

## FOREIGN MILITARY SALES

**1. Scope.** This lecture covers the history and development of Foreign Military Sales (FMS) programs. It describes the U.S. government policy and laws regulating FMS. Included is a discussion of the types of FMS cases and the methodology for processing a letter of request (LOR). Special programs such as the Special Defense Acquisition Fund and the repair and return are explained. This lesson also covers the financial management aspects of foreign military sales (FMS). It includes a discussion of the pricing policy for FMS cases, the billing and reimbursement procedures, the operation of the FMS Trust Fund and the methods of payment for FMS materiel and services.

**2. Student Objectives.** Upon completion of this lesson, you should be able to:

- a. Identify the types of FMS cases.
- b. Recall the major restrictions to the FMS program.
- c. Identify the major elements of the total package approach to FMS.
- d. Describe the characteristics of FMS repair and return programs.
- e. Recall the various factors that affect the base cost of FMS materiel.
- f. Identify the surcharges that, when added to the base cost, will determine the unit selling price of an FMS item.
- g. Recall the flow of documents and funds that ensure that customers are properly billed and military appropriations are properly reimbursed for services performed.
- h. Describe the various terms and condition used on FMS cases for countries to pay for FMS goods and services.
- i. State the purpose of each of the two program management documents associated with international armaments cooperative agreements.

**3. FMS vs. Direct Commercial Sale.** FMS is the method by which U.S. defense articles, services, and training are sold to friendly foreign countries and international organizations on a government to government basis. As an alternative to FMS, countries often have the option for buying materiel directly from the manufacturer. In fact, for items identified on the Contractor Preference for Direct Commercial Sale List, requests are returned to the potential customer indicating that the manufacturer desires to sell the item outside FMS channels and the U.S. Government agrees. Commercial sales are still subject to Congressional review and the country must obtain an export license from the Office of Defense Trade Controls, State Department. Items not normally sold commercially under the direct sale preference program include:

- a. Classified articles.
- b. Repair parts carried in DoD stocks.
- c. Ammunition above 40mm.

- d. Items for which commercial sales would adversely affect DoD deliveries.
- e. Articles with two or more manufacturers.

**4. Benefits.** The many benefits of Foreign Military Sales include:

- a. Improves balance of payments.
- b. Provides jobs.
- c. Enhances Standardization.
- d. Improves our mobilization base.
- e. Promotes worldwide U.S. influence.
- f. Creates follow-on sales.

**5. Sales Constraints.** The major restraints as outlined in the Arms Export Control Act are as follows:

- a. Sales are for U.S. dollars only.
- b. No third country transfers without Presidential consent and Congressional review.
- c. Eligible countries only as established by a written Presidential determination.
- d. FMS programs are managed at no cost to the U.S government.
- e. Napalm, dispenser, and fuses will not be sold
- f. Riot control agents are sold commercially.
- g. White phosphorus is sold on a case by case basis. (DSCA approval).
- h. Thirty day formal review period by Congress for sales to most countries that exceed \$14 million of major defense equipment or \$50 million of other articles and services.

**6. Total Package Approach (TPA).** This approach to FMS ensures that customers are aware of all necessary support items, training, and services required to operate and sustain major items and weapon systems they are considering for purchase. Proposed sales are priced according to the total package approach which include the following considerations:

- a. Training
- b. Technical Assistance.
- c. Initial Support.
- d. Follow-on Support.

Should a Letter of Request (LOR) not include adequate support provisions, the Letter of Offer and Acceptance (LOA) will be written to include adequate support. A DA Form 5904-R (Total Package Approach Checklist) will be used to implement TPA for initial sales of major weapon systems. This form will eventually be reviewed by the U.S. Army Security Assistance Command (USASAC) prior to release of the LOA to the Defense Security Cooperation Agency (DSCA).

## 7. Types of FMS Cases.

a. **Defined Order Sale.** The Letter of Offer and Acceptance (LOA) states specifically what items, services, or training will be provided. The following are normally purchased through a defined order case:

- (1) Major end items and weapon systems to include a support package for an initial period of time.
- (2) Munitions, ammunition, and explosives.
- (3) Technical data packages.

Each line item to be delivered is priced separately (i.e. end items, concurrent spare parts, publications, ammunition, etc. .

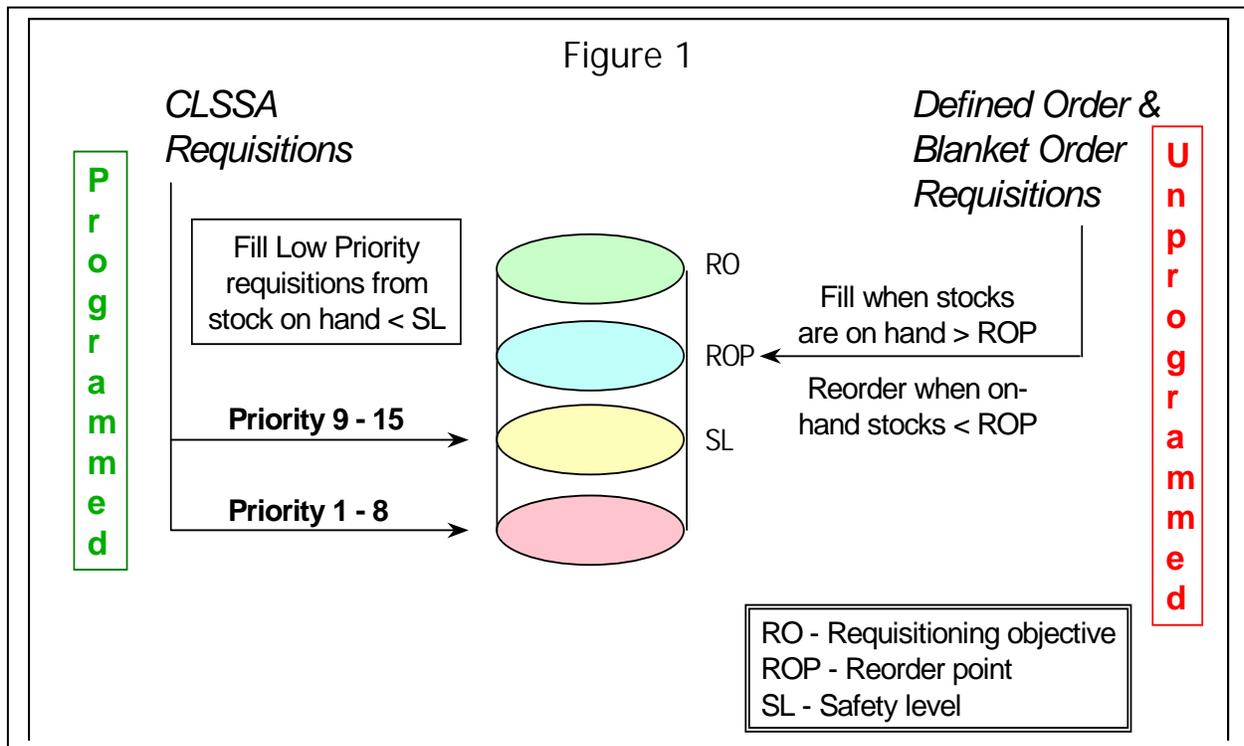
b. **Blanket Order Sale.** Identifies an agreement between the U.S. Government and a purchaser for a specific category of items or services. However, no definitive listing of items and quantities is included. The LOA specifies a dollar ceiling against which the purchaser requests or places orders. Blanket order case are used to purchase:

- (1) Repair parts.
- (2) Publications.
- (3) Modifications.
- (4) Technical assistance.
- (5) Training/training aids and devices
- (6) Maintenance of reparable.

c. **Cooperative Logistics Supply Support Arrangement.** This is normally the most responsive means for providing repair parts support to a foreign country. A CLSSA requires a country to establish equity in the DoD logistics system representative of its anticipated requirements. This investment allows the inventory control points (ICP) to purchase stocks in advance of the country's actual demand. This allows FMS customers to receive support from the ICPs equal to that of U.S. Forces. In effect, a CLSSA allows the country to buy into the logistics pipeline of the support items. Stock purchased under a CLSSA is commingled with DoD stocks and is not reserved or identified for a particular customer. Two Foreign Military Sales Orders (FMSO), which are established on separate LAOs, are required for a CLSSA.

(1) FMSO I. This LOA will establish a country's total equity in the logistics pipeline for class IX parts supporting a weapon system or systems under a CLSSA. The development of the FMSO I begins with the generation of a parts listing by the commodity manager. This is a listing of NSNs that the U.S. Government believes will be required to support a weapon system or end item. This listing is tailored to the countries' maintenance concept and the anticipated usage is constrained by the end item density to be supported and specific environmental considerations. After review by the country and adjustment (if necessary), quantities of parts required to be on hand (Part A) and on order (Part B) are computed by the managing activity. Once signed, this FMSO provides the basis for providing obligation authority to the managing command to finance the purchase of the agreed upon quantities of parts. The quantities to be purchased of each item depend on that item's safety level (in months), reorder cycle (in months), procurement lead-time (in months), and the item's anticipated monthly demand.

(2) FMSO II. This LOA represents the anticipated yearly consumption under a CLSSA. Fund received under a FMSO II are used to pay for item placed on order through the FMSO I (Part B). Payments are required to be cash in advance of each quarter's anticipated usage. Each year, the FMSO I and II are reviewed and renegotiated based on actual items consumed and actual demand data. The difference between the support provided a CLSSA requisition and other FMS requisitions is shown in Figure 1. Notice that requisitions against defined order and blanket order cases may be filled only if there are stocks on hand above the reorder point. Under a CLSSA, materiel may be released from safety level stocks for high priority requisitions and down to the safety level for other requisitions.



d. Coproduction. This type of FMS agreement allows the foreign government, international organization, or designated commercial producer to manufacture or assemble a U.S. item for use by the foreign government. It can also involve the U.S. government purchasing the technology and know-how to manufacture an item developed and produced by a foreign country. Although simple coproduction agreements may be executed through FMS, the more complex ones are usually conducted as part of a program referred to as International Armaments Cooperation. A more detailed explanation of this program is found later in this document.

**8. Case Processing for SME.** The explanation below explains the process for establishing an FMS case involving the purchase of Significant Military Equipment (SME). SME is defined as equipment with substantial utility for combat operations. This example also assumes the materiel to be Major Defense Equipment (MDE) meaning the item has incurred a non-recurring research and development cost greater than \$50 million or a total production cost of more than \$200 million.

a. Upon receipt of the information copies of the Letter of Request (LOR) for the SME, the Defense Security Cooperation Agency (DSCA) and the State Department coordinate a response (approve/disapprove/hold).

b. Military Department (MILDEP)/DSCA Coordination.

(1) DSCA notifies the MILDEP Security Assistance (SA) Agency of Decision organizations handling Security Assistance matters;

(a) U.S. Army Security Assistance Command (USASAC).

(b) Naval International Programs Office (NIPO).

(c) Deputy Undersecretary of the Air Force for International Affairs (USAF-IA).

(2) MILDEP SA Agency begins preparation of the Letter of Offer and Acceptance (LOA). (Army LOAs are tasked out to the responsible Major Subordinate Command international logistics directorates.) The MILDEP SA Agency will notify DSCA of those LOAs requiring Congressional notification. Notification of Congress is required when one or more of the following circumstances apply:

(a) Total MDE value of potential case is estimated at more than \$14 million.

(b) Materiel to be sold contains sensitive technology or classified items.

(c) Total value of any materiel to be sold will exceed \$50 million.

(d) Design and construction services exceeding \$200 million.

c. The MILDEP SA Agency will coordinate FMS policy matters with other commands/activities/agencies within the services that have input to FMS policy decisions. For example, USASAC would seek guidance from the DA Staff [Assistant Deputy Chief of Staff for Logistics - Security Assistance (ADCSLOG-SA)] on sales that involve:

- (1) Release of technical data.
- (2) Requests for classified items.
- (3) Commitment of U.S. personnel.
- (4) Diversions from Army stocks or contracts.
- (5) Providing MDE to a country for the first time.
- (6) Congressional review.

d. The MILDEP, after an initial review and approval of an unsigned LOA by DSCA, returns the signed LOA to DSCA. Financial analysis worksheets and termination liability worksheets accompany the LOA.

e. DSCA submits the Congressional notification package in accordance with the Arms Export Control Act. Depending on the country, Congress has either 15 days or 30 days to pass a Joint Resolution to disapprove the sale if they think it is not in the U.S. interest. No action on the part of Congress is considered approval.

f. Assuming no resolution by Congress, the State Department and DSCA make a final review of the offer.

g. After their approval, the LOA is countersigned by the Comptroller, DSCA and returned to the MILDEP for transmittal to the customer country.

h. The FMS customer normally has 85 days from the date of countersignature to accept the offer. Some countries are allowed longer (up to 115 days) and DSCA may grant extensions if requested and justified. Once the country accepts, it sends three signed copies with required payment to the Defense Finance and Accounting Service (DFAS) who will credit the country's FMS trust fund account. Three signed copies are returned to the MILDEP SA Agency.

i. DFAS will then issue obligation authority (O/A) to the MILDEP which allows the case to be implemented by the performing activities (Army Major Subordinate Commands, Navy Systems Commands, Air Logistics Centers).

**9. Case Processing for Non-SME.** This section refers to an example of case processing for a country requesting non-significant military equipment (non-SME). The materiel requested is not MDE and therefore not subject to Congressional notification procedure unless the case value exceeds \$50 million.. The letter entries below highlight the differences between this scenario and the previous case involving SME and MDE.

a. For non-SME items, the country may submit its request through the DoD element of the country team (Security Assistance Office) in the U.S. embassy, or it may send it directly to the DoD component (USASAC, NIPO, USAF-IA). Information copies are sent to DSCA and the State Department. In the case of Air Force spare parts requests, the LOR may be sent directly to the Air Force Security Assistance Command. They will prepare the LOA.

b. The MILDEP will notify DSCA of the receipt of the request within ten days. DSCA will notify the MILDEP of preliminary approval after coordination with the State Department.

c. Follow-on cases (blanket order and CLSSA) are prepared by USASAC located at New Cumberland Army Depot. NIPO will prepare Navy non-SME follow-on cases with information from supporting systems commands.

d. For cases not involving major defense equipment nor requiring congressional notification, DSCA does not require a preliminary review of the unsigned LOA and accompanying documents prior to countersignature. Unless the sale totals more than \$50 million for non MDE items, there is no requirement for a Congressional review period of 15 or 30 days.

**10. Interpreting an FMS Requisition.** In order to process an FMS customer requisition responsibly, item managers should have an idea of the different entries on the requisition; especially in the document number and supplementary address fields.

**11. FMS Repair and Return Cases.** There are times when FMS customers identify the need to overhaul a major end item previously purchased from the U.S. Government as part of a defined order sale. Because there is usually a large investment in these items and it would be too costly to simply replace the unserviceable item with a new one, the country must decide whether to have the items overhauled in a DoD facility or to purchase the capability to do it in their country. Since overhaul programs are expensive to start up and limited densities of equipment don't usually warrant the initial investment, countries often choose the option of doing the repair at an Arm overhaul facility .

a. Basic requirements of a repair and return program.

(1) Items to be overhauled are common to both customer and U.S. inventories.

(2) The level of maintenance to be performed is depot level maintenance (overhaul/major modification).

(3) The transportation of materiel to and from the U.S. facilities is the responsibility of the FMS customer.

(4) Only economically repairable assets of FMS customers will be included in U.S. overhaul programs..

(5) Customers must provide their requirement and projected returns schedule in sufficient time (normally with the LOR, but at least 60 days plus the longest lead-time for any repair part used to allow adequate programming with U.S. requirements).

b. Responsibilities for implementing and executing re air and return program.

(1) The FMS Customer will:

(a) Submit return schedules and changes or deviations to those schedules in a timely manner.

(b) Prepare and submit documentation (three copies of DD Form 1348-1, one set of DA Form 2407, and a maintenance history) to the repairing facility along with the unserviceable materiel.

(c) Provide disposition instructions for uneconomically repairable materiel.

(d) Arrange for transportation of the materiel to and from the overhaul facility except for exceptional situations.

(2) The Major Subordinate Command IL and/or Materiel Management Directorate will:

(a) Issue the funded workload program to the Maintenance Management Directorates of the MSC upon receipt of signed LOA and OA verification.

(b) General supervision of the program to include justification and notification of changes/slippages in schedule.

(c) Coordinate and ensure the availability of repair parts and spare parts.

(d) Review return schedules and determine if NSNs can be furnished from long supply or excess on an exchange basis.

(e) Notify the FMS customer when disposition instructions are required for uneconomically repairable items.

(3) The Maintenance Management Directorates of the Major Subordinate Commands will:

(a) Provide relevant data (cost estimates, workhours, scheduling data) to MSC for responses to customer inquiries.

(b) Advise the responsible commands of the overhaul scheduled and update them with progress report or completion information.

(c) Provide the responsible commands with cost data within 45 days of completion.

(4) The performing depot will:

(a) Report the receipt of unserviceable assets to the MSC International Logistics Directorate.

(b) Provide inspectors to determine the equipment's condition and if not repairable economically, inform the applicable MSC.

(c) Send the Maintenance Management Directorates of the MSC the work schedule, cost data, and progress reports.

(d) Notify the country or freight forwarder when materiel is available for return shipment.

(e) Ship materiel in accordance with owning country shipping instructions and provide shipping status to USASAC and the MSC.

**12. International Armaments Cooperation.** Another term for this program is International Defense Cooperation. As stated in the Secretary of Defense's Annual Report to Congress, the purpose of this program is "To develop, field, and support - through equitable burdensharing - the most effective and interoperable conventional military equipment for our forces and those of our allies and friends." Armaments cooperation programs can take many forms, from the very simple to the very complex. This paragraph will identify the different types of cooperative programs and highlight their advantages and disadvantages. It will also identify project manager responsibilities in identifying and documenting potential partners in armaments cooperation.

a. History of International Armaments Cooperation. The years immediately following World War II and running through the early 1970's were characterized by American dominance in this area. Very few cooperative programs were established. Those that were implemented involved the transfer of American technology and little, if any, purchase of European or other foreign systems. Senator Sam Nunn in 1977 was responsible for an amendment to the DoD Authorization Act that, in effect, waived the "Buy American Act" in order to achieve DOD's goal of furthering rationalization, standardization, and interoperability (RSI) among the United States and our allies. After stressing RSI as justification for initiating true armaments cooperation and achieving paltry results, a Nunn Amendment to the DoD Authorization Act for 1986 stressed NATO Cooperative Research and Development as a means of not only furthering RSI but also as a means for reducing duplicative research and development efforts within NATO and thus reducing each country's research and development expenditures. This amendment earmarked \$200 million a year in R&D funds for cooperative programs and required managers of major development programs to actively seek allied partners in their programs and to document their efforts.

b. Types of Cooperative Programs.

- (1) Information (scientific and technical exchanges).
- (2) Professional exchanges.
- (3) Side-by-side testing of U.S. and allied weapons.
- (4) Coproduction.
- (5) Licensed production.
- (6) Opening of defense markets.
- (7) Codevelopment.

c. It is the responsibility of program managers involved in the research, development, acquisition, and fielding of weapons, weapon systems, and weapon support systems to continually seek opportunities for armaments cooperation in their developmental programs. They document these investigative efforts in either one or both of the following program management documents. Each one is a living document that is updated prior to each decision milestone of the lifecycle system management model.

(1) Cooperative Opportunities Document (COD). This document is required for acquisition category I programs and is mandated by Congress. Its purpose is to document the possibilities for allied cooperation and participation in the ongoing developmental program and to assess the advantages and disadvantages of a cooperative approach. For new programs, the Cooperative Opportunities Document is included as a part of the Mission Needs Statement.

(2) International Armaments Cooperative Opportunities Plan (IACOP). This document is required for acquisition category I and II programs and information included in the IACOP is used to prepare the COD. The purpose of the IACOP is to ensure the consideration and assessment of potential cooperative research and development projects, coproduction agreements, or cooperative product improvement programs in support of rationalization, standardization, and interoperability (RSI).

d. U.S. participation in such ventures has resulted in mixed results. Some have been successful; many have not. There are several keys to the success for an international cooperative program as well as barriers to successful programs. Below are listed the most significant barriers that must be overcome by participants.

(1) Industry and DoD reluctance to share technology with potential participants. Industry fears the loss of jobs, DoD fears greater dependency on foreign suppliers, and an eroding U.S. defense industrial base.

(2) European fears of American dominance.

(3) Difficulty in getting all participants to agree on the characteristics of a weapon. The more countries involved, the more difficult it is to get agreement. The demise of the NATO frigate program can be attributed to this problem.

(4) U.S. third country transfer policy. The Arms Export Control Act gives the U.S. the right to veto third country sales of weapons with American components. Some countries are wary of engaging in cooperative programs with the U.S. if there is a possibility of a loss of potential sales to suit only U.S. interests.

(5) Integration of European economies. With the fall of existing trade barriers, European only development of defense articles will be the norm. An example is the European Fighter Aircraft (EFA), which is itself experiencing problems in holding together its European participants.

(6) The dissolution of the Soviet Union has significantly reduced the seriousness of the threat that would warrant the development of new weapons. Conversely, as many of the following requirements must be met for a successful cooperative program to occur:

(1) Funding by all participants must be provided as promised and on schedule.

(2) All participants, particularly the U.S., must be willing to compromise.

(3) Participants must be willing to accept extensions to developmental schedules to accommodate the increase in administration required for cooperative programs.

(4) The U.S. must be totally committed to the program.

## FINANCIAL ASPECTS OF FOREIGN MILITARY SALES

**1. Introduction.** FMS cases are prepared on U.S. Government Letter of Offer and Acceptance (LOA) by the military departments. The offer includes an estimate of the costs for the goods and services to be provided by the case. Figure 1 shows a sample LOA. The first part of this lesson will deal with the methodology for computing the estimated unit cost, column (4)(a) of the LOA. Next, the various accessorial charges that are added to the unit price [(8) through (12)], will be explained. When totaled, these costs yield the Total Estimated Cost (13). This estimated cost is an attempt by the U.S. Government to forecast the costs that are necessary to recover all costs relating to an FMS case. Countries are informed of this policy in the section of the LOA that details standard terms and conditions.

**2. Pricing for FMS Items.** The pricing policy of items sold to FMS customers will vary depending on the type of item being sold. This lesson will cover the general policy for stock fund and principal items of materiel sold from DoD stock or from new procurement. This policy involves developing a base price for FMS materiel and adding a number of applicable surcharges to the base price. The surcharges allow the U.S. Government to recover all costs and they are included in the single selling price of the item that is entered in column 4a of the LOA. What follows is a description of how the base price of an FMS item is determined. This process is used when the financing of the article or service is with national funds (cash), reimbursable loans, or a mix of national funds and FMS financing.

a. **Stock Fund Items.** The base price of nonexcess stock fund item is established using the published catalog price (which includes a significant stock fund surcharge that recovers logistics operations costs, inventory losses, and first and second destination transportation costs). Added to this price is a net replacement surcharge (which has been 0% since 1985). The Director of Finance and Accounting, Office of Assistant Secretary of the Army (FM), Security Assistance Division, will publish this surcharge annually. Recently, all secondary items were brought under the stock fund concept, eliminating a special pricing procedure for those procurement appropriation (PA) funded secondary items. Prices are updated annually by each service and the Defense Logistics Agency (DLA). They are published in catalogs published by each service.

b. **PA Funded Major Items.** The base price computation procedures for major items will vary depending upon a number of factors that may or may not apply to a particular sale. These factors are:

Source. Is the item sold from stock or will it be obtained from procurement?

Excess. If sold from stock is the item excess?

Serviceability. What is the condition of the item being sold?

Replacement. If sold from stock, is there need to replace it in the U.S. inventory?

Useful life. How much useful life remains in the item being sold?

An item's base price will vary depending on the answers to these and other questions pertaining to the sale.

(1) Principal Item from Procurement. The base price for principal items purchased directly from procurement are developed from available estimates of expected costs. These estimates can be made from a number of sources:

- (a) Prime contractor quote.
- (b) Prime and GFE contractor quotes.
- (c) Standard price.
- (d) DoD component estimates without contractor participation but based on inflation indices applied to a recent procurement.

(2) Principal Items Sold from DoD Inventory. As explained earlier, the FMS base price for inventory items will vary depending on a number of factors. Let's look at some situations that might occur and see how the base price is developed.

(a) Excess Stock Fund or Principal Item. A principal item or stock fund item is excess if assets are greater than the Approved Force Acquisition Objective (AFAO) and the Approved Force Retention Level. These items are usually sold through the Defense Reutilization and Marketing System after having been declared excess by the inventory managers. They are normally sold "as is, where is" and any cost of repairing, renewing, or modifying is computed separately. Excess items are priced by applying a percentage to the standard price. The percentages vary with the condition of the item being sold (see figure 2).

This computation is then compared to the actual market value of the item as military hardware. The figure used in pricing excess FMS materiel is the higher of the two.

(b) Non-Excess Serviceable Item, Not to be Replaced. In this case, the most recent actual procurement cost (standard price) of the model or series being sold is used to determine the base FMS price. Added to this procurement cost are the costs of modifications or improvements incorporated after production. This total can be reduced by applying a percentage of the useful life remaining in the items being sold. For example, a three year old M 151A2 truck, with a life expectancy of 12 years still has 75% of its expected useful life remaining . Therefore, if the last procurement cost of the item were \$16,000, the FMS base cost would be:

$$\$16,000 \times .75 = \underline{\$12,000}$$

Another way to develop the useful life percentage is explained in the next example.

(c) Non-Excess Serviceable Item, To be Replaced in Kind. More often than not, there is a requirement to replace the item sold with the same item from a future procurement. If this is the case, the computation of the FMS base price would include the estimated replacement cost instead of the standard price. This replacement cost estimate is reduced by a percentage reflecting the useful life remaining in the item being sold. If there is no specified number of months of useful life expectancy, the percent useful life is computed based on the following formula:

$$\frac{\text{year to be replaced} - \text{year to be sold}}{\text{year to be replaced} - \text{year procured}}$$

An example might be a 7.62mm machinegun procured in 1984 for \$2715. It is to be shipped to a FMS customer in 1988. It will be replaced in 1990 at a cost of \$4200.

$$\frac{1990 - 1988}{1990 - 1984} = \frac{2}{6} = 33 \text{ percent useful life}$$

\$4200 replacement cost x .33 useful life = \$1400 base FMS cost

(d) Non-Excess, Serviceable Item to be Replaced With an Improved Model. Sometimes the only model being procured is an improvement of the one sold to the FMS customer. In this case, the base price computation would include the estimated cost the improved item. This calculation is done when the old model and new model share the same Army Acquisition Objective. An example might be the AN/TVS-2 crew served weapon night sight costing \$1307. If sold to an FMS customer, its price would be based on the cost of the AN/TVS-5 which is the current improved production model night sight for crew served weapons. Its estimated cost - \$3300. If there were 50% useful life remaining in the AN/TVS-2, it would be priced as follows:

\$3300 replacement cost x .50 useful life = \$1650 base FMS cost

It must be made clear that if the item sold from stock is new, the percent of useful life would be computed at 100% of the standard or replacement price. Also, if an overhaul had been completed within 24 months of the sale, the cost of the overhaul would have to be added to the base price.

(e) There is a third method that is use to develop the useful life percentage to be applied to an item sold from stock. This involves developing a constant percentage method of depreciation for an item. Figure 3 shows an example of an item that depreciates at the rate of 12.5% of value each year. In the example, an item that is 10 years old is sold at 26% of its value.

(f) Non-Excess, Unserviceable Item. The base price for unserviceable major item is computed using the greater value of the following two calculations:

$$(80\% \times \text{replacement cost}) - \text{overhaul cost or } 20\% \times \text{replacement cost}$$

If a principal item had a replacement cost of \$100,000 and an overhaul cost of \$35,000, the item's FMS base price would be \$45 000.

$$(80\% \times \$100,000) - \$35,000 = \$45,000$$

c. Additional FMS Surcharges. The following charges are added to the computed base price of an FMS item(s) in order to develop an FMS unit selling price that is entered in column 4a of the LOA. These charges do not always apply, but when they do, they are not readily identifiable to the FMS customer since they are "hidden" in the unit price.

(1) Nonrecurring Charges. These charges apply to Government to Government procurement and DoD stock sales and they recoup the DoD nonrecurring investment in the development and production of defense articles and technology. The charges are made on a "pro rata" (per item) basis. The pro rata charge is developed for each Major Defense Equipment (MDE) item and for those non MDE items with more than 2 million dollars nonrecurring developmental costs. Examples of nonrecurring development and production costs that must be determined are:

Research (scientific study and experimentation)  
 Exploratory Development  
 Advanced Development  
 Engineering Development  
 Management and Support  
 Preproduction Cost  
 Special Tooling Cost  
 Destructive Testing  
 Pilot Model Testing  
 Licensing Costs

For MDE items, monies expended in the above efforts are summed and the total is divided by the total known, an projected production quantity to achieve a pro rata charge for that item. Pro rata nonrecurring charges are reviewed annually and are recomputed if it is determined that there is more than a 30% change in the current charge. These charges are no longer applied to commercial export sales or government to government sales financed entirely with Foreign Military Financing appropriations.

(2) Charges for Government Furnished Materiel (GFM). This charge applies to only procurement sales when the costs for the material is not included in the FMS base price. If GFM is furnished from a DoD facility, packing, crating, handling, and transportation charges may also apply.

(3) Recurring/In-House Support. The FMS unit selling price of an item must include the costs for government-provided engineering services or contract engineering services required to solve production run problems or quality assurance services not related to those provided by DCAS at the plant facility. A percentage application of these costs is not permitted. Estimates must be based on historical data, while recoveries are based on charges directly relating to the current production run and the number of items in the production run belonging to the purchasing country.

(4) Logistics Support Charge. This surcharge is currently 3.1% of the FMS base price and covers costs involved with requisition processing, inventory maintenance, production control, report of discrepancy processing, and logistics management. It is applied primarily to case lines involving support equipment and maintenance. This charge is not applied to case lines involving stock fund items.

(5) Special Configurations. Cost deviations from U.S. Government configurations must be passed on to the FMS customer. This charge is applicable to only sale from new procurement.

(6) Contract Administration Services (CAS) Surcharge. The following surcharges are made to the FMS base price to recover and reimburse DoD Components for contract administration service performed in support of a procurement sale.

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

One or more of the CAS charges may be waived with approval of the Defense Security Assistance Agency (DSAA).

(7) Force Rearrangement Fee. For sale from DoD Stock involving a replacement with a improved item (RM), a 10% surcharge is made to the FMS item's base price. This fee covers the cost to the Military Department for making changes to spares and support equipment and expenses related to the change of model and rearrangement of units.

d. Examples of FMS Unit Price Computations. Annex A of this document contains a number of examples that apply the policy explained in the preceding paragraphs.

e. Additional FMS Surcharges. Once the material has been priced to develop a unit selling price, that price is multiplied by the number of items sold and the total shown in column 4b of the DD Form 1513. All deliverable lines are added and the total is then entered on the Net Estimated Cost line of the LOA (see figure 1). Charges that are added below this line are referred to as below the line surcharges and they further recoup costs incurred in the processing and delivering of FMS items and services.

(1) Packing, Crating, and Handling. PA Funded items will have packing, crating, and handling charges added to the case value when the source is DoD stock. The charge is 3% of the first \$50,000 of unit selling price and 1% of the remainder of the unit selling price. Packing, crating, and handling costs are included in the base price of a stock fund item.

(2) Administration. A flat 3% is charged to all standard item sales from stock and procurement. Sales of non standard items and Cooperative Logistic Supply Support Arrangements will have a 5% charge added. This charge will cover the costs related case implementation, procurement, computer programming, accounting and budgeting, and administration of FMS cases.

(3) Transportation. Transportation charges are made only if the U.S. Government is responsible for moving the article through the Defense Transportation System or on a Government Bill Lading. Delivery Term Code other than 4 indicates the U.S. Government will transport the articles and therefore transportation costs must be estimated and recovered. A percentage of the unit selling price is used to estimate transportation costs and the percentage will vary depending on how far the U.S. Government will transport the items. Stock Fund items will not have transportation costs assessed and some items have estimated transportation costs developed using average costs from actual previously recorded shipments.

When all line entries on the LOA have been totaled, the figure is entered on line 13 - Total Estimate Cost. A financial analysis worksheet (see figure 4) is also prepared to accompany the LOA so that all approval echelons may review the methodology for computing the unit price. The country, as stated earlier, does not receive the worksheet.

**3. Fair Pricing.** In 1989, Congress enacted legislation that radically changed the methodology for computing the selling price of equipment and services especially when the source of funds was non-repayable FMS loans. One change instituted by the legislation was the elimination of an asset use fee (1% applied to the unit selling price on sales from stock, and 4% added to the base price for procurement sales of items manufactured in a government-owned facility). In addition to eliminating the asset use charge, pro rata nonrecurring charges are no longer computed for items paid for entirely by Foreign

Military Financing appropriations or those purchased through a commercial sale. Services also no longer may charge for military personnel services connected with any FMS case wholly financed with Foreign Military Financing appropriations. The prime reason for enacting these changes was to keep the administrative fee at 3% and to be responsive to country complaints that items purchased through FMS were too expensive. Together, the changes effectively stretch the value of U.S. security assistance dollars.

**4. Methods of Payment.** The two general methods of payment for FMS goods and services are cash reimbursement and FMS credit. The following terms of sale are used on letters of offer and acceptance.

a. Cash with Acceptance. This is the method that requires the FMS customer to forward the total estimated cost (line 26) along with the signed DD Form 1513. This method is used to pay for articles provided from DoD stock.

b. Cash Prior to Delivery. This is another method used to pay for items sold from DoD stock. Under this term, the country agrees to pay the U.S. in incremental payments as set forth on the DD Form 1513. DoD policy is to obtain funds at least 90 days in advance of delivery.

c. Payment on Delivery. This method of payment is used only when the Director of the Defense Security Assistance Agency (DSAA) finds it in our national interest to do so. The U. S. Government bills the purchaser at the time of delivery from DoD stocks. Payment must be made within 60 days or interest will be charged on the outstanding balance. If the President so desires, the language may be modified to read "Payment 120 days after Delivery."

d. Dependable Undertaking. Procurement sales are most often reimbursed through this method of payment. A country will forward an initial deposit (stipulated by the DD Form 1513) with the accepted LOA and then will make quarterly payments against the case as depicted in the payment schedule furnished with the DD Form 1513. The quarterly payments correspond closely to the contractor progress payments. Once all bills have been paid, the material is delivered to the FMS customer.

All cash payments are made in U.S. dollars by check or wire transfer to the Security Assistance Accounting Center (SAAC) for input to the country's FMS Trust Fund Account. It is out of this account that contract bills are paid and DoD appropriations are reimbursed.

e. Foreign Military Financing Program Funding of Foreign Military Sales. Certain FMS customers receive funding assistance for their purchases through the Foreign Military Financing Program. There are two distinctly different elements of this program.

(1) Concessional Loan Financing. Under this program, countries are loaned money from the U.S. Treasury to assist in paying for their FMS purchases. This money may be used to entirely fund a purchase or the purchase may be made using a mixture of loans and country finances. These loans are made at interest rates that are lower than the cost of money to the U.S. Treasury, thus the term concessional. These loans may also be used for selected countries to pay for commercial sales agreements.

(2) Grant funding. This funding is not reimbursable and can also be mixed with country finances or be used to fund an entire FMS purchase. Grant funding is also authorized for selected countries to pay for commercial sales agreements.

f. **Guaranteed loans.** Prior to 1985, most FMS loans were made through the Federal Financing Bank (FFB). These loans were guaranteed in that if a country missed a repayment, it was made for that country out of a reserve fund managed by DSAA. DSAA would then have the country reimburse the reserve fund and pay a penalty. Guaranteed loans were made only at the U.S. Treasury rate of interest plus one eighth of one percent.

All repayable FMS loans must be repaid within 12 years unless legislated otherwise by Congress. All items purchased using loan funds must be transported by U.S. flag vessels and, on a case by case basis, loan funds may be used to purchase defense articles and services through direct commercial contracts. Only U.S. manufactured items may be purchased with FMS loan funds.

**7. Flow of Funds.** Refer to figure 5 as the flow of funds and reimbursement procedures are discussed. The whole reimbursement process revolves around the FMS Trust Fund. This fund is managed for the countries by the Defense Finance and Accounting Service (DFAS). Money is directed to the FMS Trust Fund through two methods. The initial deposit of the accepted Letter of Offer and Acceptance (LOA) stipulates an amount that must be paid with case acceptance. Also, depending on the type of reimbursement arrangements, there may be quarterly deposits required against a case in response to a DD 645 (FMS Billing Statement). These billing statements require the country to deposit cash to cover the work to be accomplished in the quarter immediately following the scheduled payment. The payment of the bill may be made from the country's cash reserves, drawdown on FMS credit or from commercial interest bearing accounts (money in the FMS Trust Fund earns no interest). The military departments are reimbursed by submitting bills (DD 1517) for work performed to DFAS. The appropriate MILDEP budget accounts are reimbursed from cash on hand in the FMS Trust Fund of the country. Accounting will be done on individual cases but cash disbursements are controlled on a country basis.

**SAMPLE**  
**United States of America**  
**Letter of Offer and Acceptance (LOA)**  
**BD-D-YCY**  
**Based on BAF Letter 14 May 20XX**

Pursuant to the Arms Export Control Act, the Government of the United States (USG) offers to sell to The Government of Bandaria, Embassy of Bandaria, Office of the Military Attaché, 1234 Pennsylvania Avenue, NW, Washington, D.C. 20001, the defense articles or defense services (which may include defense design and construction services) collectively referred to as "items", set forth herein, subject to the provisions, terms, and conditions in this LOA.

This LOA is for HUM-120A Humdinger Missiles, including coproduction of the missile launchers, and related support requirements.

Estimated Cost: \$ 85,334,994                      Initial Deposit: \$ 1,899,000  
Terms of Sale: Cash Prior to Delivery/Dependable Undertaking  
Congressional Notification: XX-10

This offer expires on *30 August 20XX*. Unless a request for extension is made by the Purchaser and granted by the USG, the offer will terminate on the expiration date.

This page through page 20, plus Letter of Offer and Acceptance Standard Terms and Conditions attached, are a part of this LOA.

The undersigned are authorized representatives of their Governments and hereby offer and accept, respectively, this LOA:

(signed) 22 July 20XX  
U.S. Signature Date

(signed) 25 August 20XX  
Purchaser Signature Date

General Jones International Affairs Deputy  
Typed Name and Title  
**SAF/IA**  
Implementing Agency

General Malaise Chief of Staff  
Typed Name and Title  
**Bandarian Air Force Materiel Cmd**  
Agency

(signed) Office of the Comptroller

27 July 20XX  
DSCA Date

**Information to be provided by the Purchaser:**

Mark For Code X, Freight Forwarder Code 2, 3, Purchaser Procuring Agency Code D, Name and Address of the Purchaser's Paying Office:

Embassy of Bandaria  
Military Attaché  
1234 Pennsylvania Ave, NW  
Washington, DC 20001-3899

**Figure 1**

**Explanations for acronyms and codes, and financial information, may be found in attached  
"Letter of Offer and Acceptance Information."**

Items to be Supplied (costs and months for delivery are estimates):

(1)	(2)	(3)	(4)		(5)	(6)	(7)
Qty,		Unit of	Costs		SC/MOS/ TA	Ofr Rel	Del Trm
<u>Nbr</u>	<u>Description/Condition</u>	<u>Issue</u>	<u>(a)Unit</u>	<u>(b)Total</u>	<u>Notes</u>	<u>Cde</u>	<u>Cde</u>
001	(B2Z) 1410013013317 (Y) <b>Humdinger MSL HUM-120A</b> Humdinger Missile	94 EA	\$730,562	\$68,672,828	P(38-73) TA5	Z	8
002	(B2Z) 141000humding (Y) <b>Humdinger Missile</b> Humdinger Air Vehicle Instrumented (HAVI)	6 EA	\$848,712	\$5,092,272	P(38-44) TA5	Z	8
003	(B2Z) 144001315403 (N) <b>Launcher, LAU HUM-129A/A</b> NSN: 1440-01-315-4103	10 EA	\$38,840	\$388,400	P(25-37) TA5	A	4
004	(B2Z) 6920013014619 (N) <b>Training MSL, CATM-120A</b> Humdinger Training Missile	22 EA	\$21,987	\$483,714	P(38-50) TA5	Z	4
005	(B2Z) 8140012857178 (N) <b>ALLUP RND CONTR,</b> <b>CNU 431/E</b> CNU 431/E Containers NSN: 8140-01- 285-7178	31 EA	\$3,323	\$103,013	P(38-74) TA5	Z	8
006	(B2Z) 9B2Z00 HUMSUP (N) <b>Humdinger Support Eqmt</b> (Line Total)			<u>\$1,591,197</u>			
a.	<b>Subline</b> Missile Bit Test Set	2 EA	\$24,446	\$48,892	P(32-44) TA5	A	4
b.	<b>Subline</b> Std Support Equipment			\$1,040,305	P(25-62) TA5	A	4
c.	<b>Subline</b> Non-Std Support Equipment			\$502,000	P(25-62) TA5	A	4
007	(B9A) 9B9A00GMPARTS (N) <b>Guided Missile Parts</b> Guided Missile PartsComponents and Parts forGM and GM Support Equipment			\$2,155,907	P(25-74) TA5	A	4

ALM-41-2510-C

(1) Itm Nbr	(2) Description/Condition	(3) Qty, Unit of Issue	(4) Costs (a)Unit (b)Total		(5) SC/MOS/ TA Notes	(6) Ofr Rel Cde	(7) Del Trm Cde
008	(J8A) 768ZB00KSPUBS (N) <b>Tech, Non-Tech Books, Pubs</b>			\$12,000	S(1-38) TA3	A	4
009	(M1E) 0205000TAUSGP (N) <b>Other Tech Assistance</b> Technical Assistance USGPersonnel (Not TechnicalAssistance Teams)			\$657,509	S(1-84) TA3		
010	(R4A) 074000STDSRVY (N) <b>Studies and Surveys</b>			\$50,000	S(3) TA5		
011	(M2K) 02280000RRMSL (N) <b>R-R Missiles and SPT EQP</b> Interim Contractor Support, Repairs			\$646,148	P(38-62) TA5	Z	C
012	(R6B) 076200PROGMGT (N) <b>Program Management</b> CONUS Program Management			\$1,221,843	S(1-84) TA3		
013	(M1F) 0208000000 (N) <b>Tech Data Package-ORG INTERMED, and Depot Level Maint, Topdown breakdown drawings for production purposes of LAU- 129A/A</b>			\$200,000	P(1-25) TA3	Z	5
014	(R9D) 079400RLTPMTS (N) <b>Royalty Payments</b> Nonrecurring costs associated with the coproduction of the LAU-129A/A		\$1,942	\$217,504	N/A		
999	(N00)000000FMSTRNG (N) <b>Training WCN</b> 0999/D399000/Abbr Training Plan-For Planning Purposes only	\$173,0 05			X(32-44) TA4		

Summary

Subtotal Cost of Ordered Articles and Services	\$ 80,443,497
Case/Program Management	\$ 1,221,843
(8) Net Estimated Cost	\$ 81,665,340
(9) Packing, Crating, and Handling (see page 5)	\$ 420
(10) Administrative Charge (see page 5)	\$ 2,413,305
(11) Transportation (see page 5)	\$ 1,255,929
(12) Other	\$ 0
(13) Total Estimated Cost	\$ 85,334,994

To assist in fiscal planning, the USG provides the following anticipated costs of this LAO:

**Estimated Payment Schedule**

<u>Payment Date</u>	<u>Quarterly</u>	<u>Cumulative</u>
Initial Deposit	\$1,899,000	\$1,899,000
15 Mar XX	\$1,332,000	\$3,231,000
15 Jun XX	1,743,000	4,974,000
15 Sep XX	2,408,000	7,382,000
15 Dec XX	2,694,000	10,076,000
15 Mar XX	3,298,000	13,374,000
15 Jun XX	4,007,000	17,381,000
15 Sep XX	4,507,000	21,888,000
15 Dec XX	5,175,000	27,063,000
15 Mar XX	5,436,000	32,499,000
15 Jun XX	6,071,000	38,570,000
15 Sep XX	6,293,000	44,863,000
15 Dec XX	7,155,000	52,018,000
15 Mar XX	7,047,000	59,065,000
15 Jun XX	5,853,000	64,918,000
15 Sep XX	5,212,000	70,130,000
15 Dec XX	3,832,000	73,962,000
15 Mar 98	3,313,000	77,275,000
15 Jun XX	2,323,000	79,598,000
15 Sep XX	1,810,000	81,408,000
15 Dec XX	1,564,000	82,972,000
15 Mar XX	1,190,000	84,162,000
15 Jun XX	449,000	84,611,000
15 Sep XX	449,000	85,060,000
15 Dec XX	82,000	85,142,000
15 Mar XX	83,000	85,225,000
15 Jun XX	83,000	85,308,000
15 Sep XX	26,994	85,334,994

***Notes:***

1. This case has a less than normal offer expiration date due to Purchaser's request.

Blk (9) 2. Block (9) includes a PC&H charge applicable to line 008.

Blk 3. Block (10) includes a Standard (10) Admin Charge applicable to all lines except line 012.

Blk 4. Block (11) includes a (11) Transportation Charge applicable to Lines 001, 002, 005, and 011.

**Signed Copy Distribution:**

1. 1. Upon Acceptance, The Purchaser should return one signed copy of this LAO to Defense Finance and Accounting Service (DFAS), Attn: DFAS-DE/I, 6760 E. Irvington Place, Denver, CO 80279-2000. Simultaneously, wire transfer of the Initial Deposit should be made to: United States Treasury, New York, NY, 021-030-004, DFAS Agency Code 3801, showing "Payment from Bandaria for BD-D-YCY"; or a check for the initial deposit should accompany the signed copy of the LAO or be sent simultaneously to DFAS, with a letter identifying the purchasing country and the LAO identifier.
2. 2. One signed copy plus a copy of the letter of transmittal forwarding payment to DFAS, or other evidence of payment, should be returned to SAF/IA, 1080 Air Force Pentagon, Washington D.C. 20330-1080.
3. 3. The point of contact concerning this LAO and related documents is LTC Jesse James, SAF/IA, telephone (703) 123-4567.

<u>Federal Condition Code</u> (See DoD 4160.21-M. [reference (13)] for specific definitions.)	<u>Percent of Inventory Price of Materiel</u>
A-1 (serviceable, unused - good)	50
A4 (serviceable, used - good.)	40
A-2, A-5, B-1, C-1, D-1, B-4, C4, D-4 (serviceable with qualification, materiel is either unused in fair condition or used in good condition)	30
B-2, C-2, D-2, B-5, C-5, D-5, D-7, E-7, F-7, G-7 (serviceable with qualification, if unused in fair condition; if used, in good condition). (Also includes unserviceable items that are in good condition but require minor repair	20
A-3, B-3, C-3, D-3, A-6, B-6, C-6, H-7, F-8 (serviceable, in poor condition; unserviceable, in poor condition; or unserviceable because item requires minor repairs.)	10
D-H8, D-H9, F-9, <i>F-X</i> , <i>G-X</i> , H-X (unserviceable, requiring major repairs.)	5

Figure 2

**CONSTANT PERCENTAGE METHOD OF DEPRECIATION**

$$R_n = (1 - d)^n$$

$R_n$  = remaining useful life factor at the end of  $n$  years.

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

$n$  = age in years of the item.

Example below uses  $d = 12.5\%$

<b>n</b>	<b>d</b>	<b>R<sub>n</sub></b>
1	.125	.875
2	.125	.765625
3	.125	.669922
4	.125	.586182
5	.125	.512909
6	.125	.448795
7	.125	.392696
8	.125	.343609
9	.125	.300658
10	.125	.263076
11	.125	.230191
12	.125	.201417
13	.125	.176240
14	.125	.154210
15	.125	.134934
26	.125	.118067
27	.125	.103309
28	.125	.090395
29	.125	.07906
20	.125	.069209

To obtain a useful life percentage, round the decimal to the nearest two places

$$.154210 = 15\%$$

$$.586182 = 59\%$$

**Figure 3**

**FINANCIAL ANALYSIS WORKSHEET**

CC \_\_\_\_\_  
 Case \_\_\_\_\_  
 System \_\_\_\_\_  
 Case Line \_\_\_\_\_  
 Date Prepared \_\_\_\_\_

**PRICING TECHNIQUE**

A. NSN \_\_\_\_\_

B. QTY \_\_\_\_\_

C. Source of Item (Check One):

1. \_\_\_\_\_ Excess Inventory
2. \_\_\_\_\_ Inventory (without replacement)
3. \_\_\_\_\_ Inventory (replacement with same item)
4. \_\_\_\_\_ Inventory (replacement with improved item)
5. \_\_\_\_\_ Production
6. \_\_\_\_\_ Other

D. Source of Price (Check One):

1. \_\_\_\_\_ Prime contractor
2. \_\_\_\_\_ Price and GFE Contractor
3. \_\_\_\_\_ Standard Price
4. \_\_\_\_\_ Major Subordinate Command Estimate
5. \_\_\_\_\_ Other (explain)

E. Source Unit Price \_\_\_\_\_

F. Adjusted Price (explain source and computations in Remarks)---

1. \_\_\_\_\_ Agent's Fees or Commissions
2. \_\_\_\_\_ Nonrecurring Costs (RDT&E)
3. \_\_\_\_\_ Nonrecurring Costs (production)
4. \_\_\_\_\_ Replacement Costs
5. \_\_\_\_\_ Adjusted for Inflation
6. \_\_\_\_\_ Asset Use Charge
7. \_\_\_\_\_ Contractor Rental Payments for USG-Owned Plant and  
Production Equipment
8. \_\_\_\_\_ Unfunded Costs
9. \_\_\_\_\_ Recurring Support  
Costs \_\_\_\_\_ Contract \_\_\_\_\_ Government
10. \_\_\_\_\_ First Destination Transportation
11. \_\_\_\_\_ Other (explain)
12. \_\_\_\_\_ Total Adjustment

G. Adjusted Unit Price \_\_\_\_\_

H. Source for Schedule of Payments

1. \_\_\_\_\_ Prime contractor
2. \_\_\_\_\_ Price and GFE Contractor
3. \_\_\_\_\_ Standard Price
4. \_\_\_\_\_ Major Subordinate Command Estimate
5. \_\_\_\_\_ Other (explain)

I Comparison with other cases (12 months)

CC	CASE	UNIT PRICE	RATIONALE FOR EVALUATION
(1)			
(2)			

J. Remarks (use continuation sheets, as necessary)

**Figure 4**



ANNEX A

EXAMPLE 1

EXCESS PRINCIPAL ITEM SOLD FROM STOCK

Standard Price	\$50,000
Pro rata nonrecurring charge	\$2,000
Condition A-3 (serviceable, unused poor) = 10%	

Computation:	Base Price	Nonrecurring charge
	\$50,000	\$2,000
	<u>x .10</u>	<u>x .10</u>
	<b>\$ 5,000</b>	<b>\$ 200</b>

\$ 5,000 + \$200 = \$5,200 Unit Selling Price

NOTE: Selling price shall not be lower than scrap value or fair market value as military hardware

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EXAMPLE 2

NONEXCESS STOCK FUNDED SECONDARY ITEM SOLD FROM STOCK

Acquisition Price	\$3,000
Stock Fund Surcharge (20.3%)	<u>609</u>
	\$3 609 Unit Selling Price

---

EXAMPLE 3

NONEXCESS PRINCIPAL ITEM SOLD FROM STOCK

(Paid for with Country Funds)

TO BE REPLACED WITH AN IMPROVED MODEL

Standard Price	\$ 50,000
Pro rata nonrecurring charges	\$2,000
Estimated contract cost to replace the item	\$120,000
30% of service life remains in item to be sold	

Computation:	Base Price	Nonrecurring charge
	\$120,000	\$2,000
	<u>x .30</u>	<u>x .30</u>
	\$ 36,000	\$ 600
	\$ 36,000	\$ 36,000
	<u>x .10</u>	\$ 600
	\$ 3,600	<u>\$ 3,600</u>
	<b>Total</b>	<b>\$ 40,200</b>

EXAMPLE 4

## PRINCIPAL ITEM SOLD FROM NEW PROCUREMENT

Contract price for 20 items	\$1,000,000	
Pro rata nonrecurring charge	50,000	(\$2500 each x 20)
GFE from DoD stock	25,000	
PCH of GFE (3.5%)	875	
*Transportation of GFE	516	
Logistics support (3.1 %)	775	
Contract administration services (1.5%)	<u>15,000</u>	
(.015 x \$1,000 000)		
	\$1,092,166 ÷ 20 =	\$54,608 Unit Selling Price

*3.75% x first \$10,000 unit value	\$375
1/4 of 3.75% (.009375) x remainder of unit value (\$15 000)	<u>141</u>
	\$516 Transportation of GFE

---

EXAMPLE 5

## NONEXCESS PRINCIPAL ITEM SOLD FROM STOCK

(Paid for with Country Funds)

TO BE REPLACED IN KIND

Standard Price	\$1,300,000
Pro rata nonrecurring charges	32,000
Overhaul in last 24 months	190,000
Age of item to be sold = 5 years	
Percent useful life = 51% (from table, Figure 3)	
Estimated replacement price	\$2,100,000

Calculation:

\$2,100,000			
x <u>.51</u>	(useful life adjustment)	\$32,000	Nonrecurring charge
\$1,071,000		<u>x .51</u>	
+ <u>190,000</u>	(cost of overhaul)	\$16,320	
\$1,261,000	(base price)		
+ <u>16,320</u>	(nonrecurring charge)		
\$1,277,320	<b>UNIT SELLING PRICE</b>		

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