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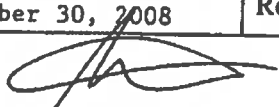
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POLICY MEMORANDUM NO. 2008-04

To: Division Heads	SUBJECT: Inventory Allowance
Effective Date: September 30, 2008	Revision Date:
Approved By:  GLENN A. LEON GUERRERO, General Manager	

- I. **PURPOSE:** The purpose of the policy is to prescribe a process to be followed in identifying, estimating, recording, and charging the Allowance for Inventory Obsolescence.
- II. **DISCUSSION:** The Allowance for Inventory Obsolescence account is for recording reasonably anticipated financial losses in inventory and materials. Losses that may occur include reduction in value as a result of shrinkage, deterioration, damage, obsolescence, or loss of utility.

Adjustments to the Allowance for Inventory Obsolescence account must be documented and submitted for processing. Actual losses from supply inventory will be charged to Inventory Loss/Written down account (70.8510).

Generally accepted accounting principles (GAAP) require that inventory be stated at the lower of cost or market value. Inventory overstocks are a fact of life, and it is doubtful that most inventory could be liquidated in its entirety at anywhere near cost (this being the requirement for categorizing inventory as a current asset, i.e., that it could be turned into cash at or for more than its stated value within one year), but would more likely go for pennies on the dollar per unit in the remainder market. Accurate determination of the liquidity of inventory is an important component of determining working capital, and if it is overstated it does not yield an accurate measurement of the ability to meet its maturing current liabilities.

III. **POLICY:**

1. Each division will be provided a Slow Moving Inventory Report sixty (60) days before each fiscal year ends by Finance Division's Inventory Accountant.

items that are recommended for write-off will be submitted to Supply Management Administrator for review and concurrence.

3. Supply Supervisor must schedule a site visit by Division's authorized representatives (crane and fleet mechanics, welders, electricians, etc.) to identify if slow moving items are considered useable or for survey. This process must be scheduled starting on 60 days before the end of each current Fiscal Year.
4. Property Control Officer (PCO) will review the recommendations of the divisions and prepare corrective actions on each classification (surplus, obsolete or to be surveyed).
5. PCO will submit for approval to Financial Affairs Controller the report of items that are recommended for survey with supporting justification.
6. The Inventory Item For Survey will be submitted to the General Manager for final approval. Once the approvals are completed, copies of the forms will be submitted to Accounting, Supply and Property Control Officer for processing in the Inventory Financial System and Actual Survey.
7. At the end of every fiscal year, Accounting will run an Aging Inventory Report. The following Allowance for Inventory Obsolescence will be calculated:

Current	-	15%
Over 2 years	-	25%
Over 3 years	-	50%
Over 5 years	-	90%

General Accounting will prepare an adjusting journal entry to adjust the book balance to equal to the Allowance calculation.