

AN ASTOUNDING DOCUMENT
REVEALS THE SERIOUSNESS OF THE CASE

South Central Conference Lawsuit Update 4

THE CHURCH IS ON THE VERGE OF LOSING UPWARDS OF
ONE HUNDRED MILLION DOLLARS. YET THIS NEED NOT HAPPEN.

LETTER TO THE GENERAL CONFERENCE

General Conference of SDA
12501 Old Columbia Pike
Silver Spring, MD 20904-6600

Dear Sirs,

As denominational leaders, you should be made aware of the fact that multiplied millions of dollars are destined to be lost to our church in North America if you are slow to take action on a certain matter.

Here are a few of the relevant facts:

- The Bradburn case against SCC, the Southern Union, the General Conference, and the Northeastern Conference is being filed in a Nashville court.

- It will be based on extensive and, apparently, very incriminating evidence that our denomination (not just SCC) is involved in, what appears to be, the fraudulent takeover scheme of Legacy Healthcare by Hill/McCoy/Cumberland. I have no doubt that you already have knowledge of the above facts. You have already met several times in committee on this, both in Silver Spring and at SCC headquarters in Nashville.

- What you may not be aware of is the fact that, according to a document newly leaked to us, the Bradburns indicate that they are willing to settle out of court for a sum far less than what they will collect if a court judgment is ultimately made against the church. If that occurs, the large amounts of money spent by both sides on legal fees, plus paying the Bradburn's legal fees and court costs, plus the probable likelihood of a punitive damages award—could double or triple the ultimate financial loss to the church!

Frankly, I do not believe that you dare risk that outcome, especially in view of the incriminating documentation the Bradburns have regarding (1) the immense losses they allegedly sustained, fraudulently, at the hands of Ken Hill; (2) documents alleging the backing of Hill/McCoy/Cumberland by various church entities, including SCC; (3) the glaring fact that the SCC executive committee persistently refused to fire McCoy from its presidency when details of what had taken place were brought to their attention; and (4) the close relationship of McCoy to upper levels of church leadership, especially AHS.

When the veil is pierced, it will be pierced deeply; and much money will be lost by the church.

Yet this need not happen; and I believe you brethren have a responsibility to try to prevent this needless additional loss from occurring.

Under the same cover, I am enclosing the document. You will want to give it your most thoughtful attention.

Sincerely,
Vance Ferrell

INTRODUCTION

As discussed in earlier reports on this tragic case which will inevitably cost our denomination a massive amount of money, in the summer of 2001 Ken Hill entered into an agreement with Joseph McCoy, president of the *South Central Conference* (SCC), to set up a front organization called *Cumberland River Health and Human Services* (Cumberland), and approach a family in Indiana which had one or more nursing facilities, called *Legacy Healthcare, Inc.* (Legacy). This family, Douglas Bradburn and his wife Jacquelyn Bradburn (the Bradburns) owned Legacy. Because they apparently were having some financial difficulties, they favorably considered Hill's offer of an extremely attractive financial package amounting to millions of dollars to be paid to them, if they would turn over control of Legacy to Hill and McCoy's organization, Cumberland,

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1
2
3
2

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Letter to the General Conference	1
Introduction	1
The Latest Update	2
The New Document	2
The Lawsuit Allegations	7
Conclusion	8

which Hill said in writing was backed by the Seventh-day Adventist Church.

The most important of our several earlier reports on this difficult situation is reprinted in this present three-tract set.

We now have in our hands a remarkable document which discusses the plaintiff's (Bradburn's) plan with their attorney to recoup their losses, which amount to millions of dollars, from our denomination. It should be understood that the Bradburns are not bad people. They are simply trying to recover the money which their depositions claim that Hill fraudulently took from them.

It would appear, from the following document, that the Bradburns and their attorney would prefer to have our denominational leaders settle with them out of court—at an immense saving to our church.

In the Lake Region Conference lawsuit, because the conference refused to settle but kept the matter dragging on for about a decade (with extremely heavy attorney costs, as a result),—they ultimately paid dearly when their last stalling tactic failed. The case went to court; and an immense amount of money was awarded to the plaintiff. As I recall, the General Conference waited until then to step in and help pay the massive bill. Why it did not help negotiate an earlier settlement, at a great saving to the denomination, was a mystery.

But the present lawsuit is far different! The Lake Region litigation involved using tithe funds to buy a shopping center project which collapsed. No fraud

against the plaintiffs had been done. **But the Legacy lawsuit allegedly involves massive fraud—and, if brought to court, will inevitably involve heavy punitive damages. This is definitely a litigation which our leaders should settle out of court as soon as possible—especially since the Bradburns are willing to do so.**

Here now is this unusual document. Although I do not have copies of the attachments, the key points made in them are generally summarized or quoted in the document.

All brackets and bold print are ours; everything else is theirs, including ellipses (double dots . . .).

THE NEW DOCUMENT

I am sending this package because there are several things I would like to share with you. First, in one of our discussions you mentioned that [Joseph] McCoy has a history of improper actions. I specifically recall that it was money problems with the Southwest [sic. South Central] Conference. Additional details would be helpful in the preparation of my affidavit. What were the allegations? When did this occur? How was he disciplined? Any information will be appreciated.

[An affidavit is a written declaration, sworn to or affirmed, usually before a judge or other recognized authority.]

I have some information about Ken Hill. I have the

LATEST UPDATE—It is now late August. You may recall several events mentioned earlier. On **November 23, 2003** (after hearing a special report on President Joseph McCoy and Ken Hill's involvement in the Legacy affair), the SCC executive committee, by a vote of 11 to 9, decided to retain McCoy as president of the conference. That vote guaranteed that SCC would be liable for the alleged McCoy/Hill fraudulent siphoning of Legacy. (McCoy was placed on "administrative leave," on full-pay until **December 14**, when he was reelected as conference president.)

You may also recall that, shortly afterward, an aroused SCC constituency demanded that a special meeting be convened—so they themselves could fire McCoy (which they would have the legal right to do). After much stalling, the constituency meeting was held at the Memorial Civic Center in Birmingham, Alabama, on **May 30**. In response to their demand that President McCoy be fired, the North American Division (NAD) president (who was chairing the meeting) told the delegates they should let the SCC executive committee decide the matter. When they resolutely refused, the matter was brought to a vote and McCoy was supposedly discharged from the presidency.

But, incredibly, that apparently did not happen. McCoy continued on as president—even after the en-

tire constituency legally voted him out! But, after NAD and General Conference leaders conferred about the ramifications if he were to remain in office, a special meeting of the SCC executive committee was requested. It was supposed to be held on **July 18**; but it was put off until **July 26**. By a vote of 6 to 4, once again the committee voted to retain McCoy as president. So the NAD president asked to speak to him alone outside the committee room and used some means to persuade him to immediately hand in his resignation.

But, incredibly (in view of the immense litigation risk to the conference by retaining him), the SCC executive committee voted to keep McCoy on staff, as "director of the retirement system" until January 2005. This is probably another slush job with nothing to do, since the treasurer's department routinely takes care of sending checks to retirees.

We are told that church members find it impossible to make contact with conference leadership. The constituency would like to hold another special constituency meeting and eject a number of executive committee members. But whether or not that will happen is not certain. They had such a difficult time getting leadership to convene the May 31 meeting. They are distraught at what is happening, but know not what to do. The ongoing tragedy continues.

1 history of his criminal activity, including the depo-
2 sition of charges. I do not yet have the details of the
3 charges, but anticipate receiving that information soon.
4 The information that I do have is found in *Attachment*
5 *#1*.

Next, I know that you have seen many documents of interest in this case. I believe you have read all of the pleadings. If not, let me know and I will send them to you.

[Pleadings = the formal statements by the parties in a lawsuit, regarding their actions and defenses.]

In addition to the pleadings, I have boxes of potential exhibits, etc. I know that you do not need any further proof or evidence. However, I am hopeful that you will succeed in convincing others. To that end, I have gathered some interesting documents that you may find useful. I can provide even more if you wish.

Attachment #2 - I don't know if you have ever seen Hill's résumé. In this attachment you will find a copy. The most interesting sentence is "Cumberland River functions as an integral part of the total ministry of the Church."

Attachment #3 - This is a reference letter we received from Pastor Dr. Rupert Bushner, Jr. This letter told us that, "presently he teaches a Sabbath school class and holds the office of an Elder."

[This would very likely be a letter of reference initially presented by Hill to the Bradburns at the time he was urging them to sign the property over to Cumberland. According to the Legacy suit allegations, at a later time, Hill got the Northeastern Conference to send the Bradburns a letter assuring them that Hill would pay all he owed.]

Attachment #4 - This is another reference letter and is from Pastor Perry Jennings. Pastor Jennings says, "He is a man of integrity, decency, loyalty, fairness, and gentleman-ness [sic]." He further states, "Ken has also developed auspicious management skills and has led out in many successful ventures both personally and for the Church."

Attachment #5 - This is a letter, dated December 18, 2001, from McCoy to J. Kim Powell. It concerns financial backing of Cumberland by the South Central Conference Housing Board. One of the interesting sections is, "Because of Cumberland River's interest in certain of our goals . . ."

[This is a new insight: It was financial backing from SCC which significantly enabled Hill's Cumberland to carry out its business deals.]

Attachment #6 - This is a letter, dated January 16, 2002, from McCoy to me. This is interesting as it pledges the Mississippi properties to leverage the financing for the purchase of the Indiana facilities. It also says, "The South Central Housing Board, which owns and operates these and other properties through various management agencies, has consented to leverage the Mississippi properties to help us get the River-

side property in Nashville, Tennessee." The financial statements are also in this attachment.

[The above paragraph explains that the SCC Housing Board owned and managed a number of real estate properties. **McCoy promised the Bradburns, in writing, that mortgages had been placed on those properties in order to help Cumberland purchase Legacy. That document directly connected SCC with Cumberland.** If the charges made in the Bradburn's lawsuit paper are correct, it is of interest that this Housing Board money, handed over to Hill, was never given to the Bradburns.]

Attachment #7 - This letter is dated February 13, 2002, from Hill to Don Adams. It concerns financial backing by the Church for a North Carolina project. Of interest is, "In order to close the bridge loan, the Seventh-day Adventist Church will be willing to guarantee 100% of the bridge amount . . ." Attached is an unsigned draft of a letter from the Northeastern Conference to Don Adams. I was told by Hill that he had the executed copy on Northeastern Conference letterhead. I do not have a copy of that letter. The financial statements were provided and I can send those if you wish. As with the Housing Board, the financial [statements] do not show good financial performance, but they do show a huge amount of equity in physical assets [conference-owned buildings and churches]. It also shows a large balance in a capital account [probably the conference's tithes and offerings bank account] that I was told we could leverage and would actually access if the financing did not occur.

[Because the above-mentioned letter was written by Hill, **it would appear that the "North Carolina project" was another of his church-backed financial deals.** The latter part of the above paragraph indicates that an immense amount of church money was involved in this business deal.]

Attachment #8 - This is a letter dated July 16, 2002, from Douglas Mawhorr (Cumberland's Muncie [Indiana] attorney) to McCoy. To my knowledge, McCoy never responded to this letter.

[This attachment reveals that, **as early as the summer of 2002, McCoy was made fully aware of what Hill was doing to the Bradburns.** Yet McCoy made no reply; and, according to the data presented to the May 31 SCC executive committee meeting (reprinted later in this present report), he apparently kept rather quiet about the gradually building crisis. It should be noted that the Bradburns originally worked through an Indiana attorney. But in the spring of 2004, an Indiana judge said the case should not be heard in that State, since SCC (and Cumberland) headquarters were in Nashville.]

Attachment #9 - This is one of the most bizarre documents I have. It is a letter, dated August 20, 2002, from Hill (signed for Hill by Roland Carter) and is to the IRS. The letterhead lists Carter's address as a

Cumberland office address. The letter makes many questionable (and some just plain false) statements. There is too much to list. You will find it very interesting, if not infuriating.

[Eventually, the IRS may decide to enter this case also; with possible ramifications for SCC and the church. The IRS will go wherever it can in order to collect money owed to it.]

Now on to the main purpose for this letter.

[The next several paragraphs discuss the amount of money the Bradburns believe they would need in order to be reimbursed for their losses and the payment of their creditors, including their parents.]

Our many discussions have been very uplifting and a real blessing to me. I have been giving a considerable amount of thought to a couple recurring topics. You have expressed your desire for our family to be made whole [*i.e.*, to be repaid for its losses]. I would like to provide some information on damages that I'm sure you have not seen. As I am sure you are very aware of, the amount that you can claim as damages in a litigation is different than what your damages actually are. That reality is part of the reason we wanted to pursue punitive damages.

[A very important paragraph! **If this case goes to court, the Bradburns are going to ask for punitive ("punishing") damages! This would greatly increase the amount of monetary award to be paid to the plaintiff in the lawsuit (usually by one-third).**]

This information will help you understand the full impact of the past three years [since they first entered into the agreement to let Hill take control of Legacy].

Attachment #10 is titled "Funds Necessary to Return Bradburns to Pre Seventh-day Adventist Involvement." Because of expenses such as attorney fees, bank penalties, interest, etc., the financial damage continues to rise, and at a significant rate.

[That sentence means that **the longer our denomination waits to settle the case, the more it will pay to the Bradburns in the end.** The longer the case drags on, the more the Bradburns have to pay to recover the money taken from them. They will expect to be reimbursed for those unnecessary expenses.]

You are probably not aware that we attempted to settle matters back in the fall of 2002. At that time, I provided McCoy with evidence that if we were forced to litigate, the total judgment could exceed \$150,000,000. **We were willing to settle for \$20,000,000.** As a review of *Attachment #10* will demonstrate, to be made whole, we would need payment of nearly \$100,000,000. We are still willing to settle for considerably less than that. However, the

amount that we can settle for continues to rise.

[The total judgment—including punitive damages—would total \$150 million. Including everything, the Bradburns feel they lost \$100 million. But they would be willing to settle out of court for a far smaller amount, probably \$50 million or less.]

I am sure you understand that the majority of any payment will not go into my pocket. I am working hard so that what my parents' lost is recovered, all of our vendors get paid, all employees and employee taxes get paid, all of the bank debts are paid, and our attorney fees are paid. While I do want to make my personal situation better, I am not motivated by greed. **I only want back what we lost and to have our obligations met.**

The actual payment of a judgment is also a subject I often ponder. While I have had a considerable amount of exposure to the interworkings and politics of the leadership of the Church, I still do not fully understand why money is given to some congregations and causes while others are allowed to struggle and wither. Hence **I have fearfully considered the real prospect of bankrupting the South Central Conference (SCC).** I am confident that this should not, and will not, happen. We have no interest in forcing sales of church properties or garnishing offerings, which could happen, absent cooperation [*sic.*] in satisfying the judgment.

[In other words, the Bradburns clearly recognize—and are concerned—about the fact that, if the General Conference (and as we will learn later in this document, possibly Adventist Health Systems) does not help pay this massive loss, the South Central Conference, not a wealthy conference, may totally collapse—because it very likely will not have enough properties to pay as much as \$150 million in judgments, punitive damages, and court costs. The Bradburns hope that an out-of-court settlement can be made.]

There are two main reasons the SCC should not be forced to bear the financial burden of doing the right thing. Those reasons are: 1) The SCC is not a "stand alone" entity. As an unincorporated association, a judgment against SCC is a judgment against "The Church" and, 2) the vast resources of Adventist businesses can be tapped.

[The Bradburns hold documents which are extremely incriminating and lock our entire denomination into this lawsuit.]

We have a judgment against Cumberland. That judgment will soon have a number associated, that is, attached to it [by the court]. We will then file a collection action in Tennessee. **We will name McCoy, SCC, the Southern Union Conference, the North Ameri-**

South Central Conference Lawsuit ~ Update 4

PART TWO OF TWO

Continued from the preceding tract in this series

can Division and the General Conference. A factor that has not been taken into consideration is that my parents have not yet entered the case. They were waiting to see what would happen. Since the conduct in question involves breaches of contract, fraud, etc., the statute of limitations is six years. By waiting, they were saving legal fees. **When we file our collection action, my parents will file their suit as well.** The numbers that I presented in *Attachment #10* [which listed the amount of money the Bradburns felt needed to be repaid to them] includes all of our damages. Once again, **the filing of this additional [court case by their parents] will raise the number at which we could settle [out of court].**

[The above paragraph reveals that **if higher-level church leaders do not soon step forward and settle this case out of court, for possibly \$50 million, the parents will also file a separate suit (probably also including punitive damages), hire still more lawyers, and the ultimate losses to our church will spiral upwards of \$150 million!**]

The basis for going through the corporation to McCoy and the Church is known as “piercing the corporate veil.” In determining if it should disregard the corporate form, the court performs an analysis consisting of eight standards or elements. A failure in any one of the eight is sufficient to disregard the corporate form. The eight elements are as follows:

1. *Under-capitalization.* There is clear evidence that no capital was supplied by anybody. The corporation fails on this element.

[i.e., Hill took over Legacy without properly paying either for it or its ongoing expenses.]

2. *Absence of corporate records.* None of the required corporate documentation exists. The corporation fails on this element.

3. *Fraudulent representation by corporation shareholders or directors.* Our case is full of fraudulent representation. The corporation fails on this element.

[Hill and McCoy made promises they never fulfilled.]

4. *Use of the corporation to promote fraud, injustice or illegal activities.* The raiding of our revenues and receivables, the taking of employee tax funds, etc., more than creates the evidence of fraud and injustice. The corporation fails on this element.

[Lots of evidence here also.]

5. *Payment by the corporation of individual obligations.* The list of personal expenses of Hill is unbelievable. The corporation fails on this element.

6. *Commingling of assets and affairs.* Hill used the corporation and his personal finances interchange-

ably. The corporation fails on this element.

7. *Failure to observe required corporate formalities.* This is another slam dunk. There were no corporate formalities observed. The corporation fails on this element.

8. *Other shareholder (director) acts or conduct ignoring, controlling, or manipulating the corporate form.* Forming a corporation with a requirement that two of the directors be appointed by a defunct corporation meets is an action [? sic.] that cannot be overcome. The result is that McCoy totally controlled the corporation. The corporation fails on this test.

It is without question that the veil will be pierced. The corporation was a sham. The legal description is that it was an “alter ego or mere instrumentality.” In this case, Cumberland was an alter ego and an instrumentality of McCoy, as an agent of the worldwide Church of Seventh-day Adventists.

Once we have this ruling, we can then proceed to attach church properties, income streams, etc. Let me restate that we do not wish this to happen. All of this could easily be avoided if the decision makers would tap into the Church’s cash cows: its businesses.

[In other words, **the Bradburns are asking that, in an out-of-court settlement, they be repaid for their and their parents’ real and tangible losses. But if such a settlement attempt by church leaders (above the level of SCC) is not done, the Bradburns are going to rip through our denomination and get what they need, plus punitive damages,** which will greatly increase the amount they will receive. Some may call the above paragraph a threat; I see in it an opportunity to save our denomination a lot of money if we settle quickly.]

One of Hill’s favorite phrases was “There is no business like church business.” While I personally don’t think it is good for churches to be “in business,” Hill’s statement was accurate. The Seventh-day Adventist Church owns or controls thousands of businesses generating billions of dollars. A considerable amount of the dollars line the pockets of the leadership and the individuals running the businesses. It is true that the businesses do provide free healthcare and serve legitimate charitable purposes. It is also true that money generated in the name of the Church (controlled by church leaders) is often used inefficiently, misused, misdirected and wasted. A small fraction of such funds could be used to heal us and restore the Church’s honor.

I want to focus on one of the thousands of Adventist businesses: Adventist Health Systems (AHS). AHS is one of the many healthcare providers operated by the Church. According to their website (adventist-healthsystem.org), AHS is “the largest not-for-profit Protestant healthcare organization in the U.S.” The web page titled, “Seventh-day Adventist Involvement” (in-

cluded as *Attachment #11*) testifies to the fact that AHS is part of the Church.

Does AHS have the ability to resolve our situation? Yes, and without even breaking a sweat. *Attachment #12* contains selected pages from AHS's 2003 Annual Report. A quick review shows that AHS had total revenues for 2003 of \$10,123,100,000 [\$10.1 billion]. Its "Total Earnings after Expenses" was \$203,000,000. This is after allowances for non-cash expenses of depreciation (\$246,000,000) and bad debt provision (314,000,000). Terry D. Shaw, Chief Financial Officer, writes on page 26:

"From 1998 to 2003, total assets have grown from \$2.8 billion to almost \$5.4 billion—a 93 percent increase, even in these very challenging times. Our cash balance rose from \$900 million to nearly \$1.64 billion.

"With increases in cash and liquidity, Adventist Health System's financial foundation has become increasingly stable. From this position of strength, and with hearts filled with compassion, Adventist Health System continues to use its resources to extend the ministry of the Master through a legacy of healing."

Solving our situation is not only in AHS's financial ability, but it would also allow it to make the second paragraph true. There are four main reasons that I have focused on AHS beyond its financial ability.

1. *Attachment #12* also contains a list of Board of Directors and a summary I prepared titled, "Adventist Health Systems - Board of Director Information." **Joseph McCoy is not only on the board, but is also on the Executive Board.**

[That linkage is extremely damaging, and is magnified by the fact that the SCC executive committee repeatedly refused to fire McCoy after learning about his close involvement with Ken Hill in the fraudulent Cumberland takeover of Bradburn's Legacy nursing home.]

2. A review of *Attachment #12* shows that 46 of the 63 board members are in a current leadership capacity for the Church; 42 of the 63 are on the Executive Committee of the North American Division; 4 members are presidents of Union Conferences, 23 members are presidents of Conferences. Of particular interest is [the fact] that 13 of the members are on the Executive Committee of the Southern Union Conference. As you know, the Southern Union includes SCC. Most notably of these people is Gordon L. Retzer, the president of the Southern Union, who is also Chairman of the board of AHS. Also from the Southern Union Executive Committee is Delbert Baker, who is also on the board of directors for Oakwood College.

3. AHS derives some of its revenue from members of the SCC. They have their Multi-state Hospital Division offices, four hospitals and a nursing home in Tennessee. They have one hospital and six nursing homes in Kentucky.

4. **AHS had some involvement in our situation.**

An executive from AHS came and toured our facilities shortly after Cumberland took over. We were also required to go to their headquarters to discuss using some of their services. AHS already had four nursing homes in Indiana. The stated purpose of the tour was to determine who would be the best operator of the facilities for the Church. McCoy did not like this and fought for Hill to continue operating, presumably by persuading the [AHS] board [of which he was an executive committee member]. AHS resources would have been used to fulfill the Church's obligations.

[The above paragraph is of the highest significance. *First*, it reveals that, **when the purchase agreement was first being made, our church leaders—above the SCC level—definitely knew about this proposed McCoy/Hill/Cumberland purchase contract**, which enabled them to take control of Bradburn's Legacy! Because of that knowledge, by church leaders above the level of the SCC executive board, AHS leadership was brought into it and tried to gain operating control of the project. The Bradburns were even required to travel to AHS headquarters [in Orlando].

[*Second*, it reveals that **an even stronger responsibility rests on McCoy for having made sure that Hill was given sole managerial and financial control of Legacy**. Church leaders let McCoy and Hill go ahead with this project.

[*Third*, **if AHS had taken over Legacy, everything would have been done properly and the Bradburns would have been fully paid for the transfer. But, because of McCoy's interference, that did not happen**. Yet when the whole matter blew up in the spring of 2004, the SCC executive committee repeatedly refused to fire McCoy! Was this because of mutual blackmail, because money had earlier been slipped to some of them from Hill's siphoning of Legacy money?

[All this is more incredible, in view of the fact mentioned in the report to the SCC executive committee on May 31, which disclosed that, for several years, Ken Hill had owed SCC more money (because of a non-Legacy-related loan to him which he was not properly repaying) than anyone else! He was the last one that SCC, the Southern Union, and AHS should have let manage Legacy!]

Given all the above, it seems to me that it would be in the best interest of all concerned if AHS stepped up to the plate and resolved this matter. I am hoping that you can perhaps plant that seed. As you have so eloquently stated, this matter hurts the spirit of the Church. It is also very wearing on me and my family.

I will understand if there is nothing you can do. You have already done so much and for that we are truly grateful. There is a considerable amount of information contained here. Let me know if there is anything you wish to discuss.

Sincerely,

LAWSUIT ALLEGATIONS BY LEGACY

The following report consists of allegations filed in the Indianapolis, Indiana district court and, as such, is public record. The charges are very serious and deserve the thoughtful attention of concerned Advent believers.

LITIGANTS IN THE LAWSUIT

Plaintiffs (those who are suing):

Randall L. Woodruff is the bankruptcy trustee for Legacy Healthcare, Inc. (Woodruff)

Douglas A. Bradburn (Douglas) and, his wife, **Jacquelyn S. Bradburn**. (Jacquelyn)

Defendants (those being sued):

Joseph W. McCoy, president of the South Central Conference of SDA. (McCoy)

The **South Central Conference of SDA**, with headquarters in Nashville, TN. (SCC)

Kenneth A. Hill, an Ohio resident, president of Cumberland. (Hill)

Cumberland River Health and Human Services Corp. (Cumberland)

Northeastern Conference of SDA, with headquarters in St. Albans, New York. (NC)

The **General Conference of SDA**. (GC)

AS ALLEGED IN THE LAWSUIT:

All information which follows is alleged in the lawsuit or in the SCC Report to the Church:

Woodruff was appointed as successor trustee in the bankruptcy case of Douglas and Jacquelyn on July 19, 2002.

McCoy is president of SCC; but he is also chairman of SCC's executive committee, chairman of the board of directors of Cumberland, and a member of the executive committee of the North American Division.

South Central is a regional conference which covers the states of Alabama, all of Florida (except part of its panhandle), Kentucky, Mississippi, and Tennessee. It has 149 churches and 30,079 church members.

Northeastern is a regional conference, which covers seven states.

In addition to caring for local churches, both regional conferences also operate several businesses, including some in the medical-care industry.

Legacy is a medical-care facility, located in Delaware County, Indiana, and is **operated by Douglas (its president) and Jacquelyn Bradburn**. They are the sole shareholders of the firm and guarantors of certain of its debts.

Cumberland is involved in this lawsuit because of certain contracts it entered into with Legacy and the Bradburns. **Cumberland was formed by SCC to acquire and operate businesses in the medical-care industry.**

IT IS ALLEGED THAT SCC'S CUMBERLAND DID THE FOLLOWING TO LEGACY AND THE BRADBURNS

During, and prior to, the year 2001, Legacy operated a group of health-care facilities in Indiana. But that year, it was having financial problems and was open to offers for the purchase of its assets.

On August 10, 2001, Cumberland and Legacy entered into a series of agreements, which included the purchase of Legacy's assets, a consulting agreement, and an equity payout agreement. As soon as the three agreements were signed, **Cumberland took control of Legacy's operations and accounts receivable** (all money owed to Legacy), with Douglas retained as manager.

But Cumberland failed to pay Legacy for the facilities, thus breaching the Asset Agreement and Equity Payout Agreement. Thus, according to the suit, **SCC, through Cumberland, took over Legacy without paying for it.**

- It failed to provide indemnity for Legacy, Douglas and Jacquelyn, and others from obligations to banks and the state of Indiana.

- **It failed to make required equity payments, including the initial payout of \$2 million and subsequent payments of \$1 million per year.**

- **It failed to make required loan payments and vehicle payoffs.**

- **It diverted at least \$785,364.00 of Legacy's accounts receivable** (money paid to Legacy by its patients, etc.) **for the benefit of one or more defendants** (or affiliates of defendants); it failed to reimburse Legacy for the same."

- It also diverted "Legacy's operating revenues to, or for the benefit of, one or more defendants (or affiliates of defendants)."

According to the Consulting Agreement, Douglas was to be paid a certain amount to act as a consultant; but it is alleged that **he was not paid, nor were his expenses** related to that consulting work and office expenses paid.

It is also alleged that, from that time forward, **SCC's Cumberland failed to obtain funding to pay for Legacy. It also did not bother to collect over \$1.4 million in other accounts owed to Legacy**, and thus forfeited Legacy's right to later collect that money.

Having done all that, **SCC's Cumberland did not try to do what was necessary to keep Legacy from going into bankruptcy.**

Lastly, SCC's Cumberland neither filed, nor let Legacy file, cost reports relative to Medicare payments received in the amount of \$531,933.00. As a result, Medicare has demanded reimbursement for what it considers overpayments to Legacy.

"Injustice can be avoided only if the court disregards the fiction of a separate existence for Cumberland and holds SCC and the Church accountable for Cumberland's breaches of its contracts with Legacy and Douglas and Jacquelyn."

In 2001, Legacy and its owners were considering several good offers for the purchase of its facilities from viable purchasers. Then Cumberland approached and said it “was sponsored by ‘the church,’ ” “that ‘the church’ was behind Cumberland,” and “that Cumberland had the financial backing of ‘the church.’ ”

Cumberland also claimed that, if adequate funding was not available, “ ‘the church’ was willing and able to provide funding to enable Cumberland to fulfill the terms of the Asset Agreement, the Equity Payout Agreement, and the Consulting Agreement.”

Lastly, Cumberland also said “that ‘the church’ was willing and able to purchase from the State of Indiana a certain judgment against Legacy in the approximate amount of \$16 million.”

“The promises of the defendants to Legacy and Douglas were made for the purpose of inducing Legacy and Douglas and Jacquelyn to enter into agreements with Cumberland, and made with the expectation that the promises would be relied upon.”

“Relying upon the promises of the defendants, Legacy declined the other offers for the purchase of its facilities and entered into the Asset Agreement . . . Equity Payout Agreement . . . with Cumberland . . . and Consulting Agreement with Douglas.”

After signing the three agreements, “but before certain accounts receivable and revenues were diverted or forfeited by Cumberland, **each of the defendants made or reiterated promises** [probably because no money had still been paid to Legacy] which included: “that ‘the church’ continued to support and stand behind Cumberland.”

“Legacy and Douglas and Jacquelyn have sustained damages as a result of their reliance upon the defendants’ promises.”

WHAT WAS DONE WITH THE MONEY?

“Money diverted from Legacy’s revenues and accounts receivable was used by Cumberland, SCC, Hill, McCoy and ‘the church’ for Hill’s personal expenses; in connection with other businesses that Cumberland and SCC operated or were in the process of acquiring; to pay weekly compensation to McCoy; to fund travel and other expenses for employees or affiliates of ‘the church’; for other purposes not reasonably related to the operation of the facilities Cumberland contracted to purchase from Legacy.”

It is alleged that SCC’s Cumberland continued draining Legacy’s incoming funds, even after it was obviously headed toward bankruptcy: “On information and belief, **Hill, McCoy, Cumberland, SCC, and ‘the church’ caused or permitted the above uses of Legacy’s accounts receivable to be made at times**

when Cumberland was insolvent.” They “knowingly or intentionally exerted authorized control over Legacy’s property in violation of I.C. 35-43-4-3.”

“McCoy and SCC violated their duty by remaining silent, and such silence in the circumstances amounts to constructive fraud.”

“To the extent that McCoy knew that ‘the church’ would not in fact provide financial backing to Cumberland, his statements amount to actual fraud.”

“On September 26, 2001, Larry D. Word, **Northeastern’s treasurer, furnished to Legacy a letter, claiming that Northeastern [Conference of SDA] had done business with Cumberland and that Northeastern was satisfied with Cumberland’s financial stability.** The representations in the letter were false and misleading or both. **Legacy and Douglas and Jacquelyn relied on Northeastern’s fraudulent representations, which lulled them into continued trust of Hill and Cumberland.** In forbearance induced by the representations, they refrained from declaring breaches of the agreements with Cumberland, allowing additional time for Cumberland to perform its obligations.”

The final two pages of this lawsuit is a long list of judgments (money) sought against the defendants.

That concludes the primary lawsuit paper; but additional evidence was given to the court:

CONCLUSION

If they have the paperwork to back it up (which they apparently do), the allegations made by the Bradburns in their Legacy lawsuit paper (*pp. 7-8*) are enough to win them the case. The special report presented to the SCC executive committee (*mailed earlier*) recognized the terrible seriousness of the case, and that it may wipe out the conference. The open letter by the SCC pastor, appealing to the members to fire McCoy (*mailed earlier*) also acknowledged the extreme seriousness of the case. The newly disclosed document (*pp. 2-6*) contains still more incriminating facts, linking the church to what Hill did. The continued refusal of the SCC executive committee to discharge McCoy has placed in concrete the connection between SCC and Hill’s siphoning of Legacy (*p. 2, lower left*).

The Bradburns are right. It would be better for AHS to pay \$50 million from its surpluses, in order to save our denomination from a \$150 million loss which will wipe out SCC and take down many other church properties as well.

The bad things that McCoy and Hill did, which the SCC executive committee seemingly condones, are not the fault of the faithful church members and pastors in the South Central Conference. They need the help of the larger church.

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