

## **S.O.S. --- Q & A**

### **(Save Our Shingles – Questions & Answers)**

*The following questions represent a compilation of those frequently asked by members of the Hillside congregation as together we engage the challenge of replacing an aging and broken roof. Please send further questions and comments to Terry Ransom, Executive Minister, at [transom@hillsideumc.org](mailto:transom@hillsideumc.org). New questions will be added to these and posted on our website ([www.hillsideumc.org](http://www.hillsideumc.org)).*

**Q. Why are there blue tarps on the building?**

**A.** There are three roofing systems, one for each building phase (1993, 1996 & 1999). The two largest sections have developed “terminal defects” which allow water to penetrate into the building. The damage to the interior has already been costly. In addition to leaks in The Rock (formerly the Youth Suite) and several children’s classrooms, there was massive water intrusion in the Children’s Ministries office causing extensive damage to ceiling, walls, and furniture. That leak also resulted in mold in the first floor classroom directly below the Children’s Ministries office. Additional leaks have developed in the Celebration Hall and next to the Technical Ministries sound booth.

**Q. How much will it cost to fix the problem?**

**A.** The Board of Trustees, along with well-qualified engineers and roofing experts, has determined that the entire roof should be replaced as soon as possible. It will cost a maximum of \$200,000. Bids are still being reviewed and we will not know the exact cost until a roofing contractor is selected. However, we need to be ready with adequate funding to complete the project before work can begin.

**Q. Why does it cost so much?**

**A.** The roof area is about 46,000 square feet. Of that, about 31,000 SF is over the Celebration Hall. That large section is constructed using the Loadmaster system, which allows the large open space in the worship venue without visible support columns. Unfortunately, that is the area with the most leaks and it takes special expertise and tools to replace the shingles. Nails must be removed by hand in order to remove the damaged shingles. Then, the new shingles must be hand nailed with nails specifically designed for the Loadmaster system.

**Q. Is the replacement cost covered by insurance?**

**A.** Unfortunately, there has been no storm or hail damage or any other cause that would qualify for a bona fide insurance claim. The roof is no longer under warranty. While we may have a future claim against the shingle manufacturer or even the original builders, pursuing such a recourse would be both costly and lengthy. In the meantime, the roof still leaks and gets worse the longer it goes unrepaired.

**Q. Did we have the roof inspected by an independent adjustor? Many folks could not believe that we could not get some relief from insurance.**

**A.** Yes, we had independent adjusters and engineers evaluate the problems. That is why we have Trustees working so diligently and thoroughly on the roofing issues. Like most liability insurance policies, our coverage only addresses storm-related or other disaster-related damage, such as fire, hail or wind damage. There was some very minor hail damage on a small portion of the roof, for which they paid us only about \$8,000. The leaks over Celebration Hall are due to either manufacturer's defects or faulty workmanship or both. The older roof is simply deteriorating due to its age. The shingles are just worn out and need replacing.

**Q. What insurance company do we use and is it large enough to handle Hillside's needs? Do we seek competitive bids when selecting insurance coverage?**

**A.** Our insurance company is Church Mutual, the nation's largest church-specific insurance company. We did, in fact, get competitive bids on insurance coverage several times over the past eight years and changed companies once. We agreed to not go out to bid this year at renewal time, because we were in the midst of litigation on a slip & fall suit and had just filed our first roof claim. Working under the authority of the Board of Trustees, our Executive Minister was, however, able to get our premiums reduced by working with our dedicated agent.

**Q. Was FEMA contacted?**

**A.** FEMA was contacted and could provide no relief because the damage is not storm related.

**Q. I was told the North Georgia Conference of the United Methodist Church has a \$43million endowment fund. Have we asked them for a loan?**

**A.** The *North Georgia United Methodist Foundation* (NGUMF) does indeed make loans to local churches for new construction and capital improvements. The application and approval process takes a minimum of two months. Like the banks we have already consulted with, NGUMF requires a first mortgage or first deed of trust position to secure the loan. That requirement cannot be met due to our existing mortgage with Wachovia/Wells Fargo.

**Q. Why does it take so long to re-secure the blue tarps when they get blown off?**

**A.** For safety and insurance reasons, neither Hillside staff nor volunteers are allowed to go up on the roof. We must rely on the company that installed the tarps to re-affix them as their schedule permits.

**Q. What is being done to assure HUMC that we do not face this problem again in ten or fifteen years?**

**A.** We must trust our duly elected Board of Trustees to do the job the congregation elected them to do in preserving and protecting the physical assets of the church. That's why they have engaged a "small army" of engineers, designers, builders, architects and roofers to identify the exact issues and recommend the most appropriate solutions.

**Q. Is there a capital fund to cover emergencies such as this or for expansion/remodel of the church?**

**A.** Historically capital funding has taken a backseat to ministry funding. By definition, capital funding is not part of the operating budget and is most often established by a capital funds campaign or dedicated foundation established for such a purpose. Those plans are in development. Again this year there is a gap between expected operating revenues and expected operating expenses. Such gaps typically result in a lack of funding for capital improvements or repairs. Per the *Book of Discipline of The United Methodist Church*, it is the task of the Finance Committee to raise sufficient funds to meet the revenue needs of the church. It is the task of the Board of Trustees to retire the debt and build a capital reserves fund. The only source of funds is the congregation and we continue to be blessed by their faithful giving.

**Q. Can the work begin as soon as we get a portion of the necessary funds?**

**A.** The entire roof replacement (all three sections) will only take about 10 days to complete. Even if we wanted to do the work in three phases, it would likely increase the cost because the contractor would have to deploy crew and equipment three times instead of one. Plus, shingle prices are volume based and we need to order all of them at the same time to get the best price. We need to be ready to pay for the work as it is completed. We will, however, be requesting that the winning bidder be willing and able to apply temporary patches if there is a delay in funding.

**Q. In the recent communication regarding the roof crisis, it came as somewhat of a shock that in pursuing a short-term loan “the banks won’t loan us the money”. Why is our credit so bad? How many banks did we ask? Considering we are a church with a \$2.5 million annual budget, this really surprised me. How much debt do we have? Have we paid any debt down over the past 15 years? Do we have a “balance sheet” that lists Hillside’s assets and liabilities? Does the accounting system we use give us any of this information?**

**A.** Our primary banking partner is Wachovia/Wells Fargo. While we have refinanced our mortgage several times over the years, the terms of our current loan are the most favorable we could find. We ask for refinancing quotes at least twice a year from various banks, but have yet to receive terms as favorable as those we currently enjoy. Since the recent banking melt-downs, commercial credit has tightened considerably. Hillside has borrowed a total of \$6,321,232 to fund its three construction phases. To-date we have repaid \$2,529,673, leaving our current mortgage debt of \$3,791,558.

Our loan covenants require a liquidity level established by Wachovia/Wells Fargo which takes into consideration our annual revenues, expenses and cash in the bank in relation to our overall debt. The formula is somewhat convoluted, but essentially they require at least a 1 to 1 ratio between revenues and expenses (i.e., we must not exceed our annual budget). They also “suggest” an “operating cushion” equal to 9-12 months of mortgage principal and interest payments, and 6-9 months of operating expenses. Such a cushion would be between \$1,456,910 and \$2,145,100. The mortgage debt cushion is a mortgage covenant requirement and the operating expense cushion is a requirement for further loans from Wachovia/Wells Fargo. As of November 2009, we have total bank deposits of \$251,615, which includes our operating account, debt reserves, restricted accounts, and operating cash reserves. While our debt reserves are not in themselves sufficient, the bank has annually positively amended our covenant terms because of the value of our real property (land and structures) and the fact that we consistently meet our budget targets. And, we have never missed a mortgage payment. However, with the tightening of commercial credit secured by real property, Wachovia/Wells Fargo will not loan us additional funds until we are able to make substantial payments against our mortgage principal or meet the “suggestions” for an operating expenses cushion.

Other banks have thus far not been interested in making an additional short term loan because Wachovia/Wells Fargo has a first position lien on our only collateral (real property). We are required to submit full financial statements quarterly to the bank, including monthly & year-to-date *Analysis of Revenue & Expense, Balance Sheet, Restricted Accounts Report, Cash Status, and Sources and Uses of Funds*, all of which are produced by our accounting system.

**Q. When was the last time Hillside had an independent financial audit of the books? We need to be able to demonstrate transparency to the congregants, whose financial support keeps the church running, as well as to financial institutions when we try to show our creditworthiness.**

**A.** *The Book of Discipline of the United Methodist Church* requires an annual audit following audit guidelines established and published by The United Methodist Church. Audits are coordinated by the Finance Committee and the audit for 2008 is currently in progress and is to be completed before year-end. It has been three years since our last audit by a CPA. At that time, there were no major red flags, only a few procedural changes that were immediately implemented. However, as part of our preparations for establishing a Hillside Foundation, we will be paying for an external forensic audit of all Hillside bank accounts in 2010. As a control measure, the forensic audit will examine all accounts and transactions for both 2008 and 2009.

**Q. It was surprising that Hillside does not seem to have any funds earmarked for big ticket repairs to the facilities that might normally be anticipated. Maybe we did, but the roof was just too big to handle from those funds (if they existed)? This raises the question of what will be the next big cost item – will it require another plea to the congregation to fix the facility?**

**A.** In 2005, the Board of Trustees contracted with a consulting firm to conduct a comprehensive capital reserves study to determine the ongoing capital necessary to fund repair and/or replacement of all physical assets, including buildings, fixtures, equipment, etc. The conclusion was that we should set aside \$10,000 per month for capital reserves. Although both Trustees and the Finance Committee knew we should be setting funds aside, we chose to fund and grow ministries instead. Doing so proved to be an error which must now be corrected.

**Q. How can I help?**

**A.** Prayerfully consider investing in the future of Hillside by donating to the Roof Fund as you are able.