



COOPERATIVE DEVELOPMENT AUTHORITY

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193-18



MEMORANDUM CIRCULAR NO. 2024 – 21 Series of 2024

SUBJECT: GUIDELINES ON THE ALLOCATION, UTILIZATION AND ACCOUNTING TREATMENT OF A PORTION OF THE TRUST FUND INCOME OF THE CREDIT SURETY FUND COOPERATIVES

The operating and administrative expenses of the Credit Surety Fund (CSF) Cooperatives are generally sourced from the service fees, interest income on regular bank deposits and income from other CSF related activities. However, there are cases when these cannot sufficiently cover the expenses of the CSF Cooperatives such as payment to the auditing services rendered by the Cooperative External Auditor, promotional expenses of the CSF Program, collection expenses, trainings and seminars and other administrative and operating expenses due to modest or low income from CSF Operations. Without prejudice to increasing the leverage of the Fund by ploughing back the trust fund income to the Restricted Capital for Surety, the Authority prescribes the following guidelines on the allocation, utilization and accounting treatment of a portion of the trust fund income for the administrative and operating expenses of the CSF Cooperatives.

Section 1. Title

This memorandum circular (MC) shall be known as the “Guidelines on the Allocation, Utilization and Accounting Treatment of a Portion of the Trust Fund Income of the Credit Surety Fund Cooperatives”.

Section 2. Legal Basis

Section 4a of RA 11364 empowers to the Authority to develop and formulate, in consultation with the cooperative sector and other concerned institutions, appropriate regulations, standards, rules, orders, guidelines and/or circulars to implement the Act and Republic Act No. 9520 to ensure the effective and sound operation of cooperatives.

Rule 20(H), Section 29 of the Implementing Rules and Regulations of RA 10744 allows CSF Cooperatives to charge operating and administrative expenses against net interests and trust fund income earned from trust investments provided that the same is stated in its Bylaws.

Section 3. Purposes

This MC is issued for the following purposes:

1. To set the maximum percentage of allocation and utilization of the trust fund income of the CSF Cooperatives for operating and administrative expenses;

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2. To identify the expenses that may be charged against the allocated portion of the trust fund income; and
3. To prescribe the accounting treatment for the allocation and utilization of a portion of the trust fund income.

Section 4. Scope and Applicability

This MC shall apply to all registered CSF Cooperatives.

Section 5. Definition of Terms

- a. **Administrative/Operating Expenses** – refer to expenses incurred related to general administration and management of the CSF Cooperative;
- b. **Restricted Capital for Surety-Subsidy** – refers to the account representing the allocated portion of the trust fund income that can be utilized for Administrative/Operating Expenses. This shall be presented in the Statement of Operations as part of Revenue Items; and
- c. **Trust Fund Income** – refers to the net interest income and income generated from the investment and reinvestment of the contributions of the CSF Cooperative's members and donors. This includes imputed income and earnings on contributions treated as investments.

Section 6. Allocated Percentage of Utilization of the Trust Fund Income

A maximum of thirty percent (30%) of the trust fund income generated from the investment and reinvestment of the contributions of the CSF Cooperative's members and donors in the immediately preceding year as reflected in the Audited Financial Statements can be allocated to be utilized for the administrative and operating expenses of the CSF Cooperative in the current year.

The percentage referred to in the preceding paragraph may be decreased or increased by the Authority based on the result of its review which shall be conducted as deemed necessary.

Section 7. Expenses to be Charged Against the Allocated Portion of the Trust Fund Income

The allocated portion of the trust fund income shall be utilized for the expenses related to the general administration, management and promotion of the CSF Cooperatives.

Section 8. Period of Allocation and Utilization of a Portion of the Trust Fund Income

Existing CSF Cooperatives are authorized to allocate and utilize a portion of the trust fund income for a period of five (5) years after the effectivity of this MC. Provided further that, for

CSF Cooperatives registered after the effectivity, the five (5) year period shall reckon from the date of their registration.

The five (5)-year period may be extended or shortened based on the result of the review by the Authority which shall be conducted as deemed necessary.

Section 9. Stipulation in the CSF Cooperative's Bylaws

In order to allow the CSF Cooperative to allocate and utilize a portion of the trust fund income for operating and administrative expenses, the same shall be explicitly stated in the Bylaws. Otherwise, the CSF Cooperative shall be required to amend its Bylaws to include such provision.

The percentage of said allocation shall be fixed in the Bylaws.

Section 10. Withdrawal of the Allocated Portion of the Trust Fund Income from the Trustee Bank

For ease of payment of administrative and operating expenses, the CSF Cooperative shall make a one-time withdrawal of the allocated portion of the trust fund income from the trustee bank for the subject year. Prior notice on the withdrawal from the trust account shall be sent to the trustee bank. This condition shall be stipulated in the Trust Agreement. Hence, amendment to the Trust Agreement shall be done accordingly.

Withdrawal from the trust account shall be done through a written instruction to the trustee bank supported by a Board Resolution and the same shall be deposited to the regular bank account of the CSF Cooperative.

Section 11. Accounting Treatment of the Allocation and Utilization of a Portion of the Trust Fund Income

The allocation and utilization of a portion of the Trust Fund Income shall be recorded in the Books of Accounts of the CSF Cooperative as follows:

- a. Recording of the trust fund income (imputed income plus earnings on contributions treated as investments) at the end of the preceding year. Assume that the trust fund income for the year 2023 amounted to Php600,000.00:

Date of Journal Entry: December 31, 2023

Trust Deposit for Surety	Php600,000.00
Imputed Income	Php600,000.00

To record the trust fund income earned in CY 2023.

- b. Closing of the imputed income to the Restricted Capital for Surety account:

Date of Journal Entry: December 31, 2023

Imputed Income	Php600,000.00	
Restricted Capital for Surety		Php600,000.00

To close the imputed income to Restricted Capital for Surety account.

- c. Allocation of a portion (maximum of 30%) of the trust fund income of the CSF Cooperative generated in the immediately preceding year for administrative and operating expenses and recording/realigning the same as Restricted Capital for Surety-Subsidy at the beginning of the year:

Date of Journal Entry: January 1, 2024

Restricted Capital for Surety	Php180,000.00	
Restricted Capital for Surety-Subsidy		Php180,000.00

To record allocation of 30% of the trust fund income generated in CY 2023 for the administrative and operating expenses of the CSF Cooperative in CY 2024 and recording/aligning the same as Restricted Capital for Surety-Subsidy.

Computation:

Trust Fund Income in CY2023:	Php600,000.00
Percentage Allocated per Bylaws:	30%
Allocated Portion of the Trust Fund Income for Administrative and Operating Expenses in CY2024:	Php180,000.00

- d. Withdrawal of the allocated portion of the trust fund income from the trustee bank and deposit of the same to the regular bank account of the CSF Cooperative:

Date of Journal Entry: January 10, 2024

Cash in Bank	Php180,000.00	
Trust Deposit for Surety		Php180,000.00

To record withdrawal of the 30% of the trust fund income from the trustee bank and deposit the same to the regular bank account of the CSF Cooperative

- e. Sample charging of the administrative and operating expenses against the allocated portion of the trust fund income recorded/reallocated as Restricted Capital for Surety-Subsidy in the current year:

Date of Journal Entry: January 31, 2024

Trainings/ Seminars	Php5,000.00	
Cash in Bank		Php5,000.00

To record payment of expenses incurred relative to training/seminar attended by the CSF Cooperative's officers and directors.

Date of Journal Entry: March 8, 2024

Professional Fees	Php10,000.00	
Cash in Bank		Php10,000.00

To record payment of professional fee for the auditing services rendered by the Cooperative External Auditor.

Section 12. Sanctions

Any violation of the provisions of this Guidelines shall be subject to the following sanctions after due notice and hearing:

1. First Offense: Imposition of fines amounting to Five Thousand Pesos (Php5,000.00) per erring officer;
2. Second Offense: Non-issuance of Certificate of Compliance (COC) for the immediately succeeding year; and
3. Third Offense: Dissolution for willful violation of the lawful order of the Authority.

Section 13. Separability Clause

If any provision of this MC is declared null and void or unconstitutional, the other provisions not affected thereby shall continue to be in full force and effect.

Section 14. Effectivity

This MC shall take effect after fifteen (15) days following the completion of its publication in the Official Gazette and the Office of the National Administrative Register (ONAR).

Approved by the Board of Directors pursuant to Board Resolution No. 569, S-2024 dated August 15, 2024.

Issued this 2nd day of September, 2024

By the Board of Directors:


USEC. JOSEPH B. ENCABO
Chairperson