Jim Coonce To <Jim.Coonce@usc.salvationar
my.org> cc

"USCFinance@usc.salvationarmy.org" <USCFinance@usc.salvationarmy.org> USC WST Finance/WST/USC/SArmy <uscwstfinance@usc.salvationarmy.org>

Western Division - TFC Agenda Item: Lincoln, NE Capital Reserve to Income Trust Transfer



03/05/2020 12:36 PM

bcc Subject

1 attachment
Transfer of Funds Request from Lincoln Corps, NE - DFB Stamped.pdf

Good afternoon,

Attached is a request for the Lincoln, NE corps to transfer $200,000 from Capital Reserve (#23-0018-3150-028-001) to the corps' Income Trust (#23-0018-3160-028-001) for the purpose of additional operating income. This request is accompanied by DFB, Corps Council and Advisory Board approvals as well as the completed transfer form per Minute: Section 21, Minute 5, Part #2.

Thank you.

Jim J. Coonce
Divisional Finance Manager The Salvation Army
Western Division Headquarters Phone: (402)898-5950

-----Original Message-----
From: Raeanna.Kuzma@USC.salvationarmy.org <Raeanna.Kuzma@USC.salvationarmy.org>
Sent: Thursday, March 5, 2020 12:25 PM
To: Mark Anderson <Mark.Anderson@USC.salvationarmy.org>; Jim Coonce <Jim.Coonce@usc.salvationarmy.org>; USC WST Corps Acct/WST/USC/SArmy <uscwstcorpsacct@usc.salvationarmy.org>; USC WST DFB/WST/USC/SArmy <uscwstdfb@usc.salvationarmy.org>
Subject: APPROVED: Divisional Finance Board - Transfer of Funds Request from Lincoln Corps, NE

APPROVED: Divisional Finance Board - Transfer of Funds Request from Lincoln Corps, NE

sent to:

Mark.Anderson@USC.salvationarmy.org Jim.Coonce@usc.salvationarmy.org uscwstcorpsacct@usc.salvationarmy.org uscwstdfb@usc.salvationarmy.org

03/05/2020 12:24 PM

The following item has been APPROVED by the Divisional Finance Board

board comments:

Dear Major Mark, It is my pleasure to inform you that at the March 3, 2020 Divisional Finance Board meeting, approval was given for the Transfer of Funds To Income Trusts request from Lincoln Corps, NE. By copy of this notification, Jim Coonce, Divisional Finance Manager may proceed with the process. Thank you for all that you do in the Lincoln community. Attached please find a DFB stamped copy for your files In Christ, Dan Sawka, Major Divisional Business Officer Western Division

Transfer of Funds Request from Lincoln Corps, NE |---------------------------------| ||
| Status | || |---------------------------------| ||

| approved | || |---------------------------------|

|-----------+
||
| Details |
||
| ------------------------------------------------------------- ||| | Title| | ||| |-----------+-------------------------------------------------------------| ||| | Submitted | | | by| | ||| | -------------------------------------------------------------| ||| | Meeting | 03/03/2020 | ||| |-----------+-------------------------------------------------------------| ||| | Section| | ||| |-----------+-------------------------------------------------------------| ||| | Category| | ||| |-----------+-------------------------------------------------------------|

|---------+
||
|Unit |
||
| --------------------------------------------------------------- ||| | territo | | | ry| | |||

| ---------------------------------------------------------------| ||| | divisio | | |n| | ||| | ---------------------------------------------------------------| ||| | unit| | ||| |---------+---------------------------------------------------------------|

|-----------------| || | Synopsis | || |-----------------|

Presented for approval is a request from the Lincoln Corps, NE to transfer of funds in the amount of $200,000.00 from the Lincoln, NE Capital Reserve (#23-0018-3150-028-001, Balance $273,399.78 per 1/31/2020) to Lincoln, NE Income Trust. The Advisory Board Minutes are attached showing their approval. Please review the attachments for further details.

|-----------------| || | Attachments | || |-----------------|

(See attached file: Stamped.pdf)

Transfer of Funds Request from Lincoln Corps, NE - DFB

## What Is a Capital Reserve?

A capital reserve is an account in the [equity](https://www.investopedia.com/terms/e/equity.asp) section of the [balance sheet](https://www.investopedia.com/terms/b/balancesheet.asp) that can be used for [contingencies](https://www.investopedia.com/terms/c/contingency.asp) or to offset capital losses. It is derived from the accumulated [capital](https://www.investopedia.com/terms/c/capital.asp) surplus of a company, created out of capital profit.

The term capital reserve is sometimes used for the [capital buffers](https://www.investopedia.com/terms/c/capital-buffer.asp) that banks have to establish to meet regulatory requirements and can be confused with [reserve requirements](https://www.investopedia.com/terms/r/requiredreserves.asp), which are the cash reserves the Federal Reserve requires banks to maintain.

Volume 75%

1:09

#### Capital Reserve

## Understanding Capital Reserve

A capital reserve is an anachronism because the term “reserve” is not defined under [generally accepted accounting principles](https://www.investopedia.com/terms/g/gaap.asp) (GAAP). It is created through transactions of a capital nature, such as selling fixed assets, the upward revaluation of assets to reflect their current market value, issuing stock in excess of par value ([share premium](https://www.investopedia.com/terms/s/sharepremiumaccount.asp)), profits on the redemption of debentures, and the reissue of forfeited shares.

Sums allocated to a capital reserve are permanently invested and cannot be used to pay [dividends](https://www.investopedia.com/terms/d/dividend.asp) to shareholders. They are [earmarked](https://www.investopedia.com/terms/e/earmarking.asp) for specific purposes, such as long-term projects, mitigating capital losses, or any other long-term contingencies.

A capital reserve has nothing to do with trading or operational activities of the business, as it is created out of non-operating activities. Thus, [capital reserves](https://www.investopedia.com/terms/d/debentureredemptionreserve.asp)are not an indicator of the operational health of a business.

Contingency

By [WILL KENTON](https://www.investopedia.com/contributors/53661/)

 Updated Dec 7, 2019

What Is a Contingency?

A contingency is a potential negative event that may occur in the future, such as an economic recession, natural disaster, fraudulent activity, or a terrorist attack. Contingencies can be prepared for, but often the nature and scope of such negative events are unknowable in advance. Companies and investors plan for various contingencies through analysis and implementing protective measures.

In finance, managers often attempt to identify and plan–using predictive models–for possible contingencies that they believe may occur. Financial managers tend to err on the conservative side–to mitigate risk–assuming slightly worse-than-expected outcomes. A contingency plan might include arranging a company's affairs so that it can weather negative outcomes with the least distress possible.

KEY TAKEAWAYS

* A contingency is a potential negative event that may occur in the future, such as an economic recession, natural disaster, or fraudulent activity.
* Companies and investors plan for various contingencies through analysis and implementing protective measures.
* Contingency plans can include the purchase of options or insurance for investment portfolios.
* Banks must set aside a percentage of capital for negative contingencies, such as a recession, to protect the bank against losses.

How A Contingency Works

To plan for contingencies, financial managers may often also recommend setting aside significant reserves of cash so that the company has strong [liquidity](https://www.investopedia.com/terms/l/liquidity.asp), even if it meets with a period of poor sales or unexpected expenses.

Managers may seek to proactively open credit lines while a company is in a strong financial position to ensure access to borrowing in less favorable times. For example, pending litigation would be considered a [contingent liability](https://www.investopedia.com/terms/c/contingentliability.asp). Contingency plans typically include insurance policies that cover losses that may arise during and after a negative event. Business consultants may also be hired to ensure contingency plans take a large number of possible scenarios into consideration and provide advice on how to best execute the plan.

Types of Contingency Plans

Contingency plans are utilized by corporations, governments, investors, and by central banks, such as the Fed. Contingencies can involve real estate transactions, commodities, investments, currency exchange rates, and geopolitical risks.

Protecting Assets

Contingencies might also include [contingent assets](https://www.investopedia.com/terms/c/contingentasset.asp), which are benefits (rather than losses) that accrue to a company or individual given the resolution of some uncertain event in the future. A favorable ruling in a lawsuit or an inheritance would be examples of contingent assets.

Contingency plans might involve purchasing [insurance](https://www.investopedia.com/terms/i/insurance-coverage.asp) policies that pay cash or a benefit if a particular contingency occurs. For example, property insurance might be purchased to protect against fire or wind damage.

Investment Positions

Investors protect themselves from contingencies that could lead to financial losses related to investing. Investors might employ various [hedging](https://www.investopedia.com/terms/h/hedge.asp) strategies such as [stop-loss](https://www.investopedia.com/terms/s/stop-lossorder.asp) orders, which exits a position at a specific price level. Hedging can also involve using [options](https://www.investopedia.com/terms/o/option.asp) strategies, which is akin to buying insurance whereby the strategies earn money as an investment position loses money from a negative event. The money earned from the options strategy completely or partially offsets the losses from the investment. However, these strategies come at a cost, usually in the form of a [premium](https://www.investopedia.com/terms/p/premium.asp), which is an up-front cash payment.

Investors also employ [asset diversification](https://www.investopedia.com/articles/financial-theory/08/asset-class.asp), which is the process of investing in various different types of investments. Asset diversification helps to minimize risk if one asset class, such as stocks, declines in value.

Special Considerations

A contingency plan should also prepare for the loss of intellectual property through theft or destruction. As a result, backups of critical files and computer programs, as well as key company patents, should be maintained in a secure off-site location. Contingency plans need to prepare for the possibility of operational mishaps, theft, and fraud. A company should have an emergency public relations response relating to possible events that have the ability to severely damage the company’s reputation and its ability to conduct business.

How a company is reorganized after a negative event should be included in a contingency plan. It should have procedures outlining what needs to be done to return the company to normal operations and limit any further damage from the event. For example, financial services firm Cantor Fitzgerald was able to resume operation in just two days after being crippled by the 9/11 terrorist attacks due to having a comprehensive contingency plan in place.

Benefits of a Contingency Plan

A thorough contingency plan minimizes loss and damage caused by an unforeseen negative event. For example, a brokerage company may have a backup power generator to ensure that trades can be executed in the event of a power failure, preventing possible financial loss. A contingency plan can also reduce the risk of a public relations disaster. A company that effectively communicates how negative events are to be navigated and responded to is less likely to suffer reputation damage.

A contingency plan often allows a company affected by a negative event to keep operating. For example, a company may have a provision in place for possible industrial action, such as a strike, so obligations to customers are not compromised. Companies that have a contingency plan in place may obtain better insurance rates and credit availability because they are seen to have reduced business risks.

Example of a Contingency Plan

As a result of the financial crisis of 2008 and the [Great Recession](https://www.investopedia.com/terms/g/great-recession.asp), regulations were implemented requiring bank stress tests to be performed to test how a bank might handle various negative contingencies. The stress tests project how much a bank would lose–if a negative economic event occurred–to determine if the bank has enough capital or funds set aside to survive the event.

Banks are required to have a specific percentage of capital reserves on hand, depending on the total of [risk-weighted assets](https://www.investopedia.com/terms/r/riskweightedassets.asp) (RWAs). These assets, which are typically loans, have various risk weightings applied to them. For example, a bank's mortgage portfolio might receive a 50% weighting, meaning the bank–in a negative scenario–should have enough capital that's valued at 50% of the outstanding mortgage loans. The capital–called [Tier-1 capital](https://www.investopedia.com/terms/t/tier-1-capital-ratio.asp)–can include equity shares or [shareholders' equity](https://www.investopedia.com/terms/s/shareholdersequity.asp) and [retained earnings](https://www.investopedia.com/terms/r/retainedearnings.asp), which is accumulated savings of prior years' profits. Although there are various components that go into the tier-capital ratio requirement, the ratio has to be at least 6% of the total of risk-weighted assets.

Let's say as an example, Bank XYZ has $3 million in retained earnings and $4 million in shareholders' equity, meaning the total tier-1 capital is $7 million. Bank XYZ has risk-weighted assets of $70 million. As a result, the bank's tier-1 capital ratio is 10% ($7 million/$70 million). Since the capital requirement is 6%, the bank is considered well-capitalized when compared to the minimum requirement.

Of course, we won't know if the banking sector's contingency plan will be adequate until another recession occurs, which is a limitation of these plans since it's difficult to plan for every contingency.

100% of income trust goes to the church (see last line and last column)

