

The Legacy Lawsuit against the Seventh-day Adventist Church

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THE DEFENDANTS IN THIS LITIGATION INCLUDE
SOUTH CENTRAL CONFERENCE - NORTHEASTERN CONFERENCE - GENERAL CONFERENCE

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 THIS 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 (*see box on lower left*).

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

AS WE GO TO PRESS

The Northeastern Conference of SDA (NC) is a regional conference headquartered in St. Albans, New York; this covers Connecticut, Maine, Massachusetts, New Hampshire, New York, Rhode Island, and Vermont. It has 49 churches and 45,903 church members.

Unfortunately, the NC is in a critical financial crisis, from which it may not recover. The problem is entirely separate from the lawsuit discussed in this tract. At the present time, it owes the General Conference \$28 million! Throughout 2003, its leadership has held meetings with church members in various localities throughout the seven states, in an effort to raise money to help it weather the crisis.

In addition to other excesses, the previous conference president loaned large amounts of money to ministers to purchase homes.

The church members are deeply upset because they had been faithfully giving to the church.

The crisis has deepened to such a point that the conference office has been placing second mortgages on many large local buildings, without telling the members.

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.

NOTE FROM AN ALABAMA FRIEND

“Can we stand to lose our churches? Will the GC bail the [SC] Conference out, if it comes to that? Are we headed in the same direction as Lake Region Conference, whose president is Normal Miles, which is \$80,000 in debt?”

“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, **North-eastern's treasurer, furnished to Legacy a letter, claiming that Northeastern [Conference of SDA] had done business with Cumberland and that Northeast-ern 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:

**A LETTER SENT TO MEMBERS OF SCC
BY SOUTH CENTRAL CONFERENCE OF SDA**

Here are excerpts from this letter, which was sent to the constituency because the laws of Tennessee (where SCC's headquarters are located) required that this disclosure be made:

"... It is not enough, as a worker or a leader in the denomination, just to not make a decision that conflicts with the best interests of the denomination. But what is required is a higher standard: not to allow oneself to even be placed in a position where that even might happen. Even the appearance of a conflict must be avoided.

"As the Executive Secretary of this Conference, I am today faced with the most difficult task of my title: The task of presenting to you facts involving some actions and decisions of the President of this Conference.

"Our attorneys have determined that the laws of the State of Tennessee require that I bring to your attention some of those actions, as they related to the attempted purchase of old Riverside Hospital, particularly in the years 2001-2002, so that you can ascertain if there were any violations by the President of our Conflict of Interest Policy.

"Though the details that I am required to relate

to you occurred one to two years ago, I only became aware of them about the first of August of this year in various court papers that were sent to me in my role as lead officer for the Conference in the legal issues of the Conference and Cumberland River. In the documents section of this material, I have copied portions of those documents for your examination.

"In the first page of the documents section, I have attached a letter from Bob Burrows, one of the attorneys for Risk Management [the GC in-house insurance agency]. Bob Burrows is the person from the General Counsel [GC in-house attorney's office] who assists us with legal issues. Mr. Burrows and our corporate attorney, Mrs. Helen Rogers have advised me that **I am required to make you aware of the following details:**

"(1) For a time in 2001 and 2002, Elder McCoy [president of SCC] served as both Chairman of the Board of South Central Conference Executive Committee and the Cumberland River Corporation at the same time.

"(2) That Elder McCoy received a salary from Cumberland River and Ken Hill (who hired him) for being Board Chair [in amount] of \$47,115.28 for the period August 2001 through July 2002.

"(3) While serving in these dual roles, the Conference was doing business with Cumberland River; or at the very least, business with Kenneth Hill, President of Cumberland. The Conference's business relationship dealt with the fact that, at the time, Mr. Hill hired Elder McCoy to work for him, Kenneth Hill was (and still is) the Conference's largest debtor. At the time that Elder McCoy went to work for Ken Hill, **Ken Hill owed the Conference in the neighborhood of \$150,000.** Total said debt of Ken Hill to the Conference remains in 6 figures. He paid sporadically in 2001 and early 2002 and not at all since April of 2002.

"Said employment relationship between the President and Ken Hill continued for several months even after the Conference was hit by the first of two lawsuits . . .

"Very loosely, that is the background. Now for the required details:

"... [Discussion again of the conflict of interest rules . . .] Paragraph three, which states: I have had no financial interest in, been an employee, officer, director or trustee of, or received financial benefits, either directly, or indirectly from any enterprise which is or has been doing business with or a competitor of the South Central Conference of Seventh-day Adventists.

"I am required to tell you that this may apply in this case due to the following:

"Elder McCoy was Chairman of the Board for Cumberland. According to Elder McCoy's deposition in the current Woodruff vs. South Central Conference of Seventh-day Adventists, Joseph McCoy, Cumber-

land River Health and Human Services and Kenneth Hill suit, **the sole purpose for the Cumberland River Corporation's existence was to repurchase the old Riverside Hospital for the South Central Conference.**

"Accordingly, Elder McCoy, in his capacity as Chairman of the Board of Cumberland River made plans to get the South Central Conference Executive Committee, where he was also Chair, involved in the purchase [of] Riverside Hospital. **He did so without disclosing to South Central or any of its officers, that he was also an employee of Cumberland River.** Indeed, there is no record that anyone in South Central knew of the existence of Cumberland River or the fact that it was formed to purchase Riverside Hospital with the help of the assets of South Central and the South Central Holding Board, at the time that Elder McCoy became an employee of Cumberland River . . .

"[Two paragraphs mentioning the conflict of interest problem again, as related to receiving payments.] . . .

"[. . . This paragraph is worded because a lawsuit is in progress . . .] If one accepts the assertion that Cumberland River was formed with the idea of doing business with the South Central Conference, and one also accepts the assertion that a salary of \$47,000 over an 11-month time frame represents 'substantial payment' (at least, in the Adventist pay scale context), then the same 'school of thought' two paragraphs ago [in this document] might come to the conclusion that the policy enunciated in this paragraph has been violated as well.

"[Two paragraphs about the conflict of interest problem of working for an outside business, in this case doing business with the conference.]

"The President testified [in his deposition to the court] that **working for Ken Hill took an hour of time per week**, during the time that he was employed as Board Chair. He also testified that **the Board met one time during the time that he was Chair, via phone**, and that there were no minutes taken nor did he receive any financial statements from Cumberland to peruse. [Is this statement of McCoy's true?]. He further testified that he was unaware of the names of the other members of the Cumberland River Board.

"The question relative to the above paragraph is: **Would Ken Hill have paid the President what amounted to \$1,000 per hour to chair one meeting by phone and to talk to him over the phone enough times to equal one hour a week**—if the President were not [at the same time] President of the South Central Conference?

"The [SCC] Committee may feel the need to ascertain whether the benefit to the President, of a \$47,000 salary from Ken Hill, went 'beyond the common courtesies usually associated with accepted business practice' . . .

"First, the short-term costs:

"Ken Hill still owes us \$100,000. Roughly \$96,000 of that is the balance on his promissory note and \$4,000 more are the expenses for him that were paid by us and for which we were to be reimbursed, and as yet, have not been.

"Then there is rent that is due from Cumberland River, which was never paid. If one assumes that Cumberland was occupying space in our building during the time that Elder McCoy was Board Chair, then that would mean that **they owe for 16 months at \$1,000 per month. That puts the amount Ken Hill owes for rent at \$16,000, making his total approximately \$116,000.**

"Then there are our legal fees. We are defending ourselves in two different lawsuits, in two different states, New York and Indiana. **That involves three law firms,** ours, and one law firm in each state . . . **To defend ourselves costs money: \$30,000 so far and we have not gotten to trial in either case. Our corporate attorney estimates that our legal fees for these two suits could total \$100,000 and litigation could last up to eight years—and that's if we win.**

"That would put the cost of dealing with Brother Hill at \$216,000 if we win, and those are the short-term costs.

"Then there are the long-term costs. The long-term costs shake out this way:

"Currently, we have no insurance [to pay] for either of these lawsuits . . . [because these] are, basically, breach of contract suits . . .

"The method in which the President [McCoy] pursued the Riverside project is also consistent with how the President often pursues these kinds of things. People who needed to be consulted, weren't. Advance authorization that needed to be gotten, was not . . .

"The fact is that this Conference is staring down the twin barrels of a legal shotgun: Two lawsuits, totaling, potentially, millions of dollars, for which we currently have not a dime's worth of [insurance] coverage."

That concludes the legal papers and notices on this unfortunate situation. Each year, the number of financial crises involving the church increases. One must ask, why are so many occurring? When will all this end? How will it end?
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