a need to ship RIM, include the cost of the shipment in the tuition cost. RIM must be packed and labeled at the training installation and shipped to the Security Cooperation Office of the country for delivery to the IMS. A copy of the student's ITO must be placed inside the package. The training installation must ensure that no personal baggage or other unauthorized matter is shipped with RIM. See [SAMM C10.20.6](#) for additional information.

23.0 PRICING OF TUITION-BASED TRAINING

23.1 Cost Categories

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

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

23.1.2. Indirect Cost. Indirect costs are costs of resources that are jointly or commonly used by all activities at an installation, but are not specifically identifiable with any of the users.

These costs are not directly related to training, but instead are associated with a variety of activities and services.

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

23.2 Pricing of Personnel

23.2.1. MP

23.2.1.1. Full Costs. Price military pay using the FMS composite standard rates, which include the per capita normal cost of Medical Eligible Retiree Health Care (MERHC) and the acceleration factor for the Defense Health Program (DHP) published at OUSD(C) DoD Reimbursable Rates website, under “Military Personnel Composite Standard Pay and Reimbursement Rates,” (Tab K). In addition, see paragraph 20.2 and Exhibit 7-12 for pricing applicability.

23.2.1.2. Additional Cost. Base pay and allowances of U.S. active duty personnel, including MERHC and DHP costs, are considered a sunk cost and are normally not considered an additional cost, except as noted in paragraph 23.4. Additional costs related to military deploying as part of a training team could include such costs as hazardous duty pay, family separation pay, travel, and per diem. Exceptions are:

23.2.1.2.1. Military positions coded as reimbursable billets applicable to FMS must be considered additional costs. Budget materials must clearly reflect the reimbursable nature of the billet;

23.2.1.2.2. MP assigned to DWCF activities must be considered additional costs; and

23.2.1.2.3. Pay and allowances of National Guard/Reserve members called to active duty in support of FMS must be considered additional costs.

23.2.2. Civilian Pay

23.2.2.1. Full Cost. Price civilian pay in one of two ways:

23.2.2.1.1. Using actual costs plus inflation and applicable acceleration factors (recommended for tuition pricing); or

23.2.2.1.2. In accordance with paragraph 20.1 and Exhibit 7-11.

23.2.2.2. Additional Cost. Base pay and allowances of U.S. civilians are not necessarily considered sunk costs and may/may not be considered an additional cost. Additional costs related to civilians deploying as part of a training team could include such costs as hazardous

duty pay, travel, and per diem. See [Exhibit 7-13](#) for tuition training pricing applicability. Additional costs would include:

23.2.2.2.1. Civilian positions coded as reimbursable billets applicable to FMS. Budget materials must clearly reflect the reimbursable nature of the billet; and

23.2.2.2.2. Civilian personnel assigned to DWCF activities.

23.3 Pricing of Full Cost of Training (Tuition Rates A and B)

Full cost includes all direct costs and a proportional share of indirect costs to the USG for providing the training, regardless of funding sources. When developing the full cost of training, take into account the cost of training both U.S. and international students. For international students, full cost will also include the other billable costs. Rates priced using full cost principles include Rates A and B in Table 7-2. Training price exceptions are found in subparagraph [21.2](#).

23.3.1. Direct Costs

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

23.3.1.1. Instructors and School Support Staff

23.3.1.1.1. Instructors

23.3.1.1.1.1. Average Instructor Costs. The cost of instructor salaries, allowances, and other entitlements is computed by dividing the annual instructor cost by 52 weeks and multiplying the result by the number of weeks in the applicable course (see section [20.0](#)). Divide this cost by the maximum class size to develop the instructor cost per student.

23.3.1.1.1.2. Instructor Contact Hours. Instructor costs may be allocated on an instructor contact-hours basis (e.g., total platform work hours allocated as instructor contact-hours per student); this is one method to allow for equitable distribution.

23.3.1.1.1.3. Total Training Man Weeks (TTMW). Instructor costs are calculated by multiplying the number of weeks for given courses times the total number of students enrolled to derive the total “Training Man Weeks” for a given course. The “Training Man-Weeks” for all courses at a training activity are summed together to calculate the TTMW for a training activity. The total salaries for a training activity are then divided by the TTMW to develop a weekly rate. The weekly rate is then multiplied by the number of weeks for a given course to calculate the instructor cost per course.

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23.3.1.1.2. School Support Staff

23.3.1.1.2.1. Average School Support Staff Costs. Compute the cost of salaries, allowances, and other entitlements of administrative and other personnel supporting training by dividing the total annual cost by total course weeks of training and multiplying the result by the number of weeks in the applicable course. Divide this cost by the maximum number of students in the class to develop the school support staff cost per student.

23.3.1.1.2.2. Total Training Man Weeks (TTMW). School support staff costs are calculated by multiplying the number of weeks for given courses times the total number of students enrolled to derive the total "Training Man Weeks" for a given course. The "Training Man Weeks" for all courses at a training activity are summed together to calculate the TTMW for a training activity. The total salaries for a training activity are then divided by the TTMW to develop a weekly rate. The weekly rate is then multiplied by the number of weeks for a given course to calculate the school support staff cost per course.

23.3.1.1.3. IMSO and Staff. Allocate the cost of the IMSO and staff to courses based on actual or programmed international student weeks.

23.3.1.2. TDY and Per Diem. The cost of TDY must be allocated to courses based on a causal or beneficial relationship. Accordingly, TDY must be segregated into two categories: direct TDY that is caused by or benefits a specific course or courses and indirect TDY that benefits the training operation as a whole. TDY that is directly related to (or benefits) one or more courses must be directly allocated to those courses. To preclude "double charging" TDY to a course, care must be taken to ensure that all directly allocable travel is eliminated from the TDY included in the indirect cost pool.

23.3.1.3. Equipment Overhaul and Maintenance

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

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

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

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

23.3.1.5. Supplies, Materiel, Training Aids, and Ammunition

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

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

23.3.1.6. Directly Associated Costs

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

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

23.3.2. Indirect Costs

23.3.2.1. Indirect Base Operating Support Costs

23.3.2.1.1. Allocation. Indirect base operating costs must be initially allocated to major claimants (e.g., training activities and tenants) at the installation level using engineering estimates or some other basis to ensure that allocations are commensurate with the benefits received. The amount allocated to training must then be distributed to areas of training

that are significantly different (e.g., flying operations, classroom training, and equipment maintenance). The amount allocated to each area of training must then be distributed to the tuition rate by dividing the amount allocated by the annual estimated student weeks of training.

23.3.2.1.2. Exclusions. No costs to support or operate quarters, a family housing complex, and food service activities that are applicable to instructors and training support personnel may be allocated to tuition rates if these costs are recouped in base personnel salaries.

23.3.2.2. Maintenance and Repair of Facilities. Maintenance and repair of facilities must be considered part of the normal base operating support costs, unless these costs can be directly identified to a specific user (e.g., dedicated facility, specific to a course or courses). When non-dedicated facilities are used for training, the costs are included as indirect costs in the tuition rates. These costs may be combined with other indirect costs and allocated at the installation level or allocated based on a separate cost pool. IAs may not unilaterally dedicate facilities for international student use and then recoup the full cost of the maintenance and repair of the facilities through tuition rates. Such maintenance and repair costs will be combined with other indirect costs and allocated at the installation level. See sections 10.0 and 11.0 for more information on facility usage.

23.3.2.3. Indirect TDY. TDY that is caused by or benefits the training operation as a whole must be allocated to courses by dividing these total indirect TDY costs by total number of students to determine the course cost per student.

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

23.3.2.5. Exclusions. Exclude the following from indirect allocations:

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

23.3.2.5.2. Costs associated with units attached to the training installation with duty stations at another location that are not involved in the training of international students; and

23.3.2.5.3. Costs related to underutilized capacity and mobilization requirements, when specifically identified and documented.

23.3.3. Other Billable Costs

23.3.3.1. Attrition Rate/Liability Statement. For FY 1996 through FY 2016, Tuition Rate A will include the attrition factor (SAMM C9.T4) whenever the training or education course includes the use of training equipment or operational equipment used as training aids.

For all FYs, Tuition Rate B will include the liability statement in subparagraph 22.3.1. Title 22, U.S.C. § 2761(a)(1)(C) states the full cost of the service must be paid by the purchaser.

23.3.3.2. FSP. Tuition rates must include the costs of the FSP if a program exists at the training location. Do not include if there is no FSP at the training location. See paragraph 22.9 and SAMM Chapter 10 for more information on FSP.

23.3.3.3. RIM. Tuition rates must include the costs of RIM, if applicable. See paragraph 22.10 for more information on RIM.

23.3.3.4. FMS Administrative Surcharge. The current FMS administrative surcharge must be applied to Tuition Rate A. Exceptions are contained in the SAMM Table C10.T13 and [SAMM Table C10.T14](#).

23.4 Pricing of Additional Cost Training (Rates C, D, and E)

Additional costs represent the increase incurred in the full cost of training due to the addition of international students. Title 22, U.S.C. § 2761(a)(1)(C) provides the authority to apply additional cost pricing to training sold to a purchaser concurrently in receipt of IMET or a purchaser designated as a high-income country. [Title 22 U.S.C. § 2347\(b\)](#), provides the authority for FMF recipients (Rate D) to be charged at a rate comparable to IMET (Rate E). Title 22, U.S.C. § 2770(a)(3) provides the authority to exclude military salaries from additional cost pricing when the training is funded with U.S. appropriated funds; see [Exhibit 7-14](#).

23.4.1. Direct Costs

23.4.1.1. Instructors and School Support Staff

23.4.1.1.1. Courses must be reviewed to determine if the additional cost should be developed for a specific course (e.g., pilot training) or a group of courses. For classroom or technical courses that are similar or that utilize instructors who teach more than one course, such courses may be grouped for computation purposes.

23.4.1.1.2. For courses that contain both U.S. and international students, determine instructor and staff requirements for the programmed (maximum) U.S. student load. Estimate the total number of students, both U.S. and international, and the number of instructors and staff required. Where total estimated student requirements exceed maximum programmed student requirements, the difference in instructor and staff between the two projections represents the additional costs. This value, divided by the total number of students, represents the additional cost per student for the course(s).

23.4.1.1.3. When there is a one-for-one or one-for-two relationship of instructor to student, the instructor in all cases must be considered an additional cost. If the entire class is composed of international students, the instructor and staff must always be considered additional.

23.4.1.1.4. It is anticipated that the additional cost charged for instructors must be minimal for courses or groupings of courses when the ratio is high of either students to instructors or U.S. students to international students.

23.4.1.2. TDY and Per Diem. The costs for all student travel and per diem associated with the training must be considered an additional cost. Refer to subparagraph [23.3.1.2](#) for additional TDY and per diem information.

23.4.1.3. Equipment Overhaul and Maintenance. The cost for overhaul and maintenance of major items of equipment, when computed on an hourly use basis, must be an additional cost to a course based on estimated utilization hours. Refer to subparagraph [23.3.1.3](#) for additional information.

23.4.1.4. Simulators. The cost for simulator hours must be an additional cost. Refer to subparagraph [23.3.1.4](#) for additional information.

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

23.4.1.6. Directly Associated Costs

23.4.1.6.1. Instructor Training. The training of U.S. instructors or other personnel for special courses normally not conducted for U.S. personnel must be considered an additional cost. When the required training is conducted at a U.S. training facility, the benefiting country must be charged the course cost established in accordance with instructions for computing training costs in paragraph [23.3](#).

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

23.4.2. Indirect Costs

Standard weekly rates for base operating support must be charged to additional cost training rates, as developed by the IAs, and adjusted annually. Include only those additional base operating support costs that are incurred because of international student attendance. See subparagraph [23.3.2](#) for additional information on indirect costs.

23.4.3. Other Billable Costs

23.4.3.1. Attrition Rate/Liability Statement. For FMS training sold using additional cost pricing (Tuition Rates C-D in Table 7-2), include the liability statement in subparagraph [22.3.1](#).

23.4.3.2. FSP. The full cost to the USG of FSP must be considered an additional cost. See paragraph 22.9 for more information on FSP.

23.4.3.3. RIM Shipment. If RIM is applicable for a course, then the costs must be considered an additional cost. See paragraph 22.10 for more information on RIM.

23.4.3.4. FMS Administrative Surcharge. The current FMS administrative surcharge must be charged on FMS training cases/lines receiving incremental pricing (Tuition Rates C-D in Table 7-2). Tuition Rate E (IMET) is exempt from paying the FMS administrative surcharge.

23.4.4. Exclusions

The unfunded civilian retirement charge that is deposited to the Miscellaneous Receipts Account of the U.S. Treasury must be considered a fixed cost and not included in incremental priced training rates (Tuition Rates C-E in Table 7-2).

24.0 PRICING OF SPECIALIZED/DEDICATED TRAINING PROGRAMS

When pricing specialized dedicated training programs, full cost-pricing principles (refer to paragraph 23.3) must be applied. Appropriate legislative authority and terms of the formal agreement must be taken into consideration. The information in paragraphs 24.1 and 24.2 is provided for current specialized/dedicated training programs. General guidelines for other types of training events are found in the SAMM Chapter 10.

24.1 Air Force Specialized/Dedicated Training Programs

24.1.1. Euro-NATO Joint Jet Pilot Training (ENJJPT) Program

24.1.1.1. The ENJJPT multinational cooperative training program at Sheppard Air Force Base, Texas is an activity authorized by 22 U.S.C. § 2761(g). The LOAs clearly indicate that the AECA is the authority of the program but remain silent as to which exact section authorizes the activity. Associated program documents (Memorandum of Understanding and Plan of Operations) clearly state that the activity is undertaken "in furtherance of NATO rationalization and standardization" and "in the cooperative spirit of the NATO alliance," while also citing the NATO Status of Forces Agreement.

24.1.1.2. While a NATO or Major Non-NATO Ally may also be in receipt of IMET funds, once a cooperative training agreement of the type envisioned by 22 U.S.C. § 2761(g) is signed, it becomes the section of the U.S.C. that determines the terms under which the training activities are conducted if the financial principles are based on reciprocity. These reciprocal agreements include reimbursement for all direct costs and may exclude reimbursements for indirect costs, the FMS Administrative Surcharge, and the cost of trainee billeting (unless U.S. forces are charged to occupy like accommodations). The application of the FMS Administrative Surcharge and Contract Administration Surcharge to the ENJJPT Program is waived.

24.1.2. Dutch F-16 Training Program

24.1.2.1. The Dutch F-16 training program is conducted under the authority found in 22 U.S.C. § 2761(g). Based on that authority, the program must recoup reimbursement for all direct costs but may exclude reimbursement for indirect costs, the FMS administrative surcharge, and the cost of trainee billeting (unless U.S. forces are charged to occupy like accommodations).

24.1.2.2. The U.S.C. allows for some flexibility when it comes to the billing of indirect costs under 22 U.S.C. § 2761(g) so those preparing the costs can properly account for sharing of the total cost of the program. Unique program agreements may provide specific reimbursement details to which the parties have agreed. The FMS administrative surcharge has not been excluded for this program. Costs associated with the salaries of activated troops of the reserve component/National Guard would be a cost to the program.

24.1.3. The German Air Force (GAF) Tornado Program. The GAF Tornado Program is a dedicated training program, authorized by 22 U.S.C. § 2761(g). Based on that authority, the program must recoup reimbursement for all direct costs but may exclude reimbursement for indirect costs, the FMS Administrative Surcharge, and the cost of trainee billeting (unless U.S. forces are charged to occupy like accommodations). Again, the U.S.C. allows for some flexibility when it comes to the billing of indirect costs under 22 U.S.C. § 2761(g), so those preparing the costs can properly account for the sharing of the total cost of the program. Unique program agreements may provide specific reimbursement details to which the parties have agreed. The FMS Administrative Surcharge has not been excluded for this program.

24.1.4. The Republic of Singapore Air Force (RSAF) PEACE CARVIN V (PC V) F-15 Training Program. The RSAF PC V program is authorized by 22 U.S.C. § 2761(a)(1)(C). Singapore is identified as a high-income country under the FAA § 546(b) and is eligible to receive training priced using the additional cost concept. Absent a formal agreement, costing procedures should follow the guidelines in paragraph 23.4.

24.1.5. The RSAF PEACE CARVIN II (PC II) F-16 Training Program. The RSAF PC II program is authorized by 22 U.S.C. § 2761(a)(1)(C). As a high-income country, Singapore is eligible to receive training priced using the additional cost concept. Absent a formal agreement, costing procedures should follow the guidelines in paragraph 23.4.

24.1.6. Taiwan Air Force PEACE FENG HUANG F-16 Training Program. Taiwan's PEACE FENG HUANG program is conducted under the authority of 22 U.S.C. § 2761(a)(1)(C). Taiwan is not under special pricing authority and therefore pays the full cost of training. Refer to paragraph 23.3.

24.2 Army Specialized/Dedicated Training Programs

24.2.1. The RSAF Peace Prairie CH-47 Chinook Helicopter Training Program. The Peace Prairie Program is conducted under the authority of 22 U.S.C. § 2761(a)(1)(C). As a high-income country, Singapore is eligible to receive training priced using the additional cost concept. Absent a formal agreement, costing procedures should follow the guidelines in paragraph 23.4. Costs

associated with the salaries of activated troops of the reserve component/National Guard would be considered an additional cost.

24.2.2. The RSAF Peace Vanguard AH-64 Apache Helicopter Training Program. The Peace Vanguard Program is conducted under the authority of 22 U.S.C. § 2761(a)(1)(C). As a high-income country, Singapore is eligible to receive training priced using the additional cost concept. Absent a formal agreement, costing procedures should follow the guidelines in paragraph 23.4. Costs associated with the salaries of activated troops of the reserve component/National Guard would be considered an additional cost.

24.3 Personnel

Specialized/dedicated training programs may be supported by U.S. personnel, international personnel, or a combination of the two. When establishing a specialized/dedicated training program, an assessment must be performed to determine whether additional U.S. personnel are required to support the training. Care should be taken to ensure these individuals are properly coded as reimbursable billets and whether they are considered a direct cost or an indirect cost. Other personnel billets may provide support to the training.

24.3.1. MP. Pricing for U.S. MP must be in accordance with subparagraph 23.2.1. Where international military members are filling training instructor billets, apply the comparable U.S. rate if computing costs to charge or compensate.

24.3.2. Civilian Personnel. Pricing for U.S. civilian personnel must be in accordance with subparagraph 23.2.2. Apply the unfunded civilian retirement factor where applicable.

24.4 Inflation Factors

Estimates for future years must be adjusted for inflation. OUSD(C) published rates will be used. See subparagraph 3.2.1.2.

24.5 Start-up Costs

The FMS purchaser is responsible for all costs, to include expenses incurred by IA activities assisting in the establishment of the training. Costs to consider in the start-up of a specialized/dedicated training program may include, but are not limited to, the following: environmental analysis/assessment/impact; construction of, alteration of, or expansion of existing facilities (refer to section 10.0); a pro rata share of the costs for joint use of USG facilities (refer to section 11.0); acquisition of equipment required to execute the program; commercially-leased space (i.e., off-base offices, on-base modular buildings); and one-time site activation costs, if applicable.

24.6 Direct Costs

Refer to subparagraph 23.3.1 (full cost) or subparagraph 23.4.1 (additional cost) for the types of costs appropriate to charge as direct costs.

24.7 Indirect Costs

Refer to subparagraph [23.3.2](#) (full cost) or subparagraph [23.4.2](#) (additional cost) for the types of costs appropriate to charge as indirect costs.

24.8 Other Billable Costs

24.8.1. Attrition Surcharge/Liability Statement. If specific program agreements do not address the application of the attrition surcharge, the liability statement in subparagraph [22.3.1](#) must be included on the LOA.

24.8.2. FSP. Specialized training programs may include the costs of the FSP if the purchaser(s) desires to participate in such. Refer to paragraph [22.9](#).

24.8.3. RIM. If there is a need to ship RIM, include the cost of the shipment in the pricing of the specialized training program. Refer to paragraph [22.10](#).

24.8.4. FMS Administrative Surcharge. The current FMS administrative surcharge must be applied to the specialized training program, where applicable. Refer to subparagraphs [23.3.3.4](#) and [23.4.3.4](#).

25.0 PRICING OF TRAINING TEAMS

When training is conducted by a Security Cooperation Team/SA Team (e.g., Management Service Team, TAFT, Extended Training Service Specialist, or MTT) away from the normal training institution, the services of the team must be treated as a service and priced in accordance with paragraph [23.2](#). Training aids must be included in the pricing. All pay and allowances, travel, and per diem paid to members of the team established to conduct in-country training must be considered costs of the training team except as noted in paragraphs [25.1-25.4](#).

25.1 Teams Fully Financed by FSF Funding

25.1.1. Military Pay and Allowances. Exclude the cost of military pay and allowances.

25.1.2. Civilian Pay and Allowances. Exclude the cost of civilian pay and allowances.

25.1.3. Attrition/Liability Statement. Include the liability statement, “The Purchaser is liable for any and all damages to U.S. Government equipment caused by negligence on the part of the student.”

25.2 Teams Fully Financed by MAP Merger, FMF, IMET, or BPC Funding

25.2.1. Military Pay and Allowances. Exclude military pay and allowances from the costs established for teams conducting in-country training fully financed by MAP Merger or FMF, financed under the IMET program, or DoD-funded BPC teams. Should a MAP/MAP Merger case be less than 100 percent financed by such funds, it must be re-priced to include the full cost of MP.

25.2.2. Civilian Pay and Allowances. Exclude civilian unfunded retirement from the costs established for teams conducting in-country training fully financed by MAP Merger or FMF, financed under the IMET program, or DoD-funded BPC teams. Refer to paragraph 23.2 for an explanation and pricing.

25.3 Teams Financed by an IMET-Recipient Country/High-Income Country

For teams conducting in-country training financed by a high-income country or an IMET-recipient country using its own national funds, determine whether personnel costs are considered an additional cost to the USG. Refer to paragraph 23.2 for an explanation and pricing.

25.4 Teams Using National Guard/Reserve Personnel

If National Guard or Reserve personnel are activated solely to conduct FMS training, those costs must be considered additional costs to the USG and must be properly charged to the country or countries receiving the training. Refer to paragraph 23.2 for an explanation and pricing.

Table 7-1. Federal Condition Code

DISPOSAL CONDITION CODES	Supply Condition Code						
				A	B	C	D
				SERVICEABLE			
				Issuable without qualification	Issuable without qualification	Priority Issue	Test/ Modification
	1	UNUSED	G O O D	50%	30%	30%	30%
	2	UNUSED	F A I R	30%	20%	20%	20%
	3	UNUSED	P O O R	10%	10%	10%	10%
	4	USED	G O O D	40%	30%	30%	30%
	5	USED	F A I R	30%	20%	20%	20%
	6	USED	P O O R	10%	10%	10%	
	7	REPAIRS REQUIRED	G O O D				20%
	8	REPAIRS REQUIRED	F A I R				5%
9	REPAIRS REQUIRED	P O O R				5%	
X	SALVAGE						
S	SCRAP						

Table 7-1. Federal Condition Code (Continued)

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

Table 7-2. Tuition Rate Pricing Structure

Cost Elements	National Funds		
	FULL COST	FULL COST	ADDITIONAL COST
	RATE A	RATE B	RATE C
	Full FMS	Reciprocal	FMS ¹
Direct Costs			
Military Pay	Full	Full	Additional
MERHC	Apply	Apply	N/A
DHP	Apply	Apply	N/A
Civilian Pay	Full	Full	Additional
Civilian Fringe Benefits	Apply	Apply	Apply ²
UCR	Apply	Apply	N/A
Non-Personnel/Material	Full	Full	Additional
Indirect Costs			
Military Pay	Full	N/A ³	Additional
MERHC	Apply	N/A ³	N/A
DHP	Apply	N/A ³	N/A
Civilian Pay	Full	N/A ³	Additional
Civilian Fringe Benefits	Apply	N/A ³	Apply ²
UCR	Apply	N/A ³	N/A
Non-Personnel/Material	Full	N/A ³	Additional
Other Billable Costs			
Attrition Surcharge	Apply	N/A	N/A
Liability Statement	N/A	Apply	Apply
FSP	Full	Full	Full
RIM	If applicable	If applicable	If applicable
FMS Admin	Apply	N/A ³	Apply

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

² Apply: Charge the entire factor against the additional cost. There is no reduction to the factor because additional cost pricing is used.

³ Refer to 22 U.S.C. § 2761(g). The President is authorized to enter into NATO STANAG and similar agreements with Major Non-NATO Allies if the pricing principles of such agreements are based on reciprocity. Such agreements may exclude reimbursement of indirect costs and the FMS Administrative Surcharge.

Table 7-2. Tuition Rate Pricing Structure (Continued)

Cost Elements	U.S. Appropriated Funds	
	ADDITIONAL COST	
	FMS	IMET
	RATE D ⁴ FMF ^[1]	RATE E IMET
Direct Costs		
Military Pay	N/A	N/A
MERHC	N/A	N/A
DHP	N/A	N/A
Civilian Pay	Additional	Additional
Civilian Fringe Benefits	Apply ²	Apply ²
UCR	N/A	N/A
Non-Personnel/Material	Additional	Additional
Indirect Costs		
Military Pay	N/A	N/A
MERHC	N/A	N/A
DHP	N/A	N/A
Civilian Pay	Additional	Additional
Civilian Fringe Benefits	Apply ²	Apply ²
Civilian Unfunded Retirement	N/A	N/A
Non-Personnel/Material	Additional	Additional
Additive Costs		
Attrition	N/A	N/A
Liability Statement	Apply	N/A
FSP	Full	Full
RIM	If applicable	If applicable
FMS Admin	Apply	N/A

²Apply: Charge the entire factor against additional cost. There is no reduction to the factor because additional cost pricing is used.

⁴**RATE D – FMF**: This rate applies to courses provided to countries that use U.S. appropriated dollars as their source of funding (except IMET). If the training case is not wholly funded with U.S. appropriated funds (e.g., 100 percent MAP Merger, 100 percent non-repayable FMF), then re-price training to include military salaries and benefits. This rate also applies to general BPC appropriations and authorities (i.e., FSF: authority to build capacity under 10 U.S.C. § 333).

Exhibit 7-1. Price Computation Example: Overhaul of Purchaser-Owned Materiel¹**Assumptions:**

Civilian Direct Labor Hours	500
Direct labor hourly rate (employee salary and pro rata overhead)	\$36.72
UCR Rate FY 2018	6.8%
Army Military Labor Hours (E-7)	100
Foreign Purchaser paid for inbound and outbound transportation	

Computation:

Direct materiel consumed or incorporated (does not include purchaser-owned materiel)	\$ 1,000.00
Direct civilian labor cost recouped (including unpacking and PC&H) (500 × \$36.72)	\$18,360.00
Unfunded Civilian Rate costs (\$18,360 × 6.8%)	\$ 1,248.48
Military Composite Standard Pay Reimbursement (104,429 × .00056) × 100	\$ 5,848.02
Transportation ¹	<u>+</u> <u>-----</u>
FMS Selling Price ²	\$26,456.50

¹ This figure is general in nature and does not show all costs that may be included. For example, direct materiel consumed or incorporated should include transportation, replacement prices, and charges as appropriate (see subparagraph 4.2.2 for treatment of DWCF materiel). This example assumes that inbound and outbound transportation is paid by the FMS purchaser. See subparagraph 9.2.6 for information on incoming and outgoing transportation costs. If the purchaser does not pay via the freight forwarder, the cost is included in the FMS selling price.

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

Exhibit 7-2. Price Computation Example: Non-Excess Procurement Funded Item from Stock

Assumptions:

Market Value	None Available
Most Recent Acquisition Price	\$50,000.00
New Contract Price	\$100,000.00
Modification Costs	\$5,000.00
NC Recoupment Charge, SAMM, Appendix 1	\$2,000.00
Prorated overhaul costs before sale date (see Exhibit 7-3)	\$5,203.20
Service Life	10 Years
Age at transfer	6 Years
Remaining Service Life	4 Years

Calculation**Not to Be Replaced**

Adjusted Price: $(\$50,000 + \$5,000) \times (4/10)^1$	31/422,000.00
Adjusted NC recoupment: $\$2,000 \times (4/10)^{2,3}$	800.00
Prorated overhaul costs before sale date (see Exhibit 7-3) ⁴	<u>+ 5,203.20</u>
FMS Selling Price ^{5,6,7}	\$28,003.20

To Be Replaced

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

¹ (Most Recent Acquisition Price + Modification Costs) × Remaining Service Life² NC Recoupment Charge × Remaining Service Life³ Credit to Special Defense Acquisition Fund (SDAF) Account 4116.⁴ Credit previously incurred overhaul costs to the financing account.⁵ Any administrative, PC&H, and transportation surcharges are additive to the selling price.⁶ FMS selling price cannot be less than the Market Value if one exists.⁷ If this is a sale of a ship, the FMS selling price cannot be lower than the scrap value or fair value plus the cost of the last major overhaul or outfitting accomplished before the sale.⁸ New Contract Price × Remaining Service Life

Exhibit 7-3. Price Computation Example: Overhaul Costs Previously Incurred for a Procurement Funded Item Sold to FMS Purchasers

Assume the following:

1. Item is to be sold in May 2018. The last overhaul for that aircraft was accomplished in June 2016 at a cost of \$8,672.
2. The normal interval between overhauls for the item is 60 months.

The price is computed using the following steps:

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

June 2016 to May 2018 equals 24 months.

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

Actual Interval = 24 months = 40%

Normal Interval = 60 months

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

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

Exhibit 7-4. Price Computation Example: Sale of Ship (Greater than 3,000 Tons or More Than 20 Years Old) Not to be Replaced

Assumptions:

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

Computation:

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

¹ Credit to SDAF Account 4116.

² Credit previously incurred overhaul costs to the financing account.

³ The administrative surcharge is additive to the selling price.

Exhibit 7-5. Price Computation Example: Excess Procurement (Non-DWCF) Funded Item from Stock/Inventory

Assumptions:

Acquisition Value ¹	\$50,000.00
Federal Condition Code (B-1, see Table 7-1)	30%
NC Recoupment Charge	\$2,000.00
Prorated overhaul costs before sale date (see Exhibit 7-3)	\$5,203.20
Market Value	\$10,000.00
Scrap Value	\$5,000.00
Fair Value (Acquisition Value * Federal Condition Code Rate)	\$15,000.00
(\$50,000 × 30%)	

Computation:

Greater of Market, Scrap, or Fair Value	\$15,000.00
Adjusted NC Recoupment (30% × \$2,000) ²	\$600.00
Prorated overhaul costs before sale date (see Exhibit 7-3) ³	+ \$5,203.20
FMS Selling Price ⁴	\$20,803.20

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

² Credit to SDAF Account 4116.

³ Credit previously incurred overhaul costs to the financing account.

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

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

RECOUPMENT OF NONRECURRING COST ON SALES OF MAJOR DEFENSE EQUIPMENT										DATE PREPARED:		DOD COMPONENT:	
										As of Date:		Prepared By:	
SECTION A													
(a)	(b)			(c)						(d)			(e)
Weapon System or Component	Nonrecurring Cost (in Whole Dollars)			Production Quantity (Qty Each)						Recommended Pro Rata Unit Charge			
	RDT&E	Production	Total	Army	Marine/ Navy	Air Force	FMS	DCS	Total	RDT&E	Production	Total	Previous Unit Charge
ABC Block 0	\$51,000,000	\$75,000	\$51,075,000	25	200	0	92	0	317	\$160,883	\$237	\$161,120	N/A
SECTION B													
PRODUCTION QUANTITIES													
		Actual	Projected	Total									
	USG	25	200	225									
	MAP	0	0	0									
	Direct Sales	0	0	0									
	FMS	5	87	92									
	Total	30	287	317									

Exhibit 7-6. Recoupment of NC on MDE Example: Base Level (Continued)

SECTION C		
QUANTITY PROJECTION BREAKOUT		
MAP		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Total MAP	0	
Direct Sales		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Total Direct Sales	0	
FMS		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Country A	15	
Country B	5	
Country C	6	
Country D	12	
Country E	25	
Country F	14	
Country G	10	
Total FMS	87	
TOTAL	87	

Exhibit 7-7. Recoupment of NC on MDE Example: Two-Level

RECOUPMENT OF NONRECURRING COST ON SALES OF MAJOR DEFENSE EQUIPMENT										DATE PREPARED:		DOD COMPONENT:	
B/B Model MASL _____										As of Date:		Prepared By:	
SECTION A													
(a)	(b)			(c)						(d)			(e)
Weapon System or Component	Nonrecurring Cost (in Whole Dollars)			Production Quantity (Qty Each)						Recommended Pro Rata Unit Charge			Previous Unit Charge
	RDT&E	Production	Total	Army	Marine/ Navy	Air Force	FMS	DCS	Total	RDT&E	Production	Total	
B/B Model										¹			
Common Cost Pool (with A/B Model)	\$2,956,674	\$0	\$2,956,674						67,158	\$44.03	\$0.00	\$44.03	
Unique	\$76,294	\$0	\$76,294	0	0	600	250	0	850	\$89.76	\$0.00	\$89.76	\$133.79 NC New Item
Backup Data													
A/B Model Commonality	\$4,223,820	\$0	\$4,223,820 70%	0	64,627	0	1,681	0	66,308	\$63.70	\$0.00	\$63.70	
SECTION B													
PRODUCTION QUANTITIES													
				Actual	Projected	Total							
USG				400	200	600							
MAP				0	0	0							
Direct Sales				0	0	0							
FMS				0	250	250							
Total				400	450	850							
NOTES:													

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

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

Exhibit 7-8. Recoupment of NC on MDE Example: Multi-Level

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

Exhibit 7-8. Recoupment of NC on MDE Example: Multi-Level (Continued)

SECTION C		
QUANTITY PROJECTION BREAKOUT ABC Blk II NC Charge - Summary Calculation MASL _____		
MAP		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Total MAP	0	
Direct Sales		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Total Direct Sales	0	
FMS		
Country / Int'l Organization	Projected Quantity	Explanation for Projections
Country A	25	
Country C	12	
Country F	100	
Country H	60	
Country I	25	
Country J	4	
Country K	72	
Country L	34	
Total FMS	332	
TOTAL	332	

Exhibit 7-9. Price Computation Example: New Procurement

Contract Price (20 items)	\$1,000,000.00
NC (\$2,500 each × 20 items)	50,000.00
CAS (\$1,000,000 × 0.015)	15,000.00
GFM	25,000.00
PC&H GFM (3.5%) ¹	875.00
Transportation of GFM from Depot to Contractor Plant ¹	+ 938.00
FMS Selling Price (20 items) ²	\$1,091,813.00
FMS Unit Selling Price ² (\$1,091,813/20)	\$54,590.65

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

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

Exhibit 7-10. Calculation of Charges for Leased Defense Articles with Illustrative Entries

STEP 1: Determine Service Life.

a. Date to be leased	June 2018
b. Date item first fielded or actual acquisition date of specific item (if known)	June 2008
c. The total estimated service life of the item	240 months
d. Item age in months as of the lease date	120
e. Number of months to be leased	12
f. Estimated months of service life remaining at conclusion of lease	<u>+ 108</u>
g. Total months of service life (d. + e. + f.) ¹	240

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

a. Original acquisition cost	\$1,000,000
b. Pro rata share nonrecurring R&D and production costs ²	20,000
c. Capital improvements	
1) Major overhauls in past 24 months (see subparagraph 071505.I)	500,000
2) Modifications net of retirements ³	<u>+ 300,000</u>
Total Cost	\$1,820,000
Less residual value amount subject to depreciation (see Volume 4, Chapter 26, paragraph 260202.B.)	

STEP 3: Calculate monthly charge.

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

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

² The pro rata share of nonrecurring R&D and production costs is additive when determining the full cost of the equipment to be depreciated. This cost is not authorized to be waived under subparagraph 15.5.9.

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

Exhibit 7-11. Civilian Personnel Services Price Computation Example

Assumptions:

- A. General Schedule (GS)-12 within Atlanta, Georgia locality pay area. When the GS step is not known, use step 5 pay rates. \$38.23 per hour is used for this computation example.
- B. 100 hours of service performed
- C. Unfunded Civilian Retirement (UCR) Factor. 6.8% is used for this computation example.
- D. Civilian Personnel Fringe Benefits Factor. 35.2% is used for this computation example.
- E. L&H Acceleration Factor = 18%

	FMS Case		BPC Case and FMS Admin	
	Less than Full Time	Full Time	Less than Full Time	Full Time
[A × B]	\$3,823.00	\$ 3,823.00	\$ 3,823.00	\$ 3,823.00
[(1) × E]	\$ 688.14	----	\$ 688.14	----
[(1) + (2)]	\$4,511.14	\$ 3,823.00	\$ 4,511.14	\$ 3,823.00
[(3) × C]	\$ 306.76	\$ 259.96	----	----
[(3) × D]	\$1,587.92	\$ 1,345.70	\$ 1,587.92	\$ 1,345.70
[(3) + (4) + (5)]	\$6,405.82	\$ 5,428.66	\$ 6,099.06	\$ 5,168.70

¹ Pay rates in effect at the time services are performed. Hourly and annual locality salary tables are available at OPM website. Tables through 2008 are available in the Appendix C Archive of this Volume.

² The L&H acceleration factor is applied as a percentage of direct labor cost when the individual is not assigned full time to support Case-funded or FMS Admin-funded requirements. See Volume 11A, Chapter 6.

³ The UCR acceleration factor is applied as a percentage of total civilian labor costs for FMS Case-funded individuals. Credit unfunded civilian retirement to the Miscellaneous Receipts Account 3041. Current rates are available at the OUSD(C) DoD Reimbursable Rates website, select the applicable FY, Civilian Personnel Fringe Benefit (Tab D). Historical rates are available in the Appendix C Archive.

⁴ The fringe benefits factor is applied as a percentage of the total civilian labor costs and includes the employer's share of retirement, health benefits, life insurance, and other benefits. Rates vary by DoD Component and fiscal year, and are available at the OUSD(C) DoD Reimbursable Rates website, Civilian Personnel Fringe Benefit (Tab D), for FY 1997 and forward. Historical rates are available in the Appendix C Archive.

⁵ For employees funded by FMS Case and BPC Case, the FMS Administrative Surcharge is added separately.

Exhibit 7-12. MP Services Price Computation Example

Assumptions:

- A. Scenario 1: Navy O-4 and E-7 Full time FMS effort in FY2022
- B. Scenario 2: Navy O-4 and E-7 Part-time FMS effort; each performing 480 hours service in FY 2022. TDY cost is \$5,600.
- C. Scenario 3: Navy O-4 and E-7 Part-time FMS effort; each performing 60 days service in FY 2022. Total TDY cost is \$5,600.
- D. Navy O-4 FMS Rate = \$223,770¹
- E. Navy E-7 FMS Rate = \$144,411¹
- F. Navy O-4 Hourly FMS Rate ($\$223,770 \times 0.00057 = \$126.52 \times 480 = \$60,729.91$)²
- G. Navy E-7 Hourly FMS Rate ($\$144,411 \times 0.00057 = \$81.65 \times 480 = \$39,192.33$)²
- H. Navy O-4 Daily FMS Rate ($\$223,770 \times 0.00452 = \$1,012.17 \times 60 = \$60,729.91$)³
- I. Navy E-7 Daily FMS Rate ($\$144,411 \times 0.00452 = \$653.21 \times 60 = \$39,192.33$)³

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

	O-4	E-7	Total
FMS Composite Pay Cost ¹	\$223,770	\$144,411	
FMS Selling Price ³			\$368,181

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

	O-4	E-7	Total
FMS Rate x Hourly/Daily Factor × hours of service performed ^{2/3}	\$60,729.91	\$39,192.33	\$99,922.24
TDY Cost			\$5,600
FMS Selling Price ³			\$105,522.24

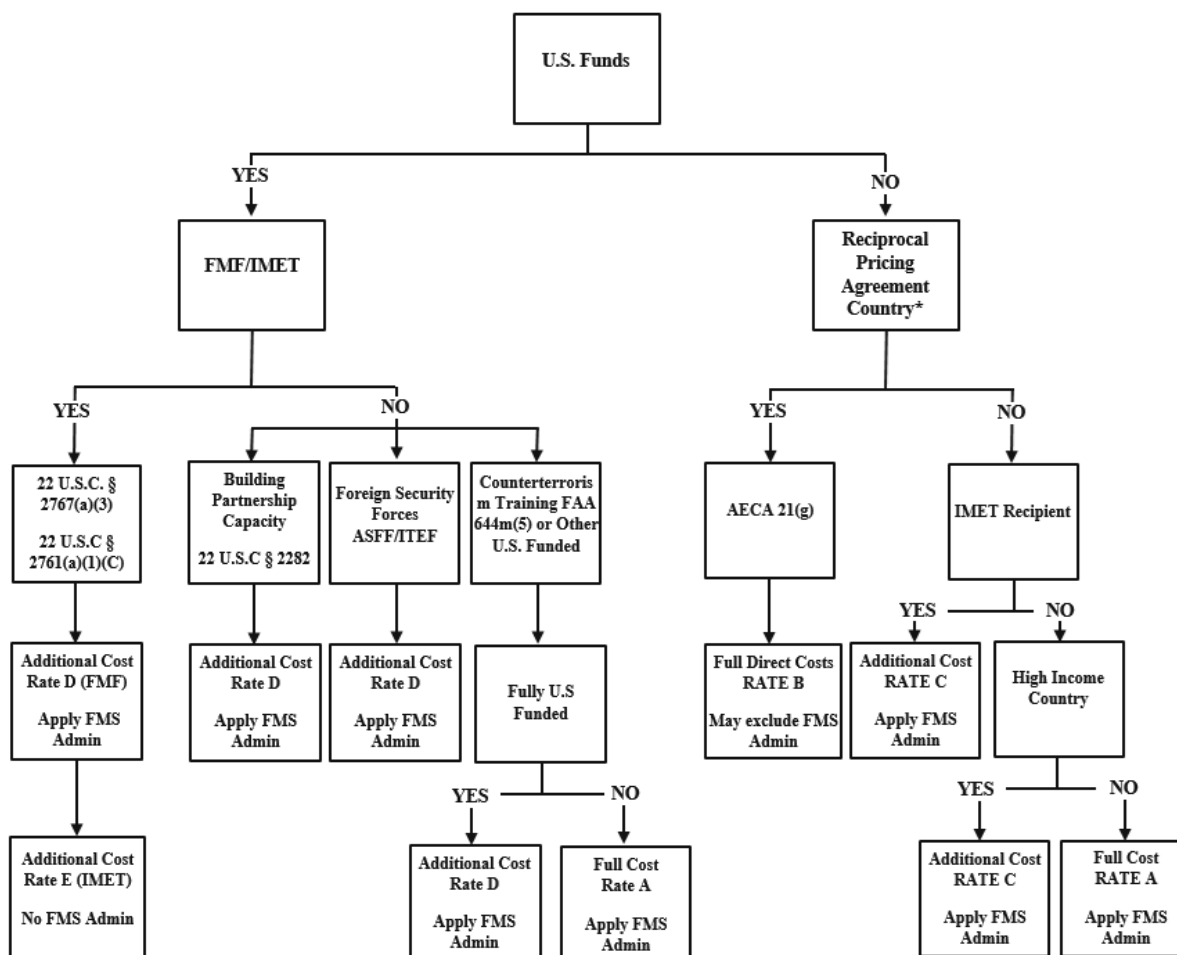
¹ Refer to OUSD(C) DoD Reimbursable Rates_website, MP Composite Standard Pay and Reimbursement Rates (Tab K) to obtain the current “Rate Billable to FMS Entities.” The FMS Rate includes an acceleration factor to cover medical health care costs of active duty personnel and their dependents and a per capita normal cost for Medicare-Eligible Retiree Health Care accruals.

² To compute the hourly rate, multiply the FMS Composite Rate by 0.00057. This computation includes an 18% L&H factor. See Volume 11A, Chapter 6 and the OUSD(C) DoD Reimbursable Rates website for current factors.

³ To compute a Daily Rate, apply a factor of .00452 (1.18/260.875). This computation includes an 18% L&H factor. See Volume 11A, Chapter 6 and the OUSD(C) DoD Reimbursable Rates website for current factors.

⁴ The FMS administrative surcharge is additive to the FMS selling price.

Exhibit 7-13. Tuition Training Pricing Guide

**Notes:**

Not all NATO countries are a signatory to [STANAG 6025](#), “Financial Principles and Procedures for the Provision of Support and the Establishment of Multinational Arrangements”

Refer to SAMM C10.T13, and C10.T14.

Exhibit 7-14. Incremental Tuition Based Pricing (Rate C)

