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DD

ALL-STATE<sup>®</sup> INTERNATIONAL

COMMONWEALTH OF VIRGINIA, ex. rel.  
MARK EARLEY, ATTORNEY GENERAL OF  
VIRGINIA; MARK EARLEY, ATTORNEY  
GENERAL OF THE COMMONWEALTH OF  
VIRGINIA; and THE COMMONWEALTH'S  
ATTORNEY FOR THE CITY OF  
ALEXANDRIA,

**v.**

### Respondents.

## COMPLAINANTS' ACCOUNTING

Robert E. Wilh

J.APP. 5905

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## **I) INTRODUCTION AND BACKGROUND**

---

Arthur Andersen LLP was engaged by the law firm of Lawson & Frank, P.C., counsel for the Attorney General of the Commonwealth of Virginia and the Commonwealth's Attorney for the City of Alexandria, to prepare an accounting of the assets and liabilities of Jefferson Memorial Hospital, Inc., in accordance with generally accepted accounting principles and the Order entered by the Court on March 3, 1997. I am the partner responsible for this engagement. My curriculum vitae is attached to this report at Appendix I.

As part of the prior proceedings of this matter, I made a thorough evaluation of the financial operations of Jefferson Memorial Hospital for the years 1963 through 1975 based on a significant historical archive of accounting documents. Based on this review, my conclusions as presented at trial indicated that, for this time period, the hospital:

- experienced exceptional growth in the years from inception through 1975. Jefferson Memorial Hospital had generated income in amounts over its reported expenses by year two without supplemental means of hospital income such as grants or donated monies.
- operated under a higher than optimal costs structure in that it did not own its operating assets. The hospital paid more out in leases than it would have been responsible for had it serviced the building's mortgage and purchased the equipment outright.
- gave every indication in its financial statements that it was a viable going concern, and had demonstrated increased levels of profitability in most of its first 10 years.
- The reorganizations of the Hospital's operating entity appeared to be done with the primary intent of creating financial gain for the original investor group.

It is important to note that, even in the best of circumstances, the majority of health-care facilities are likely to experience considerable financial difficulties due to start-up factors in the early years of operation. The immense depreciation charges taken, coupled with lower revenues in the initial years of existence will virtually guarantee a negative impact on earnings. Expenses tend to exceed costs in the short term due to a combination of high fixed costs and the slow but steady ramp-up of patient volumes through the attraction of physicians and patients. This is not necessarily a foreshadowing of failure of a not-for-profit health care venture, particularly in the present case where the hospital's designed capital structure led to the revocation of its 501(c)(3) status.

The Circuit Court for the City of Alexandria ruled that the "Complainant [The Commonwealth] is entitled to the relief sought in the Bill of Complaint. The Court will enter a declaratory judgment that the assets of

Jefferson Memorial Hospital, Inc. (JMHI) remain in the hands of Respondents as trustees: a custodian will be appointed to administer the assets; an accounting will be ordered; and a constructive trust imposed on all assets of JMHI." This ruling was affirmed on appeal by the Virginia Supreme Court on April 17, 1998.

The initial analysis and the court rulings serve as the starting basis for the accounting presented herein. The scope and content of this production finds its definition in the rulings of the Alexandria City Circuit Court, by virtue of its Order dated March 3, 1997, which established the requirements and parameters for the parties' accountings. Specifically, the Court directed the Respondents to "prepare and submit under oath a full and complete accounting of all assets and liabilities that are the subject of this Decree...and Complainant shall respond within thirty (30) days of the receipt, which accountings shall disclose all rents, issues, profits, accretions and benefits, tangible and intangible which have accrued therefrom..."

## **II) ASSIGNMENT AND DOCUMENTS CONSIDERED**

---

I have been asked to render an independent accounting in accordance with the criteria set forth by the Court. In order to render this opinion, I have relied on information extracted from an analysis of a substantial number of documents, records, accounts and other documents produced to the firm in the course of this engagement.

Based on these sources, an accounting has been rendered herewith which has been prepared in accordance with Generally Accepted Accounting Principles as to the operations of the Jefferson Memorial Hospital from its inception to the present day.

Additionally, I have obtained and read the Judicial Council of Virginia's Manual for Commissioners of Accounts in an effort to insure that the accounting as prepared comports with the usual and customary fiduciary accountings prepared and submitted under the supervision of the Commissioner of Accounts for the Circuit Court of the City of Alexandria.

I have relied on the audited financial statements, income tax returns, third party payor statements, corporate minutes, correspondence and lease agreements, as they have been produced by the Respondents; and in the event of the absence of these data sources, other underlying documents have been used in specific cases. In certain instances, documents produced reflect mere "paper transactions" for which I found no corroborating data, or for which I have found evidence that questions the validity of the transaction referenced. In these and other instances, documents produced contain references to transactions that are purported to have taken place, but have been ruled to be invalid. My analysis is focused primarily on the substance of the transactions and not only the form and structure of each deal. This accounting makes appropriate adjustments to reverse the effect of these invalid transactions.

An examination of records reveals that the Respondents commingled funds with the trust assets. The basic accounting concept of the "business entity" prohibits this combination of trust assets with any other business organization or individual. This concept requires that "activities of each business should be kept separate from



the activities of other businesses and from the personal financial activities of the owner(s)."<sup>1</sup> This commingling distorts the actual financial performance of the hospital entity as documented in the records of JMHI.

The source for a majority of this accounting was obtained from the financial statements of the Hospital's operating entity, audited by certified public accountants. As referenced in the Auditors' Reports, an auditor's responsibility is to examine the books and records of the company in accordance with generally accepted auditing standards and determine whether the financial statements present fairly the results of operations in conformity with generally accepted accounting principles. Without exception for the years ended October 31, 1967 through June 30, 1982, the auditors issued an unqualified or "clean" opinion meaning that the auditors believed that the financial statements were presented in conformity with generally accepted accounting principles applied on a consistent basis, and include all necessary disclosures. This accounting relies on these financial statements and auditors' opinions. For this reason, I have used the underlying amounts presented in the financial statements unless source documents provided to me indicate errors or omissions in those financial statements.

---

<sup>1</sup> Accounting Principles, 5<sup>th</sup> ed. Hermanson, Edwards & Maher (Irwin 1992), p.22.

### III) SUMMARY OF EXPERT OPINIONS

---

The accounting presented herein is prepared as a summary of business transactions and other activities conducted by the Respondent trustees as reflected in their accounting records, with proper adjustments made to reflect the transactions invalidated by the Court. The accounting serves to calculate the income generated by the assets held by the Respondents in trust. Note that there is no proscribed format in accounting authoritative literature for an "accounting." My analysis here is a function of the direction provided by the Court and the principles embodied within the Manual for Commissioners of Accounts. Counsel has informed me that it is well settled in Virginia that trustees are regarded as fiduciaries, and as such they are charged with the duty to maintain appropriate records and to deal with the trust estate in a manner that protects and enhances the same. The Respondents did not infuse capital that would have enhanced the financial position of the hospital; rather the actions of the Joint Venture served to impair the fiscal stability of JMHI. Further, there are generally accepted conventions governing the accounting responsibilities of those trustees, which include at the very least, maintenance of discrete records, and an obligation to keep trust assets and funds separate and apart from all others, without commingling with the resources of any other individual or entity, no matter how closely related. It is my opinion that the respondents did not always adhere to these conventions.

In my opinion, the sum subject to the constructive trust of Jefferson Memorial Hospital, Inc. as of June 30, 1999 is \$27,083,528.<sup>1</sup> Additionally, I am of the opinion that \$24,489,583 will accrue to the trust from July 1, 1999 through October 31, 2005. Therefore, the total sum subject to the constructive trust, including sums already accrued and sums expected to accrue in the future, is \$51,573,111. Note that all amounts presented in this report are stated in terms of historical dollars. Below, I discuss the bases and calculations of these amounts.

#### A) DESCRIPTION OF ENTITIES

Operation of a charitable hospital was the stated business purpose of Jefferson Memorial Hospital, Inc. (JMHI) (see Exhibit 9). This accounting addresses the activity of two entities: (1) the entity responsible for the operations of the Jefferson Memorial Hospital and (2) Respondents' various partnerships which, at various times, purport to own and to lease to the Hospital the building, land and equipment used in the course of the

Hospital's operations. The former is referred to as Jefferson Memorial Hospital and the latter as the Joint Venture.

### **1) Jefferson Memorial Hospital**

The name of the entity under which Jefferson Memorial Hospital was operated changed periodically over time, however the substance of its operations remained continuous and intact. As described in a undated document drafted by Bernard Krakow, Esquire, regarding the "Steps taken in the Acquisition of the Land and the Construction of the Building For Jefferson Memorial Hospital".

"...The Jefferson Memorial Hospital, Inc. was created in order to avoid the personal liability of the sponsors from malpractice suits. It was decided and accepted unanimously, that the Hospital Corporation's rent would be computed on the following basis - mortgage payment of Seventy thousand eight hundred Dollars (\$70,800.00) plus ten per cent (10%) of the money invested. Under no circumstances will King Street Joint Venture realize more income. All the leases which were made with the King Street Joint Venture have been assigned to the Jefferson Memorial Hospital, Inc." (See Exhibit 364).

Further, Note 1 to the financial statements for JMHI for the year ended October 31, 1967 states: "Jefferson Memorial Hospital opened for occupancy in March, 1965 with a 96-bed capacity. The Hospital is a non-profit corporation managed by a board of directors consisting of 14 physicians. In 1968, an additional 24 beds were opened for occupancy bringing the total capacity to 120 beds." (see Exhibit 191). The Hospital was granted 501(c)(3) tax-exempt status, which the IRS subsequently revoked. The Hospital was also granted exemption from COPN licensing requirements upon enactment of COPN legislation. The right to operate Jefferson Memorial Hospital and to generate income through the treatment and admission of patients to its hospital beds, as embodied in its license, was an asset held by JMHI, that became subject to the constructive trust. While the Hospital began operating in 1965 under the name of JMHI, records purport to indicate that in 1971, operations continued under the name of Jefferson Memorial Hospital Corporation (JMHC). In 1982, the operating entity's name was changed from JMHC to Jefferson Corporation of Alexandria (JCA). Despite these various iterations in corporate name, the substance of the Hospital operation remained constant. The following chart is provided to clarify the various entity names under which the hospital purported to operate.

Per Tax Return

Period	Entity Name	Short Reference	Tax ID #	Date of Incorporation
1/1/1965 – 6/30/1971	Jefferson Memorial Hospital, Inc.	JMH	54-0784092	2/18/1963
7/1/1971 – 3/22/1982	Jefferson Memorial Hospital Corp.	JMHC	54-0784092	6/3/1971
3/23/1982 - Present	Jefferson Corporation of Alexandria	JCA	54-0784092	6/3/1971

For this accounting, "JMH" has been used to refer to the entity responsible for hospital operations. In the years in which JMH is operating under an entity name other than JMH, the short reference has been listed in parentheses as such, "JMH (operating as JCA)." It should be noted that quotations from documents referring to various entities are used throughout this report and have not been modified.

## 2) Joint Venture

Note 2 to the financial statements for JMH for the year ended June 30, 1972 refers to the Joint Venture as, "a partnership whose main source of income was from the rental of the hospital plant to the Hospital." (see Exhibit 200). While this Note refers specifically to the Respondents' partnership entity, JMHA, this description holds true for each other partnership utilized by the Respondents in dealing with this hospital. In addition to the lease income from the hospital plant, the Joint Venture also generated income through the lease of land and equipment from time to time to JMH. While the activity of acquiring and leasing physical assets to JMH has remained consistent over time, the Respondents have utilized partnerships formed under different names at various points in time. The following chart is provided to clarify the various entity names under which the Joint Venture has operated.

Per Tax Return

Period	Entity Name	Short Reference	Principal Business Activity	Date Business Commenced
1/1/1963 – 12/31/1965	King Street Joint Venture	KSJV	Real Estate – Investments	1/1/1963
1/1/1966 – 6/30/1971	Jefferson Memorial Hospital Associates	JMHA	Investments	1/1/1963
7/1/1971 – 6/30/75	Non existent – Hospital owns building	N/A	N/A	N/A
7/1/75 – Present	Jefferson Memorial Hospital Joint Venture	JMHJV	Real Estate	7/1/75

For this accounting, "Joint Venture" has been used to refer to the entity purporting to own the hospital building and other physical assets used in the operations of the hospital from time to time. The short reference, noted above, has been listed in parentheses next to Joint Venture to reflect the entity name at a specific time as

such, "Joint Venture (operating as JMHSV)." It should be noted that quotations from documents referring to the various entities are used throughout this report and have not been modified.

## **B) FACTUAL BACKGROUND**

In connection with the previous trial in this matter, I conducted a detailed analysis of the hospital operations from its inception in 1965 through 1975, as reported in its numerous financial statements, income tax returns, corporate minutes, agreements, correspondence and other records and documentation. For purposes of this accounting, I have reviewed not only those documents but also financial statements, income tax returns, corporate minutes, agreements, correspondence and other records and documentation available for the subsequent years of 1976 through the present. In forming the opinions expressed in this accounting, I have relied upon factual events reported in these records as well as upon the Court's opinion, which provides the framework for understanding the factual background of this matter. Relevant events are summarized below.

### **1) 1965 through 1971**

Jefferson Memorial Hospital, Inc., (JMHI) originally was chartered as a for-profit corporation in the state of Maryland and subsequently amended its charter to a charitable, non-profit form when it opened in Alexandria, Virginia as an acute-care hospital in 1965. Laszlo N. Tauber and other Respondents served as directors of the charity. In general, hospitals require significant start-up capital. JMHI, however, was thinly capitalized, relying upon debt for capitalization and leasing, rather than owning, its operating assets. Ownership of these assets purportedly was held by a partnership made up of Dr. Tauber and other Respondents (the "Joint Venture"), many members of which also served as directors of JMHI. The financial statements and tax returns show that this lease arrangement created tax benefits for the Joint Venture by permitting it to claim depreciation and other expenses related to the hospital operating assets.

In 1966, JMHI became a lessee of the hospital building and land pursuant to several lease agreements executed by Laszlo N. Tauber on behalf of JMHI, as lessee, and on behalf of the Joint Venture, as lessor. These agreements are described in detail in the Methodology section of this report.

The Joint Venture amended the original lease to increase the Hospital's rental payments and to require the Hospital to pay all of construction expenses exceeding \$950,000. Construction of the Hospital and virtually all money invested in it by the Respondents was financed through banks. Repayment of these sums and financing of hospital operations were funded by patient fees (including Medicare and Medicaid reimbursements) and third-party payments. In 1968, the Hospital expanded its capacity by twenty-five (25) percent.

Except for a brief period from 1971 to 1975, this segregated ownership structure remained in place throughout the life of the Hospital. The Court determined that this ownership structure allowed the individual Respondents to participate on a relatively risk-free basis. This conclusion was also expressed by Dr. Tauber in a 1989 memorandum to the Joint Venture members in which he stated that the members had little, if any, money invested in the Hospital.

In 1969, the Internal Revenue Service began an investigation of JMHI that resulted in the revocation of its tax-exempt status in January 1972, retroactive to November 1, 1965. As I testified at the previous trial, the revocation of Section 501(c)(3) status was extremely rare. The IRS specifically found that the actions of JMHI's directors directly caused the revocation of its charitable status.

In 1971, during the pendency of the IRS revocation, the Respondents began conducting hospital operations under a different name, Jefferson Memorial Hospital Corporation (JMHC). For that year, JMHC, a for-profit corporation wholly-owned by the Respondents, filed an income tax return reporting the tax identification number of JMHI and stating that it had merged with JMHI, resulting in a mere change of name and place of business. This filing permitted it to claim the benefit of more than \$500,000 in loss carry-forwards generated by JMHI. At the same time, ownership of the building and land purportedly was transferred to the Hospital by the Respondent's partnership. Corporate minutes and correspondence demonstrate the Respondents' awareness that the purported merger was never carried out, and the Court determined that no such merger occurred.

## **2) 1971 through 1975**

After 1971, the Hospital's operations continued uninterrupted and unchanged. Income tax returns continued into the 1990's to report the tax identification number originally issued to JMHI; a number of these

returns continued to be filed in the name of JMHI itself, even after its corporate termination: the account with Blue Cross/Blue Shield remained open: patient accounts remained intact: and in 1972, the Respondents, through counsel, represented to the City of Alexandria that the charity continued in the property as lessee.

Despite the financial difficulties placed upon the Hospital, it remained profitable. Its 1971 tax return revealed a gross profit of \$511,595 and a taxable income of \$219,388. As I previously testified, the Hospital maintained a strong and continuous trend of net earnings, even after revocation of its tax-exempt status when it paid taxes of forty (40) to fifty (50) percent of its income: and its records demonstrate that it operated at a very high capacity, while incurring a low rate of bad debt.

In 1973, the state of Maryland terminated JMHI's corporate status. The Court stated that, upon this event, the assets of JMHI formally passed into the hands of the Respondents as trustees. Prior to this termination, however, the Respondents had ceased to operate the Hospital as a charity as early as 1971.

From 1971 through 1975, the Hospital, while purportedly operating as JMHC, held the status of owner/operator rather than lessee/operator. In 1973, the tax benefits arising from JMHI's loss carry-forwards were exhausted. The Respondents then, in 1974 and 1975, structured a sale and leaseback transfer of the Hospital's building and land to the Joint Venture. To carry out this plan, they once again purported to convey JMHI's assets to JMHC. This purported conveyance occurred, however, subsequent to the termination of JMHI's corporate charter. The Respondents then transferred the Hospital's assets to their Joint Venture by causing the Hospital to redeem stock, which it had issued in 1972 at \$4.00 per share, and, in exchange, to pay bonds valuing the stock at \$6.00 per share. The Hospital then accepted a tender of the bonds as payment for the transfer of its assets to Jefferson Memorial Hospital Joint Venture. The plan was carried out with the expenditure of little or no cash. As I have been informed by counsel, the Court determined that, at the time these transactions transpired, the Respondents were without authority to operate the corporation and that, as a result, these transactions were invalid.

### **3) 1975 through 1982**

In 1975, in consummation of the Respondents' sale and leaseback, a lease agreement was executed purporting to make the Hospital a tenant of the Joint Venture. The Court rendered this lease agreement invalid.

The effects of the sale and leaseback arrangement transferred to the Joint Venture not only a large rental profit but also substantial depreciation and tax benefits.

In or about 1977, the Joint Venture completed construction of a medical office building abutting the hospital building. Pursuant to a lease agreement, the Joint Venture leased to the Hospital the third floor of the new building for an annual rental of \$11,760. The Joint Venture had guaranteed, in order to obtain a COPN for the expansion, that the Hospital's rent for the new area would not exceed this amount. Subsequent to obtaining the COPN, however, the Respondents amended the 1975 lease agreement on several occasions, diverting large sums of the Hospital's rising revenue to the Joint Venture through rent increases. The amendments further required the Hospital to assume payment of a mortgage taken out by the Joint Venture in order to construct their medical office building and to pay off the original construction mortgage encumbering the property. It is notable that payment of the original mortgage purportedly had been assumed by the Joint Venture as consideration for the 1975 sale and leaseback. The effect of these lease amendments was the shifting of profits from the Hospital to the Joint Venture.

#### **4) 1982 through 1992**

In 1982, the Hospital's profitable operations attracted Health Group of Virginia, Inc. (HGV). This corporation sought to acquire control over the Hospital's operations, including its operating rights, liabilities, plant and equipment, and tangible and intangible assets including its accounts receivable, in exchange for annual payments of approximately \$1 million. Of this \$1 million, the parties allocated a maximum of \$240,000 toward the payment of the Hospital's lease obligations owed to the Joint Venture, which included the mortgage previously assumed. While the parties executed a "lease agreement," the concept of a lease understates the fact that, from an accounting perspective, the transaction embodied a transfer of control of all incidents of the Hospital's operating rights. Most importantly, HGV acquired control over the Hospital's license in a COPN-regulated environment.

Soon after execution of the HGV lease agreement, the Joint Venture again amended the Hospital's 1975 lease by raising its rental payments to approximately \$900,000. This increase of several times over the Hospital's original rent transferred all but \$100,000 of the HGV payments to the Joint Venture and out of the



Hospital. Additionally, the Joint Venture agreed to resume responsibility for the mortgage it previously had assigned to the Hospital but reserved for itself the right to terminate the agreement upon thirty (30) days' notice.

In 1985, Fairfax Hospital Systems (INOVA) sought the right to operate the Hospital as a result of its strong performance. INOVA, therefore, acquired HGV's stock for \$5.8 million. On July 3, 1985, in exchange for the Hospital's operational rights, INOVA agreed to pay the Hospital approximately \$1,375,000 annually, which would escalate to approximately \$2.2 million by 2005. On the same date that it entered into the INOVA agreement, the Hospital assigned "all of its right, title and interest" in the INOVA agreement to the Joint Venture. Since that date, the Joint Venture has received all income generated by the Hospital's rights of operation.

#### **5) 1992 through the Present**

In 1992, INOVA sought to terminate the Hospital's operations by purchasing all of its operational rights. During the course of due diligence, a question of title arose which resulted in litigation between INOVA and the Joint Venture. In 1994, the litigants compromised the dispute by a Settlement Agreement entered in the Circuit Court of the City of Alexandria. Pursuant to the Settlement Agreement, INOVA purchased all rights to the Hospital, particularly the right to cease operations. Possession of the land and building reverted to the Joint Venture. In exchange for the totality of the Hospital's operational rights, INOVA has paid since 1994, and will continue to pay until 2005, in excess of \$2 million per year. In 2005, INOVA will make a final lump sum payment of \$10 million.

#### **6) Summary**

A review of the extensive documentation produced confirms my opinion expressed during the course of the previous trial regarding JMHI's economic strength as a going concern. For only three years in the Hospital's early life did it experience negative earnings. Except during the brief period from the opening of the Hospital until October 1966 and for the year ended October 1969, the Hospital consistently generated positive net income. Located in a geographic region characterized by high incomes, supported by third party payors such as Blue Cross/Blue Shield and Medicare and Medicaid, and maintaining a high patient census, the Hospital

accelerated to a position of economic strength. This performance continued, uninterrupted, throughout the Hospital's tenure.

The Hospital's performance easily can be traced by maintaining the status quo established by the 1966 lease agreements, which, after giving effect to the Court's opinion, are the only valid, subsisting lease agreements. By calculating the annual payments due thereunder, observing the income generated by the Hospital and by deducting operational expenses paid, the parties' economic interests are preserved. It must be noted that there occurred significant commingling of Hospital operations with unrelated transactions for the benefit of the Respondents, as the Hospital purchased tax shelters, paid unrelated expenses and acquired condominium units, which had no relation to Hospital operations. The records do not separately report income and disbursements attributable to many of these items. As a result, where the reporting is inadequate, the commingled activities cannot be segregated from the Hospital's own activities. Honoring the 1966 leases, however, yields a conservative reconstruction of the assets and liabilities of JMHI that are subject to the constructive trust imposed by the Court and permits a tracing of the rents, issues, profits, accretions and benefits, tangible and intangible which have accrued therefrom. As will be shown below, the trust assets are significant.

## IV) BASES OF OPINIONS

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### A) ACCOUNTING OVERVIEW

The economic value of any asset, including real estate and assets of production, lies in its ability to generate income for owners or other interested parties. The mechanism for income generation of a hospital is not the hospital facility itself but, more importantly, the hospital (and the license to operate it) as a means of generating net revenue by providing service to patients in exchange for payments from patients and third parties.

Regardless of the ownership of the means of service (i.e., equipment, building and land), a hospital's income is primarily generated from caring for patients. The value of the license to operate Jefferson Memorial Hospital is acknowledged in a draft memo that is likely to have been written from Laszlo N. Tauber to the members of the Joint Venture regarding negotiations with INOVA. That memorandum states:

"[t]he real value is the license to operate the hospital. If we loose [sic] it, we are left with a white elephant which would be a disaster. This is a single purpose building. Although we are commercially zoned, any change to the character of the building would require a great deal of investment with a very doubtful outcome." (see Exhibit 804).

This accounting, therefore, traces the net income derived from the trustee's continued operation of Jefferson Memorial Hospital in 1971 and thereafter, using its assets after electing to terminate its charitable mission.

The net income generated by the operation of Jefferson Memorial Hospital has already been accounted for in the financial statements and income tax returns prepared by the Respondents for JMH. These and other documents demonstrate that, while the name of the entity responsible for hospital operations changed during the period of time subject to this accounting, the nature of the entity and its operations remained constant. Each income tax return prepared on behalf of JMH from 1965 through 1995 (tax returns for 1986, 1988 and 1993 were not produced) reports the same tax identification number (54-0784092), despite the fact that many of these returns were filed bearing different entity names.

As a result of the continuity of JMH's operations as a going concern, the actual figures employed in this accounting to construct the adjusted net income statement for JMH were obtained directly from the financial statements, income tax returns, leases, corporate minutes, correspondence and other documents prepared on

behalf of JMH and produced by the Respondents. In the course of preparing this accounting, I have relied upon the aforementioned documents, and the appropriateness of expenses as reported in the financial statements and income tax returns was not questioned. These unquestioned expenses may include interest on bonds for which underlying assets were not received, salaries for physicians and board members, write-offs of receivables from Joint Venture members, items paid by JMH on behalf of the Joint Venture, and lease transactions for equipment between JMH and the Joint Venture. During our review of the documents produced, we noticed several underlying source documents that brought into question the segregation of expenses between the JMH and the Joint Venture. As an example, the following excerpt was found in an August 22, 1979 memorandum issued to Leslie L. Peters (Hospital President) from Carl E. Linton (Hospital Administrator) regarding the "Allocation and accounting of expenses between the Hospital and the Joint Venture":

"As you know, the Hospital Auditor, Mr. David Mermelstein, C.P.A. is now conducting the annual audit of the Hospital. He has raised a couple of questions which we must resolve. These are the questions... Did the Board of Directors have full knowledge of the total cost of the taxes, utilities, insurance and other support services when it approved a fee of \$.50 per square foot to the Hospital for payment for all expenses other than housekeeping, for the 2<sup>nd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> floors? I have explained to Mr. Mermelstein that the Board had agreed to provide all of these services and expenses to the Joint Venture owners of the new building for \$.50 a square foot. His audit reveals that the expenses will be much more than the agreed to \$.50 a square foot. If we charge these expenses he will have to make mention in his Financial Report. These reports are required documents for audit by Medicare, Medicaid and Blue Cross. Further, they will be reviewed by Internal Revenue when they come for spot checks or full audits. He feels that as soon as IRS discovers this treatment of expenses by the Hospital, they will perform a full audit and go much deeper into everything than they normally would. Further, he is concerned that the Stockholders who are not members of the Joint Venture will have a right to cause investigation or even litigation because Hospital funds are being paid or used to pay expenses of the Hospital Joint Venture." (See Exhibit 908)

Although the ultimate resolution of this concern is unknown, issues concerning the payment of Joint Venture expenses with JMH funds exist based on the documents produced. While some of the documents provided contain the necessary information to trace certain transactions, it would have been unduly burdensome to analyze each and every supporting document, which may or may not have been produced, or even exist, to determine the amounts for which JMH was not obligated to pay. For this reason, we have taken the conservative measure of leaving intact the expenses as recorded in the financial statements and income tax returns as reported, which operates to the benefit of the Respondents. Although the magnitude of the

commingling is unknown, a challenge of these expenses would likely lead to greater net income associated with the operations of JMH.

I have preserved the agreements as established by the 1966 building and land lease arrangements for which I discovered no validated amendment or cancellation. In reliance upon the Court's opinion, I have treated as void the lease agreement executed in 1975, and amendments thereto, which would have increased JMH's obligations to the Joint Venture. While recognizing that the 1975 lease is invalid, I have accounted for subsequent lease agreements that benefited JMH by expanding the space in which it conducted its operations. I further have given effect to lease agreements entered into with third parties not related to the Respondents. Additionally, this accounting has not attempted to reverse the effects of the revocation of JMH's tax-exempt status, which the Internal Revenue Service stated was caused by the actions of numerous of the Respondents. Had this revocation not occurred, JMH, being unburdened by taxation, would have reported a greater net income.

The Income Statement Summary for JMH prepared as a part of this accounting quantifies JMH's right to operate Jefferson Memorial Hospital as a going concern and to receive income from those operations as its principle asset. This accounting takes into consideration all reported costs of the operation of Jefferson Memorial Hospital, including depreciation of equipment used, rental and lease payments and the cost of capital (interest). The income statements of JMH show that revenue from its operations consistently exceeded expenses on an annual basis as well as on a cumulative basis. Except for the years ended October 31, 1965, 1966 and 1969, JMH consistently generated net income.

## **B) ACCOUNTING METHODOLOGY/PROCEDURES**

In order to account for the income and expenses generated by the operations of JMH as well as the contributions to and withdrawals of capital from JMH, I employed the following methodology:

1. Extract income generated by hospital operations as reported in the audited financial statements, income tax returns and supporting documents. (Note that the income reflected in the Adjusted Net Income Statement already incorporates total expenses reported by the Respondents.)
2. Adjust rental income and expense calculated in accordance with the 1966 lease agreements as written.
3. Eliminate certain reported expense items that are either unsupported, found by the IRS to be inappropriate, the result of a purported intercompany purchase/sale of the hospital building (which the Court determined was invalid) or other commingled transactions unrelated to the business interest of JMH.
4. Trace, to the extent possible, capital contributed by the Joint Venture members that resulted in a benefit to JMH.

### **1) Net Income as Reported**

The income statements for JMH, as reported by the Respondents, are summarized and can be found in Attachment #1. The section of that Attachment labeled "Income Statement As Reported", reflects the amounts reported in the source document referenced each year in the line labeled "SOURCE." The adjustments that are discussed in the sections below start from, and use, the net income from JMH as reported in the underlying income statements. This methodology segregates JMH's net income, as reported in the financial statements, from that of the Joint Venture. A summary of those reported income statements is provided below. It is important to note that these reported statements (i) include disbursements made pursuant to transactions that the Court has deemed invalid and (ii) fail to properly allocate revenue and disbursements in accordance with the terms of the parties' 1966 lease agreements.

## Summary of Net Income as Reported for JMH from Inception through 1995

(Does not include amounts for the periods ending 10/31/66, 6/30/86, 6/30/88, 6/30/93 as those documents were not produced)

Total Revenue	\$ 92,560,655
Less: Total Expenses	(\$88,832,906)
Less: Other Revenue and Expenses, net	(\$ 1,077,873)
Less: Income Taxes	(\$ 1,026,399)
Net Income	<u>\$ 1,623,477</u>
Net Loss for 1966*	<u>(\$ 118,076)</u>
Net Income as Reported	<u>\$ 1,505,401</u>

\* While the total Net Loss for 1966 was available, the detail of revenue and expenses was not produced. The Net Loss for 1966 of \$118,076, has been included in the total Net Income as Reported.

### 2) Adjustments to the Income Statements in Accordance with Lease Agreements

Adjustments for the following items were made to the reported net income of JMH: rental of the hospital land and original building; rental of additions to the hospital building; mortgage interest and depreciation reported from 1972 through 1975; revenue from the lease of the hospital's operations to unrelated third parties; and the final transfer of the hospital's operations to an unrelated third party.

#### a) Rental of Land and Buildings

The audited income statements for JMH include an expense line item for "Rental of Land and Buildings." The actual ownership of the land and building used by JMH is outside the scope of this accounting, and I understand a resolution of the status of the title remains within the Court's domain. Therefore, to preserve the terms established by the 1966 lease agreements, this accounting assumes that those agreements are valid. Subsequent lease agreements were signed in 1975 for the original hospital building and land; however, the Court's opinion indicates that those agreements arose out of invalid transactions and, therefore, are themselves invalid. As a result, this accounting assumes that the parties maintained the landlord-tenant relationship first established by the 1966 lease agreements. In addition, documents indicate that subsequent to 1975 the Joint Venture and/or JMH constructed additions to the building used by JMH in its operations. This accounting

assumes that JMH is obligated to pay rent for the use of these additional facilities despite the fact that records indicate that JMH paid portions of the resultant construction cost and mortgage liability. Insufficient records have been produced to allow tracing of any contribution by the Respondents to any particular asset or transaction.

The assumption followed in this accounting is that the original leases for the land and building, as well as subsequent leases for additional space, were enforceable and remained in effect through 1994, at which time all of JMH's rights of operation were conveyed to INOVA and control of the physical plant was returned to the Respondents. These leases, with the corresponding rental amounts, are detailed below and represent the adjustments made to reconstruct the expense line for "Rental of Land and Buildings" in order to account for these transactions. The first adjustment to net income required is to add back the rental expense for land and buildings as reported. This adjustment reverses the diversion of income from JMH's operations through a 1975 lease, and amendments thereto, which, as I have been informed by Counsel, the Court has determined arose out of invalid transactions. This adjustment is carried out in the line item "Add Back - Rental of Land & Buildings" in the Adjustments section of the Income Statement Summary found in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
Rental of Land and Buildings	Add Back	\$2,792,502

Next, to compensate the Respondents for their rental entitlement under the 1966 leases, it is necessary to calculate those rental expenses and deduct them from net income as reported. The following sections detail the lease agreements used and the methodology by which I calculated the rental amounts associated with those agreements.

**(i) The 1966 Building Lease**

JMH possesses a leasehold interest in the hospital building pursuant to a 1966 lease agreement with the Joint Venture (operating as JMHA) (see Exhibit 292). The lease agreement commenced on January 1, 1966 for an original lease term of 40 years with an option to renew for up to an additional 59 years. Laszlo N. Tauber signed for the Joint Venture as Lessor and JMH as Lessee. The annual rent was \$80,940 subject to increase on



each tenth anniversary of the lease commencement date. As noted in section 2 (b) of the lease, "the formula for increases and subsequent decreases, if any, of the Annual Rental, shall be based on the fluctuations in the Wholesale Price Index, All Commodities (1957-59 Cost Equals 100) of the United States Department of Labor's Bureau of Labor Statistics, hereinafter called the Cost of Living Index (CLI)." The Annual Rental was to be recomputed by the following calculation [Initial Annual Rental \* (CLI of the month in which the 10<sup>th</sup> Anniversary of the Lease Commencement Date occurs/ CLI of the month in which the Lease Commencement Date occurs)], but in no case should the Annual Rental be less than \$80,940. It should be noted that in 1978, subsequent to the issuance of this lease, the Bureau of Labor Statistics (BLS) renamed the Wholesale Price Index, the Producer Price Index (PPI) (see Attachment #2). According to the BLS, "Official PPI data for current time periods are not available on previous reference bases after a base change has been implemented by BLS. Relative movements of any series over time are not affected by a base revision." (see Attachment #3 for further details). As a result, the PPI for all Commodities for the current base date has been used for purposes of calculating the rent escalators (see Attachment #4 for BLS PPI). The detailed calculations of the changes in annual rent due to the escalator provision are included on Attachment #5. These recalculated rent amounts have been used to reconstruct the expense for which JMH is obligated to pay the Joint Venture, and are referenced as "Deduct – Effective 1966 Building Lease Payment" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
1966 Building Lease	Deduct	\$4,537,227

**(ii) The 1966 Land Leases**

Note 4 to the financial statements for the year ended October 31, 1967 (the first year for which notes to the financial statements are provided), contains a disclosure stating that, "two lease agreements have been made on the portion of land occupied by the Hospital" (see Exhibit 191). These agreements are described below.

**(a) 1966 Land Lease #1**

A lease agreement was executed between Leslie Gondor, Samuel Burtoff, and The Tauber Foundation (as LANDLORD) and JMH (as TENANT) on January 1, 1966 for a period of 99 years (see Exhibit 289). "The

Leased Premises consist of eighty percent (80%) undivided interest in certain property hereinafter described, which interest is owned by the parties who are the LANDLORD as tenants in common and in the following proportions Leslie Gondor (50%), Samuel Burtoff (5%), and The Tauber Foundation (25%). The remaining twenty percent (20%) undivided interest in said property is owned by the Tenant." The Annual Basic Rental was \$15,600 subject to increase on each tenth anniversary of the Lease Commencement Date. The provision for increases and decreases in the Basic Annual Rental amounts mirror that of the 1966 Building Lease described above. The lease agreement was signed by Leslie Gondor, Samuel Burtoff and Laszlo N. Tauber (on behalf of the Tauber Foundation) as Landlords and Laszlo N. Tauber (on behalf of JMH) as Tenant.

Note 4 to the financial statements for JMH for the year ended October 31, 1967 discloses this agreement consistently with the terms described above (see Exhibit 191).

The calculation of the annual rent with escalators consistent with these terms is provided in Attachment #6.

**(b) 1966 Land Lease #2**

A lease assignment document dated January 1, 1966 was executed between Leslie Gondor, Samuel Burtoff and The Tauber Foundation (as Assignors) and JMH (as Assignee) (see Exhibit 290). This agreement assigns all of the Assignors' right, title and interest in an undivided 80% interest in the 99 year lease of land located at 4600 King Street that commenced on or about September or October, 1962. Per discussion with Counsel, I have assumed that the lease assignment was properly executed and this accounting assumes the validity of this lease assignment.

Note 4 to the financial statements for JMH for the year ended October 31, 1967 discloses the terms of this lease agreement as beginning on January 1, 1966 for a period of 99 years with fixed annual rental of \$2,406.80 (see Exhibit 191). This fixed annual rental amount has been used in this accounting for purposes of reconstructing the expense for Rental of Land and Buildings.

The amounts associated with these land leases have been used to calculate the rental amounts for which JMH is obligated to pay the Joint Venture, and are referenced as "Deduct - Effective 1966 Land Lease #1" and

"Deduct – Effective Land Lease #2" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
1966 Land Lease #1	Deduct	\$874,484
1966 Land Lease #2	Deduct	\$71,378

**(iii) The Unwritten 1968 Building Addition Lease**

Included in the financial statements for JMH for the years ended October 31, 1969, October 31, 1970, and the period ended June 30, 1971 in Notes 6, 5 and 6, respectively, a reference is made to a lease arrangement for the 24-bed addition completed in 1968 (see Exhibits 193, 194 and 195). The Note in these years reads, "The Hospital leases the 24-bed addition completed in 1968. No final leasing agreement has been entered into at this time. However, the Hospital, based on the best information available, is accruing \$11,232 per annum to cover the amount when finally determined." In the first year that the Note appears in the financial statements (October 31, 1969), a specific reference is found on the Balance Sheet next to the caption, "Accrued Expenses – Rent." The balance in Accrued Expenses – Rent was as follows: October 31, 1969 - \$15,332, October 31, 1970 - \$26,564, June 30, 1971 - \$41,852, which is reasonably consistent with the terms as described in the Note. In subsequent financial statements, however, no reference is made to the Note and the detail of the Accrued Expenses caption is collapsed, making the ultimate resolution of this account unclear. Although an actual lease agreement was not produced, this accounting assumes that the lease for the 24-bed addition remained in effect at the annual rental amounts listed in the financial statements and that it had the same terms and escalators as the 1966 building lease described above. The calculation of rent escalators for this unwritten lease, based on the same terms as the 1966 Building Lease, can be found in Attachment #7.

The amounts associated with this lease have been used to reconstruct the rental amounts for which JMH is obligated to pay the Joint Venture, and are referenced as "Deduct – Unwritten 1968 Addition Lease – 24 beds" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
Unwritten 1968 Addition	Deduct	\$588,800

#### **(iv) Mortgage Interest and Depreciation during 1972-1975**

On or about June 30, 1971, JMH (operating as JMHC) became an owner/operator by virtue of a reported merger that the Court determined did not occur. As a result, during the period from July 1, 1971 through June 30, 1975, the income statements for JMH (operating as JMHC) report expenses related to ownership of the hospital and only a portion of the rent expense arising out of the 1966 and 1968 lease arrangements. For this reason, in addition to adjusting the income statement to account for the expense reported for Rental of Land and Buildings, an adjustment also must be made in order to add back to net income the amounts associated with the mortgage interest and depreciation on the hospital building. The Notes to the financial statements for JMH for the periods from 1972 through 1975 (see Exhibits 200, 201, 202 and 203) do not specifically disclose the expense amounts associated with mortgage interest or depreciation on the building, nor were amortization or depreciation schedules located among the documents produced by the Respondents. For these reasons, I have reconstructed the amortization schedule for the mortgages and have determined the rate of depreciation during this period. The procedures by which this was accomplished are detailed below.

##### **Mortgage Interest**

Several documents were used to reconstruct the amortization schedule for both of the mortgages on the hospital building. The first mortgage on the building was issued at an initial loan amount of \$800,000 at a rate of 6% for a term of 20 years with a monthly payment of \$5,900 (see Exhibit 350(a)). The second mortgage on the building was issued at an initial loan amount of \$100,000 at a rate of 6% for a term of 20 years with a monthly payment of approximately \$845 (see Exhibit 290). Using those terms, an amortization schedule was prepared for each loan to determine the interest and principal portions of the mortgage. These reconstructed amortization schedules corresponded at twelve points in time (over a 12 year period) with documents produced by the Respondents. The largest difference in the mortgage balance amount between the reconstructed amortization schedule and the documents produced was approximately \$200, which is an immaterial difference. The reconstructed amortization schedules are provided in Attachments #8 and #9 and contain the sources used to match the mortgage balance amounts.

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A summary of the interest associated with these mortgages from July 1, 1971, through June 30, 1975, as reconstructed through the amortization schedules referenced above can be found in Attachment #10. The total of the mortgage interest amounts are referenced as "Add Back – Mortgage Interest" in the Adjustments section of the Income Statement Summary in Attachment #1.

#### **Depreciation on the Hospital Building**

The Balance Sheet for JMH (operating as JMHC) as of June 30, 1972 details the cost of the hospital building as well as the accumulated depreciation (see Exhibit 200). Because JMH was reported to have acquired the hospital building on July 1, 1971, this was the first year in which JMH would have taken depreciation and, therefore, the accumulated depreciation reported on the Balance Sheet equaled the depreciation expense for the year. For the years ended June 30, 1972 and 1973, the change in accumulated depreciation on the hospital building, as disclosed on the Balance Sheets, was used as the depreciation expense. The Balance Sheets as of June 30, 1974 and 1975 (see Exhibits 202 and 203) did not disclose the same level of detail for Property, Plant and Equipment as in previous years so an amount equivalent to the change in depreciation for the years ended June 30, 1972 and 1973 was used. See Attachment #11 for the detailed calculation of depreciation expense.

These depreciation amounts are referenced as "Add Back – Depreciation on the Building" in the Adjustments section of the Income Statement Summary in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Mortgage Interest</b>	<b>Add Back</b>	<b>\$144,795</b>
<b>Depreciation on Building</b>	<b>Add Back</b>	<b>\$128,859</b>

#### **(v) 1977 Addition Lease – 3rd Floor of the Medical Office Building**

A lease agreement was executed on July 31, 1977 by Laszlo N. Tauber, Trustee as Lessor and by Leslie L. Peters on behalf of JMH (operating as JMHC) as Lessee for premises described as "that part of the new building located on 4600 King Street..." (see Exhibit 313). Schedule A of that agreement is purported to describe more specifically the property being leased; however, the Schedule was not produced. According to the agreement, the original lease term was for twenty years commencing on the date the leased premises became ready for the Lessee to install equipment. Included in the lease is an option to renew for an additional period of twenty years.

Part (a) of the second section of the agreement calls for an annual rental of \$11,760 in monthly installments. There is no provision in the agreement for an increase or decrease in the annual rental amount.

Note 12 to the financial statements for JMH (operating as JMHC) for the year ended June 30, 1979 discloses the following: "The Corporation has signed on July 31, 1977 an additional lease with the above joint venture to rent the third floor of the newly constructed medical building for the extension of the hospital." (see Exhibit 1001). The details disclosed in the Note regarding the lease term, option to extend and lease amount are consistent with the lease agreement described above. According to the Note, the effective lease date is March 1, 1979. This accounting relies on the Note for the effective date of the agreement, as well as the premises to which the lease applies.

The rental amounts associated with this lease have been used to reconstruct the amounts for which JMH is obligated to pay the Joint Venture, and are referenced as "Deduct - 1977 Lease for 3<sup>rd</sup> Floor MOB" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
3 <sup>rd</sup> Floor MOB	Deduct	\$180,320

**(vi) 1979 Physical Therapy and Storage Space Lease**

A lease agreement dated June 1, 1979, was executed between Laszlo N. Tauber, MD, as Landlord, and JMH (operating as JMHC) as Tenant, for "that portion of the 2<sup>nd</sup> Floor designated as Suite 2G, containing 1,146 net square feet of floor space and 1,466 gross square feet located in the building located at 4600 King Street..." (see Exhibit 321). The term of the agreement was ten years commencing June 1, 1979 for an annual rental amount of \$10,314. I have not seen, in any documents produced, a provision for any increases or decreases in the annual rental amount for this lease. The agreement was signed by Laszlo N. Tauber, MD, as Landlord on September 24, 1979 and Leslie L. Peters, MD, on behalf of JMH as Tenant on October 3, 1979.

Note 11 to the financial statements for JMH (operating as JMHC) for the years ended June 30, 1980 and 1981, discloses the following: "The Corporation is renting storage and physical therapy space from the venture with a basic annual rental of \$10,314." (see Exhibit 1002).

The amounts associated with this lease have been used to reconstruct the rental amounts for which JMH is obligated to pay the Joint Venture, and are referenced as "Deduct – 1979 Lease of PT and Storage Space" in the Adjustments section of the Income Statement Summary in Attachment #1. This lease was in effect during the time in which JMH, with the consent of Laszlo N. Tauber, leased its operations to unrelated third parties. The physical therapy space was included in the premises for which rent was paid by such parties, and the lessee was permitted to continue utilizing the space in exchange for rental payments. This accounting, therefore, assumes that this lease continued in effect until the final transfer, in 1994, of JMH's right to operate as a hospital.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Physical Therapy and Storage Space</b>	<b>Deduct</b>	<b>\$154,710</b>

**b) Revenue from Transfer of Ongoing Operations**

On April 1, 1982, the operations of JMH were acquired by the Health Group of Virginia, Inc. (HGV). From that point forward, JMH remained obligated to pay the rental payments due to the Joint Venture under the original agreements. Beginning with the financial statements of JMH (operating as JCA) for the year ended June 30, 1983, the main source of revenue is payments from HGV and, subsequently, from INOVA. The HGV and the INOVA agreements, and the revenue generated under each, are detailed below. This accounting adjusts JMH's reported net income to include the revenue from these transactions.

First, reported net income must be adjusted to deduct the "rental revenue" reported to have been received by JMH. This deduction is reflected in the line item "Deduct – Rent Revenue as Booked" in the Adjustments section of the Income Statement Summary found in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Rental Revenue as Booked</b>	<b>Deduct</b>	<b>\$366,253</b>

**(i) 1982 HGV Agreement and Acquisition of Operations and Operational Assets**

The use of the term "Lease Agreement" to describe this transaction may understate the underlying business transaction that occurred through this arrangement. In essence, the HGV acquired JMH as a going concern, together with its operational rights (including the benefit of its license). As noted earlier in this report,

the means for income generation is in the license to operate JMH. At the time of the acquisition, JMH was enjoying its strongest volume of business. For the year ended June 30, 1981, JMH had reached its highest bed occupancy rate since inception at 90%, outpatient visits reached their highest volume since inception at 19,184 visits, net revenue per admission was at its highest point since inception at \$5,312 per admission, and overall net revenue was at its peak since inception at approximately \$11,750,000 (see Attachments #12, #13, #14 and #15). The right to control these strong hospital operations is what HGV purchased through this agreement. For purposes of this accounting, I have looked at this transaction from two perspectives. The first is the impact of this agreement on the original building and land leases. The second is HGV's acquisition of the operations of JMH (see Exhibit 326 for agreement).

#### **Impact on the Original Building and Land Leases**

From the perspective of the hospital building and land leases with the Joint Venture, this Lease agreement created a sub-lease between JMH (operating as JMHC) and HGV. By virtue of its "lease agreement" HGV agreed to acquire a majority of JMH's net assets, and to assume control over the operations of JMH.

This accounting continues to treat JMH as a lessee of the hospital building and land. As a result, to preserve the Joint Venture's rental income, the HGV agreement is treated as a sub-lease between JMH and HGV for the hospital building and land portion of the agreement. This sub-lease arrangement is described in Note 5 to the financial statements of JMH (operating as JCA) for the year ended June 30, 1982. After a description of the lease with HGV, the Note continues, "the corporation is leasing the above property from Jefferson Memorial Hospital Joint Venture, concurrently with lease of the Hospital to HGV" (see Exhibit 1031).

The 1966 Building lease states, "The Lessee may not sublet the Leased Premises, or any portion thereof, without written consent of the Lessor." Laszlo N. Tauber signed the 1966 Building lease on behalf of the Joint Venture (operating as JMHA) as Lessor and JMH as Lessee as well as signing the 1982 HGV Lease on behalf of JMH (operating as JMHC). Execution of the HGV agreement was consistent with the trustees' obligation to maximize revenue flowing to the trust for the use of its assets. It is reasonable to assume that by signing the agreement, Laszlo N. Tauber demonstrated acknowledgment and acceptance of the terms of the agreements.



## HGV's Purchase of JMH Net Assets

Note 4 to the financial statements for JMH (operating as JCA) for the year ended June 30, 1984 discloses in connection with the HGV transaction that "the Corporation [referring to JMH] relinquished operation of the Hospital to the Lessee." (see Exhibit 1034). In connection with the acquisition of JMH's operational rights, HGV also purchased a majority of the existing net assets of JMH, as detailed below.

In section 10 of the HGV agreement, "Items to be Purchased," HGV agrees to purchase a majority of the items recorded on the Balance Sheet from JMH (operating as JMHC). As noted in section 10 (a), "As of the Effective Date, [HGV] shall purchase from [JMH] and [JMH] shall sell to [HGV] total of all patient accounts receivables, each of the movable equipment items listed on Exhibit B, all inventory, and all prepaid expenses existing as of Effective Date and as reflected on the Lessor's Balance Sheet as of March 31, 1982 and Exhibit B." Pursuant to that section of the agreement, the calculation of the purchase price was documented in a letter from Malcolm M. Mitchell, Jr. of the Law Offices of Ross, Marsh, & Foster, to Paul L. Sloan of Harwell, Bar. Martin and Sloan, dated February 18, 1982 showing the following amounts (see Exhibit 803):

1. Eighty percent (80%) of patient accounts receivable	\$2,162,298.08
2. Plus one hundred percent (100%) of the book value of the equipment purchased	257,029.21
3. Plus one hundred percent (100%) of the cost of inventory of usable expendable supplies on hand for hospital operations and purchased by Lessee	86,846.97
4. Plus one hundred percent (100%) of prepaid expenses	127,327.54
5. Less one hundred percent (100%) of trade accounts payable	(885,023.46)
6. Less one hundred percent (100%) of all accrued expenses assumed by Lessee	(75,850.89)
7. Plus fifteen percent (15%) of the sum of items 1, 2, 3, 4, 5, and 6 above	250,894.11
<b>Purchase Price</b>	<b><u>\$1,923,521.56</u></b>

"The values set forth above were taken from [JMH's] Balance Sheet as of January 31, 1982...." This letter is the only document that was found specifically detailing the assets purchased as part of this agreement. The HGV agreement states, and the letter from Malcolm M. Mitchell corroborates, that "as of March 31, 1982 the sum of items 1 through 7 hereof will be recalculated and the purchase price paid on March 1, 1982 will be adjusted with the difference to be due and payable on May 1, 1982." No additional documentation was found related to this transaction. A review of the financial statements, however, shows a change in the composition of

the Balance Sheet. A segment of the Balance Sheets as reported for the years ended June 30, 1981 and 1982 are shown below along with the percentage change from 1981 to 1982 (see Exhibits 1002 & 1031).

	1981	1982	Increase (Decrease)	% Increase/ (Decrease)
Cash in Banks	\$ 148,920	\$ 840,426	\$ 691,506	464%
Accounts Receivable – Patients, net	\$1,771,175	\$ 135,000	(\$ 1,636,175)	(92%)
Contract Agencies	\$ 110,664	\$ - 0 -	(\$ 110,664)	(100%)
Other Receivables	\$ 95,271	\$ 250,046	\$ 154,775	162%
Property, Plant and Equipment, net	\$ 562,755	\$ 536,943	(\$ 25,812)	(5%)
Inventory – at cost	\$ 94,039	\$ - 0 -	(\$ 94,039)	(100%)
Prepaid Expenses	\$ 90,721	\$ - 0 -	(\$ 90,721)	(100%)
Accounts Payable – Trade	\$1,020,233	\$ 305,781	(\$ 714,452)	(70%)

The activity on the financial statements (as excerpted above) corroborates that the acquisition, as outlined in the HGV agreement, took place prior to compilation of the financial statements on June 30, 1982.

Generally Accepted Accounting Principles give guidance as to the items requiring disclosure in the financial statements. According to the Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 2, materiality is defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.” Under this guidance, the purchase of assets should have been disclosed in the financial statements.

The execution of this transaction is significant as it results in a gain to JMH for the amounts paid by HGV over and above the book value of assets, included in section 10 (a) item (7). This amount, as per the Malcolm M. Mitchell letter, was \$250,894.11 and represented a gain to JMH as a result of the HGV agreement. This gain was neither disclosed in the financial statements or the tax return nor accounted for by the Respondent trustees. The estimated gain of \$250,894.11 has not been reflected in the adjustments to net income as reported in this accounting.

#### **HGV Terms**

As stated earlier, it is important to recognize that HGV acquired the business of JMH through this “lease arrangement.” While the assets of JMH were transferred through a one-time transaction, the “lease payments”

represent payment for the relinquishment of JMH's operations as well as for the right to utilize the real estate and equipment employed in those operations. HGV was not leasing the space to start a new hospital, it was purchasing JMH's existing business as a going concern, which was at its highest volume at the time. The lease terminology included in the agreement understates the significance and effect of what was to be conveyed.

The HGV agreement included the "real estate and equipment, furniture and fixtures and non-clinical replacements leased hereunder ...and shall include the land, main hospital building, and the space leased in the medical office building which is currently being utilized in the operations of Jefferson Memorial Hospital..."

The Agreement became effective April 1, 1982 with an original term of ten years and one month; however, a subsequent lease with Fairfax Hospital Association (INOVA) terminated this lease on July 3, 1985, thereby limiting the duration of this agreement to three years and three months beginning on April 1, 1982.

The annual payment due for each of the first five years of the agreement was \$760,000. HGV (as Lessee) was also responsible to pay "as additional rent the costs, expenses, and obligations of the Premises beginning as of the Effective date including:

- ☐ All repairs external or internal, structural or non-structural, ordinary or non-ordinary
- ☐ All costs of replacement and/or leasing of all fixtures and equipment, machinery and items of personalty...
- ☐ All utilities...
- ☐ Physician's service contracts
- ☐ All taxes
- ☐ All insurance
- ☐ All license fees
- ☐ All maintenance costs
- ☐ All equipment leases and other contracts identified
- ☐ A monthly payment equal to [JMH's] lease payments (not to exceed \$20,000 per month) under the real property leases for portions of the premises, ... [HGV's] annual base rent under this subparagraph will not exceed \$240,000. [JMH] will remain responsible for the balance of the rent and its other obligations for those real property leases. In addition to its base rent [HGV] shall be responsible for the other costs, expenses and obligations of those leased premises to the extent otherwise required by the above."

As a result of this arrangement, HGV is responsible for virtually all of the expenses of the building, including the mortgage on the real estate (including portions retained by the Respondents for their exclusive benefit) which the Joint Venture previously had added to JMH's lease obligations by virtue of a December 31, 1978 amendment to the 1975 lease. Under the HGV agreement, JMH (operating as JCA) would

have been a "pass-through" entity receiving a payment for rent from HGV as sub-lessee and paying rent to the Joint Venture (operating as JMHJV) as lessor.

In section 5(j) of the agreement, it is noted that, in addition to the base rent, HGV was responsible for "a monthly payment equal to [JMH's] lease payments (not to exceed \$20,000 per month) under the real property leases for portions of the premises."

Note 5 to the financial statements for JMH (operating as JCA) for the year ended June 30, 1982 discloses the annual rental amount under this agreement as \$1,000,000. This amount is consistent with the maximum payment outlined in the agreement of \$760,000 basic rental, plus \$240,000 real property, for a total of \$1,000,000 annually. This amount has been used to reconstruct the revenue included in the income statements and is referenced as "Add back – Revenue from HGV/INOVA per agreement" for the years ended June 30, 1983, 1984 and 1985, in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
HGV Revenue	Add Back	\$3,114,583

**(ii) 1985 Fairfax Hospital Association (INOVA) Buy-out of HGV.**

Fairfax Hospital Association (subsequently INOVA) acquired HGV through a stock purchase on July 31, 1985. The strength of the Hospital operations resulted in the payment of a purchase price of \$5.8 million. In preparation for the buy-out, INOVA entered into an arrangement to take over the existing operations of JMH for which HGV was responsible (see Exhibit 338). As with the HGV agreement, the INOVA agreement embodied the language of a lease but encompassed the total operational rights of JMH. It is important to consider those facts as the terms of the agreement, as executed, are described below.

On July 3, 1985, JMH (operating as JCA) entered into a lease agreement with INOVA for the "real estate, related equipment, furniture and fixtures and non-clinical replacements. The real estate and equipment, furniture and fixtures and non-clinical replacements leased hereunder ...shall include the land, main hospital building, the entire 4<sup>th</sup> floor of the main hospital building, also known as the nursing wing addition, and the space leased in the medical office building ...currently utilized in the operation of Jefferson Memorial Hospital. Lessee acknowledges that the fourth floor of the main hospital building is a shell and accepts said fourth floor in

its present "as is" condition...." Leslie L. Peters signed the agreement on behalf of JMH (operating as JCA). The term of the agreement was for twenty years and three months, commencing on July 3, 1985. The Effective Date as to the Fourth Floor was July 1, 1985 and the Effective Date as to the remainder of the premises was to be the date of termination of the prior lease with HGV, or the date of closing of the Stock Purchase Agreement whereby FHA purchased all of the capital stock of HGV, whichever occurred first. FHA closed on the Stock Purchase Agreement with HGV on July 31, 1985 (see Exhibit 1079), which became the Effective Date of the lease. The rent for the fourth floor was \$31,250 per month from October 1, 1985 through June 30, 2002 (\$375,000 annually). Based on the July 31, 1985 Effective Date, the rent for the remainder of the premises was \$83,333.33 per month (\$1,000,000 annually) through June 30, 1987 and \$104,166.67 per month (\$1,250,000 annually) through June 30, 1992 at which time the rent increased to \$145,833.33 per month (\$1,750,000 annually) through June 30, 2002.

In addition to the annual rental amounts described above, the lessee was responsible for the "costs, expenses, and obligations of the Premises beginning the Effective Date including:

- ☐ All repairs: external or internal, structural or non-structural, ordinary or extraordinary;
- ☐ All costs of replacement and/or leasing of all fixtures and equipment, machinery and items of personalty...
- ☐ All utilities...
- ☐ All Physician's service contracts
- ☐ All taxes
- ☐ All insurance
- ☐ All license fees
- ☐ All maintenance costs
- ☐ All equipment leases and other contracts identified..."

The revenue associated with this agreement has been used to reconstruct the revenue included in the income statements and is referenced as "Add back – Revenue from HGV/INOVA per Agreement" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
INOVA Lease Revenue	Add Back	\$15,145,833

### **(iii) 1985 Lease Assignment**

On July 3, 1985, the Respondents caused JMH (operating as JCA) to assign to the Joint Venture "all of its right, title and interest in and to that certain hospital lease agreement dated July 3, 1985...between Jefferson Corporation of Alexandria as Lessor and Fairfax Hospital Association as Lessee" (see Exhibit 337).

Additionally the Assignment document states, "as further consideration for the Assignment, Laszlo N. Tauber, Trustee for Jefferson Memorial Hospital Joint Ventures does by this document cancel the Lease dated July 1, 1975 as amended on March 3, 1980 and February 10, 1982 by and between Laszlo N. Tauber, M.D. Trustee for the Jefferson Memorial Joint Venture as Lessor and Jefferson Memorial Hospital Corporation as Lessee and does hereby release Jefferson Corporation of Alexandria of and from any further liability under that Lease as amended."

"As further consideration for the assignment, Laszlo N. Tauber, Trustee for Jefferson Memorial Hospital Joint Venture does by this document cancel the Lease dated July 31, 1977 between Laszlo N. Tauber as Trustee for the Jefferson Memorial Hospital Joint Venture as Lessor and Jefferson Memorial Hospital Corporation as Lessee and releases Jefferson Corporation of Alexandria of and from any further liability under that lease."

The lease assignment was signed by Leslie L. Peters, MD, President on behalf of JMH (operating as JCA) and by Laszlo N. Tauber, MD, Trustee on behalf of the Joint Venture (operating as JMHJV). The effect of this assignment was to transfer to the Joint Venture all benefits arising from the operational rights and going concern value of JMH. As a result, JMH's revenue from hospital operations terminated, and the trustees left it to carry on its books activities and receivables unrelated to hospital business, including a receivable owed by the trustees. Further, the trustees ceased filing tax returns on JMH's behalf but failed to ever file a final return.

### **(iv) 1994 INOVA Settlement**

On July 11, 1994, a Settlement Agreement was executed between INOVA and the Joint Venture (operating as JMHJV) to resolve the action pending in the Circuit Court for the City of Alexandria, Virginia styled INOVA Health System Hospitals, et. al., Petitioners v. Jefferson Memorial Hospital Joint Venture et. al., Defendants (see Exhibit 514). Section 9 of that agreement notes that "the lease executed between the parties for the Jefferson Hospital dated July 3, 1985 shall be terminated and the parties shall confirm the same in a lease

termination agreement....” The terms of the Settlement agreement required INOVA to make the following schedule of payments:

Period	Monthly Payment	12 Months	Lump Sum
8/1/1994 – 6/1/2002	\$177,083.33	\$2,125,000	N/A
7/1/2002 – 9/1/2005	\$213,541.67	\$2,562,500	N/A
10/1/2005	N/A	N/A	\$10,000,000

The substance of the Settlement Agreement provided that INOVA would purchase the operational rights of JMH and that possession of the land and building would revert to the Joint Venture. Section 14 of the agreement states that “INOVA agrees to pay upon demand and remain liable for the expenses of Jefferson Hospital including taxes, insurance and utility expenses through and until December 31, 1994.” Laszlo N. Tauber signed this agreement as Trustee on behalf of JMHJV.

Through this Settlement Agreement, INOVA bought the right to discontinue JMH’s operations that they previously acquired and contracted to continue. INOVA did not purchase the hospital building or land through this Settlement Agreement, but rather it purchased the closure of JMH’s operations, thereby severing the hospital building from the right to conduct hospital operations. Further, this transaction comports with the cessation of operation that the Court’s opinion indicates the trustees should have carried out in 1973 upon termination of JMHI’s corporate charter. For these reasons and in accordance with the Court’s opinion, the payments made in connection with this agreement are accounted for as an asset belonging to JMH.

Cumulative Adjustment to Net Income as Reported:		
INOVA Settlement	Add Back	\$34,937,500

### **c) Building Expenses**

Each of the lease agreements described above placed the responsibility for virtually all expenses of the property leased on the tenant. These arrangements, typically referred to as triple-net leases, essentially leave the Lessor responsible for only the cost of the building/property as originally constructed. For this reason, all costs of the buildings and land have been accounted for through the Income Statements for JMH. For the period subsequent to HGV’s acquisition of JMH operations in 1982, HGV/INOVA was responsible for all of the

expenses in connection with the building/property. As a result, no adjustments need to be made to the net income as reported for JMH to account for these expenses.

### **3) Adjustments to Income Statements to Eliminate Certain Expenses**

#### **a) Goodwill**

On January 1, 1966, a journal entry was booked in connection with the change in name of the Joint Venture from KSJV to JMHA. As part of that entry, goodwill of \$386,804 was recorded. The explanation for that entry was, "To set-up balances on assets and liabilities transferred from King Street Joint Venture at a \$400,000 capital investment" (see Exhibits 367 & 221).

Goodwill is a complex accounting topic; however, significant guidance can be found in Generally Accepted Accounting Principles (GAAP) as follows:

"Goodwill is comprised of many advantageous factors and conditions that might contribute to the value of the earning power of an enterprise... Goodwill is recorded only when an entire business is purchased because goodwill is a "going-concern" valuation and cannot be separated from the business as a whole... To record goodwill, the fair market value of the net tangible and identified intangible assets are compared with the purchase price of the acquired business. The difference is considered goodwill..."

The documents produced do not indicate that the Respondents adhered to this principle. Not only was this a related party transaction, but there does not appear to be any item booked as part of this entry, or documented elsewhere, that would justify recording goodwill. The explanation "to book up to a \$400,000 investment" is inconsistent with GAAP.

Even though this entry was recorded on the Joint Ventures financial statements, it is eventually "purchased" in the purported conversion of JMH on July 1, 1971. JMH amortizes goodwill at approximately \$11,380 per year. Given that this goodwill is unsupported and does not conform with GAAP, the amounts charged for amortization expense of goodwill have been added back to net income as reported. These amounts are referenced as "Add back – Amortization of Goodwill" in the Adjustments section of the Income Statement Summary found in Attachment #1.

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<sup>2</sup>Intermediate Accounting, 8<sup>th</sup> ed. Kieso and Weygandt, (John Wiley and Sons, Inc., 1995), p.579.



Cumulative Adjustment to Net Income as Reported:		
Goodwill	Add Back	\$159,387

**b) Loss on Disposal of Land and Building**

As I have been informed by counsel, the Court has ruled that the revocation of JMHI's corporate charter terminated its corporate existence and suspended its ability to function as a corporation, thereby rendering invalid the purported 1975 conveyances of the land and building from JMHI to the Joint Venture as well as the lease transactions flowing therefrom. Note 3 to the financial statements for JMHI (operating as JMHC) for the year ended June 30, 1976 describes the details of the purported transaction, but does not disclose or make reference to the loss incurred as a result. Schedule B-3 of the audited financial statements, which details the composition of Other Income and Expense, reveals an expense line of \$51,840 with the description, "Loss on Disposal of Land and Building" (see Exhibit 204). Consistent with the approach adopted in this accounting (that the hospital building was purportedly owned by the Joint Venture), this amount has been added back to net income as reported and is referenced as "Add Back – Loss on disposal of land and building" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
Loss on Disposal of Land and Building	Add Back	\$51,840

**c) Loss on Lost Creek Partnership**

Note 4 to the financial statements for JMHI (operating as JMHC) for the year ended June 30, 1978 discloses that "during fiscal year 1978, the corporation acquired 11.2% of a partnership known as 'Lost Creek Partnership'. The operations of the partnership are Production of Thermoplastic Children's Playthings, and Sublease Coal property – extract and sell coal." (see Exhibit 206). Losses of \$170,623, \$50,718 and \$26,355 were recorded for the years ended June 30, 1978, 1979 and 1980, respectively (see Exhibits 206, 1001 & 1002). On November 14, 1980, the District Director for the Internal Revenue Service issued an adjustment to JMHI disallowing the loss from this partnership investment. The explanation in that memo stated, "adjustment made to disallow your share of loss from Lost Creek Partners Partnership per examination of the partnership. It was

determined that the deductions...did not qualify as ordinary and necessary business expenses as required by and described in section 162 of the 1954 Internal Revenue Code.”(see Exhibits 802, 802(a) & 802(b)). For this reason, these losses have been added back to the net income as reported and are referenced as “Add back – Loss on Lost Creek Partnership” in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
Loss on Lost Creek Partnership	Add Back	\$247,696

**d) Lakeside Condominiums**

The depreciation schedule included in the United States Tax Return for the year ended June 30, 1984 for JMH (operating as JCA) discloses that ten Lakeside Condominiums were purchased between October 1, 1983 and March 12, 1984 (see Exhibit 1034). Counsel has informed me that these condominiums were purchased from an entity related to Laszlo N. Tauber and were outside the business interests of JMH. For this reason, the depreciation and condo fees associated with the Lakeside Plaza Condominiums have been added back to net income as reported as described below.

The depreciation schedule is available for the year ended June 30, 1984 (see Exhibit 1034), but is not available for the years ended June 30, 1985, or 1987, for which no tax returns or financial statements for JMH (operating as JCA) have been produced. The depreciation schedule for the year ended June 30, 1984 does provide enough detail to reconstruct the amount of depreciation taken on the Lakeside Plaza Condominiums in subsequent periods. Excerpts of that depreciation schedule along with the calculation of depreciation in subsequent years can be found in Attachment #16. While documentation was not found to determine the point at which JMH sold the Lakeside Plaza Condominiums, the Balance Sheet included in the United States Tax Return includes the beginning and ending balances of buildings and other depreciable assets. Looking at the beginning and ending balance in buildings and other depreciable assets in the tax returns for the years ended June 30, 1985 and 1987, the condominiums appear to be recorded as assets for the full year ended June 30, 1985, but do not appear at all on the Balance Sheet for the year ended June 30, 1987 (see Exhibits 1039 & 1040). For this reason, depreciation expense as provided and recalculated for the Lakeside Plaza Condominiums for the years ended June 30, 1984 and 1985 has been added back to net income as reported (see

Attachment #16). These amounts are referenced as "Add Back – Depreciation on Lakeside Condos" in the Adjustments section of the Income Statement Summary in Attachment #1.

In addition to the depreciation, an expense described as "Condominium Fees" was reported on the Statement of Operations for the years ended June 30, 1984 and 1985. It is reasonable to assume that these expenses relate to the Lakeside Plaza Condominiums and have therefore been added back to net income as reported. These amounts are referenced as "Add Back – Condo Fees (Lakeside Plaza)" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
Lakeside Plaza Condo Fees	Add Back	\$29,593
Lakeside Plaza Condo Depreciation	Add Back	\$88,293

#### 4) Summary of Adjustments to Net Income As Reported

The following schedule has been provided to summarize all of the adjustments made as part of this accounting:

<b>Net Income as reported</b>	<b>\$ 1,505,401</b>
<b>Add Back to Net Income</b>	
Rental of Land & Buildings	2,792,502
Mortgage Interest	144,795
Depreciation	128,859
Revenue from HGV	3,114,583
Revenue from INOVA Lease	15,145,833
Revenue from INOVA Settlement	34,937,500
Goodwill	159,387
Loss on Sale of Land & Building	51,840
Loss on Lost Creek Partnership	247,696
Lakeside Plaza Condo Fees	29,593
Lakeside Plaza Depreciation	88,293
<b>Total Additions to Net Income as Reported</b>	<b>\$ 56,840,882</b>
<b>Deduct from Net Income</b>	
Rent Revenue as booked	366,253
1966 Building Lease	4,537,227
1966 Land Lease #1	874,484
1966 Land Lease #2	71,378
Unwritten 1968 Addition	588,800
3rd Floor MOB	180,320
PT Lease	154,710
<b>Total Deductions from Net Income as Reported</b>	<b>\$ 6,773,172</b>
<b>Adjusted Net Income</b>	<b>\$ 51,573,111</b>

## **5) Capital Contributions and Withdrawals**

To the extent that Tauber and the other Respondents contributed assets to JMH, the benefit derived from those assets should be considered in this accounting. It is necessary to start the review of contributed capital at the beginning of the initial Joint Venture to account for all assets contributed over time. This requires a review of all transactions affecting the capital accounts of the Joint Venture as well as JMH. An attempt has been made to identify and support each contribution made by the partners for which benefit was derived by JMH. In addition, to the extent that Tauber and the other Respondents withdrew capital from JMH, those reductions must also be considered.

### **a) Joint Venture prior to July 1, 1971**

1963 – During the period from the date of incorporation of the Joint Venture in March, 1963 until December 31, 1963, the capital account for the Joint Venture increased from \$0 to \$218,810 as noted by the United States Tax Return for that period (see Exhibit 214). Schedule M of that Return, which is the section that reconciles the activity in the partner's capital accounts for the year, was not completed. The only information provided in the reconciliation section is the ending balance of \$218,810. For this reason, an attempt has been made to reconstruct the activity during this period as noted below.

In a review of the Minutes of the First Meeting of the Board of Directors on March 6, 1963, it is noted that Laszlo Tauber was the only subscriber for capital stock of the corporation in the amount of 20 shares for which he agreed to pay \$5.00 per share (see Exhibit 70). It is also noted that Dr. Tauber submitted his check for \$100 and the stock certificate was issued. This constitutes a capital contribution of \$100.

The Balance Sheet for the year ended December 31, 1963, shows land in the amount of \$202,883. During 1964, 65% of the land was donated to the JMH and the remaining 35% was withdrawn by Laszlo Tauber (see Exhibit 214(u)). According to the Schedule of Partner's Capital on December 31, 1964, the cost of the land withdrawn from the venture was \$200,152.65 (see Exhibit 188). This amount would have represented 100% of the land originally acquired by the Joint Venture. By donating 65% of the land, the Venture was relieved of a \$79,855.90 mortgage (see Exhibit 188). The cost of 65% of the land was \$130,099.22 (see Exhibit 214(u)).

The financial statements of the Joint Venture, as well as JMH reflect activity for the donation of land. This constitutes a net capital contribution of land in the amount as recorded of approximately \$120,297. The total value of the land is withdrawn from the Venture as of December 31, 1964.

To account for the total capital contributed during this period, the loss of \$24,264 has to be added back to the ending capital balance of \$218,810 as it would have reduced the amount of capital contributed for a total of \$243,073. The difference between the contributed capital amounts that are documented above of \$120,397 and the total capital contributed as recalculated from the financial statements, of \$243,073 is \$122,676 and remains unsupported.

**1964** – As noted above, of the land acquired by the Joint Venture during 1963, 65% was donated to JMH and 35% was withdrawn from the Venture (see Exhibit 214(a)). This constitutes a withdrawal from the Venture of \$120,297.

The United States Tax Return for the year ended December 31, 1964, notes additional capital contributions of \$165,864 and withdrawals (excluding the land) of \$125,572, for a net contribution of \$40,292 (see Exhibit 217). There were no documents found to support these items, nor was the nature of the contribution disclosed.

**1965** – According to the United States Tax Return for the year ended December 31, 1965 and copies of the journal entries (see Exhibit 189), a contribution of \$6,787 was made as well as a withdrawal of \$1,431 cash and \$39,000 in hospital bonds. The bonds that were withdrawn were issued in connection with JMH's Agreement to reimburse the Joint Venture for hospital construction costs in excess of \$1,000,000 (see Exhibit 801). This constitutes a net withdrawal from the Joint Venture of \$33,644 for the year ended December 31, 1965.

**1966** – The United States Tax Return for the year ended December 31, 1966, notes that contributions of \$786,804 and withdrawals of \$16,528 were made during the year (see Exhibit 220). In a review of the journal entries related to the contributions, \$386,804 is goodwill, \$340,000 was equipment and \$60,000 was notes issued by the partners (see Exhibits 367 & 221).

As described earlier in this report, the explanation for the journal entry to record the purported conversion of the Joint Venture from KSJV to JMHA was, "To set-up balances on assets and liabilities transferred from King Street Joint Venture at a \$400,000 capital investment." There is no documentation to support the genesis of goodwill outside of the explanation in the journal entry "to book up to a \$400,000 investment." This does not represent an infusion of capital and therefore is considered ineligible for purposes of accounting for capital contributions made by the Venturers.

The journal entry to record equipment was a debit to equipment of \$340,000 and a credit to capital of \$340,000. This transaction is described in a memo from the Internal Revenue Service to Dr. Tauber dated April 4, 1969 (see Exhibit 372). Section 3 of that memo states the following:

"During 1965 and at January 1, 1966, the partnership, JMHI and certain individuals entered into an arrangement whereby the individuals would purchase equipment from the hospital and contribute the equipment to the partnership for a percentage interest in the partnership. The partnership in turn leased the equipment back to the hospital for 10 years at a rental equal to the purchase price. After ten years the equipment is to be donated to the hospital. The hospital is paying rent on the equipment with its 8% bonds. The hospital retained primary liability on chattel mortgages on the equipment. I take the position that the hospital is the legal owner of the equipment; that the substance of the arrangement is a device for getting depreciation on the equipment to the benefit of the partnership. The true result of the transaction is that the hospital is selling its 8% bonds to the partnership on the installment plan. Accordingly the partnership is not entitled to any depreciation on the \$340,000 of equipment."

For this reason, the \$340,000 is ineligible for purposes of accounting for capital contributions made by the Venturers.

The journal entry to record the last portion of the capital contributions of \$60,000 was a debit of \$1,600 to Loan Receivable JMHI and \$58,400 to Notes Receivable JMHA Partners and a credit to capital of \$60,000 (see Exhibits 367 & 221). The explanation states "To set up cash paid and notes used on capital contributions...held by hospital." While the ultimate resolution of these Notes from Partners is unknown, this amount will be considered a capital contribution of \$60,000.

The withdrawal from the Joint Venture of \$16,528 represents a write-off of the remaining amount due from the hospital for construction costs in excess of \$1,000,000. Notwithstanding the inappropriateness of the underlying transaction, this amount will be considered a capital withdrawal of \$16,528.

1967 – 1971 – As noted in the United States Tax Returns for the years ended December 31, 1967 through 1971, no capital contributions or withdrawals were made to the Venture (see Exhibits 222, 224, 226, 228 and 230).

**Summary of Capital Contributions to the Joint Venture through 1971**

A summary of the composition of capital contributions made to the Joint Venture from inception through June 30, 1971 is provided below:

<u>Form of Contribution</u>	<u>Amount</u>	<u>% of Total</u>
Cash	\$ 5,456	2%
Partner Notes	\$ 60,000	26%
Unsupported net	\$162,967	71%
<b>Total Capital Contributions</b>	<b>\$228,423</b>	
Less Withdrawals	\$ 55,528	
<b>Net Capital Contributions</b>	<b>\$172,895</b>	

See Attachment #17 for detail of contributions and withdrawals to the Joint Venture through June 30, 1971.

On July 1, 1971, the Joint Venture was purportedly acquired by JMH (operating as JMHC). From inception in 1963 up through June 30, 1971, the Joint Venture had accumulated losses of \$429,062 (see Exhibit 230). This amount exceeds the net contributions to the Joint Venture to that point. As of June 30, 1971, the net book value of assets of the Joint Venture was \$470,637. For this reason, all contributions to the Joint Venture are accounted for in the purported conversion to JMH on July 1, 1971 as discussed below.

**b) Jefferson Memorial Hospital**

1965 – 1971 – In a review of the available financial statements and tax returns, the only capital contribution made to JMH for the period of inception in 1965 through the period ended June 30, 1971, was the 65% interest in the land donated by the Joint Venture (operating as KSJV). No additional capital contributions were made. During this time, the account in the financial statements was called Fund Capital (Deficit).

1972 - As disclosed in Notes 1 and 2 of the financial statements for JMH (operating as JMHC) for the year ended June 30, 1972, JMH purportedly reorganized and acquired the Joint Venture (operating as JMHA) during the year (see Exhibit 200). Note 1 describes the purported JMH conversion as follows. "On June 30, 1971 Jefferson Memorial Hospital, Inc. (JMHI) merged into Jefferson Memorial Hospital Corporation (JMHC), a new corporation...JMHC received all of the assets and assumed all of the liabilities of JMHI as of that date



and 5,000 shares of JMHC common stock were given to the JMHI stockholders in exchange for all of the outstanding 5,000 shares of JMHI common stock. This exchange resulted in a mere change in name and state of organization with no change in management and percentage of ownership by each shareholder." Note 2 describes the purported combination of the Joint Venture into JMHI as follows. "On July 1, 1971, the hospital in exchange for 240,000 shares of its common stock acquired all of the assets and assumed all of the liabilities of JMHA, a partnership whose main source of income was from the rental of the hospital plant to the hospital. The acquisition of the partnership was combined with the Hospital using the pooling of interests method. The partners of Jefferson Memorial Hospital Associates were the sole shareholders of the Hospital holding the original 5,000 shares of common stock outstanding. The 240,000 additional shares were distributed so that each shareholder's percentage of ownership remained the same."

The journal entries to record these transactions were not found in the documents provided. For this reason, an attempt has been made to reconstruct the entry based on the description above. This entry is necessary to determine the amount of capital infused, if any, as a result of this transaction. Two scenarios were used, the first using the Balance Sheets for JMHI and the Joint Venture (operating as JMHA) as of June 30, 1971 and the second using the JMHI (operating as JMHC) Balance Sheet as of June 30, 1972. Utilizing the second scenario, the financial position of JMHC as of June 30, 1972, the reconstructed entry leaves only \$4,951 unexplained (see Attachment #18). Capital in excess of par recorded as of June 30, 1972, was \$703,142. The book value of the Joint Venture's assets as of June 30, 1971 was \$470,637. A majority of the difference between the book value of \$470,637 and the amount recorded for capital in excess of par was the \$280,000 liability booked on JMHI's Balance Sheet for the equipment sale and leaseback transaction as described earlier in this report. The following chart details the net assets recorded, as reconstructed, as part of that transaction:

Asset	Amount Recorded	Description	Capital Contribution	Eligible Contribution
Goodwill	\$386.802	Booked as part of purported Joint Venture conversion	Ineligible Unsupported as noted above	\$ 0
Lease Agreement Payable	\$280.000	This amount was recorded on the books of JMH to account for the equipment lease with Joint Venture.	Ineligible IRS determined this was a scheme to skim-off depreciation for the Joint Venture (as noted above)	\$ 0
JMH payable to Joint Venture	\$43,114	Genesis of the intercompany is unknown	Eligible	\$ 43,114
JMH Bonds Payable to Joint Venture	\$19,500	Genesis of the intercompany is unknown	Eligible	\$ 19,500
Net liabilities in excess of assets contributed	(\$31,225)	Notes receivables from partners, equipment, and mortgages payable	Eligible	(\$ 31,225)
Unexplained	\$4,951		Eligible	\$ 4,951
<b>Total eligible contribution</b>				<b>\$ 36,340</b>

The purported conversion of JMH and the Joint Venture (operating as JMHA) into JMH (operating as JMH) necessitates the analysis of two accounts related to capital from July 1, 1971 forward. Those accounts are Capital in Excess of Par and Retained Earnings. Each has been analyzed as discussed below.

#### **Capital in Excess of Par**

In accounting, the Capital in Excess of Par account represents the excess of amounts paid in by shareholders over the par or stated value of capital stock. Generally, this account is affected by stockholders purchasing and/or selling stock above the par value. I have prepared a schedule detailing the changes in the Capital in Excess of Par account for JMH from the available documents for the period from June 30, 1972 through June 30, 1985 (see Attachment #19 for schedule). The initial contribution in this account resulted from the purported Joint Venture conversion into JMH described above in the amount of \$36,340. A summary of the remaining activity in this account, for the period from July 1, 1972 through June 30, 1985, is shown below:

#### **Changes in JMH Capital in Excess of Par from July 1, 1973 – June 30, 1985**

Contributions – Proceeds from sale of common stock	\$ 394,895
Withdrawals – JMH purchases of common stock	(718,951)
Unexplained difference, net	(379,086)
<b>Net Contributions (Withdrawals) from Capital in Excess of Par</b>	<b>(\$ 703,142)</b>

## **Retained Earnings**

The balance in the Retained Earnings account represents the accumulated amount of earnings undistributed to shareholders. Generally, this account is affected by net income or loss of the corporation and distribution of dividends to shareholders. I have prepared a schedule detailing the changes in the Retained Earnings account for JMH from the available documents for the period from June 30, 1972 through June 30, 1984 (see Attachment #20 for schedule). Although the financial statements were available for the year ended June 30, 1985, there was an unexplained difference in the beginning balance of retained earnings and no contributions or withdrawals were made. A summary of the activity in the Retained Earnings account related to contributions and withdrawals by shareholders is provided below:

<b><u>Changes in JMH Retained Earnings from July 1, 1972 – June 30, 1984</u></b>	
Contributions	\$ 0
Withdrawals through redemption of shares	(510,160)
<b>Net Contributions (Withdrawals) from Retained Earnings</b>	<b>(\$ 510,160)</b>

Although some tax returns for JMH (operating as JCA) are available for periods subsequent to June 30, 1985, there is not enough detail provided to determine the causes for changes in the account. The balance of Retained Earnings as of June 30, 1984 was \$818,376 (see Exhibit 1034). The last available document provided for JMH (operating as JCA) that details the balance of Retained Earnings was the United States Tax Return for the year ended June 30, 1995 which showed an ending balance of \$674,372 (see Exhibit 1045). As noted above, the cause for the additional reduction in this account of \$144,004 could not be determined from the information provided.

### Summary of Capital Contributions to and Withdrawals from JMH (through 1985)

The following table summarizes the capital analysis discussed above:

	<u>Eligible Contributions</u>	<u>Withdrawals</u>	<u>Other, Unexplained</u>	<u>Net Contributions (Withdrawals)</u>	<u>Ineligible</u>
JMH Fund Capital	115,140			115,140	
JMH Retained Earnings		(510,160)		(510,160)	
Initial JV Contribution (1971)	36,340			36,340	
Initial JV - 1971 Goodwill					386,804
Initial JV - 1971 Equipment Liability					280,000
Capital in Excess of Par	394,895	(718,951)	(379,086)	(703,142)	
	<u>546,375</u>	<u>(1,229,111)</u>	<u>(379,086)</u>	<u>\$ (1,061,822)</u>	<u>666,804</u>

As is noted in the table above, the Joint Venture withdrew more from JMH than was contributed.

#### **c) Joint Venture subsequent to June 30, 1975**

To comprehend the entire amount of capital contributed or withdrawn as part of the income generated from JMH's assets held in trust, it becomes necessary to look at the activity in the capital accounts of the Joint Venture starting with its rebirth in 1975. While I have looked at the amounts contributed and withdrawn from JMH, unlike this accounting, the Joint Venture continued to raise the rent charged to JMH. These amounts have been reflected in the Income Statement Adjustments made as part of this accounting, but would not have been accounted for in the analysis of capital contributions and withdrawals for JMH discussed above. With each increase in rent due from JMH to the Joint Venture, a corresponding increase would have occurred in the revenue for the Joint Venture and the expense for JMH. This is not the case beginning February 10, 1982. According to an Amendment to the purported Lease between the Joint Venture (operating as JMH JV as Lessor) and JMH (operating as JCA as Lessee), on February 10, 1982, all but \$100,000 of the revenue from the HGV agreement (soon to be the INOVA agreement) was funneled directly to the Joint Venture (see Exhibit 325). In this case, revenue would not have traced through JMH, but rather straight to the revenue line for the Joint Venture. I have prepared a schedule detailing the changes in the capital accounts for the Joint Venture from the documents that were produced (see Attachment #21). According to those documents, from the recreation of the

Joint Venture structure in 1975 until December 31, 1977, the Joint Venturers made no capital contributions were yet withdrew \$46,081. During that same time, gross rents from the hospital building were recorded of \$280,000. There were no financial statements or tax returns produced for the years ended December 31, 1978, 1979 or 1980. For the period subsequent to January 1, 1980, there is information contained in the financial statements and/or tax returns that details the amount of Partners' contributions as well as withdrawals. However, it becomes difficult to determine for which aspect of the Joint Venture they are contributing because the Joint Venture constructed, purchased and sold various properties throughout the period subsequent to 1980 and the records are not segregated. Even though the financial documents are not complete or conducive to segregation, a memorandum issued from Laszlo N. Tauber to the Joint Venture participants on July 24, 1989 described the level of contribution as follows:

"Since practically none of the investors have any money in this venture, I would like to allocate \$1,100,000 to be paid in October, 2005 to ..." (see Exhibit 805).

The documents produced detail the total contributions, total withdrawals and gross rent. A summary of total contributions and total withdrawals from the Joint Venture for the period from January 1, 1981 through December 31, 1998 is provided below:

<b><u>Contributions and Withdrawals of Capital from Joint Venture</u></b>	
<b><u>January 1, 1981 – December 31, 1998</u></b>	
(excluding the year ended December 31, 1985 as documents were not produced)	
Contributions	\$ 1,751,498
Withdrawals	(16,357,268)
<b>Net Contributions (Withdrawals) from Joint Venture</b>	<b>(\$ 14,605,770)</b>

I tried to determine the amount of reported rental income that was associated with the hospital building from the tax returns and financial statements. In eleven of the fifteen years, I was unable to determine the amount associated exclusively with the hospital building because it was not segregated from the Medical Office Building. The total gross rents reported from January 1, 1981 through December 31, 1998 (excluding the year ended December 31, 1985), for the hospital building and, in some cases, the hospital and medical office building was \$25,475,755

## **C) IMPACT OF ACCOUNTING DECISIONS**

The assumptions used and methodology employed in this accounting have been described in detail above. My approach, in several instances, resulted in the inclusion of amounts that reduced the net income associated with the assets held in trust. Below I discuss the impact certain of these decisions had on the overall accounting to demonstrate the magnitude of reduction in these specific instances.

### **1) Income Taxes**

I have left intact the expenses associated with the payment of Income Taxes. As a non-profit organization, these expenses would not have been required. However, since the Respondents did not personally benefit from this outlay, I did not feel it necessary to add those amounts back to income. Had those amounts been disallowed as part of this accounting, the cumulative adjusted net income would have increased by \$1,026,399.

### **2) Ownership of the Building**

As Counsel has described to us, there is some disagreement as to the ownership of the hospital building and land. This accounting has assumed that the building was owned by the Joint Venture as recited in the 1966 lease agreements and that, therefore, the Joint Venture is entitled to the rent for use of the Building. A total of approximately \$4,825,000 has been included in this accounting for rent in connection with the original 1966 hospital building lease (see Attachment #22). This amount is approximately \$3,235,000 in excess of the cost of the building itself as well as the interest on the mortgage. This amount does not account for the tax benefits gained by the Joint Venture from the deductions for depreciation and mortgage interest.

	<u>EQUITY</u>	<u>INVESTMENT RATE</u>	
		<u>13.35%</u>	<u>9.00%</u>
June 30, 1973	\$ 224,517	4,666,276	1,690,247
June 30, 1975	533,913	8,667,490	3,405,105
June 30, 1982	1,885,897	13,021,118	6,801,599

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Jefferson Memorial Hospital (JMH)  
Income Statement Summary- 1965-1982

Attachment #1

ENTITY SOURCE	JMHIC																	
	For Months No Return Available Auditor:	Missing	For Months No Return Available C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M	For Months 54 07/84092 C B&M
TAX ID	Hampton																	
Auditor:	Hampton																	
	Oct 65	Oct 66	Oct 67	Oct 68	Oct 69	Oct 70	Nov-70 to June 71	Jun 72	Jun 73	Jun 74	Jun 75	Jun 76	Jun 77	Jun 78	Jun 79	Jun 80	Jun 81	Jun 82
Gross Revenue																		
Routine	381 466		1 170,034	1 409 673	1 652 618	1 886 098	1 441 616	2 180 681	2 234 317	2 250 711	2 646 905	2 949 900	3 019 368	3 423 862	3 879 627	4 454 776	5 446 382	4 651 987
Special Services	236 823		780 994	984 452	1 408 960	1 870 849	1 374 548	2 273 411	2 515 128	3 087 073	3 656 912	4 001 698	4 654 289	5 171 012	5 704 562	6 626 381	8 607 711	7 264 771
Total Gross Revenue	618 289		1 951,028	2 091 075	2 637 578	3 706 947	2 816 164	4 454 092	4 749 445	5 337 784	6 303 817	6 951 598	7 673 657	8 594 874	9 584 189	11 281 157	14,054 093	11 916 758
Revenue Deductions																		
Agencies			(165 417)	(89 741)	(187 562)	(309 377)	(353 145)	(371 718)	(324 046)	(733 065)	(674 622)	(486 487)	(472 016)	(676 143)	(858 616)	(912 978)	(1 409 615)	(1 105 714)
Patients	(8 950)		(18 631)	(14 669)	(17 873)	(7 170)	(3 302)	(2 971)	(6 055)	(42 136)	(21 278)	(16 763)	(16 661)	(24 368)	(23 044)	(37 144)	(52 434)	(32 151)
Employees and Professional Courtesy				(1 382)	(3 976)	(10 742)	(6 696)	(8 721)	(8 163)	(8 376)	(9 602)	(8 309)	(12 592)	(9 305)	(12 301)	(21 743)	(27 042)	(33 130)
Uncollectible			(84,543)	(115,821)	(132,579)	(116,573)	(105 340)	(152 336)	(210 261)	(113 360)	(151 835)	(293,093)	(357 191)	(321,296)	(383 771)	(588,011)	(845,544)	(96 463)
Total Deductions	(8 950)		(268,591)	(221,613)	(341,990)	(443,862)	(468 483)	(535 746)	(548 525)	(896 937)	(857 337)	(604,652)	(858 460)	(1 031 112)	(1,277 732)	(1,559 876)	(2,334,635)	(1,267 458)
Other Revenue Accounts	48 830		135,819	52 672	36 569	33 779	26 458	47 768	45 115	44 891	46,046	34 992	5 814	16 967	9,632	27 094	34 000	38 328
Net Revenues	658,169		1,818,256	1,922,134	2,332,157	3,296,864	2,374,139	3,966,114	4,246,035	4,485,738	5,492,526	6,181,938	6,821,011	7,580,729	8,316,089	9,748,375	11,753,458	10,687,628
Total Expenses																		
Depreciation			22 364	24 108	25,650	28 626	21 747	66 967	69 537	72 394	84 948	59 241	64 363	65 618	73 577	84 180	93 593	80 687
Interest	24 994		80 283															
Real Estate and Property Taxes	11 407		21 769	23,330	32 580	33 388	13 536	43 823	67 179	60 657	62 380	70 271	71 888	72 924	80 432	104 331	136 593	119 737
Rental of Land and Building	116 640		99 444	101 658	115 462	112 670	72 686	19 844	20 006	20 373	21 055	150 305	159 073	171 691	200 073	340 349	535 089	437 138
Salaries and Wages	291 869		972 272	940 708	1 159 926	1 328 929	1 000 663	1 620 633	1 706 543	1 875 999	2 280 476	2 443 756	2 951 866	3 209 428	3 522 038	3 887 673	4 747 932	4 025 368
Supplies	354 085		615 912	853 191	1 195 512	1 617 454	1 178 016	1 938 454	2 039 733	2 385 785	2 766 848	3 127 607	3 293 591	3 684 012	4 128 376	5 019 426	6 061 408	5 045 410
Total Expenses	798,995		1,812,044	1,942,995	2,529,130	3,121,067	2,286,648	3,689,721	3,902,998	4,395,208	5,215,707	5,851,180	6,540,781	7,203,673	8,004,496	9,435,959	11,574,615	9,708,340
Net Operating Income	(140 826)		6 212	(20 861)	(196 973)	175 797	87 491	276 393	343 037	90 530	276 819	330 758	280 230	377 056	311 593	312 416	178 843	979 288
Interest				(56 422)	(62 339)	(42 826)	(34 990)	(93 872)	(76 560)	(76 423)	(71 404)	(57 670)	(65 545)	(63 588)	(64 252)	(61 500)	(61 096)	(81 298)
Amortization of Goodwill								(11 379)	(11 377)	(11 377)	(11 377)	(11 377)	(11 377)	(11 484)	(11 377)	(11 377)	(11 377)	(11 377)
Loss on Disposal of Land & Building																		
Loss on Lost Creek Partnership																		
Other Income and Expense Net				92 642	88 630	39 221	(936)	49 636	9 707	13,007	3,171	(9 482)	8 997	(7 070)	2 125	6 238	23 094	(2 296)
Net Income Before Income Taxes	(140 826)	(118,076)	6 212	15,359	(170 682)	172 192	51 565	220 778	264 807	15 737	197 209	200 409	212 305	124 291	187 371	219 422	129 454	884 317
Less Income Taxes								12 769	124 833	5 349	74 795	87 382	97 177	48 034	60 230	62 540	33 685	419 605
Net Income	(140 826)	(118,076)	6 212	15,359	(170 682)	172 192	51 565	208 009	139 974	10 388	122 414	113 027	115 128	76 257	127 141	156 882	95 779	464 712
Cumulative Net Income as Reported	(140 826)	(258 902)	(252 690)	(237 331)	(408 613)	(235 821)	(184 256)	23 753	163 727	174 115	296 529	409 556	524 684	600 941	728 082	884 984	980 743	1 445 455
Financing 1966 Leases																		
Back Rental of Land & Buildings	116 640	98 946	99 444	101 658	115 462	112 670	72 686	19 844	20 006	20 373	21 055	150 305	159 073	171 691	200 073	340 349	535 089	437 138
Back - Mortgage Interest								40 132	37 615	34 943	32 106							
Back - Depreciation on the Building								32 214	32 215	32 215	32 215							
Back - Effective 1966 Building Lease Payment	(80 940)	(80 940)	(80 940)	(80 940)	(80 940)	(80 940)	(53 960)	(80 940)	(80 940)	(80 940)	(80 940)	(114 125)	(147 311)	(147 311)	(147 311)	(147 311)	(147 311)	(147 311)
Back - Unwritten 1968 Addition Lease - 24 beds				(4 100)	(11 232)	(11 232)	(7 488)	(11 232)	(11 232)	(11 232)	(11 232)	(15 837)	(20 442)	(20 442)	(20 442)	(20 442)	(20 442)	(20 442)
Back - Effective 1966 Land Lease #1	(15 600)	(15 600)	(15 600)	(15 600)	(15 600)	(15 600)	(10 400)	(15 600)	(15 600)	(15 600)	(15 600)	(21 996)	(28 392)	(28 392)	(28 392)	(28 392)	(28 392)	(28 392)
Back - Effective 1966 Land Lease #2 (fixed)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)	(1 604)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)	(2 406)
Back - 1977 Lease for 3rd Floor of MOD														(3 920)	(11 760)	(11 760)	(11 760)	(11 760)
Back - 1979 Lease of P/T and storage space															(10 314)	(10 314)	(10 314)	(10 314)
Back - Adjustment of Rental of Land & Building	17 694		498	(1 388)	5 284	2 492	(766)	(17 988)	(20 342)	(22 647)	(24 802)	(4 060)	(39 478)	(26 860)	(2 398)	119 724	314 464	216 517
Eliminating Items Expensed																		
Back - Amortization of Goodwill								11 379	11 377	11 377	11 377	11 377	11 377	11 484	11 377	11 377	11 377	11 377
Back - Loss on disposal of land & building												51 840						
Back - Loss on Lost Creek Partnership														170 623	50 718	26 355		
Back - Adjustment for Expense Elimination								11 379	11 377	11 377	11 377	63 217	11 377	182 107	62 095	37 732	11 377	11 377
ADJUSTED NET INCOME	(123 132)	(118 076)	6 710	13 971	(165 398)	174 684	50 799	201 400	131 009	(882)	108 989	172 184	87 027	231 504	186 838	314 338	421 620	676 602
Cumulative Adjusted Net Income	(123 132)	(241 208)	(234 498)	(220 527)	(385 925)	(211 241)	(160 442)	40 958	171 967	171 085	280 073	452 258	539 285	770 789	957 627	1 271 965	1 693 585	2 386 187



Jefferson Memorial Hospital (JMH)  
Income Statement Summary- 1983 - 2006

SOURCE: From JMHC	Fin Stmt	Fin Stmt	Fin Stmt	Missing	Tax Return	Missing	Tax Return	Tax Return	Tax Return	Tax Return	Missing	Tax Return	Tax Return
Financial Statements:	Compiled	Compiled	Compiled		N/A		N/A	N/A	N/A	N/A		N/A	N/A
Accountant:	Mermelstein	Mermelstein	Mermelstein		Mermelstein		Mermelstein	Mermelstein	Mermelstein	Mermelstein		Mermelstein	Mermelstein
	Jun-83	Jun-84	Jun-85	Jun-86	Jun-87	Jun-88	Jun-89	Jun-90	Jun-91	Jun-92	Jun-93	Jun-94	Jun-95
<b>Revenue</b>													
Gross Profit													
Dividends							38						
Rental (appears to be net)	100,748	106,862	158,643										
Interest and Dividends	94,261	37,293	76,244				725	103					
Recovery of Bad Debts	82,622	43,239	52,658		1,492								
Other	56,779	56,422	11,166										
<b>otal Revenue</b>	<b>334,410</b>	<b>243,816</b>	<b>298,711</b>		<b>1,492</b>		<b>763</b>	<b>103</b>					
<b>otal Expenses</b>													
Amortization of Goodwill	11,377	11,377	11,377										
Collection Fees	11,371	1,838							7,264				
Depreciation (P&E)	43,252	75,103	85,940		34,709		21,701	16,445		3,197		2,905	2,905
Interest		54,775	108,961		110		60						
Bad Debts													
Rents													
Commissions	40,315		875										
Office Supplies	666	1,209	261										
Professional Fees	39,183	6,500	20,965				185						
Salaries and Benefits	43,689	35,464	48,342										
Cleaning	0	275	315										
Condo Fees (Lakeside Plaza)	0	13,748	15,845										
Taxes	0	6,527	4,814		2,930		4,393						
Contributions													
Other	18,430	9,105	646										
<b>otal Expenses**</b>	<b>208,283</b>	<b>215,921</b>	<b>298,341</b>		<b>37,749</b>		<b>26,339</b>	<b>16,445</b>	<b>7,264</b>	<b>3,197</b>	<b>-</b>	<b>2,905</b>	<b>2,905</b>
<b>Income as Reported</b>	<b>126,127</b>	<b>27,895</b>	<b>370</b>		<b>(36,257)</b>		<b>(25,576)</b>	<b>(16,342)</b>	<b>(7,264)</b>	<b>(3,197)</b>	<b>-</b>	<b>(2,905)</b>	<b>(2,905)</b>
<b>umulative Net Income as Reported</b>	<b>1,445,455</b>	<b>1,571,582</b>	<b>1,599,477</b>	<b>1,599,847</b>	<b>1,563,590</b>	<b>1,563,590</b>	<b>1,538,014</b>	<b>1,521,672</b>	<b>1,514,408</b>	<b>1,511,211</b>	<b>1,511,211</b>	<b>1,508,306</b>	<b>1,505,401</b>
<b>inoring 1966 Leases</b>													
Just-Rent Revenue as Booked	(100,748)	(106,862)	(158,643)										
Back - Revenue from HGA/INOVA per Agreement	1,000,000	1,000,000	1,000,000	1,375,000	1,375,000	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000	2,125,000	2,125,000	2,093,333
Just - Effective 1966 Building Lease Payment	(147,311)	(147,311)	(147,311)	(200,731)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)
Just - Unwritten 1968 Addition Lease - 24 beds	(20,442)	(20,442)	(20,442)	(27,855)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)
Just - Effective 1966 Land Lease #1	(28,392)	(28,392)	(28,392)	(38,688)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)
Just - Effective 1966 Land Lease #2 (fixed)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)
Just - 1977 Lease for 3rd Floor of MOB	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)
Just - 1979 Lease of PT and storage space	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)
<b>ustment of Rental of Land &amp; Building</b>	<b>678,627</b>	<b>672,513</b>	<b>620,732</b>	<b>1,083,245</b>	<b>1,012,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,762,116</b>	<b>1,762,116</b>	<b>2,083,333</b>
<b>minating Items Expensed</b>													
back - Amortization of Goodwill	11,377	11,377	11,377										
back - Condo Fees (Lakeside Plaza)		13,748	15,845										
back - Depreciation on Lakeside Condos		32,386	55,907										
<b>ustment for Expense Elimination</b>	<b>11,377</b>	<b>57,511</b>	<b>83,129</b>										
<b>stied Net Income</b>	<b>816,131</b>	<b>757,919</b>	<b>704,231</b>	<b>1,083,245</b>	<b>975,859</b>	<b>1,262,116</b>	<b>1,236,540</b>	<b>1,245,774</b>	<b>1,254,852</b>	<b>1,258,919</b>	<b>1,762,116</b>	<b>1,759,211</b>	<b>2,080,428</b>
<b>ulative Adjusted Net Income</b>	<b>2,386,187</b>	<b>3,202,318</b>	<b>3,960,236</b>	<b>4,664,468</b>	<b>5,747,713</b>	<b>6,723,572</b>	<b>7,985,688</b>	<b>9,222,228</b>	<b>10,468,002</b>	<b>11,722,854</b>	<b>12,981,773</b>	<b>14,743,889</b>	<b>16,583,528</b>

SOURCE:

Financial Statements:

Accountant: No Financial Statements Available

	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06
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Revenue

Gross Profit  
Dividends  
Rental (appears to be net)  
Interest and Dividends  
Recovery of Bad Debts  
Other

otal Revenue

otal Expenses

Amortization of Goodwill  
Collection Fees  
Depreciation (P,P&E)  
Interest  
Bad Debts  
Rents  
Commissions  
Office Supplies  
Professional Fees  
Salaries and Benefits  
Cleaning  
Condo Fees (Lakeside Plaza)  
Taxes  
Contributions  
Other

otal Expenses\*\*

et Income as Reported

umulative Net Income as Reported

onoring 1966 Leases

duct-Rent Revenue as Booked											
d Back - Revenue from HGA/NOVA per Agre	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	10,427,083
duct - Effective 1966 Building Lease Payment											
duct - Unwritten 1968 Addition Lease - 24 bed											
duct - Effective 1966 Land Lease #1											
duct - Effective 1966 Land Lease #2 (fixed)											
duct - 1977 Lease for 3rd Floor of MOB											
duct - 1979 Lease of PT and storage space											
Justment of Rental of Land & Building	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	10,427,083

minating Items Expensed

d back - Amortization of Goodwill  
d back - Condo Fees (Lakeside Plaza)  
d back - Depreciation on Lakeside Condos  
ustment for Expense Elimination

usted Net Income	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	10,427,083
umulative Adjusted Net Income	20,708,528	22,833,528	24,958,528	27,083,528	29,208,528	31,333,528	33,458,528	36,021,028	38,583,528	41,146,028	51,573,111

Jefferson Memorial Hospital (JMH)  
Income Statement Summary- 1965-1982Attachment #1  
Revised for Equipment and Last Month Settlement

ENTITY 1 on the financial statements and JMIIC on the Federal Tax returns								JMIIC	JMHC	JMHC	JMHC	JMHC	JMHC	JMHC	JMHC	JMHC	JMHC	JMHC/JCA
SOURCE	Fin Stmts	Missing	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts	Fin Stmts
TAX ID	Available		Available	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092
Auditor:	Hampton		C,B&M	C,B&M	C,B&M	C,B&M	C,B&M	C,B&M	C,B&M	C,B&M	Mermelstein	Mermelstein	Mermelstein	Mermelstein	Mermelstein	Mermelstein	Mermelstein	Mermelstein
Income Statement As Reported	Oct-65	Oct-66	Oct-67	Oct-68	Oct-69	Oct-70	Nov-70 to June-71	Jun-72	Jun-73	Jun-74	Jun-75	Jun-76	Jun-77	Jun-78	Jun-79	Jun-80	Jun-81	Jun-82
Gross Revenue																		
Routine	381,466		1,170,034	1,409,623	1,852,618	1,888,098	1,441,816	2,180,681	2,234,317	2,250,711	2,848,905	2,949,900	3,018,368	3,423,862	3,879,627	4,454,776	5,446,382	4,651,987
Special Services	236,823		780,994	681,452	984,980	1,820,849	1,374,548	2,273,411	2,515,128	3,087,073	3,658,912	4,001,698	4,854,289	5,171,012	5,704,562	6,826,381	8,607,711	7,264,771
Total Gross Revenue	618,289		1,951,028	2,091,075	2,837,598	3,708,947	2,816,364	4,454,092	4,749,445	5,337,784	6,507,817	6,951,598	7,873,657	8,594,874	9,584,189	11,281,157	14,054,093	11,916,758
Revenue Deductions																		
Agencies			(165,417)	(89,741)	(187,562)	(309,377)	(353,145)	(371,718)	(324,046)	(733,065)	(674,822)	(488,487)	(472,016)	(876,143)	(858,816)	(912,978)	(1,409,615)	(1,105,714)
Patients	(8,950)		(18,631)	(14,669)	(17,873)	(7,170)	(3,302)	(2,971)	(6,055)	(42,136)	(21,278)	(16,783)	(16,661)	(24,368)	(23,044)	(37,144)	(52,434)	(32,151)
Employees and Professional Courtesy				(1,382)	(3,976)	(10,742)	(6,596)	(8,721)	(8,163)	(8,376)	(9,602)	(8,309)	(12,582)	(9,305)	(12,301)	(21,743)	(27,042)	(33,130)
Uncollectible			(84,643)	(115,821)	(132,579)	(116,573)	(105,340)	(152,336)	(210,261)	(113,360)	(151,835)	(283,093)	(357,181)	(321,286)	(383,771)	(568,011)	(845,544)	(96,463)
Total Deductions	(8,950)		(268,591)	(221,613)	(341,990)	(443,882)	(468,483)	(535,746)	(548,525)	(898,937)	(857,337)	(804,652)	(858,460)	(1,031,112)	(1,277,732)	(1,559,876)	(2,334,635)	(1,267,458)
Other Revenue Accounts	48,830		135,819	52,872	36,569	33,779	26,458	47,768	45,115	44,891	46,046	34,892	5,814	16,987	9,632	27,094	34,000	38,328
Net Revenues	658,169		1,818,256	1,922,134	2,332,157	3,286,864	2,374,139	3,866,114	4,246,035	4,485,738	5,492,526	6,181,838	6,821,011	7,580,729	8,316,089	9,748,375	11,753,458	10,687,626
Total Expenses																		
Depreciation			22,384	24,108	25,650	28,826	21,747	88,967	69,537	72,394	84,948	59,241	64,383	65,818	73,577	84,180	93,593	80,687
Interest	24,994		80,283															
Real Estate and Property Taxes	11,407		21,769	23,330	32,580	33,388	13,536	43,823	87,179	60,657	62,380	70,271	71,888	72,924	80,432	104,331	136,593	119,737
Rental of Land and Building	116,640		99,444	101,658	115,462	112,670	72,688	19,844	20,006	20,373	21,055	150,305	159,073	171,691	200,073	340,349	535,089	437,138
Salaries and Wages	291,869		972,272	940,708	1,159,926	1,328,929	1,000,663	1,620,633	1,708,543	1,875,999	2,280,476	2,443,758	2,951,868	3,209,428	3,522,038	3,887,673	4,747,932	4,025,368
Supplies	354,085		615,912	653,191	1,195,512	1,817,454	1,178,016	1,938,454	2,039,733	2,365,785	2,766,848	3,127,607	3,293,591	3,684,012	4,128,376	5,019,426	6,081,408	5,045,410
Total Expenses	798,995		1,812,044	1,942,995	2,529,130	3,121,067	2,286,648	3,689,721	3,902,998	4,395,208	5,215,707	5,851,180	6,540,781	7,203,673	8,004,466	9,435,959	11,574,615	9,708,340
Net Operating Income	(140,826)		6,212	(20,861)	(186,973)	175,797	87,491	276,393	343,037	90,530	278,819	330,758	280,230	377,056	311,593	312,416	178,843	979,208
Interest				(56,422)	(62,339)	(42,826)	(34,990)	(93,872)	(76,560)	(76,423)	(71,404)	(57,670)	(85,545)	(63,588)	(64,252)	(61,500)	(61,096)	(61,298)
Amortization of Goodwill								(11,378)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)
Loss on Disposal of Land & Building																		
Loss on Lost Creek Partnership																		
Other Income and Expense-Net				92,642	88,630	39,221	(938)	49,636	9,707	13,007	3,171	(9,462)	8,997	(7,070)	2,125	6,238	23,094	(2,296)
Net Income Before Income Taxes	(140,826)	(118,076)	6,212	15,359	(170,682)	172,192	51,565	220,778	264,807	15,737	197,209	200,409	212,305	124,291	187,371	219,422	129,464	804,317
Less: Income Taxes								12,769	124,833	5,349	74,795	87,382	97,177	48,034	60,230	62,540	33,885	419,605
Net Income	(140,826)	(118,076)	6,212	15,359	(170,682)	172,192	51,565	208,009	139,974	10,388	122,414	113,027	115,128	76,257	127,141	156,882	95,779	464,712
Cumulative Net Income as Reported	(140,826)	(258,902)	(252,690)	(237,331)	(408,013)	(235,821)	(184,256)	23,753	163,727	174,115	296,529	409,556	524,684	600,941	728,082	884,954	980,743	1,445,455
ADJUSTMENTS																		
Honoring 1986 Leases																		
Add Back-Rental of Land&Buildings	116,640	98,946	99,444	101,658	115,462	112,670	72,688	19,844	20,008	20,373	21,055	150,305	159,073	171,691	200,073	340,349	535,089	437,138
Add Back - Mortgage Interest								40,132	37,615	34,943	32,108							
Add Back - Depreciation on the Building								32,214	32,215	32,215	32,215							
Deduct - Effective 1986 Building Lease Payment	(80,940)	(80,940)	(80,940)	(80,940)	(80,940)	(80,940)	(53,960)	(80,940)	(80,940)	(80,940)	(80,940)	(114,125)	(147,311)	(147,311)	(147,311)	(147,311)	(147,311)	(147,311)
Deduct - Unwritten 1988 Addition Lease - 24 beds				(4,100)	(11,232)	(11,232)	(7,488)	(11,232)	(11,232)	(11,232)	(11,232)	(15,837)	(20,442)	(20,442)	(20,442)	(20,442)	(20,442)	(20,442)
Deduct - Effective 1986 Land Lease #1	(15,600)	(15,600)	(15,600)	(15,600)	(15,600)	(15,600)	(10,400)	(15,600)	(15,600)	(15,600)	(15,600)	(21,998)	(28,392)	(28,392)	(28,392)	(28,392)	(28,392)	(28,392)
Deduct - Effective 1986 Land Lease #2 (fixed)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(1,604)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)
Deduct - 1977 Lease for 3rd Floor of MOB																		
Deduct - 1979 Lease of PT and storage space																		
Deduct - Equipment Lease per FS Notes												(5,754)	(12,778)	(38,689)	(72,068)	(160,988)	(198,807)	(171,725)
Deduct - 50% of Rental Difference												(1,358)	(2,230)	3,417	6,916	(18,762)	(37,848)	(2,414)
Adjustment of Rental of Land & Building	17,694		498	(1,388)	5,284	2,492	(766)	(17,988)	(20,342)	(22,647)	(24,802)	(11,171)	(54,486)	(60,132)	(67,551)	(60,027)	77,808	42,373
Eliminating Items Expensed																		
Add back - Amortization of Goodwill								11,379	11,377	11,377	11,377	11,377	11,377	11,484	11,377	11,377	11,377	11,377
Add back - Loss on disposal of land & building												51,840						
Add back - Loss on Lost Creek Partnership																		
Adjustment for Expense Elimination								11,379	11,377	11,377	11,377	63,217	11,377	182,107	62,095	37,732	11,377	11,377
ADJUSTED NET INCOME	(123,132)	(118,076)	6,710	13,971	(165,398)	174,684	50,799	201,400	131,009	(882)	108,989	165,073	72,019	198,232	121,685	134,587	184,964	518,462
Cumulative Adjusted Net Income	(123,132)	(241,208)	(234,498)	(220,527)	(385,925)	(211,241)	(160,442)	40,958	171,967	171,085	280,073	445,148	517,166	715,398	837,083	971,670	1,156,634	1,675,097

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Jefferson Memorial Hospital (JMH)  
Income Statement Summary- 1983 - 2006

SOURCE: From JMHC	Fin Stmt	Fin Stmt	Fin Stmt	Missing	Tax Return	Missing	Tax Return	Tax Return	Tax Return	Tax Return	Missing	Tax Return	Tax Return
Financial Statements:	Compiled	Compiled	Compiled		N/A		N/A	N/A	N/A	N/A		N/A	N/A
Accountant:	Mermelstein	Mermelstein	Mermelstein		Mermelstein		Mermelstein	Mermelstein	Mermelstein	Mermelstein		Mermelstein	Mermelstein
Income Statement As Reported	Jun-83	Jun-84	Jun-85	Jun-86	Jun-87	Jun-88	Jun-89	Jun-90	Jun-91	Jun-92	Jun-93	Jun-94	Jun-95
Revenue													
Gross Profit													
Dividends													
Rental (appears to be net)	100,748	108,862	158,643										
Interest and Dividends	94,261	37,293	76,244				725	103					
Recovery of Bad Debts	82,622	43,239	52,658		1,492								
Other	56,779	56,422	11,166										
<b>Total Revenue</b>	<b>334,410</b>	<b>243,616</b>	<b>298,711</b>		<b>1,192</b>		<b>725</b>	<b>103</b>					
Total Expenses													
Amortization of Goodwill	11,377	11,377	11,377										
Collection Fees	11,371	1,838							7,291				
Depreciation (P,P&E)	43,252	75,103	85,940		34,709		21,701	18,145		3,197		2,905	2,905
Interest		54,775	108,961		110		60						
Bad Debts													
Rents													
Commissions	40,315		875										
Office Supplies	666	1,209	261										
Professional Fees	39,183	6,500	20,965				185						
Salaries and Benefits	43,689	35,464	48,342										
Cleaning	0	275	315										
Condo Fees (Lakeside Plaza)	0	13,748	15,845										
Taxes	0	6,527	4,614				4,393						
Contributions													
Other	18,430	9,105	646										
<b>Total Expenses**</b>	<b>208,263</b>	<b>215,921</b>	<b>296,341</b>		<b>37,719</b>		<b>26,339</b>	<b>16,415</b>	<b>7,291</b>	<b>3,197</b>		<b>2,905</b>	<b>2,905</b>
<b>Net Income as Reported</b>	<b>126,127</b>	<b>27,695</b>	<b>370</b>		<b>(36,527)</b>		<b>(25,576)</b>	<b>(16,312)</b>	<b>(7,291)</b>	<b>(3,197)</b>		<b>(7,290)</b>	<b>(7,290)</b>
<b>Cumulative Net Income as Reported</b>	<b>1,445,455</b>	<b>1,571,582</b>	<b>1,599,477</b>	<b>1,599,847</b>	<b>1,563,590</b>	<b>1,563,590</b>	<b>1,538,014</b>	<b>1,521,672</b>	<b>1,514,408</b>	<b>1,511,211</b>	<b>1,511,211</b>	<b>1,508,306</b>	<b>1,505,401</b>
<b>ADJUSTMENTS</b>													
<b>Honoring 1966 Leases</b>													
Deduct-Rent Revenue as Booked	(100,748)	(108,862)	(158,643)										
Add Back - Revenue from HGA/INOVA per Agreement	1,000,000	1,000,000	1,000,000	1,375,000	1,375,000	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000	2,125,000	2,125,000	2,083,333
Deduct - Effective 1966 Building Lease Payment	(147,311)	(147,311)	(147,311)	(200,731)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)
Deduct - Unwritten 1968 Addition Lease - 24 beds	(20,442)	(20,442)	(20,442)	(27,855)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)
Deduct - Effective 1966 Land Lease #1	(28,392)	(28,392)	(28,392)	(38,688)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)
Deduct - Effective 1966 Land Lease #2 (fixed)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)
Deduct - 1977 Lease for 3rd Floor of MOB	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)
Deduct - 1979 Lease of PT and storage space	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)
<b>Adjustment of Rental of Land &amp; Building</b>	<b>678,627</b>	<b>672,513</b>	<b>620,732</b>	<b>1,083,245</b>	<b>1,012,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,762,116</b>	<b>1,762,116</b>	<b>2,083,333</b>
<b>Eliminating Items Expensed</b>													
Add back - Amortization of Goodwill	11,377	11,377	11,377										
Add back - Condo Fees (Lakeside Plaza)		13,748	15,845										
Add back - Depreciation on Lakeside Condos		32,386	55,907										
<b>Adjustment for Expense Elimination</b>	<b>11,377</b>	<b>57,511</b>	<b>83,129</b>										
<b>Adjusted Net Income</b>	<b>816,131</b>	<b>757,919</b>	<b>704,231</b>	<b>1,083,245</b>	<b>975,659</b>	<b>1,262,116</b>	<b>1,236,540</b>	<b>1,245,774</b>	<b>1,254,652</b>	<b>1,258,919</b>	<b>1,762,116</b>	<b>1,759,211</b>	<b>2,080,426</b>
<b>Cumulative Adjusted Net Income</b>	<b>1,675,097</b>	<b>2,491,228</b>	<b>3,249,146</b>	<b>3,953,378</b>	<b>5,038,623</b>	<b>6,012,482</b>	<b>7,274,598</b>	<b>8,511,138</b>	<b>9,756,912</b>	<b>11,011,784</b>	<b>12,270,683</b>	<b>14,032,799</b>	<b>15,792,009</b>

J.APP. 5961

SOURCE:

Financial Statements:

Accountant: No Financial Statements Available

Income Statement As Reported	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06
Revenue											
Gross Profit											
Dividends											
Rental (appears to be net)											
Interest and Dividends											
Recovery of Bad Debts											
Other											
<b>Total Revenue</b>											
Total Expenses											
Amortization of Goodwill											
Collection Fees											
Depreciation (P,P&E)											
Interest											
Bad Debts											
Rents											
Commissions											
Office Supplies											
Professional Fees											
Salaries and Benefits											
Cleaning											
Condo Fees (Lakeside Plaza)											
Taxes											
Contributions											
Other											
<b>Total Expenses**</b>											
<b>Net Income as Reported</b>											
<b>Cumulative Net Income as Reported</b>											
<b>ADJUSTMENTS</b>											
<b>Honoring 1966 Leases</b>											
Deduct-Rent Revenue as Booked											
Add Back - Revenue from HGA/INOVA per Agree	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	10,640,645
Deduct - Effective 1966 Building Lease Payment											
Deduct - Unwritten 1966 Addition Lease - 24 beds											
Deduct - Effective 1966 Land Lease #1											
Deduct - Effective 1966 Land Lease #2 (fixed)											
Deduct - 1977 Lease for 3rd Floor of MOB											
Deduct - 1979 Lease of PT and storage space											
Adjustment of Rental of Land & Building	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	10,640,645
<b>Eliminating Items Expensed</b>											
Add back - Amortization of Goodwill											
Add back - Condo Fees (Lakeside Plaza)	-	-	-	-	-	-	-	-	-	-	-
Add back - Depreciation on Lakeside Condos											
Adjustment for Expense Elimination	-	-	-	-	-	-	-	-	-	-	-
<b>Adjusted Net Income</b>	<b>2,125,000</b>	<b>2,125,000</b>	<b>2,125,000</b>	<b>2,125,000</b>	<b>2,125,000</b>	<b>2,125,000</b>	<b>2,125,000</b>	<b>2,562,500</b>	<b>2,562,500</b>	<b>2,562,500</b>	<b>10,640,645</b>
<b>Cumulative Adjusted Net Income</b>	<b>19,997,438</b>	<b>22,122,438</b>	<b>24,247,438</b>	<b>26,372,438</b>	<b>28,497,438</b>	<b>30,622,438</b>	<b>32,747,438</b>	<b>35,309,938</b>	<b>37,872,438</b>	<b>40,434,938</b>	<b>51,075,583</b>

J.APP. 5962

**Commonwealth of Virginia vs. Tauber, et. Al.**  
**Reconciliation of Complainants Accounting to Respondents Accounting**

ENTITY:	JMH	JMH	JMH	JMH	JMH	JMH	JMH	JMHC	JMHC	JMHC	JMHC	JMHC
SOURCE:	Fin Stmt	<b>Missing</b>	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt
Period Ended:	<u>Oct-65</u>	<u>Oct-66</u>	<u>Oct-67</u>	<u>Oct-68</u>	<u>Oct-69</u>	<u>Oct-70</u>	<u>Nov-70 to June-71</u>	<u>Jun-72</u>	<u>Jun-73</u>	<u>Jun-74</u>	<u>Jun-75</u>	<u>Jun-76</u>
Net Income as Reported	(140,826)	(118,076)	6,212	15,359	(170,682)	172,192	51,565	208,009	139,974	10,388	122,414	113,027
<b>Adjusted Net Income per Complainant</b>	<b>\$(123,132)</b>	<b>\$(118,076)</b>	<b>\$ 6,710</b>	<b>\$ 13,971</b>	<b>\$(165,398)</b>	<b>\$ 174,684</b>	<b>\$ 50,799</b>	<b>\$ 201,400</b>	<b>\$ 131,008</b>	<b>\$ (882)</b>	<b>\$ 108,989</b>	<b>\$ 165,073</b>
1 Net Loss (Income) from 1965-1971	123,132	118,076	(6,710)	(13,971)	165,398	(174,684)	(50,799)					
2 Difference between Income Tax as reported and Respondent's Adjustments								425	5,004	11,710	14,726	1,524
3 Difference in Mortgage Interest								(1,345)	(1,427)	(1,602)	(1,612)	
4 Subordinate loan										(21,573)	(23,676)	(25,985)
5 Rental of Land and Buildings as Recorded												(1,358)
6 Effective 1966 Hospital Lease												(19,984)
7 Effective 1968 Hospital Addition Lease												(2,773)
8 Effective 1966 Land Lease #1												(3,852)
9 Effective 1966 Land Lease #2												(1,582)
10 Loss on Lost Creek (Respondents Error)												
11 1977 - 3rd Floor MOB Lease												
12 1979 - PT and Storage Space Lease												
13 Net Income as Reported JCA												
14 Rent Revenue as Recorded by JCA												
15 Amortization of Goodwill												
16 Condo Fees - Lakeside												
17 Depreciation on Lakeside												
18 Lease Payment per Respondent												
19 "Ineligible Portion of Net HGV/INOVA"												
20 Letter Agreement vs. INOVA Lease												
22 Final Settlement Payment												
Remaining Difference								(1)	(2)	(2)	(2)	1
Income (Over) Under Respondents	123,132	118,076	(6,710)	(13,971)	165,398	(174,684)	(50,799)	(921)	3,575	(11,467)	(10,564)	(54,009)
<b>Adjusted Net Income Per Respondent</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 200,479</b>	<b>\$ 134,584</b>	<b>\$ (12,349)</b>	<b>\$ 98,425</b>	<b>\$ 111,064</b>
Cumulative Complainants Income (Over) Under Respondents	123,132	241,208	234,498	220,527	385,925	211,241	160,442	159,521	163,096	151,629	141,085	87,056
Complainants Cumulative Net Income (Loss)	\$(123,132)	\$(241,208)	\$(234,498)	\$(220,527)	\$(385,925)	\$(211,241)	\$(160,442)	\$ 40,958	\$ 171,967	\$ 171,085	\$ 280,073	\$ 445,146
Respondents' Cumulative Net Income (Loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 200,479	\$ 335,063	\$ 322,714	\$ 421,139	\$ 532,203
Adjustments to the Accounting												

J.A.P.P. 5963

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**Commonwealth of Virginia vs. Tauber, et. Al.**  
**Reconciliation of Complainants Accounting to Respondents Accounting**

ENTITY:	JMHC	JMHC	JMHC	JMHC	JMHC	JMHC/JCA	JCA	JCA	JCA	JCA	JCA	JCA	
SOURCE:	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Missing	Tax Return	Missing
Period Ended:	Jun-77	Jun-78	Jun-79	Jun-80	Jun-81	Jun-82	Jun-83	Jun-84	Jun-85	Jun-86	Jun-87	Jun-88	
Net Income as Reported	115,128	76,257	127,141	156,882	95,779	464,712	126,127	27,895	370				
Adjusted Net Income per Complainant	\$ 72,019	\$ 198,232	\$ 121,685	\$ 134,587	\$ 184,984	\$ 518,462	\$ 816,131	\$ 757,919	\$ 704,231	\$ 1,083,245	\$ 975,859	\$ 1,262,116	
1 Net Loss (Income) from 1965-1971													
2 Difference between Income Tax as reported and Respondent's Adjustments	26,441	(42,437)	4,249	11,600	(20,042)	(20,416)	(18,970)	(18,970)	(18,970)	(18,961)	(18,961)	(22,409)	
3 Difference in Mortgage Interest													
4 Subordinate loan	(28,518)	(31,299)	(34,350)	(37,699)	(41,375)	(45,409)							
5 Rental of Land and Buildings as Recorded	(2,230)	3,417	6,916	(18,762)	(37,849)	(2,414)							
6 Effective 1966 Hospital Lease	13,202	13,202	13,202	13,202	13,202	13,202	147,311	147,311	147,311	200,731	254,152	254,152	
7 Effective 1968 Hospital Addition Lease	1,832	1,832	1,832	1,832	1,832	1,832	20,442	20,442	20,442	27,855	35,268	35,268	
8 Effective 1966 Land Lease #1	2,544	2,544	2,544	2,544	2,544	2,544	28,392	28,392	28,392	38,688	48,984	48,984	
9 Effective 1966 Land Lease #2	(1,582)	(1,582)	(1,582)	(1,582)	(1,582)	(1,582)	2,406	2,406	2,406	2,406	2,406	2,406	
10 Loss on Lost Creek (Respondents Error)					29,148								
11 1977 - 3rd Floor MOB Lease			3,920	11,760	11,760	11,760	11,760	11,760	11,760	11,760	11,760	11,760	
12 1979 - PT and Storage Space Lease				10,314	10,314	10,314	10,314	10,314	10,314	10,314	10,314	10,314	
13 Net Income as Reported JCA							(126,127)	(27,895)	(370)	-	36,257	-	
14 Rent Revenue as Recorded by JCA							100,748	108,862	158,643				
15 Amortization of Goodwill							(11,377)	(11,377)	(11,377)				
16 Condo Fees - Lakeside								(13,748)	(15,845)				
17 Depreciation on Lakeside								(32,386)	(55,907)				
18 Lease Payment per Respondent							(900,000)	(900,000)	(900,000)	(1,237,500)	(1,237,500)	(1,462,500)	
19 "Ineligible Portion of Net HGV/INOVA"							(45,800)	(45,800)	(45,800)	(83,325)	(83,325)	(98,475)	
20 Letter Agreement vs. INOVA Lease													
22 Final Settlement Payment													
Remaining Difference	-	-	(1)	-	-	-				1			
Income (Over) Under Respondents	11,689	(54,323)	(3,270)	(6,791)	(32,048)	(30,169)	(780,901)	(722,689)	(669,001)	(1,048,031)	(940,645)	(1,220,500)	
Adjusted Net Income Per Respondent	\$ 83,709	\$ 143,909	\$ 118,415	\$ 127,796	\$ 152,916	\$ 488,293	\$ 35,230	\$ 35,230	\$ 35,230	\$ 35,214	\$ 35,214	\$ 41,616	
Cumulative Complainants Income (Over) Under Respondents	98,746	44,423	41,153	34,361	2,313	(27,856)	(808,757)	(1,531,446)	(2,200,447)	(3,248,478)	(4,189,123)	(5,409,623)	
Complainants Cumulative Net Income (Loss)	\$ 517,166	\$ 715,398	\$ 837,083	\$ 971,670	\$ 1,156,634	\$ 1,675,097	\$ 2,491,228	\$ 3,249,146	\$ 3,953,378	\$ 5,036,623	\$ 6,012,482	\$ 7,274,598	
Respondents' Cumulative Net Income (Loss)	\$ 615,912	\$ 759,821	\$ 878,236	\$ 1,006,032	\$ 1,158,948	\$ 1,647,241	\$ 1,682,471	\$ 1,717,701	\$ 1,752,931	\$ 1,788,145	\$ 1,823,359	\$ 1,864,975	
Adjustments to the Accounting													

JAPP. 5964

**Commonwealth of Virginia vs. Tauber, et. Al.**  
**Reconciliation of Complainants Accounting to Respondents Accounting**

ENTITY:	JCA	JCA	JCA	JCA	JCA	JCA	JCA					
SOURCE:	Tax Return	Tax Return	Tax Return	Tax Return	Missing	Tax Return	Tax Return					
Period Ended:	Jun-89	Jun-90	Jun-91	Jun-92	Jun-93	Jun-94	Jun-95	Jun-96	Jun-97	Jun-98	Jun-99	
Net Income as Reported	(9,576)	(16,342)	(7,261)	(3,197)	-	(2,905)	(2,905)					
<b>Adjusted Net Income per Complainant</b>	<b>\$ 1,236,540</b>	<b>\$ 1,245,774</b>	<b>\$ 1,254,852</b>	<b>\$ 1,258,919</b>	<b>\$ 1,762,116</b>	<b>\$ 1,759,211</b>	<b>\$ 2,080,428</b>	<b>\$ 2,125,000</b>	<b>\$ 2,125,000</b>	<b>\$ 2,125,000</b>	<b>\$ 2,125,000</b>	
1 Net Loss (Income) from 1965-1971												
2 Difference between Income Tax as reported and Respondent's Adjustments	(22,409)	(22,409)	(22,409)	(22,409)	(28,787)	(28,270)	(29,304)	(29,304)	(29,304)	(29,304)	(29,304)	
3 Difference in Mortgage Interest												
4 Subordinate loan												
5 Rental of Land and Buildings as Recorded												
6 Effective 1966 Hospital Lease	254,152	254,152	254,152	254,152	254,152	254,152						
7 Effective 1968 Hospital Addition Lease	35,268	35,268	35,268	35,268	35,268	35,268						
8 Effective 1966 Land Lease #1	48,984	48,984	48,984	48,984	48,984	48,984						
9 Effective 1966 Land Lease #2	2,406	2,406	2,406	2,406	2,406	2,406						
10 Loss on Lost Creek (Respondents Error)												
11 1977 - 3rd Floor MOB Lease	11,760	11,760	11,760	11,760	11,760	11,760						
12 1979 - PT and Storage Space Lease	10,314	10,314	10,314	10,314	10,314	10,314						
13 Net Income as Reported JCA	25,576	16,342	7,264	3,197	-	2,905	2,905					
14 Rent Revenue as Recorded by JCA												
15 Amortization of Goodwill												
16 Condo Fees - Lakeside												
17 Depreciation on Lakeside												
18 Lease Payment per Respondent	(1,462,500)	(1,462,500)	(1,462,500)	(1,462,500)	(1,878,760)	(1,845,000)	(1,912,500)	(1,912,500)	(1,912,500)	(1,912,500)	(1,912,500)	
19 "Ineligible Portion of Net HGV/INOVA"	(98,475)	(98,475)	(98,475)	(98,475)	(126,502)	(124,230)	(128,775)	(128,775)	(128,775)	(128,775)	(128,775)	
20 Letter Agreement vs. INOVA Lease					(37,500)	(75,000)	41,667					
22 Final Settlement Payment												
Remaining Difference												
Income (Over) Under Respondents	(1,194,924)	(1,204,158)	(1,213,236)	(1,217,303)	(1,708,655)	(1,706,711)	(2,026,007)	(2,070,579)	(2,070,579)	(2,070,579)	(2,070,579)	
<b>Adjusted Net Income Per Respondent</b>	<b>\$ 41,616</b>	<b>\$ 41,616</b>	<b>\$ 41,616</b>	<b>\$ 41,616</b>	<b>\$ 53,461</b>	<b>\$ 52,500</b>	<b>\$ 54,421</b>	<b>\$ 54,421</b>	<b>\$ 54,421</b>	<b>\$ 54,421</b>	<b>\$ 54,421</b>	
Cumulative Complainants Income (Over) Under Respondents	(6,604,547)	(7,808,705)	(9,021,941)	(10,239,244)	(11,947,899)	(13,654,610)	(15,680,617)	(17,751,196)	(19,821,775)	(21,892,354)	(23,962,933)	
Complainants Cumulative Net Income (Loss)	\$ 8,511,138	\$ 9,756,912	\$ 11,011,764	\$ 12,270,683	\$ 14,032,799	\$ 15,792,009	\$ 17,872,438	\$ 19,997,438	\$ 22,122,438	\$ 24,247,438	\$ 26,372,438	
Respondents' Cumulative Net Income (Loss)	\$ 1,906,591	\$ 1,948,207	\$ 1,989,823	\$ 2,031,439	\$ 2,084,900	\$ 2,137,400	\$ 2,191,821	\$ 2,246,242	\$ 2,300,663	\$ 2,355,084	\$ 2,409,505	
Adjustments to the Accounting												

J.A.P. 5965



**Commonwealth of Virginia vs. Tauber, et. Al.**  
**Reconciliation of Complainants Accounting to Respondents Accounting**

ENTITY:  
SOURCE:

Period Ended: Jun-00 Jun-01 Jun-02 Jun-03 Jun-04 Jun-05 Jun-06 Cumulative

Net Income as Reported

Adjusted Net Income per Complainant	\$ 2,125,000	\$ 2,125,000	\$ 2,125,000	\$ 2,562,500	\$ 2,562,500	\$ 2,562,500	\$ 10,640,645	\$ 51,075,583
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1 Net Loss (Income) from 1965-1971								160,442
2 Difference between Income Tax as reported and Respondent's Adjustments	(29,304)	(29,304)	(29,304)	(35,337)	(35,337)	(35,337)	(8,834)	(620,427)
3 Difference in Mortgage Interest								(5,986)
4 Subordinate loan								(289,884)
5 Rental of Land and Buildings as Recorded								(52,280)
6 Effective 1966 Hospital Lease								2,735,108
7 Effective 1968 Hospital Addition Lease								379,544
8 Effective 1966 Land Lease #1								527,148
9 Effective 1966 Land Lease #2								17,798
10 Loss on Lost Creek (Respondents Error)								29,148
11 1977 - 3rd Floor MOB Lease								180,320
12 1979 - PT and Storage Space Lease								154,710
13 Net Income as Reported JCA								(59,946)
14 Rent Revenue as Recorded by JCA								366,253
15 Amortization of Goodwill								(34,131)
16 Condo Fees - Lakeside								(29,593)
17 Depreciation on Lakeside								(88,293)
18 Lease Payment per Respondent	(1,912,500)	(1,912,500)	(1,912,500)	(2,306,250)	(2,306,250)	(2,306,250)	(576,563)	(39,006,563)
19 "Ineligible Portion of Net HGV/INOVA"	(128,775)	(128,775)	(128,775)	(155,287)	(155,287)	(155,287)	(38,822)	(2,582,040)
20 Letter Agreement vs. INOVA Lease								(70,833)
22 Final Settlement Payment							(10,000,000)	(10,000,000)

Remaining Difference

							(20)	(26)
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Income (Over) Under Respondents

	(2,070,579)	(2,070,579)	(2,070,579)	(2,496,874)	(2,496,874)	(2,496,874)	(10,624,239)	(48,289,531)
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Adjusted Net Income Per Respondent

	\$ 54,421	\$ 54,421	\$ 54,421	\$ 65,626	\$ 65,626	\$ 65,626	\$ 16,406	\$ 2,786,052
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Cumulative Complainants Income (Over) Under Respondents

	(26,033,512)	(28,104,091)	(30,174,670)	(32,671,544)	(35,168,418)	(37,665,292)	\$ (48,289,531)	
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Complainants Cumulative Net Income (Loss)

	\$ 2,125,000	\$ 4,250,000	\$ 6,375,000	\$ 8,937,500	\$ 11,500,000	\$ 14,062,500	\$ 24,703,145	\$ 51,075,583
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Respondents' Cumulative Net Income (Loss)

	\$ 54,421	\$ 108,842	\$ 163,263	\$ 228,889	\$ 294,515	\$ 360,141	\$ 376,547	\$ 2,786,052
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Adjustments to the Accounting

J.A.P. 5966

COMMONWEALTH OF VIRGINIA, ex. rel.  
MARK EARLEY, ATTORNEY GENERAL OF  
VIRGINIA; MARK EARLEY, ATTORNEY  
GENERAL OF THE COMMONWEALTH OF  
VIRGINIA; and THE COMMONWEALTH'S  
ATTORNEY FOR THE CITY OF  
ALEXANDRIA,

Complainants,

v.

LASZLO N. TAUBER, ET AL.,

Respondents.

CHANCERY NO. 961241

## RESPONDENTS' ACCOUNTING

The following is Respondents' accounting of the assets and liabilities of Jefferson Memorial Hospital, Inc. ("JMHI"). The following accounting provides the beginning and ending dates of the accounting period; the identity of the assets included in the accounting, including the type of asset, nature of ownership, the identity of each instrument evidencing the right of ownership or use, and the beginning date of the accounting for each asset, and any change in ownership or entitlement of use; the identity of the Jefferson Memorial Hospital Joint Venture ("JMHJV") assets that are included in the accounting and those that are excluded; the identity of the income of JMHJV that is included in the accounting and the income that is excluded from the accounting; and the identity of the sums with regard to the settlement proceeds that are included

and excluded from the accounting. The accounting will be the subject of expert testimony. All exhibits to this accounting are contained in the two volume Appendix to Respondents' amended interrogatory answers and the exhibits attached to Respondents' second amended interrogatory answers. The method of accounting utilized is to examine and trace JMHI's assets and liabilities to determine whether there are any profits, income or value attributable to JMHI that the Commonwealth of Virginia may claim under a constructive trust. As explained below, the results of this accounting demonstrate that there are no profits, income or value attributable to the assets and liabilities of JMHI subject to a constructive trust.

While the Virginia Supreme Court decision suggests that the accounting should begin as of April 18, 1973 (the date of the revocation of JMHI's charter), the Commonwealth may seek to void the June 30, 1971 transfer of assets and liabilities because a failure to void that transaction results in the removal of every JMHI asset as of that date. Accordingly, to provide a complete accounting analysis, and to assess the outcome should the Commonwealth make such a contention, this analysis accounts for JMHI assets from these two alternative dates.

Transactions prior to June 30, 1971 have been deemed outside of the possible range of the accounting. Accordingly, this accounting assumes that the Commonwealth will not be permitted to void the 1964 purchase of a land parcel from JMHI by Dr. Gondor for a purchase price of \$150,000. If the Commonwealth were permitted to do so, then the present value of that amount would also have to be accounted for by the Commonwealth. The present value, at 9% interest, of such purchase price is \$2,809,261 (see Exhibit 1) and would have to be paid by the Commonwealth to claim this land as part of the constructive trust. This accounting also assumes that the Commonwealth will not be permitted to void the 1970 subdivision by which JMHI received fee ownership of a subdivided parcel of land. This accounting assumes a 9% statutory

interest rate for calculating present values, although the precise interest rates to be used will be the subject of expert testimony.

This analysis assumes that the Commonwealth will be permitted to void the June 30, 1971 transaction, and traces all subsequent transactions to the present in order to determine whether any profits, income or value can be attributed to JMHI. Accordingly, the starting point for this accounting analysis is the JMHI balance sheet as of June 1971 ( Exhibit 2).

1. Identifying Possible Assets

Liquid Assets. As reflected on JMHI's June 1971 balance sheet, JMHI possessed cash, notes receivable, accounts receivable, accrued interest receivables, prepaid expenses and deposits in the amount of \$859,426, and fixed assets (land, land improvements, fixed equipment and major movable equipment) of \$433,325.

On the liability side of its balance sheet, JMHI had accounts payable in the amount of \$473,109, accrued expenses in the amount of \$142,701, group hospitalization and medicare contract adjustments in the amount of \$280,111, notes payable in the amount of \$84,503, lease agreement liabilities on equipment of \$280,000, bonds payable of \$319,000, advance deposit liabilities in the amount of \$102,000, and \$3,898 held in escrow. JMHI had a cumulative operating deficit of \$412,619 and, after considering of donated capital in the amount of \$20,051, JMHI had a net deficit of \$392,568.

JMHI's liquid assets, such as cash and receivables, would have been expended to pay off its outstanding liabilities. Accordingly, because JMHI's liabilities at the time exceeded its total assets (including its fixed assets), all of JMHI's liquid assets were consumed to meet its liabilities. Thus, the only assets on the JMHI balance sheet that are subject to tracing to determine whether they generated future profits or increased in value over time are JMHI's fixed

assets.

Fixed Assets. As set forth above, as of June 1971 JMHI had fixed assets totaling \$433,325 comprised of the following: (1) land with a book value of \$147,456; (2) land improvements with a book value of \$1,395; (3) fixed equipment with a book value of \$88,213; and (4) major movable equipment with a book value of \$196,291. These assets will be traced to determine whether they generated any profits or appreciated in value after consideration of any liabilities or expenses associated with these assets.

Operations and License. JMHI had intangible "ongoing business" value as an operating hospital, and a license to operate a hospital as of the date it ceased operations. JMHI's balance sheet reflects that JMHI had a net deficit of \$392,568 as of that date. In addition, the value of JMHI's operations as of that date was negative \$798,000 (See Exhibit 3). Thus, JMHI's operations and license had no value. However, like JMHI's fixed assets, these assets (operations and license) may have generated profits or increased in value at a later date. Thus, the value of these assets of JMHI will be traced into the future to determine whether any profits or value is attributable to them.

Leasehold interests. As of the date JMHI ceased operations, it also possessed leasehold interests in the hospital building and various parcels of land. These leasehold interests were contingent liabilities of JMHI. However, these leasehold interests may be considered assets of JMHI if, under the terms of the leases, JMHI could transfer, assign or sublease its rights in the leaseholds for more than it was required to pay in rent for the property. In order to make such a determination, the starting point is an examination of the terms of JMHI's lease agreements.

JMHI possessed a leasehold interest in the hospital building pursuant to a 1966 lease agreement with JMHA (the lease agreement is Exhibit 4). The terms of the lease provided that

JMHI could lease the hospital building for 40 years, commencing on January 1, 1966, with an initial option to renew for 40 more years, and 19 years thereafter. Annual rent for the building was set at \$80,940, with a provision that on each tenth anniversary of the lease the annual rate would be adjusted by a formula based on the Department of Labor wholesale price index (now called the producer price index). Pursuant to the terms of the lease, JMHI was not permitted to sublease the premise (§6), nor was it permitted to use the leased premises for any purpose other than for the operation of the hospital. The restriction on JMHI's right to sublease the premises forecloses any contention that the Commonwealth may claim that the leasehold interest gives rise to any economic benefit derived from the lease. The prohibition on subleasing contained in the lease should be enforceable given the long duration of the lease agreement and the provision in the lease restricting JMHI from utilizing the premises for anything other than a hospital. Thus, the Commonwealth cannot claim any profits, income or value derived from JMHI's leasehold interests. Nevertheless, to provide a complete analysis, this accounting will assume that JMHI's subleasing of the premises would be permitted.

JMHI also separately leased a 24 bed addition to the hospital that was completed in 1968. No written lease had been entered into as of June 1971, but JMHI accrued on its annual financial statements \$11,232 per year for rental payments for this addition. For purposes of this analysis, the lease for the 24 bed extension is assumed to have the same terms and restrictions as the 1966 lease.

As set forth in JMHI's June 1971 financial statement (Exhibit 2), JMHI also held leasehold interests in land under and surrounding the hospital, in addition to a land parcel that JMHI owned in fee, reflected as a fixed asset on its 1971 balance sheet. Each of these two land leases was for a term of 99 years, commencing in 1966. One land lease had an initial yearly

rental amount of \$15,600, with an escalator provision effective on each tenth anniversary. (See Exhibit 2). The escalator on this lease obligation would require a yearly payment of \$25,879 in 1976, \$47,424 in 1986, and \$161,450 in 1996 (Exhibit 5). The other land lease was for a fixed rental amount of \$2,406 per year.

These building and land leases will be traced to the present to determine if any profits, income or increased value is traceable to JMHI.

## 2. Tracing these assets to the Present

Tracing the assets of JMHI requires an examination of each of the transactions involving JMHI assets since 1971. Accordingly, each of these assets will be traced from transaction to transaction to the present.

Liquid Assets. The first assets that will be traced are JMHI's liquid assets. As of the June 1971 transfer, these assets, such as cash and receivables, were expended in paying off JMHI's liabilities, which exceeded its total assets (liquid assets were completely depleted and no profits or value are traceable to them).

Fixed Assets. There are two transactions that must be examined with respect to JMHI's fixed assets to determine whether these assets generated any profits or value traceable to JMHI. The first transaction is the 1971 transfer of JMHI's assets and liabilities to JMHC. Even though the Court ruled that JMHI's liabilities exceeded its assets as of 1971, the Commonwealth may seek to void this transfer and retain JMHI's fixed assets as of that date on the theory that they may later generate profits or increase in value.

The second transaction that must be examined in tracing the fixed assets of JMHI is the 1975 transfer of JMHI's tangible assets to JMHC. If this transaction is not voided, these tangible assets would be extinguished for purposes of tracing to JMHI. As set forth in the JMHI board

minutes, on January 29, 1975, JMHI sold the fixed assets reflected on its June 1971 balance sheet, and its 20% leasehold interest in the 99 year Hopkins lease to JMHC, in return for JMHC's assumption of JMHI's outstanding liabilities. (These minutes and the agreement of purchase are contained in Exhibit 6.)

The specific terms of this transaction, as reflected in the purchase agreement, were that JMHC would receive JMHI's land and equipment in return for its assumption of the following: (a) \$319,000 in liabilities to bondholders (plus accrued interest of \$11,013.33); (b) an indebtedness to Dr. Richard Palmer of \$72,165; and (c) an indebtedness to JMHI's inhalation therapists in the amount of \$13,566.84.

At the time of the transaction, J. Thorpe Richard, Esq., reported to the JMHC board that the land owned by JMHI had an appraised value of \$188,851 (see Exhibit 6 board minutes), and the equipment was valued at \$85,540 (see Exhibit 6). The land owned by JMHI had a book value on JMHI's June 1971 balance sheet of \$147,456. On the 1971 balance sheet, the fixed equipment had a book value, after depreciation, of \$88,213 and the major movable equipment had a book value, after depreciation, of \$196,291. However, by 1975, the equipment was even four years older and used hospital equipment has very little resale value.

Given the terms of the 1975 transfer, it appears that the transaction was a favorable one for JMHI. However, if the Commonwealth elected to void the transaction and claim the land and equipment, the Commonwealth would be liable for the present value of JMHI's debts that JMHC assumed in that transaction. At a 9% interest rate, the present value of the \$319,000 debt, plus the \$11,013 in interest assumed by JMHC, is \$2,395,192 (see Exhibit 7); the present value of the \$72,165 liability to Dr. Palmer is \$523,764 (see Exhibit 8); and the present value of JMHI's \$13,567 debt is \$98,467 (see Exhibit 9). Accordingly, if the Commonwealth sought to reclaim



the fixed assets owned by JMHI, it must account for liabilities with a present value of \$3,017,423.

Operations and License. The next asset of JMHI that must be examined is the value of its operations and license. The value of the operations of the hospital as of the date JMHI ceased operations was negative \$798,112 (see Exhibit 3). JMHI's financial statements also indicated that the entity had a negative book value of \$392,568. Because there is no positive value for operations as of that date, no value should be attributed to JMHI's license to operate. The value of the hospital's operations continued to be negative during the entire time it was operated by JMHC. Indeed, the value of the hospital's operations as of 1982, the last year that the hospital was operated by JMHC, has been calculated to be negative \$159,000 (a copy of this valuation analysis is Exhibit 10).

During the interim period 1971-1981, the financial records reflect that the hospital had a positive net income in each of these years –\$208,009, \$139,974, \$10,388, \$122,414, \$113,027, \$115,128, \$76,257, \$151,694, \$168,218, and \$108,156. However, no dividends were distributed to shareholders and all income from operations was reinvested in the hospital during this period. Accordingly, no additional profits for the period 1971 through 1982 are attributable to JMHI in valuing hospital operations for the period up to 1982.

JMHC's financial statements indicate that, as of 1982, the hospital entity had a book value of \$763,382. (A copy of the 1982 financial statement is Exhibit 11.) If the Commonwealth elected not to void the 1982 lease with Health Group of Virginia, which resulted in a termination of JMHC's hospital operations, the Commonwealth could seek to claim some portion of the \$763,382 (with interest at 9%) as the liquidation value of the operations attributable to JMHI. As will be explained later in this accounting, the portion of this value that

is attributable to assets not contributed by JMHI (such as the JMHA building and subsequent capital contributions after 1971 into JMHC) cannot be credited to JMHI, and the liabilities of JMHI required to achieve any such tracing, such as rent on the building, must also be deducted from this amount.

However, it is clear that the book value of JMHC as of 1982 cannot be attributed exclusively to JMHI operations. As set forth in the 1973 financial statement of JMHC (Exhibit 12), there were additional capital contributions in the amount of \$220,660 in 1972. This sum, valued to 1982, must be subtracted from the book value of JMHC as of 1982 to calculate a book value attributable to JMHI. This sum, with 9% interest for the period 1973 through 1982, is \$479,249 (see Exhibit 13). In addition, JMHI's rental obligation for this period would have to be accounted for and subtracted.

Moreover, the hospital building that had been transferred from JMHA to JMHC in 1971 was sold in 1975 to JMHIJV for \$240,000, plus the assumption of its remaining mortgage. (See Exhibit 14.) If the hospital building which was never owned by JMHI had a value as of that date of \$240,000 in excess of its remaining mortgage, the market value of this asset with 9% interest for the period 1975 through 1982 must also be subtracted from the book value of JMHC in 1982 (\$763,382) in order to calculate a book value for JMHI at the time. The value of this \$240,000, at 9% to 1982, is \$438,729 (see Exhibit 15). This sum, together with the value attributable to the 1972 capital contribution (\$479,242), must be subtracted from the \$763,382 book value of JMHI as of 1982 and is negative \$154,589.

A redemption of stock in the amount of \$464,964 was made in 1982 in connection with the termination of JMHC's operations. However, because this amount is less than the value, as of 1982, of the building contributed by JMHA and the stock purchased in 1972, both of which

are not attributable to JMHI, no portion of this stock redemption should be credited to JMHI. This distribution was a return to other investors of a portion of other assets (not JMHI's assets) that had been contributed to the hospital during the period after 1971. Because the distribution does not exceed the value of these subsequent contributions, no value should be credited to JMHI by virtue of this distribution.

The Commonwealth may elect to void the 1982 Health Group lease, but this would forego any leasehold profits that would accrue for the period after 1982, including any leasehold rights flowing from the INOVA lease, the October 1992 letter agreement and the INOVA settlement. Thus, the Commonwealth is likely to ratify the Health Group lease, and the hospital operations will no longer be traceable to JMHI as of 1982.

As stated above, the operations of the hospital in 1982 had a negative value. Also, the operating license was non-transferable. (See Rules and Regulations for the Licensors of General and Special Hospitals in Virginia, § 30.11 (January 1, 1977, contained in Exhibit 16, and Virginia Department of Health Rules and Regulations for the Licensors of Hospitals, §30.10 (May 1, 1982), contained in Exhibit 17). Thus, as of 1982, the hospital operations and the operating license had no value.

Leasehold Interests. The accounting analysis for JMHI's leasehold interest in the hospital building requires an examination of the 1966 lease between JMHI and JMHA, the 1971 pooling of assets of JMHI and JMHC, the JMHC sale and leaseback arrangement in 1974, the 1975 agreement to cancel the 1966 lease, JMHI's transfer of these leasehold rights to JMHC in 1976, the subsequent cancellation of the 1966 lease, the JMHI/JMHC assignment of the 1966 lease, JMHC's 1982 lease agreement with Health Group of Virginia, JMHC's 1985 lease agreement with Fairfax Hospital Association (INOVA), the October 1992 JMHI/INOVA letter agreement,

and the JMHI/INOVA settlement agreement.

The 1966 Lease. In accordance with JMHI's 1966 lease agreement with JMHA, JMHI's initial annual rent for the hospital building was \$80,940. After adding the rent of \$11,232 per year for the 1968 addition, the annual rent as of 1971 was \$92,172. (See Exhibit 2, Notes 5 and 6). Pursuant to the rental escalators, this rent amount increases to \$152,909 per year in 1976; to \$277,436 per year in 1986; and to \$359,486 per year in 1996 (see Exhibit 18). These sums should be charged to JMHI and accounted for by the Commonwealth if it seeks to trace the leasehold assets into the future.

The 1971 Pooling of Assets. The first transaction that must be considered in tracing JMHI's leasehold rights is the 1971 pooling of JMHI's assets into JMHC. The Commonwealth will elect to void this transaction to attempt to trace forward to the INOVA settlement. While this election permits the Commonwealth to retain the lease, it must also account for the liabilities of JMHI that were assumed in 1971. The financial benefit to JMHI of that transaction was \$798,000 (the negative value of JMHI as of that date). The present value calculated at 9% interest, totals \$8,175,575 (see Exhibit 9) and must be accounted for and charged against the Commonwealth as a result of its election to void this transaction.

The 1974 Sale and Leaseback. In December 1974, JMHC transferred to JMHI its ownership in the building that it previously had obtained from JMHA and ownership in the land that it previously had obtained from both JMHI and others in return for \$240,000 and an agreement to pay rent on the property at a rate of \$112,000 per year. (See Exhibit 20.) The term of the lease was for 20 years, with a 20-year renewal option. Although the rental amount is lower than that under the 1966 lease, the Commonwealth will elect to void this transaction because if its leasehold rights expire after 20 years the Commonwealth would lose its right to

make any claim under a leasehold interest after 1994, which it must possess to claim any rights in the INOVA settlement. The terms of the agreement provide that the rental amount for the 20-year option period will be negotiated at that time. Thus, unless voided, the Commonwealth would otherwise lose the basis for any claim of entitlement to any of the INOVA settlement monies. Because the Commonwealth will elect to void this transaction, it must account for at least the remaining deficit of \$154,589 that was attributable to hospital operations as of 1982. The present value of this deficit must be charged against any value attributable to the JMHI leasehold. At a 9% interest rate, this amount is a negative \$613,765 (see Exhibit 21).

Cancellation of the Lease by JMHI. In July 1975, JMHI, JMHC and JMHIJV entered into an agreement canceling the 1966 lease agreement due to the execution of a new lease between JMHC and JMHIJV. (See Exhibit 22.) This is another transaction that the Commonwealth will elect to void in order to attempt to trace JMHI's interests to the INOVA settlement.

The 1976 Transfer. In October 1976, JMHI and JMHC assigned their rights in the 1966 lease to Laszlo Tauber, Trustee (see Exhibit 23) in return for "\$10.00 and other valuable consideration." The Commonwealth will elect to void this transaction in order to attempt to trace JMHI's interests to the INOVA settlement.

The Health Group Lease. In 1982, JMHC leased the building to Health Group of Virginia for a period of 10 years. (This lease agreement is Exhibit 24.) The rental amount for the first five years of the lease was \$760,000 per year. The lease further provides, in paragraph 5J, that Health Group is obligated to pay "additional rent" in a sum not to exceed \$20,000 per month (\$240,000 per year) to compensate JMHC for the rental obligations owed by it for the real estate under the hospital building. Because JMHI has no rights to the land as of this date (see fixed assets analysis) this additional rent has no relevance in determining the value of JMHI's

leasehold interest.

Significantly, Health Group rented an additional 22,643 square feet of space that was not subject to the JMHI 1966 lease agreement. The square footage is comprised of a 13,966 square foot third floor in the medical office building, a 1,847 square foot intensive care unit, a 1,312 square foot child care center, a 1,564 square foot physical therapy center, a 1,171 square foot auditorium and a 1,881 square foot 4<sup>th</sup> floor office. In order to determine what portion of the \$760,000 a year rental is attributable to this extra space, the fair market value of that rental space must be determined. For purposes of our analysis, a rate of \$20.83 a square foot for this space is used. This reflects the rate that INOVA paid for unfinished space (the 4<sup>th</sup> floor of the hospital building) in 1985, and constitutes a conservative estimate of the fair market value for improved space in 1982. Utilizing that conservative figure, the annual rental amount for the additional space in 1982 equals \$467,904.

When the rental figure for the additional space is subtracted from Health Group's \$760,000 yearly rental figure, the remaining amount is \$292,096. This reflects what Health Group paid to rent the same space that JMHI had rented. In 1982, JMHI's yearly rental on this space would have reflected that the 1976 escalator had taken effect increasing the rent to \$152,909. In addition, had JMHI sought to transfer its leasehold interests to Health Group in 1982, JMHI would have been required to have its rental escalator take effect immediately.

JMHC also modified its rental agreement with JMHSV to provide that JMHC would pay rent of \$900,000 per year for the hospital building. The Commonwealth will seek to void this transaction since it deprives JMHC of most of the value of the lease agreement with Health Group. However, given the prohibition on subleasing in the JMHI lease agreement, JMHSV could have extracted increased rent of up to \$900,000 in order to agree to the sublease. Thus, the

value of JMHI's leasehold interests would be reduced considerably for the period after 1982.

Thus, if the annual escalator in the 1966 JMHI lease is applied as of 1982, the yearly rental for 1982 is \$270,893. The difference between the JMHI rental amount and the rent paid by Health Group is \$21,203 for 1982, with a present value at 9% interest of \$84,182 (see Exhibit 25). This difference cannot automatically be considered an asset of JMHI because in order to obtain this benefit JMHI would have had to elect to remain as the tenant until 1982 paying yearly rent. JMHI's yearly rental obligation as of 1976 was \$161,059, which suggests that it would not have been economically advantageous for JMHI to have retained the leasehold until 1982.

In 1983, the JMHI rental escalator increases to \$274,143, narrowing the difference to \$17,953, with a present value at 9% interest of \$65,393 (see Exhibit 26). In light of the prohibition on subleasing in the 1966 lease, JMHI would have been compelled to pay rental escalators yearly rather than every ten years. In 1984 and 1985, the JMHI rental escalator increases the rent to \$274,418 and \$277,436, respectively. Thus, for 1984, the value is \$17,678, with a present value of 9% of \$59,075 (see Exhibit 27); for 1985, the rental difference is \$14,660, with a present value at 9% of \$44,944 (see Exhibit 28). Thus, the value of the JMHI leasehold interest for the period in which Health Group leased the premises is \$253,594, which, prior to offsets, must be accounted for as a possible asset of JMHI.

In addition, in order for the Commonwealth to be able to assert its rights under the 1966 lease as of 1982, the Commonwealth must account for all of JMHI's rental obligations for the period 1971 to 1982. The present value of this sum is \$12,449,693 (see Exhibit 29), and must be accounted for and offset against any profits the Commonwealth may claim from the leasehold.

INOVA Lease Agreement. The next transaction respecting the tracing of JMHI's 1966 leasehold interest that must be examined is the 1985 INOVA lease agreement. (A copy of the

lease is Exhibit 30.) This lease was for a period of 20 years, three months.

Pursuant to the JMHJV/INOVA lease agreement, INOVA rented all of the space that Health Group had leased (which was 22,463 square feet more than JMHI), plus the unfinished fourth floor of the building (18,000 square feet) which neither JMHI nor Health Group had leased. The rental figure for the unfinished fourth floor was calculated separately (\$31,250 per month) and is not traceable to JMHI because JMHI never leased this space. The rental amount for the remainder of the space (including the 22,463 square feet that JMHI never leased) was \$1,000,000 for the period July 1985 to July 1987 with an increase to \$1,250,000 for the period July 1987 to April 1992. Accordingly, after subtraction of the rental amount of \$467,904 for the space that JMHI never leased (at a rate of \$20.83 per foot which was the rate for the unfinished fourth floor), the rental amount for the space that had been rented by JMHI was \$532,096.

Pursuant to JMHI's rent escalators, in 1986 it would have been required to pay rent in the amount of \$277,436; for 1987 this figure is \$283,540; for 1988, \$290,345; for 1989, \$306,604; for 1990, \$324,694; for 1991, \$334,110; and for 1992, \$340,124. The difference in rent for this period (\$254,660+\$248,556+\$241,751+\$225,472+\$207,402+\$197,986+\$191,972) constitutes profit potentially attributable to JMHI's leasehold interest. The present value of these rent differentials, at 9%, is \$716,273 (Exhibit 31) + \$641,380 (Exhibit 32) + \$572,312 (Exhibit 33) + \$489,701 (Exhibit 34) + \$413,261 (Exhibit 35) + \$361,926 (Exhibit 36) + \$321,956 (Exhibit 37). These sums total \$3,516,809. However, they must be offset against the remaining liability for rental obligations of JMHI during the period 1971-1982 and the residual sale and leaseback obligations of JMHI.

1992 Letter Agreement. The next transaction that must be examined is the October 14, 1992 letter agreement between JMHJV and INOVA (Exhibit 38.) Under that letter agreement,



INOVA's obligations under the 1985 lease were to be extinguished (including INOVA's obligation to return an operating hospital to JMHI in the year 2005), the parties were to exchange INOVA's office building (the Cambridge property) for the Jefferson hospital building (which JMHI never owned) and the MOB third floor (in which JMHI never had a lease interest), and the Cambridge property was to be rented back by JMHI to INOVA. In addition, pursuant to the letter agreement, INOVA was to be given a right to purchase back the Cambridge property for \$20,000,000 in the year 2005. During the course of the Cambridge lease, INOVA was to pay rent to JMHI in the amount of \$2,050,000 per year through 2002, with a rent escalator after that date. The letter agreement specifically provided that JMHI would lease the land to INOVA for 99 years on a triple net basis at an annual rent of \$1.00 per year. Pursuant to the letter agreement, INOVA closed the hospital at the end of 1992.

The terms of the 1985 INOVA lease should nevertheless be analyzed for purposes of assessing any profits attributable to JMHI's 1966 lease for the period 1992 to 1994. Pursuant to the INOVA lease, rental for the period (including the 22,463 square feet that JMHI never leased) was \$1,750,000 for the period July 1992 - July 1994. After subtraction of the rental amount of \$467,904 for the space that JMHI never leased (at a rate of \$20.83 per foot which was the rate for the unfinished fourth floor), the rental amount for the equivalent space rented by JMHI is \$1,282,096 per year for each of the two years. After subtracting the rental amount required under the 1966 lease for 1993 (\$342,505) and 1994 (\$342,505), the rent differential for 1993 and 1994 is \$939,591 per year.

The present value of these sums which the Commonwealth may claim are traceable to JMHI's leasehold rights is \$1,445,584 for 1993 (see Exhibit 39) and \$1,326,224 for 1994 (see Exhibit 40). Again, these amounts must be offset against the remainder of the liability for rental

obligations of JMHI during the period 1971-1982 and the residual sale and leaseback obligations of JMHI.

The INOVA Settlement. The final transaction that must be examined in tracing JMHI's leasehold interest is the INOVA settlement. (Exhibit 41.)

The INOVA settlement flows directly from JMHJV's efforts to enforce the October 1992 letter agreement. The litigation involved enforcement of the sale of the hospital building by JMHJV as a landlord without disturbing any underlying building leaseholds. Thus, the Commonwealth should have no rights to any portion of the settlement proceeds. Moreover, the monthly settlement payments reflect the rent that JMHJV was going to receive under the letter agreement for renting the Cambridge property to INOVA, not the rent for the hospital building, thus further demonstrating that the Commonwealth should not be entitled to any of these proceeds. Furthermore, the \$10,000,000 lump sum payment under the settlement was the reduced amount negotiated in place of the \$20,000,000 repurchase price for INOVA's option to buy back the Cambridge property in the year 2005, which was to be exchanged for the hospital building under the letter agreement. Thus, neither the monthly payments nor the lump sum payment should be traceable to JMHI, because both directly flow from the hospital building alone, which JMHI never owned.

However, in order to claim some financial interest in a portion of the settlement funds, the Commonwealth will argue that the settlement agreement should be viewed as a continuation of the terms of the 1985 lease agreement. Even if viewed as a continuation of the 1985 lease, the following analysis is conservative in that it does not carve out that portion of the monthly settlement payments that are solely attributable to the rental amount for the Cambridge Court property (\$2,125,000 per year) over and above the INOVA lease (\$1,375,000). This difference

of \$750,000 per year should not in any circumstances be traceable to JMHI.

Pursuant to the terms of the settlement agreement, INOVA pays JMHI \$177,083 per month for the period August 1994 through June 2002 and \$213,541 per month for the period July 2002 through September 2005, with a lump sum payment of \$10,000,000 in October 2005. If the monthly payments are viewed as surrogate rent payments for the INOVA lease, the difference between the yearly rental (\$2,125,000), minus that portion of the rent for the space never leased by JMHI (\$375,000 plus \$467,904), would equal the yearly rental income for the space that JMHI had leased in 1966. This amount, \$1,282,096, reflects the rental amount for the comparable space that JMHI may have had a right to rent during the period. For the 1995-1998 period, JMHI's rent under the 1966 lease would have been \$349,355 in 1995, \$359,486 in 1996, 1997 and 1998. The difference between the monies received from INOVA and the rental obligation of JMHI (\$932,741 in 1995 and \$922,610 in 1996, 1997 and 1998) constitutes the maximum gross profit on the leasehold interest during this period. At 9% interest, the present values of these amounts are \$1,207,926 (Exhibit 42), \$1,096,152 (Exhibit 43), \$1,005,644 (Exhibit 44) and \$922,610 (Exhibit 45).

However, all of these profits for the 1995-1998 period cannot be attributed to JMHI, since there were significant added costs that were necessary in order to obtain and maintain the INOVA income stream. JMHI assumed the costs for insurance, taxes, utilities and maintenance on the building which amount to approximately \$250,000 per year. For the four-year period, with interest at 9%, this totals \$1,143,282. The legal fees and expert fees that were expended to obtain and enforce the settlement should also be subtracted. JMHI paid Shaw Pittman Potts & Trowbridge \$540,000 (which has a present value of \$783,446.86, Exhibit 56); \$348,866.54 was paid by JMHI to Murphy McGettigan Richards & West (present value of

\$520,079.42, Exhibit 57); \$137,672.89 was paid by JMHSV to Margolius Mallios Davis Rider & Tomar (present value of \$199,014.70, Exhibit 58); \$1,264,237.15 was paid by JMHSV to Howrey & Simon (present value of \$1,642,416.70, Exhibit 59); \$950,000 was paid to Baker & Hostetler by JMHSV (present value of \$1,064,452, Exhibit 60); \$196,450.85 was paid to Price Waterhouse by JMHSV (present value of \$240,116.97, Exhibit 61); \$63,581.80 was paid by JMHSV to First Chesapeake Group (present value of \$89,266.11, Exhibit 62); \$61,682.25 was paid to Haas & Dennis by JMHSV (present value of \$88,217.29, Exhibit 63); \$99,282 was paid by JMHSV to Cobb & Associates (present value of \$115,723, Exhibit 64); and \$20,000 was paid by JMHSV to Cardinal Title (present value of \$29,290.33, Exhibit 65). Thus, the present value of the legal fees and expert fees is \$4,772,023. This sum must be subtracted from any profits attributable to JMHI.

Any settlement monies attributable to JMHI must also be reduced by the value of the antitrust lawsuit that JMHSV dismissed as part of the settlement. However, for present purposes no value will be attributed to this significant item, which would further reduce any portion of the INOVA settlement traceable to JMHI.

Future Rights Under The Settlement Agreement. The Commonwealth will seek to assert a right to the INOVA settlement income stream for the period from 1999 through 2005, which has a net present value of \$11,134,576 (Exhibit 50), together with the \$10,000,000 lump sum payment (which has a present value of \$5,583,232, Exhibit 51). To do so, the Commonwealth must account for the rent under the 1966 lease for this period. This obligation, at its present value, constitutes a liability of \$2,090,560 (Exhibit 52). In addition, JMHSV currently incurs maintenance charges on the property in the amount of approximately \$250,000 per year. The present value of this obligation through 2005 is \$1,453,854 (Exhibit 53). Thus, the

Commonwealth's assertion of a right to this continuing income stream would incur an additional \$3,544,414 in liabilities which must be accounted for.

These financial calculations for 1999 and the future show that the Commonwealth may attempt to assert a claim to profits of \$13,173,394 attributable to JMHI (\$11,134,576 + \$5,583,232 - \$2,090,560 - \$1,453,854). However, as stated above, this amount would have to be reduced by all of the liabilities that have been incurred over the years to obtain these profits, as well as a further reduction for the substantial value associated with the dismissal of the antitrust lawsuit.

In 1994, the hospital license had no value. This fact is confirmed in various INOVA internal memoranda. For example, a memorandum from Knox Singleton to the INOVA Board of Trustees (Exhibit 54) stated that Jefferson Hospital lost approximately \$2 million in 1991, lost almost \$1 million in the first five months of 1992, and future losses on hospital operations were projected to be \$150,000 a month, with a present value for such losses through 2005 of negative \$14.1 million.

Similarly, a contemporaneous report on Jefferson Hospital operations prepared for INOVA by outside consultants (Exhibit 55) stated that the financial trends over the 6 years that INOVA had operated Jefferson have declined over time, annual operating losses were projected at between \$3 and \$8 million per year, and the net present value of hospital operations through 2005 was negative \$22 to \$47 million. Because the operations of the hospital at that location had no positive value, the license which was not transferable likewise had no value.

#### Summary

Accordingly, as the foregoing accounting demonstrates, and as shown in the following chart, JMHI's liabilities are greater than its assets, and there are no profits, income or value

attributed to JMHI that can be claimed by the Commonwealth under a constructive trust:

	<u>ASSETS</u>	<u>LIABILITIES</u>
LIQUID ASSETS	None	None
FIXED ASSETS	None	None
OPERATIONS	\$763,382	\$479,249 (1972
(valued as of 1982)	(Book value of	capital infusion)
	JMHC in 1982)	
		\$438,729 (value
		of hospital building)
		<hr/>
		\$916,978
LICENSE	No value	No value
LEASEHOLD INTERESTS		
Pooling of Assets		\$8,175,575
		(present value of
		negative value as
		of 1971)
Sale & Leaseback		\$613,765 present
		value of negative
		\$154,589 liability)
HGV Lease		\$12,449,693
		(present value of rents
		under 1966 lease for
		1971 through 1982)

INOVA Lease

\$253,594 (present value  
of rent differential  
from 1982-1985)

\$716,273 (1986 rent differential,  
at present value)  
\$641,380 (1987 rent differential,  
at present value)  
\$572,312 (1988 rent differential,  
at present value)  
\$489,701 (1989 rent differential,  
at present value)  
\$413,261 (1990 rent differential,  
at present value)  
\$361,926 (1991 rent differential,  
at present value)  
\$321,956 (1992 rent differential,  
at present value)

---

\$3,516,809

Letter Agreement

\$1,445,584 (1993 rent differential,  
at present value)  
\$1,326,224 (1994 rent differential,  
at present value)

---

\$2,771,808

INOVA Settlement

Analysis to Date

\$1,143,282

(maintenance, at present  
value)

\$4,772,023 (legal and expert  
fees, at present value)

\$1,207,926 (1995 rent differential,  
at present value)

\$1,096,152 (1996 rent differential,  
at present value)

\$1,005,644 ( 1997 rent differential,  
at present value)

\$922,610 (1998 rent differential,  
at present value)

---

\$4,232,322

Future Rights

\$11,134,576 (present value of  
income stream)

\$5,583,232 (present value of  
lump sum payment)

\$2,090,560 (present  
value of future rents)

\$1,453,854 (present  
value of future  
maintenance)

GRAND TOTAL


\$28,255,724

\$31,615,731



Dated: April 30, 1999

Long Aldridge & Norman LLP

A handwritten signature in dark ink, appearing to read "Cameron Cohick", is written over a horizontal line.

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## CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Respondents' Accounting was served by first class mail, postage prepaid, on this 30th day of April, 1999, to:

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VIRGINIA:

IN THE CIRCUIT COURT OF THE CITY OF ALEXANDRIA

COMMONWEALTH OF VIRGINIA, ex. rel.  
MARK EARLEY, ATTORNEY GENERAL OF  
VIRGINIA; MARK EARLEY, ATTORNEY  
GENERAL OF THE COMMONWEALTH OF  
VIRGINIA; and THE COMMONWEALTH'S  
ATTORNEY FOR THE CITY OF  
ALEXANDRIA,

Complainants,

v.

LASZLO N. TAUBER, ET AL.,

Respondents.

FILED  
CLERK OF COURTS  
CITY OF ALEXANDRIA  
JUL 16 4 35 PM '99  
CHANCERY NO. 961241  
BY CLERK OF COURT

SUPPLEMENT TO RESPONDENTS' ACCOUNTING

Respondents hereby submit this Supplement to Respondents' Accounting of the assets and liabilities of Jefferson Memorial Hospital, Inc. ("JMHI"), which was filed May 1, 1999 (the "Accounting").

This Supplement identifies and provides additional exhibits to the Accounting, and refines the calculation of certain expenses incurred by Jefferson Memorial Hospital Joint Venture ("JMHJV") that must be deducted from any profits, income or value attributable to JMHI that the Commonwealth of Virginia may claim under a constructive trust. The additional exhibits, consisting of financial statements and tax returns, are described in Sections A and B, below, and

are attached hereto. The deductions are discussed in Section B, below.

A. Financial Statements

On page 8 of the Accounting, Respondents set forth information relating to the net income of Jefferson Memorial Hospital Corporation that is shown on financial statements for JMHC for the years 1971 through 1981. The financial statements for 1973, 1975 and 1982 are attached to the Accounting as Exhibits 11, 12 and Exhibit 14. Attached hereto, as Exhibits 66-73 to Respondents' Accounting, are JMHC financial statements for 1972, 1974, 1976, 1977, 1978, 1979, 1980 and 1981. Attached hereto, as Exhibits 74-76 to Respondents' Accounting, are financial statements for Jefferson Corporation of Alexandria for 1983, 1984 and 1985. Attached hereto, as Exhibits 77-80 to Respondents' Accounting, are financial statements for JMHSV for 1981, 1982, 1983 and 1984.

B. Deductions for Expenses Incurred by JMHSV, and JMHSV Tax Returns

On pages 17-19 of the Accounting, Respondents address the amount of net income from the INOVA settlement that could potentially be included in the constructive trust. As pointed out at page 18 of the Accounting, not all of the profits for the 1995-1998 period can be attributed to JMHI, because JMHSV was required to incur costs, including expenses for insurance, taxes, utilities and maintenance of the hospital building, in order to obtain and maintain the INOVA income stream. At page 18 of the Accounting, Respondents estimated those costs at \$250,000 per year for 1995, 1996, 1997 and 1998. The JMHSV tax returns for those years show that the operating expenses were \$189,880 for 1995, \$208,499 for 1996, \$217,662 for 1997 and \$239,099 for 1998.

At 9% interest, the present values through December 31, 1998 the present values of these

operating expenses, are \$245,900.11, \$247,717.66, \$237,251.58 and \$239,099. For the four-year period 1995-1998, these amounts total \$969,968.35, which is \$173,313.70 less than the estimated \$1,143,282 figure previously included in the Accounting. This \$969,968.35 amount must be subtracted from any profits attributable to JMHI for the 1995-1998 period. The tax returns for JMHI from 1986 to 1998 are attached hereto as Exhibits 81-93 to Respondents' Accounting.

Dated: July 16, 1999

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CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Supplement to Respondents' Accounting  
was served by hand delivery on July 16, 1999, upon:

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ALEXANDRIA,

**v.**

### Respondents.

## COMPLAINANTS' ACCOUNTING

Robert E. Zich

J.APP. 5997



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## **I) INTRODUCTION AND BACKGROUND**

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Arthur Andersen LLP was engaged by the law firm of Lawson & Frank, P.C., counsel for the Attorney General of the Commonwealth of Virginia and the Commonwealth's Attorney for the City of Alexandria, to prepare an accounting of the assets and liabilities of Jefferson Memorial Hospital, Inc., in accordance with generally accepted accounting principles and the Order entered by the Court on March 3, 1997. I am the partner responsible for this engagement. My curriculum vitae is attached to this report at Appendix I.

As part of the prior proceedings of this matter, I made a thorough evaluation of the financial operations of Jefferson Memorial Hospital for the years 1963 through 1975 based on a significant historical archive of accounting documents. Based on this review, my conclusions as presented at trial indicated that, for this time period, the hospital:

- experienced exceptional growth in the years from inception through 1975. Jefferson Memorial Hospital had generated income in amounts over its reported expenses by year two without supplemental means of hospital income such as grants or donated monies.
- operated under a higher than optimal costs structure in that it did not own its operating assets. The hospital paid more out in leases than it would have been responsible for had it serviced the building's mortgage and purchased the equipment outright.
- gave every indication in its financial statements that it was a viable going concern, and had demonstrated increased levels of profitability in most of its first 10 years.
- The reorganizations of the Hospital's operating entity appeared to be done with the primary intent of creating financial gain for the original investor group.

It is important to note that, even in the best of circumstances, the majority of health-care facilities are likely to experience considerable financial difficulties due to start-up factors in the early years of operation. The immense depreciation charges taken, coupled with lower revenues in the initial years of existence will virtually guarantee a negative impact on earnings. Expenses tend to exceed costs in the short term due to a combination of high fixed costs and the slow but steady ramp-up of patient volumes through the attraction of physicians and patients. This is not necessarily a foreshadowing of failure of a not-for-profit health care venture, particularly in the present case where the hospital's designed capital structure led to the revocation of its 501(c)(3) status.

The Circuit Court for the City of Alexandria ruled that the "Complainant [The Commonwealth] is entitled to the relief sought in the Bill of Complaint. The Court will enter a declaratory judgment that the assets of

Jefferson Memorial Hospital, Inc. (JMHI) remain in the hands of Respondents as trustees; a custodian will be appointed to administer the assets; an accounting will be ordered; and a constructive trust imposed on all assets of JMHI.” This ruling was affirmed on appeal by the Virginia Supreme Court on April 17, 1998.

The initial analysis and the court rulings serve as the starting basis for the accounting presented herein. The scope and content of this production finds its definition in the rulings of the Alexandria City Circuit Court, by virtue of its Order dated March 3, 1997, which established the requirements and parameters for the parties’ accountings. Specifically, the Court directed the Respondents to “prepare and submit under oath a full and complete accounting of all assets and liabilities that are the subject of this Decree...and Complainant shall respond within thirty (30) days of the receipt, which accountings shall disclose all rents, issues, profits, accretions and benefits, tangible and intangible which have accrued therefrom...”

## **II) ASSIGNMENT AND DOCUMENTS CONSIDERED**

---

I have been asked to render an independent accounting in accordance with the criteria set forth by the Court. In order to render this opinion, I have relied on information extracted from an analysis of a substantial number of documents, records, accounts and other documents produced to the firm in the course of this engagement.

Based on these sources, an accounting has been rendered herewith which has been prepared in accordance with Generally Accepted Accounting Principles as to the operations of the Jefferson Memorial Hospital from its inception to the present day.

Additionally, I have obtained and read the Judicial Council of Virginia's Manual for Commissioners of Accounts in an effort to insure that the accounting as prepared comports with the usual and customary fiduciary accountings prepared and submitted under the supervision of the Commissioner of Accounts for the Circuit Court of the City of Alexandria.

I have relied on the audited financial statements, income tax returns, third party payor statements, corporate minutes, correspondence and lease agreements, as they have been produced by the Respondents; and in the event of the absence of these data sources, other underlying documents have been used in specific cases. In certain instances, documents produced reflect mere "paper transactions" for which I found no corroborating data, or for which I have found evidence that questions the validity of the transaction referenced. In these and other instances, documents produced contain references to transactions that are purported to have taken place, but have been ruled to be invalid. My analysis is focused primarily on the substance of the transactions and not only the form and structure of each deal. This accounting makes appropriate adjustments to reverse the effect of these invalid transactions.

An examination of records reveals that the Respondents commingled funds with the trust assets. The basic accounting concept of the "business entity" prohibits this combination of trust assets with any other business organization or individual. This concept requires that "activities of each business should be kept separate from

the activities of other businesses and from the personal financial activities of the owner(s).”<sup>1</sup> This commingling distorts the actual financial performance of the hospital entity as documented in the records of JMHI.

The source for a majority of this accounting was obtained from the financial statements of the Hospital’s operating entity, audited by certified public accountants. As referenced in the Auditors’ Reports, an auditor’s responsibility is to examine the books and records of the company in accordance with generally accepted auditing standards and determine whether the financial statements present fairly the results of operations in conformity with generally accepted accounting principles. Without exception for the years ended October 31, 1967 through June 30, 1982, the auditors issued an unqualified or “clean” opinion meaning that the auditors believed that the financial statements were presented in conformity with generally accepted accounting principles applied on a consistent basis, and include all necessary disclosures. This accounting relies on these financial statements and auditors’ opinions. For this reason, I have used the underlying amounts presented in the financial statements unless source documents provided to me indicate errors or omissions in those financial statements.

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<sup>1</sup> Accounting Principles, 5<sup>th</sup> ed. Hermanson, Edwards & Maher (Irwin 1992), p.22.

### **III) SUMMARY OF EXPERT OPINIONS**

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The accounting presented herein is prepared as a summary of business transactions and other activities conducted by the Respondent trustees as reflected in their accounting records, with proper adjustments made to reflect the transactions invalidated by the Court. The accounting serves to calculate the income generated by the assets held by the Respondents in trust. Note that there is no proscribed format in accounting authoritative literature for an "accounting." My analysis here is a function of the direction provided by the Court and the principles embodied within the Manual for Commissioners of Accounts. Counsel has informed me that it is well settled in Virginia that trustees are regarded as fiduciaries, and as such they are charged with the duty to maintain appropriate records and to deal with the trust estate in a manner that protects and enhances the same. The Respondents did not infuse capital that would have enhanced the financial position of the hospital; rather the actions of the Joint Venture served to impair the fiscal stability of JMHI. Further, there are generally accepted conventions governing the accounting responsibilities of those trustees, which include at the very least, maintenance of discrete records, and an obligation to keep trust assets and funds separate and apart from all others, without commingling with the resources of any other individual or entity, no matter how closely related. It is my opinion that the respondents did not always adhere to these conventions.

In my opinion, the sum subject to the constructive trust of Jefferson Memorial Hospital, Inc. as of June 30, 1999 is \$27,083,528. Additionally, I am of the opinion that \$24,489,583 will accrue to the trust from July 1, 1999 through October 31, 2005. Therefore, the total sum subject to the constructive trust, including sums already accrued and sums expected to accrue in the future, is \$51,573,111. Note that all amounts presented in this report are stated in terms of historical dollars. Below, I discuss the bases and calculations of these amounts.

#### **A) DESCRIPTION OF ENTITIES**

Operation of a charitable hospital was the stated business purpose of Jefferson Memorial Hospital, Inc. (JMHI) (see Exhibit 9). This accounting addresses the activity of two entities: (1) the entity responsible for the operations of the Jefferson Memorial Hospital and (2) Respondents' various partnerships which, at various times, purport to own and to lease to the Hospital the building, land and equipment used in the course of the

Hospital's operations. The former is referred to as Jefferson Memorial Hospital and the latter as the Joint Venture.

### **1) Jefferson Memorial Hospital**

The name of the entity under which Jefferson Memorial Hospital was operated changed periodically over time, however the substance of its operations remained continuous and intact. As described in a undated document drafted by Bernard Krakow, Esquire, regarding the "Steps taken in the Acquisition of the Land and the Construction of the Building For Jefferson Memorial Hospital",

"...The Jefferson Memorial Hospital, Inc. was created in order to avoid the personal liability of the sponsors from malpractice suits. It was decided and accepted unanimously, that the Hospital Corporation's rent would be computed on the following basis – mortgage payment of Seventy thousand eight hundred Dollars (\$70,800.00) plus ten per cent (10%) of the money invested. Under no circumstances will King Street Joint Venture realize more income. All the leases which were made with the King Street Joint Venture have been assigned to the Jefferson Memorial Hospital, Inc." (See Exhibit 364).

Further, Note 1 to the financial statements for JMHI for the year ended October 31, 1967 states: "Jefferson Memorial Hospital opened for occupancy in March, 1965 with a 96-bed capacity. The Hospital is a non-profit corporation managed by a board of directors consisting of 14 physicians. In 1968, an additional 24 beds were opened for occupancy bringing the total capacity to 120 beds." (see Exhibit 191). The Hospital was granted 501(c)(3) tax-exempt status, which the IRS subsequently revoked. The Hospital was also granted exemption from COPN licensing requirements upon enactment of COPN legislation. The right to operate Jefferson Memorial Hospital and to generate income through the treatment and admission of patients to its hospital beds, as embodied in its license, was an asset held by JMHI, that became subject to the constructive trust. While the Hospital began operating in 1965 under the name of JMHI, records purport to indicate that in 1971, operations continued under the name of Jefferson Memorial Hospital Corporation (JMHC). In 1982, the operating entity's name was changed from JMHC to Jefferson Corporation of Alexandria (JCA). Despite these various iterations in corporate name, the substance of the Hospital operation remained constant. The following chart is provided to clarify the various entity names under which the hospital purported to operate.

Per Tax Return

Period	Entity Name	Short Reference	Tax ID #	Date of Incorporation
1/1/1965 – 6/30/1971	Jefferson Memorial Hospital, Inc.	JMH	54-0784092	2/18/1963
7/1/1971 – 3/22/1982	Jefferson Memorial Hospital Corp.	JMHC	54-0784092	6/3/1971
3/23/1982 - Present	Jefferson Corporation of Alexandria	JCA	54-0784092	6/3/1971

For this accounting, “JMH” has been used to refer to the entity responsible for hospital operations. In the years in which JMH is operating under an entity name other than JMH, the short reference has been listed in parentheses as such, “JMH (operating as JCA).” It should be noted that quotations from documents referring to various entities are used throughout this report and have not been modified.

## 2) Joint Venture

Note 2 to the financial statements for JMH for the year ended June 30, 1972 refers to the Joint Venture as, “a partnership whose main source of income was from the rental of the hospital plant to the Hospital.” (see Exhibit 200). While this Note refers specifically to the Respondents’ partnership entity, JMHA, this description holds true for each other partnership utilized by the Respondents in dealing with this hospital. In addition to the lease income from the hospital plant, the Joint Venture also generated income through the lease of land and equipment from time to time to JMH. While the activity of acquiring and leasing physical assets to JMH has remained consistent over time, the Respondents have utilized partnerships formed under different names at various points in time. The following chart is provided to clarify the various entity names under which the Joint Venture has operated.

Per Tax Return

Period	Entity Name	Short Reference	Principal Business Activity	Date Business Commenced
1/1/1963 – 12/31/1965	King Street Joint Venture	KSJV	Real Estate – Investments	1/1/1963
1/1/1966 – 6/30/1971	Jefferson Memorial Hospital Associates	JMHA	Investments	1/1/1963
7/1/1971 – 6/30/75	Non existent – Hospital owns building	N/A	N/A	N/A
7/1/75 – Present	Jefferson Memorial Hospital Joint Venture	JMHJV	Real Estate	7/1/75

For this accounting, “Joint Venture” has been used to refer to the entity purporting to own the hospital building and other physical assets used in the operations of the hospital from time to time. The short reference, noted above, has been listed in parentheses next to Joint Venture to reflect the entity name at a specific time as



such, "Joint Venture (operating as JMHJV)." It should be noted that quotations from documents referring to the various entities are used throughout this report and have not been modified.

## **B) FACTUAL BACKGROUND**

In connection with the previous trial in this matter, I conducted a detailed analysis of the hospital operations from its inception in 1965 through 1975, as reported in its numerous financial statements, income tax returns, corporate minutes, agreements, correspondence and other records and documentation. For purposes of this accounting, I have reviewed not only those documents but also financial statements, income tax returns, corporate minutes, agreements, correspondence and other records and documentation available for the subsequent years of 1976 through the present. In forming the opinions expressed in this accounting, I have relied upon factual events reported in these records as well as upon the Court's opinion, which provides the framework for understanding the factual background of this matter. Relevant events are summarized below.

### **1) 1965 through 1971**

Jefferson Memorial Hospital, Inc., (JMHI) originally was chartered as a for-profit corporation in the state of Maryland and subsequently amended its charter to a charitable, non-profit form when it opened in Alexandria, Virginia as an acute-care hospital in 1965. Laszlo N. Tauber and other Respondents served as directors of the charity. In general, hospitals require significant start-up capital. JMHI, however, was thinly capitalized, relying upon debt for capitalization and leasing, rather than owning, its operating assets. Ownership of these assets purportedly was held by a partnership made up of Dr. Tauber and other Respondents (the "Joint Venture"), many members of which also served as directors of JMHI. The financial statements and tax returns show that this lease arrangement created tax benefits for the Joint Venture by permitting it to claim depreciation and other expenses related to the hospital operating assets.

In 1966, JMHI became a lessee of the hospital building and land pursuant to several lease agreements executed by Laszlo N. Tauber on behalf of JMHI, as lessee, and on behalf of the Joint Venture, as lessor. These agreements are described in detail in the Methodology section of this report.

The Joint Venture amended the original lease to increase the Hospital's rental payments and to require the Hospital to pay all of construction expenses exceeding \$950,000. Construction of the Hospital and virtually all money invested in it by the Respondents was financed through banks. Repayment of these sums and financing of hospital operations were funded by patient fees (including Medicare and Medicaid reimbursements) and third-party payments. In 1968, the Hospital expanded its capacity by twenty-five (25) percent.

Except for a brief period from 1971 to 1975, this segregated ownership structure remained in place throughout the life of the Hospital. The Court determined that this ownership structure allowed the individual Respondents to participate on a relatively risk-free basis. This conclusion was also expressed by Dr. Tauber in a 1989 memorandum to the Joint Venture members in which he stated that the members had little, if any, money invested in the Hospital.

In 1969, the Internal Revenue Service began an investigation of JMHI that resulted in the revocation of its tax-exempt status in January 1972, retroactive to November 1, 1965. As I testified at the previous trial, the revocation of Section 501(c)(3) status was extremely rare. The IRS specifically found that the actions of JMHI's directors directly caused the revocation of its charitable status.

In 1971, during the pendency of the IRS revocation, the Respondents began conducting hospital operations under a different name, Jefferson Memorial Hospital Corporation (JMHC). For that year, JMHC, a for-profit corporation wholly-owned by the Respondents, filed an income tax return reporting the tax identification number of JMHI and stating that it had merged with JMHI, resulting in a mere change of name and place of business. This filing permitted it to claim the benefit of more than \$500,000 in loss carry-forwards generated by JMHI. At the same time, ownership of the building and land purportedly was transferred to the Hospital by the Respondent's partnership. Corporate minutes and correspondence demonstrate the Respondents' awareness that the purported merger was never carried out, and the Court determined that no such merger occurred.

## **2) 1971 through 1975**

After 1971, the Hospital's operations continued uninterrupted and unchanged. Income tax returns continued into the 1990's to report the tax identification number originally issued to JMHI; a number of these

returns continued to be filed in the name of JMHI itself, even after its corporate termination; the account with Blue Cross/Blue Shield remained open; patient accounts remained intact; and in 1972, the Respondents, through counsel, represented to the City of Alexandria that the charity continued in the property as lessee.

Despite the financial difficulties placed upon the Hospital, it remained profitable. Its 1971 tax return revealed a gross profit of \$511,595 and a taxable income of \$219,388. As I previously testified, the Hospital maintained a strong and continuous trend of net earnings, even after revocation of its tax-exempt status when it paid taxes of forty (40) to fifty (50) percent of its income; and its records demonstrate that it operated at a very high capacity, while incurring a low rate of bad debt.

In 1973, the state of Maryland terminated JMHI's corporate status. The Court stated that, upon this event, the assets of JMHI formally passed into the hands of the Respondents as trustees. Prior to this termination, however, the Respondents had ceased to operate the Hospital as a charity as early as 1971.

From 1971 through 1975, the Hospital, while purportedly operating as JMHC, held the status of owner/operator rather than lessee/operator. In 1973, the tax benefits arising from JMHI's loss carry-forwards were exhausted. The Respondents then, in 1974 and 1975, structured a sale and leaseback transfer of the Hospital's building and land to the Joint Venture. To carry out this plan, they once again purported to convey JMHI's assets to JMHC. This purported conveyance occurred, however, subsequent to the termination of JMHI's corporate charter. The Respondents then transferred the Hospital's assets to their Joint Venture by causing the Hospital to redeem stock, which it had issued in 1972 at \$4.00 per share, and, in exchange, to pay bonds valuing the stock at \$6.00 per share. The Hospital then accepted a tender of the bonds as payment for the transfer of its assets to Jefferson Memorial Hospital Joint Venture. The plan was carried out with the expenditure of little or no cash. As I have been informed by counsel, the Court determined that, at the time these transactions transpired, the Respondents were without authority to operate the corporation and that, as a result, these transactions were invalid.

### **3) 1975 through 1982**

In 1975, in consummation of the Respondents' sale and leaseback, a lease agreement was executed purporting to make the Hospital a tenant of the Joint Venture. The Court rendered this lease agreement invalid.

The effects of the sale and leaseback arrangement transferred to the Joint Venture not only a large rental profit but also substantial depreciation and tax benefits.

In or about 1977, the Joint Venture completed construction of a medical office building abutting the hospital building. Pursuant to a lease agreement, the Joint Venture leased to the Hospital the third floor of the new building for an annual rental of \$11,760. The Joint Venture had guaranteed, in order to obtain a COPN for the expansion, that the Hospital's rent for the new area would not exceed this amount. Subsequent to obtaining the COPN, however, the Respondents amended the 1975 lease agreement on several occasions, diverting large sums of the Hospital's rising revenue to the Joint Venture through rent increases. The amendments further required the Hospital to assume payment of a mortgage taken out by the Joint Venture in order to construct their medical office building and to pay off the original construction mortgage encumbering the property. It is notable that payment of the original mortgage purportedly had been assumed by the Joint Venture as consideration for the 1975 sale and leaseback. The effect of these lease amendments was the shifting of profits from the Hospital to the Joint Venture.

#### **4) 1982 through 1992**

In 1982, the Hospital's profitable operations attracted Health Group of Virginia, Inc. (HGV). This corporation sought to acquire control over the Hospital's operations, including its operating rights, liabilities, plant and equipment, and tangible and intangible assets including its accounts receivable, in exchange for annual payments of approximately \$1 million. Of this \$1 million, the parties allocated a maximum of \$240,000 toward the payment of the Hospital's lease obligations owed to the Joint Venture, which included the mortgage previously assumed. While the parties executed a "lease agreement," the concept of a lease understates the fact that, from an accounting perspective, the transaction embodied a transfer of control of all incidents of the Hospital's operating rights. Most importantly, HGV acquired control over the Hospital's license in a COPN-regulated environment.

Soon after execution of the HGV lease agreement, the Joint Venture again amended the Hospital's 1975 lease by raising its rental payments to approximately \$900,000. This increase of several times over the Hospital's original rent transferred all but \$100,000 of the HGV payments to the Joint Venture and out of the

Hospital. Additionally, the Joint Venture agreed to resume responsibility for the mortgage it previously had assigned to the Hospital but reserved for itself the right to terminate the agreement upon thirty (30) days' notice.

In 1985, Fairfax Hospital Systems (INOVA) sought the right to operate the Hospital as a result of its strong performance. INOVA, therefore, acquired HGV's stock for \$5.8 million. On July 3, 1985, in exchange for the Hospital's operational rights, INOVA agreed to pay the Hospital approximately \$1,375,000 annually, which would escalate to approximately \$2.2 million by 2005. On the same date that it entered into the INOVA agreement, the Hospital assigned "all of its right, title and interest" in the INOVA agreement to the Joint Venture. Since that date, the Joint Venture has received all income generated by the Hospital's rights of operation.

#### **5) 1992 through the Present**

In 1992, INOVA sought to terminate the Hospital's operations by purchasing all of its operational rights. During the course of due diligence, a question of title arose which resulted in litigation between INOVA and the Joint Venture. In 1994, the litigants compromised the dispute by a Settlement Agreement entered in the Circuit Court of the City of Alexandria. Pursuant to the Settlement Agreement, INOVA purchased all rights to the Hospital, particularly the right to cease operations. Possession of the land and building reverted to the Joint Venture. In exchange for the totality of the Hospital's operational rights, INOVA has paid since 1994, and will continue to pay until 2005, in excess of \$2 million per year. In 2005, INOVA will make a final lump sum payment of \$10 million.

#### **6) Summary**

A review of the extensive documentation produced confirms my opinion expressed during the course of the previous trial regarding JMHI's economic strength as a going concern. For only three years in the Hospital's early life did it experience negative earnings. Except during the brief period from the opening of the Hospital until October 1966 and for the year ended October 1969, the Hospital consistently generated positive net income. Located in a geographic region characterized by high incomes, supported by third party payors such as Blue Cross/Blue Shield and Medicare and Medicaid, and maintaining a high patient census, the Hospital

accelerated to a position of economic strength. This performance continued, uninterrupted, throughout the Hospital's tenure.

The Hospital's performance easily can be traced by maintaining the status quo established by the 1966 lease agreements, which, after giving effect to the Court's opinion, are the only valid, subsisting lease agreements. By calculating the annual payments due thereunder, observing the income generated by the Hospital and by deducting operational expenses paid, the parties' economic interests are preserved. It must be noted that there occurred significant commingling of Hospital operations with unrelated transactions for the benefit of the Respondents, as the Hospital purchased tax shelters, paid unrelated expenses and acquired condominium units, which had no relation to Hospital operations. The records do not separately report income and disbursements attributable to many of these items. As a result, where the reporting is inadequate, the commingled activities cannot be segregated from the Hospital's own activities. Honoring the 1966 leases, however, yields a conservative reconstruction of the assets and liabilities of JMHI that are subject to the constructive trust imposed by the Court and permits a tracing of the rents, issues, profits, accretions and benefits, tangible and intangible which have accrued therefrom. As will be shown below, the trust assets are significant.

## IV) BASES OF OPINIONS

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### A) ACCOUNTING OVERVIEW

The economic value of any asset, including real estate and assets of production, lies in its ability to generate income for owners or other interested parties. The mechanism for income generation of a hospital is not the hospital facility itself but, more importantly, the hospital (and the license to operate it) as a means of generating net revenue by providing service to patients in exchange for payments from patients and third parties. Regardless of the ownership of the means of service (i.e., equipment, building and land), a hospital's income is primarily generated from caring for patients. The value of the license to operate Jefferson Memorial Hospital is acknowledged in a draft memo that is likely to have been written from Laszlo N. Tauber to the members of the Joint Venture regarding negotiations with INOVA. That memorandum states:

“[t]he real value is the license to operate the hospital. If we loose [sic] it, we are left with a white elephant which would be a disaster. This is a single purpose building. Although we are commercially zoned, any change to the character of the building would require a great deal of investment with a very doubtful outcome.” (see Exhibit 804).

This accounting, therefore, traces the net income derived from the trustee's continued operation of Jefferson Memorial Hospital in 1971 and thereafter, using its assets after electing to terminate its charitable mission.

The net income generated by the operation of Jefferson Memorial Hospital has already been accounted for in the financial statements and income tax returns prepared by the Respondents for JMH. These and other documents demonstrate that, while the name of the entity responsible for hospital operations changed during the period of time subject to this accounting, the nature of the entity and its operations remained constant. Each income tax return prepared on behalf of JMH from 1965 through 1995 (tax returns for 1986, 1988 and 1993 were not produced) reports the same tax identification number (54-0784092), despite the fact that many of these returns were filed bearing different entity names.

As a result of the continuity of JMH's operations as a going concern, the actual figures employed in this accounting to construct the adjusted net income statement for JMH were obtained directly from the financial statements, income tax returns, leases, corporate minutes, correspondence and other documents prepared on

behalf of JMH and produced by the Respondents. In the course of preparing this accounting, I have relied upon the aforementioned documents, and the appropriateness of expenses as reported in the financial statements and income tax returns was not questioned. These unquestioned expenses may include interest on bonds for which underlying assets were not received, salaries for physicians and board members, write-offs of receivables from Joint Venture members, items paid by JMH on behalf of the Joint Venture, and lease transactions for equipment between JMH and the Joint Venture. During our review of the documents produced, we noticed several underlying source documents that brought into question the segregation of expenses between the JMH and the Joint Venture. As an example, the following excerpt was found in an August 22, 1979 memorandum issued to Leslie L. Peters (Hospital President) from Carl E. Linton (Hospital Administrator) regarding the "Allocation and accounting of expenses between the Hospital and the Joint Venture":

"As you know, the Hospital Auditor, Mr. David Mermelstein, C.P.A. is now conducting the annual audit of the Hospital. He has raised a couple of questions which we must resolve. These are the questions...Did the Board of Directors have full knowledge of the total cost of the taxes, utilities, insurance and other support services when it approved a fee of \$.50 per square foot to the Hospital for payment for all expenses other than housekeeping, for the 2<sup>nd</sup>, 4<sup>th</sup>, 5<sup>th</sup> and 6<sup>th</sup> floors? I have explained to Mr. Mermelstein that the Board had agreed to provide all of these services and expenses to the Joint Venture owners of the new building for \$.50 a square foot. His audit reveals that the expenses will be much more than the agreed to \$.50 a square foot. If we charge these expenses he will have to make mention in his Financial Report. These reports are required documents for audit by Medicare, Medicaid and Blue Cross. Further, they will be reviewed by Internal Revenue when they come for spot checks or full audits. He feels that as soon as IRS discovers this treatment of expenses by the Hospital, they will perform a full audit and go much deeper into everything than they normally would. Further, he is concerned that the Stockholders who are not members of the Joint Venture will have a right to cause investigation or even litigation because Hospital funds are being paid or used to pay expenses of the Hospital Joint Venture." (See Exhibit 908)

Although the ultimate resolution of this concern is unknown, issues concerning the payment of Joint Venture expenses with JMH funds exist based on the documents produced. While some of the documents provided contain the necessary information to trace certain transactions, it would have been unduly burdensome to analyze each and every supporting document, which may or may not have been produced, or even exist, to determine the amounts for which JMH was not obligated to pay. For this reason, we have taken the conservative measure of leaving intact the expenses as recorded in the financial statements and income tax returns as reported, which operates to the benefit of the Respondents. Although the magnitude of the



commingling is unknown, a challenge of these expenses would likely lead to greater net income associated with the operations of JMH.

I have preserved the agreements as established by the 1966 building and land lease arrangements for which I discovered no validated amendment or cancellation. In reliance upon the Court's opinion, I have treated as void the lease agreement executed in 1975, and amendments thereto, which would have increased JMH's obligations to the Joint Venture. While recognizing that the 1975 lease is invalid, I have accounted for subsequent lease agreements that benefited JMH by expanding the space in which it conducted its operations. I further have given effect to lease agreements entered into with third parties not related to the Respondents. Additionally, this accounting has not attempted to reverse the effects of the revocation of JMH's tax-exempt status, which the Internal Revenue Service stated was caused by the actions of numerous of the Respondents. Had this revocation not occurred, JMH, being unburdened by taxation, would have reported a greater net income.

The Income Statement Summary for JMH prepared as a part of this accounting quantifies JMH's right to operate Jefferson Memorial Hospital as a going concern and to receive income from those operations as its principle asset. This accounting takes into consideration all reported costs of the operation of Jefferson Memorial Hospital, including depreciation of equipment used, rental and lease payments and the cost of capital (interest). The income statements of JMH show that revenue from its operations consistently exceeded expenses on an annual basis as well as on a cumulative basis. Except for the years ended October 31, 1965, 1966 and 1969, JMH consistently generated net income.

## **B) ACCOUNTING METHODOLOGY/PROCEDURES**

In order to account for the income and expenses generated by the operations of JMH as well as the contributions to and withdrawals of capital from JMH, I employed the following methodology:

1. Extract income generated by hospital operations as reported in the audited financial statements, income tax returns and supporting documents. (Note that the income reflected in the Adjusted Net Income Statement already incorporates total expenses reported by the Respondents.)
2. Adjust rental income and expense calculated in accordance with the 1966 lease agreements as written.
3. Eliminate certain reported expense items that are either unsupported, found by the IRS to be inappropriate, the result of a purported intercompany purchase/sale of the hospital building (which the Court determined was invalid) or other commingled transactions unrelated to the business interest of JMH.
4. Trace, to the extent possible, capital contributed by the Joint Venture members that resulted in a benefit to JMH.

### **1) Net Income as Reported**

The income statements for JMH, as reported by the Respondents, are summarized and can be found in Attachment #1. The section of that Attachment labeled "Income Statement As Reported", reflects the amounts reported in the source document referenced each year in the line labeled "SOURCE." The adjustments that are discussed in the sections below start from, and use, the net income from JMH as reported in the underlying income statements. This methodology segregates JMH's net income, as reported in the financial statements, from that of the Joint Venture. A summary of those reported income statements is provided below. It is important to note that these reported statements (i) include disbursements made pursuant to transactions that the Court has deemed invalid and (ii) fail to properly allocate revenue and disbursements in accordance with the terms of the parties' 1966 lease agreements.

## Summary of Net Income as Reported for JMH from Inception through 1995

(Does not include amounts for the periods ending 10/31/66,  
6/30/86, 6/30/88, 6/30/93 as those documents were not produced)

Total Revenue	\$ 92,560,655
Less: Total Expenses	(\$88,832,906)
Less: Other Revenue and Expenses, net	(\$ 1,077,873)
Less: Income Taxes	(\$ 1,026,399)
Net Income	<u>\$ 1,623,477</u>
Net Loss for 1966*	<u>(\$ 118,076)</u>
Net Income as Reported	<u>\$ 1,505,401</u>

\* While the total Net Loss for 1966 was available, the detail of revenue and expenses was not produced. The Net Loss for 1966 of \$118,076, has been included in the total Net Income as Reported.

### 2) Adjustments to the Income Statements in Accordance with Lease Agreements

Adjustments for the following items were made to the reported net income of JMH: rental of the hospital land and original building; rental of additions to the hospital building; mortgage interest and depreciation reported from 1972 through 1975; revenue from the lease of the hospital's operations to unrelated third parties; and the final transfer of the hospital's operations to an unrelated third party.

#### a) Rental of Land and Buildings

The audited income statements for JMH include an expense line item for "Rental of Land and Buildings." The actual ownership of the land and building used by JMH is outside the scope of this accounting, and I understand a resolution of the status of the title remains within the Court's domain. Therefore, to preserve the terms established by the 1966 lease agreements, this accounting assumes that those agreements are valid. Subsequent lease agreements were signed in 1975 for the original hospital building and land; however, the Court's opinion indicates that those agreements arose out of invalid transactions and, therefore, are themselves invalid. As a result, this accounting assumes that the parties maintained the landlord-tenant relationship first established by the 1966 lease agreements. In addition, documents indicate that subsequent to 1975 the Joint Venture and/or JMH constructed additions to the building used by JMH in its operations. This accounting

assumes that JMH is obligated to pay rent for the use of these additional facilities despite the fact that records indicate that JMH paid portions of the resultant construction cost and mortgage liability. Insufficient records have been produced to allow tracing of any contribution by the Respondents to any particular asset or transaction.

The assumption followed in this accounting is that the original leases for the land and building, as well as subsequent leases for additional space, were enforceable and remained in effect through 1994, at which time all of JMH's rights of operation were conveyed to INOVA and control of the physical plant was returned to the Respondents. These leases, with the corresponding rental amounts, are detailed below and represent the adjustments made to reconstruct the expense line for "Rental of Land and Buildings" in order to account for these transactions. The first adjustment to net income required is to add back the rental expense for land and buildings as reported. This adjustment reverses the diversion of income from JMH's operations through a 1975 lease, and amendments thereto, which, as I have been informed by Counsel, the Court has determined arose out of invalid transactions. This adjustment is carried out in the line item "Add Back - Rental of Land & Buildings" in the Adjustments section of the Income Statement Summary found in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Rental of Land and Buildings</b>	<b>Add Back</b>	<b>\$2,792,502</b>

Next, to compensate the Respondents for their rental entitlement under the 1966 leases, it is necessary to calculate those rental expenses and deduct them from net income as reported. The following sections detail the lease agreements used and the methodology by which I calculated the rental amounts associated with those agreements.

**(i) The 1966 Building Lease**

JMH possesses a leasehold interest in the hospital building pursuant to a 1966 lease agreement with the Joint Venture (operating as JMHA) (see Exhibit 292). The lease agreement commenced on January 1, 1966 for an original lease term of 40 years with an option to renew for up to an additional 59 years. Laszlo N. Tauber signed for the Joint Venture as Lessor and JMH as Lessee. The annual rent was \$80,940 subject to increase on

each tenth anniversary of the lease commencement date. As noted in section 2 (b) of the lease, "the formula for increases and subsequent decreases, if any, of the Annual Rental, shall be based on the fluctuations in the 'Wholesale Price Index, All Commodities (1957-59 Cost Equals 100)' of the United States Department of Labor's Bureau of Labor Statistics, hereinafter called the Cost of Living Index (CLI)." The Annual Rental was to be recomputed by the following calculation [Initial Annual Rental \* (CLI of the month in which the 10<sup>th</sup> Anniversary of the Lease Commencement Date occurs/ CLI of the month in which the Lease Commencement Date occurs)], but in no case should the Annual Rental be less than \$80,940. It should be noted that in 1978, subsequent to the issuance of this lease, the Bureau of Labor Statistics (BLS) renamed the Wholesale Price Index, the Producer Price Index (PPI) (see Attachment #2). According to the BLS, "Official PPI data for current time periods are not available on previous reference bases after a base change has been implemented by BLS. Relative movements of any series over time are not affected by a base revision." (see Attachment #3 for further details). As a result, the PPI for all Commodities for the current base date has been used for purposes of calculating the rent escalators (see Attachment #4 for BLS PPI). The detailed calculations of the changes in annual rent due to the escalator provision are included on Attachment #5. These recalculated rent amounts have been used to reconstruct the expense for which JMH is obligated to pay the Joint Venture, and are referenced as "Deduct – Effective 1966 Building Lease Payment" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
1966 Building Lease	Deduct	\$4,537,227

**(ii) The 1966 Land Leases**

Note 4 to the financial statements for the year ended October 31, 1967 (the first year for which notes to the financial statements are provided), contains a disclosure stating that, "two lease agreements have been made on the portion of land occupied by the Hospital" (see Exhibit 191). These agreements are described below.

**(a) 1966 Land Lease #1**

A lease agreement was executed between Leslie Gondor, Samuel Burtoff, and The Tauber Foundation (as LANDLORD) and JMH (as TENANT) on January 1, 1966 for a period of 99 years (see Exhibit 289). "The

Leased Premises consist of eighty percent (80%) undivided interest in certain property hereinafter described, which interest is owned by the parties who are the LANDLORD as tenants in common and in the following proportions Leslie Gondor (50%), Samuel Burtoff (5%), and The Tauber Foundation (25%). The remaining twenty percent (20%) undivided interest in said property is owned by the Tenant.” The Annual Basic Rental was \$15,600 subject to increase on each tenth anniversary of the Lease Commencement Date. The provision for increases and decreases in the Basic Annual Rental amounts mirror that of the 1966 Building Lease described above. The lease agreement was signed by Leslie Gondor, Samuel Burtoff and Laszlo N. Tauber (on behalf of the Tauber Foundation) as Landlords and Laszlo N. Tauber (on behalf of JMH) as Tenant.

Note 4 to the financial statements for JMH for the year ended October 31, 1967 discloses this agreement consistently with the terms described above (see Exhibit 191).

The calculation of the annual rent with escalators consistent with these terms is provided in Attachment #6.

**(b) 1966 Land Lease #2**

A lease assignment document dated January 1, 1966 was executed between Leslie Gondor, Samuel Burtoff and The Tauber Foundation (as Assignors) and JMH (as Assignee) (see Exhibit 290). This agreement assigns all of the Assignors’ right, title and interest in an undivided 80% interest in the 99 year lease of land located at 4600 King Street that commenced on or about September or October, 1962. Per discussion with Counsel, I have assumed that the lease assignment was properly executed and this accounting assumes the validity of this lease assignment.

Note 4 to the financial statements for JMH for the year ended October 31, 1967 discloses the terms of this lease agreement as beginning on January 1, 1966 for a period of 99 years with fixed annual rental of \$2,406.80 (see Exhibit 191). This fixed annual rental amount has been used in this accounting for purposes of reconstructing the expense for Rental of Land and Buildings.

The amounts associated with these land leases have been used to calculate the rental amounts for which JMH is obligated to pay the Joint Venture, and are referenced as “Deduct – Effective 1966 Land Lease #1” and

“Deduct – Effective Land Lease #2” in the Adjustments section of the Income Statement Summary in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>1966 Land Lease #1</b>	<b>Deduct</b>	<b>\$874,484</b>
<b>1966 Land Lease #2</b>	<b>Deduct</b>	<b>\$71,378</b>

**(iii) The Unwritten 1968 Building Addition Lease**

Included in the financial statements for JMH for the years ended October 31, 1969, October 31, 1970, and the period ended June 30, 1971 in Notes 6, 5 and 6, respectively, a reference is made to a lease arrangement for the 24-bed addition completed in 1968 (see Exhibits 193, 194 and 195). The Note in these years reads, “The Hospital leases the 24-bed addition completed in 1968. No final leasing agreement has been entered into at this time. However, the Hospital, based on the best information available, is accruing \$11,232 per annum to cover the amount when finally determined.” In the first year that the Note appears in the financial statements (October 31, 1969), a specific reference is found on the Balance Sheet next to the caption, “Accrued Expenses – Rent.” The balance in Accrued Expenses – Rent was as follows: October 31, 1969 - \$15,332, October 31, 1970 - \$26,564, June 30, 1971 - \$41,852, which is reasonably consistent with the terms as described in the Note. In subsequent financial statements, however, no reference is made to the Note and the detail of the Accrued Expenses caption is collapsed, making the ultimate resolution of this account unclear. Although an actual lease agreement was not produced, this accounting assumes that the lease for the 24-bed addition remained in effect at the annual rental amounts listed in the financial statements and that it had the same terms and escalators as the 1966 building lease described above. The calculation of rent escalators for this unwritten lease, based on the same terms as the 1966 Building Lease, can be found in Attachment #7.

The amounts associated with this lease have been used to reconstruct the rental amounts for which JMH is obligated to pay the Joint Venture, and are referenced as “Deduct – Unwritten 1968 Addition Lease – 24 beds” in the Adjustments section of the Income Statement Summary in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Unwritten 1968 Addition</b>	<b>Deduct</b>	<b>\$588,800</b>

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#### **(iv) Mortgage Interest and Depreciation during 1972-1975**

On or about June 30, 1971, JMH (operating as JMHC) became an owner/operator by virtue of a reported merger that the Court determined did not occur. As a result, during the period from July 1, 1971 through June 30, 1975, the income statements for JMH (operating as JMHC) report expenses related to ownership of the hospital and only a portion of the rent expense arising out of the 1966 and 1968 lease arrangements. For this reason, in addition to adjusting the income statement to account for the expense reported for Rental of Land and Buildings, an adjustment also must be made in order to add back to net income the amounts associated with the mortgage interest and depreciation on the hospital building. The Notes to the financial statements for JMH for the periods from 1972 through 1975 (see Exhibits 200, 201, 202 and 203) do not specifically disclose the expense amounts associated with mortgage interest or depreciation on the building, nor were amortization or depreciation schedules located among the documents produced by the Respondents. For these reasons, I have reconstructed the amortization schedule for the mortgages and have determined the rate of depreciation during this period. The procedures by which this was accomplished are detailed below.

##### **Mortgage Interest**

Several documents were used to reconstruct the amortization schedule for both of the mortgages on the hospital building. The first mortgage on the building was issued at an initial loan amount of \$800,000 at a rate of 6% for a term of 20 years with a monthly payment of \$5,900 (see Exhibit 350(a)). The second mortgage on the building was issued at an initial loan amount of \$100,000 at a rate of 6% for a term of 20 years with a monthly payment of approximately \$845 (see Exhibit 290). Using those terms, an amortization schedule was prepared for each loan to determine the interest and principal portions of the mortgage. These reconstructed amortization schedules corresponded at twelve points in time (over a 12 year period) with documents produced by the Respondents. The largest difference in the mortgage balance amount between the reconstructed amortization schedule and the documents produced was approximately \$200, which is an immaterial difference. The reconstructed amortization schedules are provided in Attachments #8 and #9 and contain the sources used to match the mortgage balance amounts.



A summary of the interest associated with these mortgages from July 1, 1971, through June 30, 1975, as reconstructed through the amortization schedules referenced above can be found in Attachment #10. The total of the mortgage interest amounts are referenced as "Add Back – Mortgage Interest" in the Adjustments section of the Income Statement Summary in Attachment #1.

#### **Depreciation on the Hospital Building**

The Balance Sheet for JMH (operating as JMHC) as of June 30, 1972 details the cost of the hospital building as well as the accumulated depreciation (see Exhibit 200). Because JMH was reported to have acquired the hospital building on July 1, 1971, this was the first year in which JMH would have taken depreciation and, therefore, the accumulated depreciation reported on the Balance Sheet equaled the depreciation expense for the year. For the years ended June 30, 1972 and 1973, the change in accumulated depreciation on the hospital building, as disclosed on the Balance Sheets, was used as the depreciation expense. The Balance Sheets as of June 30, 1974 and 1975 (see Exhibits 202 and 203) did not disclose the same level of detail for Property, Plant and Equipment as in previous years so an amount equivalent to the change in depreciation for the years ended June 30, 1972 and 1973 was used. See Attachment #11 for the detailed calculation of depreciation expense.

These depreciation amounts are referenced as "Add Back – Depreciation on the Building" in the Adjustments section of the Income Statement Summary in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Mortgage Interest</b>	<b>Add Back</b>	<b>\$144,795</b>
<b>Depreciation on Building</b>	<b>Add Back</b>	<b>\$128,859</b>

#### **(v) 1977 Addition Lease – 3rd Floor of the Medical Office Building**

A lease agreement was executed on July 31, 1977 by Laszlo N. Tauber, Trustee as Lessor and by Leslie L. Peters on behalf of JMH (operating as JMHC) as Lessee for premises described as "that part of the new building located on 4600 King Street..."(see Exhibit 313). Schedule A of that agreement is purported to describe more specifically the property being leased; however, the Schedule was not produced. According to the agreement, the original lease term was for twenty years commencing on the date the leased premises became ready for the Lessee to install equipment. Included in the lease is an option to renew for an additional period of twenty years.

Part (a) of the second section of the agreement calls for an annual rental of \$11,760 in monthly installments.

There is no provision in the agreement for an increase or decrease in the annual rental amount.

Note 12 to the financial statements for JMH (operating as JMHC) for the year ended June 30, 1979 discloses the following: "The Corporation has signed on July 31, 1977 an additional lease with the above joint venture to rent the third floor of the newly constructed medical building for the extension of the hospital." (see Exhibit 1001). The details disclosed in the Note regarding the lease term, option to extend and lease amount are consistent with the lease agreement described above. According to the Note, the effective lease date is March 1, 1979. This accounting relies on the Note for the effective date of the agreement, as well as the premises to which the lease applies.

The rental amounts associated with this lease have been used to reconstruct the amounts for which JMH is obligated to pay the Joint Venture, and are referenced as "Deduct – 1977 Lease for 3<sup>rd</sup> Floor MOB" in the Adjustments section of the Income Statement Summary in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>3<sup>rd</sup> Floor MOB</b>	<b>Deduct</b>	<b>\$180,320</b>

**(vi) 1979 Physical Therapy and Storage Space Lease**

A lease agreement dated June 1, 1979, was executed between Laszlo N. Tauber, MD, as Landlord, and JMH (operating as JMHC) as Tenant, for "that portion of the 2<sup>nd</sup> Floor designated as Suite 2G, containing 1,146 net square feet of floor space and 1,466 gross square feet located in the building located at 4600 King Street..." (see Exhibit 321). The term of the agreement was ten years commencing June 1, 1979 for an annual rental amount of \$10,314. I have not seen, in any documents produced, a provision for any increases or decreases in the annual rental amount for this lease. The agreement was signed by Laszlo N. Tauber, MD, as Landlord on September 24, 1979 and Leslie L. Peters, MD, on behalf of JMH as Tenant on October 3, 1979.

Note 11 to the financial statements for JMH (operating as JMHC) for the years ended June 30, 1980 and 1981, discloses the following: "The Corporation is renting storage and physical therapy space from the venture with a basic annual rental of \$10,314." (see Exhibit 1002).

The amounts associated with this lease have been used to reconstruct the rental amounts for which JMH is obligated to pay the Joint Venture, and are referenced as “Deduct – 1979 Lease of PT and Storage Space” in the Adjustments section of the Income Statement Summary in Attachment #1. This lease was in effect during the time in which JMH, with the consent of Laszlo N. Tauber, leased its operations to unrelated third parties. The physical therapy space was included in the premises for which rent was paid by such parties, and the lessee was permitted to continue utilizing the space in exchange for rental payments. This accounting, therefore, assumes that this lease continued in effect until the final transfer, in 1994, of JMH’s right to operate as a hospital.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Physical Therapy and Storage Space</b>	<b>Deduct</b>	<b>\$154,710</b>

**b) Revenue from Transfer of Ongoing Operations**

On April 1, 1982, the operations of JMH were acquired by the Health Group of Virginia, Inc. (HGV). From that point forward, JMH remained obligated to pay the rental payments due to the Joint Venture under the original agreements. Beginning with the financial statements of JMH (operating as JCA) for the year ended June 30, 1983, the main source of revenue is payments from HGV and, subsequently, from INOVA. The HGV and the INOVA agreements, and the revenue generated under each, are detailed below. This accounting adjusts JMH’s reported net income to include the revenue from these transactions.

First, reported net income must be adjusted to deduct the “rental revenue” reported to have been received by JMH. This deduction is reflected in the line item “Deduct – Rent Revenue as Booked” in the Adjustments section of the Income Statement Summary found in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Rental Revenue as Booked</b>	<b>Deduct</b>	<b>\$366,253</b>

**(i) 1982 HGV Agreement and Acquisition of Operations and Operational Assets**

The use of the term “Lease Agreement” to describe this transaction may understate the underlying business transaction that occurred through this arrangement. In essence, the HGV acquired JMH as a going concern, together with its operational rights (including the benefit of its license). As noted earlier in this report,

the means for income generation is in the license to operate JMH. At the time of the acquisition, JMH was enjoying its strongest volume of business. For the year ended June 30, 1981, JMH had reached its highest bed occupancy rate since inception at 90%, outpatient visits reached their highest volume since inception at 19,184 visits, net revenue per admission was at its highest point since inception at \$5,312 per admission, and overall net revenue was at its peak since inception at approximately \$11,750,000 (see Attachments #12, #13, #14 and #15). The right to control these strong hospital operations is what HGV purchased through this agreement. For purposes of this accounting, I have looked at this transaction from two perspectives. The first is the impact of this agreement on the original building and land leases. The second is HGV's acquisition of the operations of JMH (see Exhibit 326 for agreement).

#### **Impact on the Original Building and Land Leases**

From the perspective of the hospital building and land leases with the Joint Venture, this Lease agreement created a sub-lease between JMH (operating as JMHC) and HGV. By virtue of its "lease agreement" HGV agreed to acquire a majority of JMH's net assets, and to assume control over the operations of JMH.

This accounting continues to treat JMH as a lessee of the hospital building and land. As a result, to preserve the Joint Venture's rental income, the HGV agreement is treated as a sub-lease between JMH and HGV for the hospital building and land portion of the agreement. This sub-lease arrangement is described in Note 5 to the financial statements of JMH (operating as JCA) for the year ended June 30, 1982. After a description of the lease with HGV, the Note continues, "the corporation is leasing the above property from Jefferson Memorial Hospital Joint Venture, concurrently with lease of the Hospital to HGV" (see Exhibit 1031).

The 1966 Building lease states, "The Lessee may not sublet the Leased Premises, or any portion thereof, without written consent of the Lessor." Laszlo N. Tauber signed the 1966 Building lease on behalf of the Joint Venture (operating as JMHA) as Lessor and JMH as Lessee as well as signing the 1982 HGV Lease on behalf of JMH (operating as JMHC). Execution of the HGV agreement was consistent with the trustees' obligation to maximize revenue flowing to the trust for the use of its assets. It is reasonable to assume that by signing the agreement, Laszlo N. Tauber demonstrated acknowledgment and acceptance of the terms of the agreements.

## HGV's Purchase of JMH Net Assets

Note 4 to the financial statements for JMH (operating as JCA) for the year ended June 30, 1984 discloses in connection with the HGV transaction that "the Corporation [referring to JMH] relinquished operation of the Hospital to the Lessee." (see Exhibit 1034). In connection with the acquisition of JMH's operational rights, HGV also purchased a majority of the existing net assets of JMH, as detailed below.

In section 10 of the HGV agreement, "Items to be Purchased," HGV agrees to purchase a majority of the items recorded on the Balance Sheet from JMH (operating as JMHC). As noted in section 10 (a), "As of the Effective Date, [HGV] shall purchase from [JMH] and [JMH] shall sell to [HGV] total of all patient accounts receivables, each of the movable equipment items listed on Exhibit B, all inventory, and all prepaid expenses existing as of Effective Date and as reflected on the Lessor's Balance Sheet as of March 31, 1982 and Exhibit B." Pursuant to that section of the agreement, the calculation of the purchase price was documented in a letter from Malcolm M. Mitchell, Jr. of the Law Offices of Ross, Marsh, & Foster, to Paul L. Sloan of Harwell, Bar, Martin and Sloan, dated February 18, 1982 showing the following amounts (see Exhibit 803):

1. Eighty percent (80%) of patient accounts receivable	\$2,162,298.08
2. Plus one hundred percent (100%) of the book value of the equipment purchased	257,029.21
3. Plus one hundred percent (100%) of the cost of inventory of usable expendable supplies on hand for hospital operations and purchased by Lessee	86,846.97
4. Plus one hundred percent (100%) of prepaid expenses	127,327.54
5. Less one hundred percent (100%) of trade accounts payable	(885,023.46)
6. Less one hundred percent (100%) of all accrued expenses assumed by Lessee	(75,850.89)
7. Plus fifteen percent (15%) of the sum of items 1, 2, 3, 4, 5, and 6 above	250,894.11
<b>Purchase Price</b>	<b><u>\$1,923,521.56</u></b>

"The values set forth above were taken from [JMH's] Balance Sheet as of January 31, 1982...." This letter is the only document that was found specifically detailing the assets purchased as part of this agreement. The HGV agreement states, and the letter from Malcolm M. Mitchell corroborates, that "as of March 31, 1982 the sum of items 1 through 7 hereof will be recalculated and the purchase price paid on March 1, 1982 will be adjusted with the difference to be due and payable on May 1, 1982." No additional documentation was found related to this transaction. A review of the financial statements, however, shows a change in the composition of

## Summary of Net Income as Reported for JMH from Inception through 1995

(Does not include amounts for the periods ending 10/31/66,  
6/30/86, 6/30/88, 6/30/93 as those documents were not produced)

Total Revenue	\$ 92,560,655
Less: Total Expenses	(\$88,832,906)
Less: Other Revenue and Expenses, net	(\$ 1,077,873)
Less: Income Taxes	(\$ 1,026,399)
<b>Net Income</b>	<b>\$ 1,623,477</b>
Net Loss for 1966*	(\$ 118,076)
<b>Net Income as Reported</b>	<b>\$ 1,505,401</b>

\* While the total Net Loss for 1966 was available, the detail of revenue and expenses was not produced. The Net Loss for 1966 of \$118,076, has been included in the total Net Income as Reported.

the Balance Sheet. A segment of the Balance Sheets as reported for the years ended June 30, 1981 and 1982 are shown below along with the percentage change from 1981 to 1982 (see Exhibits 1002 & 1031).

	1981	1982	Increase (Decrease)	% Increase/ (Decrease)
Cash in Banks	\$ 148,920	\$ 840,426	\$ 691,506	464%
Accounts Receivable – Patients, net	\$1,771,175	\$ 135,000	(\$ 1,636,175)	(92%)
Contract Agencies	\$ 110,664	\$ - 0 -	(\$ 110,664)	(100%)
Other Receivables	\$ 95,271	\$ 250,046	\$ 154,775	162%
Property, Plant and Equipment, net	\$ 562,755	\$ 536,943	(\$ 25,812)	(5%)
Inventory – at cost	\$ 94,039	\$ - 0 -	(\$ 94,039)	(100%)
Prepaid Expenses	\$ 90,721	\$ - 0 -	(\$ 90,721)	(100%)
Accounts Payable – Trade	\$1,020,233	\$ 305,781	(\$ 714,452)	(70%)

The activity on the financial statements (as excerpted above) corroborates that the acquisition, as outlined in the HGV agreement, took place prior to compilation of the financial statements on June 30, 1982.

Generally Accepted Accounting Principles give guidance as to the items requiring disclosure in the financial statements. According to the Financial Accounting Standards Board, Statement of Financial Accounting Concepts No. 2, materiality is defined as “the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement.” Under this guidance, the purchase of assets should have been disclosed in the financial statements.

The execution of this transaction is significant as it results in a gain to JMH for the amounts paid by HGV over and above the book value of assets, included in section 10 (a) item (7). This amount, as per the Malcolm M. Mitchell letter, was \$250,894.11 and represented a gain to JMH as a result of the HGV agreement. This gain was neither disclosed in the financial statements or the tax return nor accounted for by the Respondent trustees. The estimated gain of \$250,894.11 has not been reflected in the adjustments to net income as reported in this accounting.

#### HGV Terms

As stated earlier, it is important to recognize that HGV acquired the business of JMH through this “lease arrangement.” While the assets of JMH were transferred through a one-time transaction, the “lease payments”

represent payment for the relinquishment of JMH's operations as well as for the right to utilize the real estate and equipment employed in those operations. HGV was not leasing the space to start a new hospital. it was purchasing JMH's existing business as a going concern, which was at its highest volume at the time. The lease terminology included in the agreement understates the significance and effect of what was to be conveyed.

The HGV agreement included the "real estate and equipment, furniture and fixtures and non-clinical replacements leased hereunder ...and shall include the land, main hospital building, and the space leased in the medical office building which is currently being utilized in the operations of Jefferson Memorial Hospital..."

The Agreement became effective April 1, 1982 with an original term of ten years and one month; however, a subsequent lease with Fairfax Hospital Association (INOVA) terminated this lease on July 3, 1985, thereby limiting the duration of this agreement to three years and three months beginning on April 1, 1982.

The annual payment due for each of the first five years of the agreement was \$760,000. HGV (as Lessee) was also responsible to pay "as additional rent the costs, expenses, and obligations of the Premises beginning as of the Effective date including:

- ☐ All repairs external or internal, structural or non-structural, ordinary or non-ordinary
- ☐ All costs of replacement and/or leasing of all fixtures and equipment, machinery and items of personalty...
- ☐ All utilities...
- ☐ Physician's service contracts
- ☐ All taxes
- ☐ All insurance
- ☐ All license fees
- ☐ All maintenance costs
- ☐ All equipment leases and other contracts identified
- ☐ A monthly payment equal to [JMH's] lease payments (not to exceed \$20,000 per month) under the real property leases for portions of the premises, ... [HGV's] annual base rent under this subparagraph will not exceed \$240,000. [JMH] will remain responsible for the balance of the rent and its other obligations for those real property leases. In addition to its base rent [HGV] shall be responsible for the other costs, expenses and obligations of those leased premises to the extent otherwise required by the above."

As a result of this arrangement, HGV is responsible for virtually all of the expenses of the building, including the mortgage on the real estate (including portions retained by the Respondents for their exclusive benefit) which the Joint Venture previously had added to JMH's lease obligations by virtue of a December 31, 1978 amendment to the 1975 lease. Under the HGV agreement, JMH (operating as JCA) would



have been a “pass-through” entity receiving a payment for rent from HGV as sub-lessee and paying rent to the Joint Venture (operating as JMHJV) as lessor.

In section 5(j) of the agreement, it is noted that, in addition to the base rent, HGV was responsible for “a monthly payment equal to [JMH’s] lease payments (not to exceed \$20,000 per month) under the real property leases for portions of the premises.”

Note 5 to the financial statements for JMH (operating as JCA) for the year ended June 30, 1982 discloses the annual rental amount under this agreement as \$1,000,000. This amount is consistent with the maximum payment outlined in the agreement of \$760,000 basic rental, plus \$240,000 real property, for a total of \$1,000,000 annually. This amount has been used to reconstruct the revenue included in the income statements and is referenced as “Add back – Revenue from HGV/INOVA per agreement” for the years ended June 30, 1983, 1984 and 1985, in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
HGV Revenue	Add Back	\$3,114,583

**(ii) 1985 Fairfax Hospital Association (INOVA) Buy-out of HGV**

Fairfax Hospital Association (subsequently INOVA) acquired HGV through a stock purchase on July 31, 1985. The strength of the Hospital operations resulted in the payment of a purchase price of \$5.8 million. In preparation for the buy-out, INOVA entered into an arrangement to take over the existing operations of JMH for which HGV was responsible (see Exhibit 338). As with the HGV agreement, the INOVA agreement embodied the language of a lease but encompassed the total operational rights of JMH. It is important to consider those facts as the terms of the agreement, as executed, are described below.

On July 3, 1985, JMH (operating as JCA) entered into a lease agreement with INOVA for the “real estate, related equipment, furniture and fixtures and non-clinical replacements. The real estate and equipment, furniture and fixtures and non-clinical replacements leased hereunder ...shall include the land, main hospital building, the entire 4<sup>th</sup> floor of the main hospital building, also known as the nursing wing addition, and the space leased in the medical office building ...currently utilized in the operation of Jefferson Memorial Hospital. Lessee acknowledges that the fourth floor of the main hospital building is a shell and accepts said fourth floor in

its present "as is" condition...." Leslie L. Peters signed the agreement on behalf of JMH (operating as JCA). The term of the agreement was for twenty years and three months, commencing on July 3, 1985. The Effective Date as to the Fourth Floor was July 1, 1985 and the Effective Date as to the remainder of the premises was to be the date of termination of the prior lease with HGV, or the date of closing of the Stock Purchase Agreement whereby FHA purchased all of the capital stock of HGV, whichever occurred first. FHA closed on the Stock Purchase Agreement with HGV on July 31, 1985 (see Exhibit 1079), which became the Effective Date of the lease. The rent for the fourth floor was \$31,250 per month from October 1, 1985 through June 30, 2002 (\$375,000 annually). Based on the July 31, 1985 Effective Date, the rent for the remainder of the premises was \$83,333.33 per month (\$1,000,000 annually) through June 30, 1987 and \$104,166.67 per month (\$1,250,000 annually) through June 30, 1992 at which time the rent increased to \$145,833.33 per month (\$1,750,000 annually) through June 30, 2002.

In addition to the annual rental amounts described above, the lessee was responsible for the "costs, expenses, and obligations of the Premises beginning the Effective Date including:

- ☐ All repairs: external or internal, structural or non-structural, ordinary or extraordinary;
- ☐ All costs of replacement and/or leasing of all fixtures and equipment, machinery and items of personalty...
- ☐ All utilities...
- ☐ All Physician's service contracts
- ☐ All taxes
- ☐ All insurance
- ☐ All license fees
- ☐ All maintenance costs
- ☐ All equipment leases and other contracts identified..."

The revenue associated with this agreement has been used to reconstruct the revenue included in the income statements and is referenced as "Add back – Revenue from HGV/INOVA per Agreement" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
INOVA Lease Revenue	Add Back	\$15,145,833

### **(iii) 1985 Lease Assignment**

On July 3, 1985, the Respondents caused JMH (operating as JCA) to assign to the Joint Venture “all of its right, title and interest in and to that certain hospital lease agreement dated July 3, 1985...between Jefferson Corporation of Alexandria as Lessor and Fairfax Hospital Association as Lessee” (see Exhibit 337).

Additionally the Assignment document states, “as further consideration for the Assignment, Laszlo N. Tauber, Trustee for Jefferson Memorial Hospital Joint Ventures does by this document cancel the Lease dated July 1, 1975 as amended on March 3, 1980 and February 10, 1982 by and between Laszlo N. Tauber, M.D. Trustee for the Jefferson Memorial Joint Venture as Lessor and Jefferson Memorial Hospital Corporation as Lessee and does hereby release Jefferson Corporation of Alexandria of and from any further liability under that Lease as amended.”:

“As further consideration for the assignment, Laszlo N. Tauber, Trustee for Jefferson Memorial Hospital Joint Venture does by this document cancel the Lease dated July 31, 1977 between Laszlo N. Tauber as Trustee for the Jefferson Memorial Hospital Joint Venture as Lessor and Jefferson Memorial Hospital Corporation as Lessee and releases Jefferson Corporation of Alexandria of and from any further liability under that lease.”

The lease assignment was signed by Leslie L. Peters, MD, President on behalf of JMH (operating as JCA) and by Laszlo N. Tauber, MD, Trustee on behalf of the Joint Venture (operating as JMHJV). The effect of this assignment was to transfer to the Joint Venture all benefits arising from the operational rights and going concern value of JMH. As a result, JMH’s revenue from hospital operations terminated, and the trustees left it to carry on its books activities and receivables unrelated to hospital business, including a receivable owed by the trustees. Further, the trustees ceased filing tax returns on JMH’s behalf but failed to ever file a final return.

### **(iv) 1994 INOVA Settlement**

On July 11, 1994, a Settlement Agreement was executed between INOVA and the Joint Venture (operating as JMHJV) to resolve the action pending in the Circuit Court for the City of Alexandria, Virginia styled INOVA Health System Hospitals, et. al., Petitioners v. Jefferson Memorial Hospital Joint Venture et. al., Defendants (see Exhibit 514). Section 9 of that agreement notes that “the lease executed between the parties for the Jefferson Hospital dated July 3, 1985 shall be terminated and the parties shall confirm the same in a lease

termination agreement....” The terms of the Settlement agreement required INOVA to make the following schedule of payments:

Period	Monthly Payment	12 Months	Lump Sum
8/1/1994 – 6/1/2002	\$177,083.33	\$2,125,000	N/A
7/1/2002 – 9/1/2005	\$213,541.67	\$2,562,500	N/A
10/1/2005	N/A	N/A	\$10,000,000

The substance of the Settlement Agreement provided that INOVA would purchase the operational rights of JMH and that possession of the land and building would revert to the Joint Venture. Section 14 of the agreement states that “INOVA agrees to pay upon demand and remain liable for the expenses of Jefferson Hospital including taxes, insurance and utility expenses through and until December 31, 1994.” Laszlo N. Tauber signed this agreement as Trustee on behalf of JMHJV.

Through this Settlement Agreement, INOVA bought the right to discontinue JMH’s operations that they previously acquired and contracted to continue. INOVA did not purchase the hospital building or land through this Settlement Agreement, but rather it purchased the closure of JMH’s operations, thereby severing the hospital building from the right to conduct hospital operations. Further, this transaction comports with the cessation of operation that the Court’s opinion indicates the trustees should have carried out in 1973 upon termination of JMHI’s corporate charter. For these reasons and in accordance with the Court’s opinion, the payments made in connection with this agreement are accounted for as an asset belonging to JMH.

Cumulative Adjustment to Net Income as Reported:		
INOVA Settlement	Add Back	\$34,937,500

### **c) Building Expenses**

Each of the lease agreements described above placed the responsibility for virtually all expenses of the property leased on the tenant. These arrangements, typically referred to as triple-net leases, essentially leave the Lessor responsible for only the cost of the building/property as originally constructed. For this reason, all costs of the buildings and land have been accounted for through the Income Statements for JMH. For the period subsequent to HGV’s acquisition of JMH operations in 1982, HGV/INOVA was responsible for all of the

expenses in connection with the building/property. As a result, no adjustments need to be made to the net income as reported for JMH to account for these expenses.

### **3) Adjustments to Income Statements to Eliminate Certain Expenses**

#### **a) Goodwill**

On January 1, 1966, a journal entry was booked in connection with the change in name of the Joint Venture from KSJV to JMHA. As part of that entry, goodwill of \$386,804 was recorded. The explanation for that entry was, "To set-up balances on assets and liabilities transferred from King Street Joint Venture at a \$400,000 capital investment" (see Exhibits 367 & 221).

Goodwill is a complex accounting topic; however, significant guidance can be found in Generally Accepted Accounting Principles (GAAP) as follows:

"Goodwill is comprised of many advantageous factors and conditions that might contribute to the value of the earning power of an enterprise...Goodwill is recorded only when an entire business is purchased because goodwill is a "going-concern" valuation and cannot be separated from the business as a whole...To record goodwill, the fair market value of the net tangible and identified intangible assets are compared with the purchase price of the acquired business. The difference is considered goodwill..."<sup>2</sup>

The documents produced do not indicate that the Respondents adhered to this principle. Not only was this a related party transaction, but there does not appear to be any item booked as part of this entry, or documented elsewhere, that would justify recording goodwill. The explanation "to book up to a \$400,000 investment" is inconsistent with GAAP.

Even though this entry was recorded on the Joint Ventures financial statements, it is eventually "purchased" in the purported conversion of JMH on July 1, 1971. JMH amortizes goodwill at approximately \$11,380 per year. Given that this goodwill is unsupported and does not conform with GAAP, the amounts charged for amortization expense of goodwill have been added back to net income as reported. These amounts are referenced as "Add back – Amortization of Goodwill" in the Adjustments section of the Income Statement Summary found in Attachment #1.

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<sup>2</sup>Intermediate Accounting, 8<sup>th</sup> ed. Kieso and Weygandt. (John Wiley and Sons, Inc., 1995), p.579.

Cumulative Adjustment to Net Income as Reported:		
Goodwill	Add Back	\$159,387

**b) Loss on Disposal of Land and Building**

As I have been informed by counsel, the Court has ruled that the revocation of JMHI's corporate charter terminated its corporate existence and suspended its ability to function as a corporation, thereby rendering invalid the purported 1975 conveyances of the land and building from JMH to the Joint Venture as well as the lease transactions flowing therefrom. Note 3 to the financial statements for JMH (operating as JMHC) for the year ended June 30, 1976 describes the details of the purported transaction, but does not disclose or make reference to the loss incurred as a result. Schedule B-3 of the audited financial statements, which details the composition of Other Income and Expense, reveals an expense line of \$51,840 with the description. "Loss on Disposal of Land and Building" (see Exhibit 204). Consistent with the approach adopted in this accounting (that the hospital building was purportedly owned by the Joint Venture), this amount has been added back to net income as reported and is referenced as "Add Back – Loss on disposal of land and building" in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
Loss on Disposal of Land and Building	Add Back	\$51,840

**c) Loss on Lost Creek Partnership**

Note 4 to the financial statements for JMH (operating as JMHC) for the year ended June 30, 1978 discloses that "during fiscal year 1978, the corporation acquired 11.2% of a partnership known as 'Lost Creek Partnership'. The operations of the partnership are Production of Thermoplastic Children's Playthings, and Sublease Coal property – extract and sell coal." (see Exhibit 206). Losses of \$170,623, \$50,718 and \$26,355 were recorded for the years ended June 30, 1978, 1979 and 1980, respectively (see Exhibits 206, 1001 & 1002). On November 14, 1980, the District Director for the Internal Revenue Service issued an adjustment to JMH disallowing the loss from this partnership investment. The explanation in that memo stated, "adjustment made to disallow your share of loss from Lost Creek Partners Partnership per examination of the partnership. It was

determined that the deductions...did not qualify as ordinary and necessary business expenses as required by and described in section 162 of the 1954 Internal Revenue Code.”(see Exhibits 802, 802(a) & 802(b)). For this reason, these losses have been added back to the net income as reported and are referenced as “Add back – Loss on Lost Creek Partnership” in the Adjustments section of the Income Statement Summary in Attachment #1.

Cumulative Adjustment to Net Income as Reported:		
Loss on Lost Creek Partnership	Add Back	\$247,696

**d) Lakeside Condominiums**

The depreciation schedule included in the United States Tax Return for the year ended June 30, 1984 for JMH (operating as JCA) discloses that ten Lakeside Condominiums were purchased between October 1, 1983 and March 12, 1984 (see Exhibit 1034). Counsel has informed me that these condominiums were purchased from an entity related to Laszlo N. Tauber and were outside the business interests of JMH. For this reason, the depreciation and condo fees associated with the Lakeside Plaza Condominiums have been added back to net income as reported as described below.

The depreciation schedule is available for the year ended June 30, 1984 (see Exhibit 1034), but is not available for the years ended June 30, 1985, or 1987, for which no tax returns or financial statements for JMH (operating as JCA) have been produced. The depreciation schedule for the year ended June 30, 1984 does provide enough detail to reconstruct the amount of depreciation taken on the Lakeside Plaza Condominiums in subsequent periods. Excerpts of that depreciation schedule along with the calculation of depreciation in subsequent years can be found in Attachment #16. While documentation was not found to determine the point at which JMH sold the Lakeside Plaza Condominiums, the Balance Sheet included in the United States Tax Return includes the beginning and ending balances of buildings and other depreciable assets. Looking at the beginning and ending balance in buildings and other depreciable assets in the tax returns for the years ended June 30, 1985 and 1987, the condominiums appear to be recorded as assets for the full year ended June 30, 1985, but do not appear at all on the Balance Sheet for the year ended June 30, 1987 (see Exhibits 1039 & 1040). For this reason, depreciation expense as provided and recalculated for the Lakeside Plaza Condominiums for the years ended June 30, 1984 and 1985 has been added back to net income as reported (see

Attachment #16). These amounts are referenced as “Add Back – Depreciation on Lakeside Condos” in the Adjustments section of the Income Statement Summary in Attachment #1.

In addition to the depreciation, an expense described as “Condominium Fees” was reported on the Statement of Operations for the years ended June 30, 1984 and 1985. It is reasonable to assume that these expenses relate to the Lakeside Plaza Condominiums and have therefore been added back to net income as reported. These amounts are referenced as “Add Back – Condo Fees (Lakeside Plaza)” in the Adjustments section of the Income Statement Summary in Attachment #1.

<b>Cumulative Adjustment to Net Income as Reported:</b>		
<b>Lakeside Plaza Condo Fees</b>	<b>Add Back</b>	<b>\$29,593</b>
<b>Lakeside Plaza Condo Depreciation</b>	<b>Add Back</b>	<b>\$88,293</b>



#### 4) Summary of Adjustments to Net Income As Reported

The following schedule has been provided to summarize all of the adjustments made as part of this accounting:

<b>Net Income as reported</b>	<b>\$ 1,505,401</b>
<b>Add Back to Net Income</b>	
Rental of Land & Buildings	2,792,502
Mortgage Interest	144,795
Depreciation	128,859
Revenue from HGV	3,114,583
Revenue from INOVA Lease	15,145,833
Revenue from INOVA Settlement	34,937,500
Goodwill	159,387
Loss on Sale of Land & Building	51,840
Loss on Lost Creek Partnership	247,696
Lakeside Plaza Condo Fees	29,593
Lakeside Plaza Depreciation	88,293
<b>Total Additions to Net Income as Reported</b>	<b>\$ 56,840,882</b>
<b>Deduct from Net Income</b>	
Rent Revenue as booked	366,253
1966 Building Lease	4,537,227
1966 Land Lease #1	874,484
1966 Land Lease #2	71,378
Unwritten 1968 Addition	588,800
3rd Floor MOB	180,320
PT Lease	154,710
<b>Total Deductions from Net Income as Reported</b>	<b>\$ 6,773,172</b>
<b>Adjusted Net Income</b>	<b>\$ 51,573,111</b>

## **5) Capital Contributions and Withdrawals**

To the extent that Tauber and the other Respondents contributed assets to JMH, the benefit derived from those assets should be considered in this accounting. It is necessary to start the review of contributed capital at the beginning of the initial Joint Venture to account for all assets contributed over time. This requires a review of all transactions affecting the capital accounts of the Joint Venture as well as JMH. An attempt has been made to identify and support each contribution made by the partners for which benefit was derived by JMH. In addition, to the extent that Tauber and the other Respondents withdrew capital from JMH, those reductions must also be considered.

### **a) Joint Venture prior to July 1, 1971**

1963 – During the period from the date of incorporation of the Joint Venture in March, 1963 until December 31, 1963, the capital account for the Joint Venture increased from \$0 to \$218,810 as noted by the United States Tax Return for that period (see Exhibit 214). Schedule M of that Return, which is the section that reconciles the activity in the partner's capital accounts for the year, was not completed. The only information provided in the reconciliation section is the ending balance of \$218,810. For this reason, an attempt has been made to reconstruct the activity during this period as noted below.

In a review of the Minutes of the First Meeting of the Board of Directors on March 6, 1963, it is noted that Laszlo Tauber was the only subscriber for capital stock of the corporation in the amount of 20 shares for which he agreed to pay \$5.00 per share (see Exhibit 70). It is also noted that Dr. Tauber submitted his check for \$100 and the stock certificate was issued. This constitutes a capital contribution of \$100.

The Balance Sheet for the year ended December 31, 1963, shows land in the amount of \$202,883. During 1964, 65% of the land was donated to the JMH and the remaining 35% was withdrawn by Laszlo Tauber (see Exhibit 214(a)). According to the Schedule of Partner's Capital on December 31, 1964, the cost of the land withdrawn from the venture was \$200,152.65 (see Exhibit 188). This amount would have represented 100% of the land originally acquired by the Joint Venture. By donating 65% of the land, the Venture was relieved of a \$79,855.90 mortgage (see Exhibit 188). The cost of 65% of the land was \$130,099.22 (see Exhibit 214(a)).

The financial statements of the Joint Venture, as well as JMH reflect activity for the donation of land. This constitutes a net capital contribution of land in the amount as recorded of approximately \$120,297. The total value of the land is withdrawn from the Venture as of December 31, 1964.

To account for the total capital contributed during this period, the loss of \$24,264 has to be added back to the ending capital balance of \$218,810 as it would have reduced the amount of capital contributed for a total of \$243,073. The difference between the contributed capital amounts that are documented above of \$120,397 and the total capital contributed as recalculated from the financial statements, of \$243,073 is \$122,676 and remains unsupported.

1964 – As noted above, of the land acquired by the Joint Venture during 1963, 65% was donated to JMH and 35% was withdrawn from the Venture (see Exhibit 214(a)). This constitutes a withdrawal from the Venture of \$120,297.

The United States Tax Return for the year ended December 31, 1964, notes additional capital contributions of \$165,864 and withdrawals (excluding the land) of \$125,572, for a net contribution of \$40,292 (see Exhibit 217). There were no documents found to support these items, nor was the nature of the contribution disclosed.

1965 – According to the United States Tax Return for the year ended December 31, 1965 and copies of the journal entries (see Exhibit 189), a contribution of \$6,787 was made as well as a withdrawal of \$1,431 cash and \$39,000 in hospital bonds. The bonds that were withdrawn were issued in connection with JMH's Agreement to reimburse the Joint Venture for hospital construction costs in excess of \$1,000,000 (see Exhibit 801). This constitutes a net withdrawal from the Joint Venture of \$33,644 for the year ended December 31, 1965.

1966 – The United States Tax Return for the year ended December 31, 1966, notes that contributions of \$786,804 and withdrawals of \$16,528 were made during the year (see Exhibit 220). In a review of the journal entries related to the contributions, \$386,804 is goodwill, \$340,000 was equipment and \$60,000 was notes issued by the partners (see Exhibits 367 & 221).

As described earlier in this report, the explanation for the journal entry to record the purported conversion of the Joint Venture from KSJV to JMHA was, "To set-up balances on assets and liabilities transferred from King Street Joint Venture at a \$400,000 capital investment." There is no documentation to support the genesis of goodwill outside of the explanation in the journal entry "to book up to a \$400,000 investment." This does not represent an infusion of capital and therefore is considered ineligible for purposes of accounting for capital contributions made by the Venturers.

The journal entry to record equipment was a debit to equipment of \$340,000 and a credit to capital of \$340,000. This transaction is described in a memo from the Internal Revenue Service to Dr. Tauber dated April 4, 1969 (see Exhibit 372). Section 3 of that memo states the following:

"During 1965 and at January 1, 1966, the partnership, JMHI and certain individuals entered into an arrangement whereby the individuals would purchase equipment from the hospital and contribute the equipment to the partnership for a percentage interest in the partnership. The partnership in turn leased the equipment back to the hospital for 10 years at a rental equal to the purchase price. After ten years the equipment is to be donated to the hospital. The hospital is paying rent on the equipment with its 8% bonds. The hospital retained primary liability on chattel mortgages on the equipment. I take the position that the hospital is the legal owner of the equipment; that the substance of the arrangement is a device for getting depreciation on the equipment to the benefit of the partnership. The true result of the transaction is that the hospital is selling its 8% bonds to the partnership on the installment plan. Accordingly the partnership is not entitled to any depreciation on the \$340,000 of equipment."

For this reason, the \$340,000 is ineligible for purposes of accounting for capital contributions made by the Venturers.

The journal entry to record the last portion of the capital contributions of \$60,000 was a debit of \$1,600 to Loan Receivable JMHI and \$58,400 to Notes Receivable JMHA Partners and a credit to capital of \$60,000 (see Exhibits 367 & 221). The explanation states "To set up cash paid and notes used on capital contributions...held by hospital." While the ultimate resolution of these Notes from Partners is unknown, this amount will be considered a capital contribution of \$60,000.

The withdrawal from the Joint Venture of \$16,528 represents a write-off of the remaining amount due from the hospital for construction costs in excess of \$1,000,000. Notwithstanding the inappropriateness of the underlying transaction, this amount will be considered a capital withdrawal of \$16,528.

**1967 – 1971** – As noted in the United States Tax Returns for the years ended December 31, 1967 through 1971, no capital contributions or withdrawals were made to the Venture (see Exhibits 222, 224, 226, 228 and 230).

**Summary of Capital Contributions to the Joint Venture through 1971**

A summary of the composition of capital contributions made to the Joint Venture from inception through June 30, 1971 is provided below:

<u>Form of Contribution</u>	<u>Amount</u>	<u>% of Total</u>
Cash	\$ 5,456	2%
Partner Notes	\$ 60,000	26%
Unsupported, net	\$162,967	71%
<b>Total Capital Contributions</b>	<b>\$228,423</b>	
Less Withdrawals	\$ 55,528	
<b>Net Capital Contributions</b>	<b>\$172,895</b>	

See Attachment #17 for detail of contributions and withdrawals to the Joint Venture through June 30, 1971.

On July 1, 1971, the Joint Venture was purportedly acquired by JMH (operating as JMHC). From inception in 1963 up through June 30, 1971, the Joint Venture had accumulated losses of \$429,062 (see Exhibit 230). This amount exceeds the net contributions to the Joint Venture to that point. As of June 30, 1971, the net book value of assets of the Joint Venture was \$470,637. For this reason, all contributions to the Joint Venture are accounted for in the purported conversion to JMH on July 1, 1971 as discussed below.

**b) Jefferson Memorial Hospital**

**1965 – 1971** – In a review of the available financial statements and tax returns, the only capital contribution made to JMH for the period of inception in 1965 through the period ended June 30, 1971, was the 65% interest in the land donated by the Joint Venture (operating as KSJV). No additional capital contributions were made. During this time, the account in the financial statements was called Fund Capital (Deficit).

**1972** - As disclosed in Notes 1 and 2 of the financial statements for JMH (operating as JMHC) for the year ended June 30, 1972, JMH purportedly reorganized and acquired the Joint Venture (operating as JMHA) during the year (see Exhibit 200). Note 1 describes the purported JMH conversion as follows. "On June 30, 1971 Jefferson Memorial Hospital, Inc. (JMHI) merged into Jefferson Memorial Hospital Corporation (JMHC), a new corporation....JMHC received all of the assets and assumed all of the liabilities of JMHI as of that date

and 5,000 shares of JMHC common stock were given to the JMHI stockholders in exchange for all of the outstanding 5,000 shares of JMHI common stock. This exchange resulted in a mere change in name and state of organization with no change in management and percentage of ownership by each shareholder.” Note 2 describes the purported combination of the Joint Venture into JMHI as follows, “On July 1, 1971, the hospital in exchange for 240,000 shares of its common stock acquired all of the assets and assumed all of the liabilities of JMHA, a partnership whose main source of income was from the rental of the hospital plant to the hospital. The acquisition of the partnership was combined with the Hospital using the pooling of interests method. The partners of Jefferson Memorial Hospital Associates were the sole shareholders of the Hospital holding the original 5,000 shares of common stock outstanding. The 240,000 additional shares were distributed so that each shareholder’s percentage of ownership remained the same.”

The journal entries to record these transactions were not found in the documents provided. For this reason, an attempt has been made to reconstruct the entry based on the description above. This entry is necessary to determine the amount of capital infused, if any, as a result of this transaction. Two scenarios were used, the first using the Balance Sheets for JMHI and the Joint Venture (operating as JMHA) as of June 30, 1971 and the second using the JMHI (operating as JMHC) Balance Sheet as of June 30, 1972. Utilizing the second scenario, the financial position of JMHC as of June 30, 1972, the reconstructed entry leaves only \$4,951 unexplained (see Attachment #18). Capital in excess of par recorded as of June 30, 1972, was \$703,142. The book value of the Joint Venture’s assets as of June 30, 1971 was \$470,637. A majority of the difference between the book value of \$470,637 and the amount recorded for capital in excess of par was the \$280,000 liability booked on JMHI’s Balance Sheet for the equipment sale and leaseback transaction as described earlier in this report. The following chart details the net assets recorded, as reconstructed, as part of that transaction:

Asset	Amount Recorded	Description	Capital Contribution	Eligible Contribution
Goodwill	\$386,802	Booked as part of purported Joint Venture conversion	Ineligible Unsupported as noted above	\$ 0
Lease Agreement Payable	\$280,000	This amount was recorded on the books of JMH to account for the equipment lease with Joint Venture.	Ineligible IRS determined this was a scheme to skim-off depreciation for the Joint Venture (as noted above)	\$ 0
JMH payable to Joint Venture	\$43,114	Genesis of the intercompany is unknown	Eligible	\$ 43,114
JMH Bonds Payable to Joint Venture	\$19,500	Genesis of the intercompany is unknown	Eligible	\$ 19,500
Net liabilities in excess of assets contributed	(\$31,225)	Notes receivables from partners, equipment, and mortgages payable	Eligible	(\$ 31,225)
Unexplained	\$4,951		Eligible	\$ 4,951
Total eligible contribution				\$ 36,340

The purported conversion of JMH and the Joint Venture (operating as JMHA) into JMH (operating as JMHC) necessitates the analysis of two accounts related to capital from July 1, 1971 forward. Those accounts are Capital in Excess of Par and Retained Earnings. Each has been analyzed as discussed below.

#### Capital in Excess of Par

In accounting, the Capital in Excess of Par account represents the excess of amounts paid in by shareholders over the par or stated value of capital stock. Generally, this account is affected by stockholders purchasing and/or selling stock above the par value. I have prepared a schedule detailing the changes in the Capital in Excess of Par account for JMH from the available documents for the period from June 30, 1972 through June 30, 1985 (see Attachment #19 for schedule). The initial contribution in this account resulted from the purported Joint Venture conversion into JMH described above in the amount of \$36,340. A summary of the remaining activity in this account, for the period from July 1, 1972 through June 30, 1985, is shown below:

#### Changes in JMH Capital in Excess of Par from July 1, 1973 – June 30, 1985

Contributions – Proceeds from sale of common stock	\$ 394,895
Withdrawals – JMH purchases of common stock	(718,951)
Unexplained difference, net	(379,086)
<b>Net Contributions (Withdrawals) from Capital in Excess of Par</b>	<b>(S 703,142)</b>

### **Retained Earnings**

The balance in the Retained Earnings account represents the accumulated amount of earnings undistributed to shareholders. Generally, this account is affected by net income or loss of the corporation and distribution of dividends to shareholders. I have prepared a schedule detailing the changes in the Retained Earnings account for JMH from the available documents for the period from June 30, 1972 through June 30, 1984 (see Attachment #20 for schedule). Although the financial statements were available for the year ended June 30, 1985, there was an unexplained difference in the beginning balance of retained earnings and no contributions or withdrawals were made. A summary of the activity in the Retained Earnings account related to contributions and withdrawals by shareholders is provided below:

<b><u>Changes in JMH Retained Earnings from July 1, 1972 – June 30, 1984</u></b>	
Contributions	\$ 0
Withdrawals through redemption of shares	(510,160)
<b>Net Contributions (Withdrawals) from Retained Earnings</b>	<b>(\$ 510,160)</b>

Although some tax returns for JMH (operating as JCA) are available for periods subsequent to June 30, 1985, there is not enough detail provided to determine the causes for changes in the account. The balance of Retained Earnings as of June 30, 1984 was \$818,376 (see Exhibit 1034). The last available document provided for JMH (operating as JCA) that details the balance of Retained Earnings was the United States Tax Return for the year ended June 30, 1995 which showed an ending balance of \$674,372 (see Exhibit 1045). As noted above, the cause for the additional reduction in this account of \$144,004 could not be determined from the information provided.



### Summary of Capital Contributions to and Withdrawals from JMH (through 1985)

The following table summarizes the capital analysis discussed above:

	<u>Eligible Contributions</u>	<u>Withdrawals</u>	<u>Other, Unexplained</u>	<u>Net Contributions (Withdrawals)</u>	<u>Ineligible</u>
JMH Fund Capital	115,140			115,140	
JMH Retained Earnings		(510,160)		(510,160)	
Initial JV Contribution (1971)	36,340			36,340	
Initial JV - 1971 Goodwill					386,804
Initial JV - 1971 Equipment Liability					280,000
Capital in Excess of Par	394,895	(718,951)	(379,086)	(703,142)	
	<u>546,375</u>	<u>(1,229,111)</u>	<u>(379,086)</u>	<u>\$ (1,061,822)</u>	<u>666,804</u>

As is noted in the table above, the Joint Venture withdrew more from JMH than was contributed.

#### c) Joint Venture subsequent to June 30, 1975

To comprehend the entire amount of capital contributed or withdrawn as part of the income generated from JMH's assets held in trust, it becomes necessary to look at the activity in the capital accounts of the Joint Venture starting with its rebirth in 1975. While I have looked at the amounts contributed and withdrawn from JMH, unlike this accounting, the Joint Venture continued to raise the rent charged to JMH. These amounts have been reflected in the Income Statement Adjustments made as part of this accounting, but would not have been accounted for in the analysis of capital contributions and withdrawals for JMH discussed above. With each increase in rent due from JMH to the Joint Venture, a corresponding increase would have occurred in the revenue for the Joint Venture and the expense for JMH. This is not the case beginning February 10, 1982. According to an Amendment to the purported Lease between the Joint Venture (operating as JMHJV as Lessor) and JMH (operating as JCA as Lessee), on February 10, 1982, all but \$100,000 of the revenue from the HGV agreement (soon to be the INOVA agreement) was funneled directly to the Joint Venture (see Exhibit 325). In this case, revenue would not have traced through JMH, but rather straight to the revenue line for the Joint Venture. I have prepared a schedule detailing the changes in the capital accounts for the Joint Venture from the documents that were produced (see Attachment #21). According to those documents, from the recreation of the

Joint Venture structure in 1975 until December 31, 1977, the Joint Venturers made no capital contributions were yet withdrew \$46,081. During that same time, gross rents from the hospital building were recorded of \$280,000. There were no financial statements or tax returns produced for the years ended December 31, 1978, 1979 or 1980. For the period subsequent to January 1, 1980, there is information contained in the financial statements and/or tax returns that details the amount of Partners' contributions as well as withdrawals. However, it becomes difficult to determine for which aspect of the Joint Venture they are contributing because the Joint Venture constructed, purchased and sold various properties throughout the period subsequent to 1980 and the records are not segregated. Even though the financial documents are not complete or conducive to segregation, a memorandum issued from Laszlo N. Tauber to the Joint Venture participants on July 24, 1989 described the level of contribution as follows:

"Since practically none of the investors have any money in this venture, I would like to allocate \$1,100,000 to be paid in October, 2005 to ..." (see Exhibit 805).

The documents produced detail the total contributions, total withdrawals and gross rent. A summary of total contributions and total withdrawals from the Joint Venture for the period from January 1, 1981 through December 31, 1998 is provided below:

<b><u>Contributions and Withdrawals of Capital from Joint Venture</u></b>	
<b><u>January 1, 1981 – December 31, 1998</u></b>	
(excluding the year ended December 31, 1985 as documents were not produced)	
Contributions	\$ 1,751,498
Withdrawals	(16,357,268)
<b>Net Contributions (Withdrawals) from Joint Venture</b>	<b>(\$ 14,605,770)</b>

I tried to determine the amount of reported rental income that was associated with the hospital building from the tax returns and financial statements. In eleven of the fifteen years, I was unable to determine the amount associated exclusively with the hospital building because it was not segregated from the Medical Office Building. The total gross rents reported from January 1, 1981 through December 31, 1998 (excluding the year ended December 31, 1985), for the hospital building and, in some cases, the hospital and medical office building was \$25,475,755

## **C) IMPACT OF ACCOUNTING DECISIONS**

The assumptions used and methodology employed in this accounting have been described in detail above. My approach, in several instances, resulted in the inclusion of amounts that reduced the net income associated with the assets held in trust. Below I discuss the impact certain of these decisions had on the overall accounting to demonstrate the magnitude of reduction in these specific instances.

### **1) Income Taxes**

I have left intact the expenses associated with the payment of Income Taxes. As a non-profit organization, these expenses would not have been required. However, since the Respondents did not personally benefit from this outlay, I did not feel it necessary to add those amounts back to income. Had those amounts been disallowed as part of this accounting, the cumulative adjusted net income would have increased by \$1,026,399.

### **2) Ownership of the Building**

As Counsel has described to us, there is some disagreement as to the ownership of the hospital building and land. This accounting has assumed that the building was owned by the Joint Venture as recited in the 1966 lease agreements and that, therefore, the Joint Venture is entitled to the rent for use of the Building. A total of approximately \$4,825,000 has been included in this accounting for rent in connection with the original 1966 hospital building lease (see Attachment #22). This amount is approximately \$3,235,000 in excess of the cost of the building itself as well as the interest on the mortgage. This amount does not account for the tax benefits gained by the Joint Venture from the deductions for depreciation and mortgage interest.



ENTITY SOURCE	on the financial statements and JMH on the Federal Tax returns							JMH											
	Fin Stmt	Missing	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt	Fin Stmt
	No Return Available	No Return Available	No Return Available	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092	54-0784092
	Auditor: Hampton	Auditor: Hampton	Auditor: Hampton	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M	C.B&M
TAX ID	Oct-65	Oct-66	Oct-67	Oct-68	Oct-69	Oct-70	Nov-70 to June-71	Jun-72	Jun-73	Jun-74	Jun-75	Jun-76	Jun-77	Jun-78	Jun-79	Jun-80	Jun-81	Jun-82	Jun-82
Auditor:	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton	Hampton
Gross Revenue																			
Routine	381,466		1,170,034	1,409,623	1,652,618	1,888,098	1,441,616	2,180,681	2,234,317	2,250,711	2,646,905	2,949,900	3,019,368	3,423,862	3,879,627	4,454,776	5,446,382	4,651,987	
Special Services	236,823		780,994	691,452	984,960	1,820,849	1,374,548	2,273,411	2,515,128	3,087,073	3,656,912	4,001,698	4,654,289	5,171,012	5,704,562	6,826,381	8,607,711	7,264,771	
Total Gross Revenue	618,289		1,951,028	2,091,075	2,637,578	3,706,947	2,816,164	4,454,092	4,749,445	5,337,784	6,303,817	6,951,598	7,673,657	8,594,874	9,584,189	11,281,157	14,054,093	11,916,758	
Revenue Deductions																			
Agencies			(165,417)	(89,741)	(187,562)	(309,377)	(353,145)	(371,718)	(324,046)	(733,065)	(674,622)	(486,487)	(472,016)	(676,143)	(858,616)	(912,978)	(1,409,615)	(1,105,714)	
Patients	(8,950)		(18,631)	(14,669)	(17,873)	(7,170)	(3,302)	(2,971)	(6,055)	(42,136)	(21,278)	(18,763)	(16,661)	(24,368)	(23,044)	(37,144)	(52,434)	(32,151)	
Employees and Professional Courtesy				(1,382)	(3,976)	(10,742)	(6,696)	(8,721)	(8,163)	(8,376)	(9,602)	(8,309)	(12,592)	(9,305)	(12,301)	(21,743)	(27,042)	(33,130)	
Uncollectible			(84,543)	(115,821)	(132,579)	(116,573)	(105,340)	(152,336)	(210,261)	(113,380)	(151,835)	(293,093)	(357,191)	(321,286)	(383,771)	(588,011)	(845,544)	(96,463)	
Total Deductions	(8,950)		(268,591)	(221,613)	(341,990)	(443,802)	(468,483)	(535,746)	(548,525)	(896,937)	(857,337)	(804,652)	(858,460)	(1,031,112)	(1,277,732)	(1,559,876)	(2,334,635)	(1,267,458)	
Other Revenue Accounts	48,830		135,819	52,672	36,569	33,779	26,458	47,768	45,115	44,891	46,046	34,992	5,814	16,967	9,632	27,094	34,000	38,328	
Net Revenues	658,169		1,818,256	1,922,134	2,332,167	3,296,864	2,374,139	3,966,114	4,246,036	4,485,738	5,492,526	6,181,938	6,821,011	7,580,729	8,316,089	9,748,376	11,753,458	10,687,628	
Total Expenses																			
Depreciation			22,364	24,108	25,650	28,626	21,747	66,967	69,537	72,394	84,948	59,241	64,363	65,618	73,577	84,180	93,593	80,687	
Interest	24,994		80,283																
Real Estate and Property Taxes	11,407		21,769	23,330	32,580	33,388	13,536	43,823	67,179	60,657	62,380	70,271	71,888	72,924	80,432	104,331	136,593	119,737	
Rental of Land and Building	116,640		99,444	101,658	115,462	112,670	72,686	19,844	20,006	20,373	21,055	150,305	159,073	171,691	200,073	340,349	535,089	437,138	
Salaries and Wages	291,869		972,272	940,708	1,159,926	1,328,929	1,000,663	1,620,633	1,706,543	1,875,999	2,280,476	2,443,756	2,951,866	3,209,428	3,522,038	3,887,673	4,747,932	4,025,368	
Supplies	354,085		615,912	853,191	1,195,512	1,617,454	1,178,016	1,938,454	2,039,733	2,365,785	2,766,848	3,127,607	3,293,591	3,684,012	4,128,376	5,019,426	6,061,408	5,045,410	
Total Expenses	798,995		1,812,044	1,942,995	2,629,130	3,121,067	2,286,648	3,989,721	3,902,998	4,395,208	5,215,707	5,851,180	6,540,781	7,203,673	8,004,498	9,435,959	11,574,815	9,708,340	
Net Operating Income	(140,826)		6,212	(20,861)	(196,973)	175,797	87,491	276,393	343,037	90,530	276,819	330,758	280,230	377,056	311,593	312,416	178,843	979,288	
Interest				(56,422)	(62,339)	(42,826)	(34,990)	(93,872)	(76,560)	(76,423)	(71,404)	(57,670)	(65,545)	(63,588)	(64,252)	(61,500)	(61,096)	(81,298)	
Amortization of Goodwill								(11,379)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	
Loss on Disposal of Land & Building																			
Loss on Lost Creek Partnership																			
Other Income and Expense-Net				92,642	88,630	39,221	(936)	49,636	9,707	13,007	3,171	(9,462)	8,997	(170,623)	(50,718)	(26,355)	23,094	(2,296)	
Net Income Before Income Taxes	(140,826)	(118,076)	6,212	15,359	(170,682)	172,192	51,565	220,778	264,807	15,737	187,209	200,409	212,305	124,291	187,371	219,422	129,464	884,317	
Less: Income Taxes								12,769	124,833	5,349	74,795	87,382	97,177	48,034	60,230	62,540	33,685	419,605	
Net Income	(140,826)	(118,076)	6,212	15,359	(170,682)	172,192	51,565	208,009	139,974	10,388	112,414	113,027	115,128	76,257	127,141	156,882	95,779	464,712	
Cumulative Net Income as Reported	(140,826)	(258,902)	(252,690)	(237,331)	(408,013)	(235,821)	(184,256)	23,753	163,727	174,115	296,529	409,556	524,684	600,941	728,082	884,964	980,743	1,445,465	
Honoring 1966 Leases																			
Add Back - Rental of Land&Buildings	116,640	98,946	99,444	101,658	115,462	112,670	72,686	19,844	20,006	20,373	21,055	150,305	159,073	171,691	200,073	340,349	535,089	437,138	
Add Back - Mortgage Interest								40,132	37,615	34,943	32,106								
Add Back - Depreciation on the Building								32,214	32,215	32,215	32,215								
Deduct - Effective 1966 Building Lease Payment	(80,940)	(80,940)	(80,940)	(80,940)	(80,940)	(80,940)	(53,960)	(80,940)	(80,940)	(80,940)	(80,940)	(114,125)	(147,311)	(147,311)	(147,311)	(147,311)	(147,311)	(147,311)	
Deduct - Unwritten 1968 Addition Lease - 24 beds				(4,100)	(11,232)	(11,232)	(7,488)	(11,232)	(11,232)	(11,232)	(11,232)	(15,837)	(20,442)	(20,442)	(20,442)	(20,442)	(20,442)	(20,442)	
Deduct - Effective 1966 Land Lease #1	(15,600)	(15,600)	(15,600)	(15,600)	(15,600)	(15,600)	(10,400)	(15,600)	(15,600)	(15,600)	(15,600)	(21,996)	(26,392)	(26,392)	(26,392)	(26,392)	(26,392)	(26,392)	
Deduct - Effective 1966 Land Lease #2 (fixed)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(1,604)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	
Deduct - 1977 Lease for 3rd Floor of MOB															(3,920)	(11,760)	(11,760)	(11,760)	
Deduct - 1979 Lease of PT and storage space																(10,314)	(10,314)	(10,314)	
Adjustment of Rental of Land & Building	17,694		498	(1,388)	5,284	2,492	(766)	(17,988)	(20,342)	(22,647)	(24,802)	(4,060)	(39,478)	(26,860)	(2,398)	119,724	314,464	216,513	
Eliminating Items Expensed																			
Add back - Amortization of Goodwill								11,379	11,377	11,377	11,377	11,377	11,377	11,484	11,377	11,377	11,377	11,377	
Add back - Loss on disposal of land & building												51,840							
Add back - Loss on Lost Creek Partnership														170,623	50,718	26,355			
Adjustment for Expense Elimination								11,379	11,377	11,377	11,377	63,217	11,377	182,107	62,095	37,732	11,377	11,377	
ADJUSTED NET INCOME	(123,132)	(118,076)	6,710	13,971	(165,398)	174,684	50,799	201,400	131,009	(882)	108,989	172,184	87,027	231,504	186,838	314,338	421,620	692,602	
Cumulative Adjusted Net Income	(123,132)	(241,208)	(234,498)	(220,527)	(385,925)	(211,241)	(160,442)	40,958	171,967	171,085	280,073	452,258	539,285	770,789	957,627	1,271,965	1,693,585	2,386,187	

## Complainants' Accounting

## Income Statement Summary- 1983 - 2006

SOURCE: From JMH	Fin Stmt	Fin Stmt	Fin Stmt	Missing	Tax Return	Missing	Tax Return	Tax Return	Tax Return	Tax Return	Missing	Tax Return	Tax Return
Financial Statements:	Compiled	Compiled	Compiled		N/A		N/A	N/A	N/A	N/A		N/A	N/A
Accountant:	Mermelstein	Mermelstein	Mermelstein		Mermelstein		Mermelstein	Mermelstein	Mermelstein	Mermelstein		Mermelstein	Mermelstein
	Jun-83	Jun-84	Jun-85	Jun-86	Jun-87	Jun-88	Jun-89	Jun-90	Jun-91	Jun-92	Jun-93	Jun-94	Jun-95

Revenue													
Gross Profit													
Dividends							38						
Rental (appears to be net)	100,748	108,862	158,643						-				
Interest and Dividends	94,261	37,293	76,244				725	103	-				
Recovery of Bad Debts	82,622	43,239	52,658		1,492								
Other	56,779	56,422	11,166										
<b>Total Revenue</b>	<b>334,410</b>	<b>243,816</b>	<b>298,711</b>		<b>1,492</b>		<b>763</b>	<b>103</b>	<b>-</b>	<b>-</b>		<b>-</b>	
Total Expenses													
Amortization of Goodwill	11,377	11,377	11,377										
Collection Fees	11,371	1,838							7,264				
Depreciation (P,P&E)	43,252	75,103	85,940		34,709		21,701	16,445		3,197		2,905	2,905
Interest		54,775	108,961		110		60						
Bad Debts													
Rents													
Commissions	40,315		875										
Office Supplies	666	1,209	261										
Professional Fees	39,183	6,500	20,965				185						
Salaries and Benefits	43,689	35,464	48,342										
Cleaning	0	275	315										
Condo Fees (Lakeside Plaza)	0	13,748	15,845										
Taxes	0	6,527	4,814		2,930		4,393						
Contributions													
Other	18,430	9,105	646										
<b>Total Expenses**</b>	<b>208,283</b>	<b>215,921</b>	<b>298,341</b>		<b>37,749</b>		<b>26,339</b>	<b>16,445</b>	<b>7,264</b>	<b>3,197</b>	<b>-</b>	<b>2,905</b>	<b>2,905</b>
<b>Net Income as Reported</b>	<b>126,127</b>	<b>27,895</b>	<b>370</b>		<b>(36,257)</b>		<b>(25,576)</b>	<b>(16,342)</b>	<b>(7,264)</b>	<b>(3,197)</b>	<b>-</b>	<b>(2,905)</b>	<b>(2,905)</b>

<b>Cumulative Net Income as Reported</b>	<b>1,445,455</b>	<b>1,571,582</b>	<b>1,599,477</b>	<b>1,599,847</b>	<b>1,599,847</b>	<b>1,563,590</b>	<b>1,563,590</b>	<b>1,638,014</b>	<b>1,621,872</b>	<b>1,614,408</b>	<b>1,611,211</b>	<b>1,611,211</b>	<b>1,608,306</b>	<b>1,605,401</b>
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## Honoring 1966 Leases

Deduct-Rent Revenue as Booked	(100,748)	(108,862)	(158,643)	-	-	-	-	-	-	-	-	-	-	-
Add Back - Revenue from HGA/INOVA per Agreement	1,000,000	1,000,000	1,000,000	1,375,000	1,375,000	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000	2,125,000	2,125,000	2,083,333	
Deduct - Effective 1966 Building Lease Payment	(147,311)	(147,311)	(147,311)	(200,731)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	(254,152)	
Deduct - Unwritten 1968 Addition Lease - 24 beds	(20,442)	(20,442)	(20,442)	(27,855)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	(35,268)	
Deduct - Effective 1966 Land Lease #1	(28,392)	(28,392)	(28,392)	(38,688)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	(48,984)	
Deduct - Effective 1966 Land Lease #2 (fixed)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	(2,406)	
Deduct - 1977 Lease for 3rd Floor of MOB	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	(11,760)	
Deduct - 1979 Lease of PT and storage space	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	(10,314)	
<b>Adjustment of Rental of Land &amp; Building</b>	<b>678,627</b>	<b>672,513</b>	<b>620,732</b>	<b>1,083,245</b>	<b>1,012,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,262,116</b>	<b>1,762,116</b>	<b>1,762,116</b>	<b>2,083,333</b>	

## Eliminating Items Expensed

Add back - Amortization of Goodwill	11,377	11,377	11,377											
Add back - Condo Fees (Lakeside Plaza)	-	13,748	15,845	-	-	-	-	-	-	-	-	-	-	
Add back - Depreciation on Lakeside Condos		32,386	55,907											
<b>Adjustment for Expense Elimination</b>	<b>11,377</b>	<b>57,511</b>	<b>83,129</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

<b>Adjusted Net Income</b>	<b>816,131</b>	<b>757,919</b>	<b>704,231</b>	<b>1,083,245</b>	<b>975,859</b>	<b>1,262,116</b>	<b>1,236,540</b>	<b>1,245,774</b>	<b>1,254,852</b>	<b>1,258,919</b>	<b>1,762,116</b>	<b>1,759,211</b>	<b>2,080,428</b>	
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<b>Cumulative Adjusted Net Income</b>	<b>2,386,187</b>	<b>3,202,318</b>	<b>3,960,236</b>	<b>4,664,468</b>	<b>5,747,713</b>	<b>6,723,572</b>	<b>7,985,688</b>	<b>9,222,228</b>	<b>10,468,002</b>	<b>11,722,854</b>	<b>12,981,773</b>	<b>14,743,889</b>	<b>16,503,099</b>	<b>18,583,528</b>
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## SOURCE:

## Financial Statements:

Accountant: No Financial Statements Available

	Jun-96	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02	Jun-03	Jun-04	Jun-05	Jun-06
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## Revenue

Gross Profit  
Dividends  
Rental (appears to be net)  
Interest and Dividends  
Recovery of Bad Debts  
Other

## Total Revenue

## Total Expenses

Amortization of Goodwill  
Collection Fees  
Depreciation (P,P&E)  
Interest  
Bad Debts  
Rents  
Commissions  
Office Supplies  
Professional Fees  
Salaries and Benefits  
Cleaning  
Condo Fees (Lakeside Plaza)  
Taxes  
Contributions  
Other

## Total Expenses\*\*

## Net Income as Reported

Cumulative Net Income as ReportedHonoring 1966 Leases

Deduct-Rent Revenue as Booked	-	-	-	-	-	-	-	-	-	-	-
Add Back - Revenue from HGA/INOVA per Agre	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	10,427,083
Deduct - Effective 1966 Building Lease Payment											
Deduct - Unwritten 1968 Addition Lease - 24 bed											
Deduct - Effective 1966 Land Lease #1											
Deduct - Effective 1966 Land Lease #2 (fixed)											
Deduct - 1977 Lease for 3rd Floor of MOB											
Deduct - 1979 Lease of PT and storage space											
Adjustment of Rental of Land & Building	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	10,427,083

Eliminating Items Expensed

Add back - Amortization of Goodwill											
Add back - Condo Fees (Lakeside Plaza)	-	-	-	-	-	-	-	-	-	-	-
Add back - Depreciation on Lakeside Condos											
Adjustment for Expense Elimination	-	-	-	-	-	-	-	-	-	-	-

Adjusted Net Income	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	10,427,083
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Cumulative Adjusted Net Income	20,708,528	22,833,528	24,958,528	27,083,528	29,208,528	31,333,528	33,458,528	36,021,028	38,583,528	41,148,028	51,573,111
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[Accessibility Information]

# Producer Price Indexes



## Frequently Asked Questions

1. What is the Producer Price Index (PPI)?
2. How are PPIs used?
3. When did the Wholesale Price Index become the Producer Price Index?
4. How does the Producer Price Index differ from the Consumer Price Index?
5. How is an index interpreted?
6. How are PPI's calculated?
7. How are PPI's weighted?
8. How are producers and products selected for the PPI survey?
9. How are PPI data collected?
10. Are PPI's seasonally adjusted?
11. When should seasonally adjusted PPI's be used?
12. Are actual prices published?
13. What types of indexes are published?
14. Are Producer Price Indexes subject to change after being published?
15. Why do some PPI's go in and out of publication or disappear altogether?
16. Is the base period subject to change?
17. What historical data are available?
18. What price index should I use for escalation?
19. Where are PPI data published?
20. When are PPI data made available?
21. Where can I get more information?

### 1. What is the Producer Price Index (PPI)?

The Producer Price Index is a family of indexes that measures the average change over time in the selling prices received by domestic producers of goods and services. PPI's measure price change from the perspective of the seller. This contrasts with other measures, such as the Consumer Price Index (CPI), that measure price change from the purchaser's perspective. Sellers' and purchasers' prices may differ due to government subsidies, sales and excise taxes, and distribution costs.

Over 10,000 PPI's for individual products and groups of products are released each month. PPI's are available for the products of virtually every industry in the mining and manufacturing sectors of the U.S. economy. New PPI's are gradually being introduced for the products of industries in the transportation, utilities, trade, finance, and services sectors of the economy.

### 2. How are PPI's used?

Producer Price Index data are widely used by the business community as well as government. Three major uses are:

*As an economic indicator.* The PPI's capture price movements prior to the retail level. Therefore, they may foreshadow subsequent price changes for businesses and consumers. The President, Congress, and the Federal Reserve employ these data in formulating fiscal and monetary policies.

*As a deflator of other economic series.* PPI's are used to adjust other economic time series for price

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changes and to translate those series into inflation-free dollars. For example, constant-dollar gross domestic product data are estimated using deflators based on PPI data.

*As the basis for contract escalation.* PPI data are commonly used in escalating purchase and sales contracts. These contracts typically specify dollar amounts to be paid at some point in the future. It is often desirable to include an escalation clause that accounts for increases in input prices. For example, a long-term contract for bread may be escalated for changes in wheat prices by applying the percent change in the PPI for wheat to the contracted price for bread. (See BLS Report 807, *Escalation and Producer Price Indexes: A Guide for Contracting Parties.*)

### **3. When did the Wholesale Price Index become the Producer Price Index?**

The Wholesale Price Index (WPI) was the name of the program from its inception in 1902 until 1978, when it was renamed the "Producer Price Index." At the same time, emphasis was shifted from one index encompassing the whole economy, to three main indexes covering the stages of production in the economy. By changing emphasis, BLS eliminated the double counting phenomenon inherent in aggregate commodity-based indexes.

The change from "Wholesale Price index" to "Producer Price Index" did not include a change in the index methodology, and the continuity of the price index data was unaffected. The name change reflects the theoretical model of the output price index that underlies the PPI. (See BLS Working Paper 44, "On the Theory of Industrial Price Measurement: Output Price Indexes.") In addition, the term WPI was very misleading in that the index never measured price change in the wholesale market. No indexes were discontinued as a result of the changes in terminology or analytical emphasis.

### **4. How does the Producer Price Index differ from the Consumer Price Index?**

While both the PPI and CPI measure price change over time for a fixed set of goods and services; they differ in two critical areas: (1) the composition of the set of goods and services, and (2) the types of prices collected for the included goods and services.

The target set of goods and services included in the PPI's is the entire marketed output of U.S. producers. The set includes both goods and services purchased by other producers as inputs to their operations or as capital investment, as well as goods and services purchased by consumers either directly from the service producer or indirectly from a retailer. Because the PPI target is the output of U.S. producers, imports are excluded. The target set of items included in the CPI is the set of goods and services purchased for consumption purposes by urban U.S. households. This set includes imports.

The price collected for an item included in the PPI's is the revenue received by its producer. Sales and excise taxes are not included in the price because they do not represent revenue to the producer. The price collected for an item included in the CPI is the out-of-pocket expenditure by a consumer for the item. Sales and excise taxes are included in the price because they are necessary expenditures by the consumer for the item.

The differences between the PPI and CPI are consistent with the different uses of the two measures. A primary use of the PPI is to deflate revenue streams in order to measure real growth in output. A primary use of the CPI is to adjust income and expenditure streams for changes in the cost of living.

The composition of items in the Finished Goods Price Index differs from that of the All Items Consumer Price Index in two major respects. First, the Finished Goods Price Index includes price changes for producers' durable equipment, which are not purchased by typical consumers and, therefore, are not included in the CPI. Second, the All Items CPI includes services which are not

reflected in the Finished Goods Price Index. An additional difference is that the Finished Goods Price Index is only available at the U.S. level, while the All Items CPI is available at the regional, metropolitan area, and U.S. levels.

How Does the Producer Price Index Differ from the Consumer Price Index? ([PDF 29KB](#))

## 5. How is an index interpreted?

An index is a tool that simplifies the measurement of movements in a numerical series. Movements are measured with respect to the base period, when the index is set to 100. Currently, most PPI's have an index base set at 1982 = 100. (Some PPI's have a base corresponding to the month prior to the month that the index was introduced.) BLS measures price change in relation to that figure. An index of 110, for example, means there has been a 10-percent increase in prices since the base period; similarly, an index of 90 indicates a 10-percent decrease. Movements of price indexes from one month to another are usually expressed as percent changes rather than as changes in index points because index point changes are affected by the level of the index in relation to its base period, while percent changes are not. An advantage of calculating percent changes is that the result will be the same no matter what base period is specified. The example below demonstrates the computation of index point and percent changes.

### Index point change

Finished Goods Price Index .....	107.5
Less previous index .....	104.0
Equals index point change.....	3.5

### Index percent change

Index point change .....	3.5
Divided by the previous index .....	104.0
Equals .....	0.034
Result multiplied by 100 .....	0.034 x 100
Equals percent change .....	3.4

## 6. How are PPI's calculated?

The formula used to calculate the PPI's is a modified Laspeyres index. The Laspeyres index compares the base period revenue for a set of goods to the current period revenue for the same set of goods.

The following formula closely approximates the actual computation procedure:

$$I_t = [(\sum Q_0 P_t(P/P_0))/\sum Q_0 P_0] \times 100$$

Where:  $P_0$  is the price of a commodity in the base period;

$P_t$  is the price of a commodity in the current period; and

$Q_0$  is the quantity of the commodity shipped during the base period.

In this form, the index is the weighted average of price relatives (price ratios for each item =  $P_t/P_0$ ).

The expression  $Q_0 P_0$  represents the weights in value form.

## 7. How are PPI's weighted?

To improve the precision of PPI estimates of price change, sampled items are weighted by a measure of their size and importance. In the first stage of PPI computation, price indexes are constructed for narrowly-defined goods or services. The individual items included in these indexes are weighted by the establishment's revenue for the product line. In the second stage of PPI computation, indexes for individual goods and services are combined into aggregate indexes. Data for weighting together the product-line indexes comes primarily from the economic censuses of the Bureau of Census. These weights are changed every 5 years.

The weights for combining product-line indexes into aggregate indexes are somewhat different for each of the three types of aggregate indexes. For industry net output indexes, product-line weights are the value of shipments from establishments in the industry primarily engaged in the production of the product to establishments outside of the industry. For the traditional commodity grouping indexes, product line weights are the gross value of shipments across all industries engaged in the production of the product. For the commodity stage-of-processing indexes, the product-line weights from the traditional commodity grouping indexes are simply allocated, based on relationships seen in the U.S. input-output accounts, to either the crude, intermediate, or finished goods stages.

### **8. How are producers and products selected for the PPI survey?**

PPI's are published for the output of virtually all U.S. mining and manufacturing industries and are gradually being introduced for the output of industries in other sectors of the economy. For any given industry, producers are selected for the survey via a systematic sampling from a listing of all firms that file with the Unemployment Insurance System. Typically, a firm's probability of selection is based on its employment size. After a firm is selected and agrees to participate in the survey, a probability sampling technique called disaggregation is used to determine which specific products or services will be in the PPI.

Disaggregation is a process in which iterative steps are taken to select items based on their proportionate value to the manufacturer's overall revenue. First a reporter breaks down the type of items shipped into categories. Next, these categories are broken down further by price determining characteristics, for example, options, color, size. Further break downs may be necessary to differentiate between types of buyers or discounts. Disaggregation continues until a specific product sold to a specific buyer is selected.

### **9. How are PPI data collected?**

When an establishment is selected to participate in the PPI survey, it is visited by a field economist who solicits the firm's voluntary cooperation and informs the firm of the strict confidentiality rules that will safeguard the information being requested. Once cooperation is obtained, the field economist uses the disaggregation technique (see question 8) to select the specific goods or services for which prices will be reported.

From this point forward, the establishment reports prices for the selected products, usually on a monthly basis, on a form provided by BLS. Establishments are asked to report their prices as of Tuesday of the week containing the 13th of the month. Each month approximately 100,000 prices are collected from 30,000 reporters. If the establishment fails to report or reports incomplete information, it is called by a BLS economist who requests the needed information. Nearly all establishments report prices through the mail. However, the use of electronic reporting methods such as fax is gradually being expanded. Establishments continue to report until a new sample is selected-- after 7 years, on average, for an industry.

### **10. Are PPI's seasonally adjusted?**

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Because PPI data are used for different purposes, BLS publishes seasonally adjusted as well as unadjusted changes each month. Certain 4-digit and 6-digit commodity series are selected for seasonal adjustment if statistical tests indicate seasonality and if there is an economic rationale for the observed seasonality. Indexes for most 2-digit commodity groupings and 8-digit individual commodities, as well as industry and Census product indexes, are published only as unadjusted data.

### **11. When should seasonally adjusted PPI's be used?**

Unadjusted data are of primary interest to users who need information that can be related to actual dollar-value transactions. Individuals requiring this information include marketing specialists, purchasing agents, budget and cost analysts, contract specialists, and commodity traders. Unadjusted data are virtually always used for escalating long-term contracts such as purchasing agreements or real estate leases. (See *Escalation and Producer Price Indexes: A Guide for Contracting Parties*, BLS Report 807, September 1991.)

### **12. Are actual prices published?**

No, BLS publishes only price indexes, not actual or average prices. Of course, actual transaction prices are used in the calculation of the indexes. The actual prices are not published because they are provided on a voluntary and confidential basis by PPI reporters. Should a PPI user have a need for a time series of actual prices for an item, BLS suggests that the user obtain the actual price from a published source, such as a trade journal, and move it forward or backward by the change in the applicable PPI.

### **13. What types of indexes are published?**

PPI's are available for two different product classification systems. Both sets of PPI's draw from the same pool of price information provided to BLS by cooperating reporters. Both sets of PPI's feature both individual product and product line indexes and comprehensive "stage-of-processing" indexes for aggregations of products. The latter indexes are useful for studying the transmission of price change across successive stages of economic activity in the U.S. economy.

*Commodity classification.* The commodity classification structure organizes products by similarity of end use or material composition. Products are classified in this structure without regard to their industry of origin. The commodity classification system used is unique to the PPI and does not match any other widely used coding structure such as the Standard Industrial Classification (SIC) system.

The commodity stage-of-processing indexes group commodities by class of buyer and amount of physical processing or assembling. The finished goods grouping includes commodities that are ready for sale to the final-demand user, either an individual consumer or a business firm. In national income accounting terminology, the Finished Goods Price Index roughly measures changes in prices received by producers for two portions of the gross domestic product: (1) Personal consumption expenditures on goods, and (2) capital investment expenditures on equipment.

The intermediate materials, supplies, and components grouping consists partly of commodities that have been processed that still require further processing. Examples of such semifinished goods include flour, cotton yarn, steel mill products, and lumber. The intermediate goods category also encompasses nondurable, physically complete goods purchased by business firms as inputs for their operations. Examples include diesel fuel, belts and belting, paper boxes, and fertilizers.

The crude materials for further processing grouping contains unprocessed commodities not sold directly to consumers. Crude foodstuffs and feedstuffs include items such as grains and livestock. The crude energy goods category consists of crude petroleum, natural gas to pipelines, and coal.

Examples of crude nonfood materials other than energy include raw cotton, construction sand and gravel, and iron and steel scrap.

**Industry classification.** The industry classification structure organizes products by their industry of origin. A PPI for an industry is a measure of price change for the industry's products sold outside the industry (that is, its net output). The industry classification system used is the SIC system of 4-digit industry codes. This is the same system used for published BLS employment, compensation, and productivity data.

The industry stage-of-processing indexes group industries based on their transaction relationships to each other and to final demand. Indexes are available for the output products of each group of industries and the input products used by each group of industries and by final demand.

#### **14. Are Producer Price Indexes subject to change after being published?**

Yes. After an index is first published, it is subject to recalculation to take into account late survey reports and corrections by respondents. Every index is recalculated on a systematic basis--4 index months after being first published. In addition, previously published seasonally adjusted indexes are subject to change in January when new seasonal factors are calculated and applied to the most recent 5 years of data.

#### **15. Why do some PPI's go in and out of publication or disappear altogether?**

PPIs go out of publication if they fail to meet both of the following requirements.

- The index must have cooperation from at least three different reporting units (establishments). If an index fails this requirement, it usually means that the index will remain unpublished and unreleased until a new sample of establishments is selected for the industry. Of course, if U.S. production of the commodity in question has ceased, the index will never reappear.
- In any given month, the index must have actual prices from at least two different reporting units. If an index fails this requirement it may only be out of publication temporarily. If a sufficient number of price quotes are received in subsequent months, the index will again be published. In addition, when that index is recalculated 4 months after publication, it may be published if late reports have been received.

#### **16. Is the base period subject to change?**

Yes, the official reference period is subject to change every 10 years or so. This makes it easier to compare PPI's with other economic series compiled by the Federal Government. The switch to the 1982 reference period occurred in January 1988 to comply with the mandate of the Office of Management and Budget to implement common reference periods for all government statistics.

#### **Special Notice for Rebasing of Selected Producer Price Indexes**

#### **17. What historical data are available?**

The Producer Price Index program is the oldest continuous statistical series of the Federal Government. When first published in 1902, it covered the years from 1890 through 1901. Many major commodity-based indexes are available from the early 1900s. Indexes for the major stage-of-processing categories are available from 1947 to present. Most manufacturing and mining industry indexes, however, are available only since the early 1980s; most service indexes are available only for the last 1-5 years.

### 18. What price index should I use for escalation?

Generally, an index should be chosen that represents the costs for providing a particular product or service, rather than indexes for the products or services themselves. For example, if an apparel manufacturer is contracting for long-term purchases with a producer of finished fabrics, it would be more advisable to tie the escalation clause to a PPI for synthetic fibers rather than to a PPI for a type of finished fabric. Otherwise, the parties may find themselves in a complicated situation that could be difficult to escape.

As to the level of index aggregation or detail that might be chosen, it should be understood that while detailed indexes may target costs more effectively, such indexes are more likely to be discontinued by BLS, or to have occasional gaps in availability. Contracts should provide for these contingencies, and may minimize them if they cite only the higher level categories. In addition, because of the unavailability of certain indexes, proxies must sometimes be chosen to estimate price movements for some series.

### Escalation and Producer Price Index: A Guide For Contracting Parties

### 19. Where are PPI data published?

**PPI News Release.** This document presents an analysis of the movement of key aggregate indexes during the month. The new release also includes tables containing indexes for major components of stage-of-processing and industry aggregate indexes. It is published monthly and is made available at 8:30 a.m. Eastern time on release day. (See question 20 for the schedule of 1999 release dates.)

### Current Producer Price Index News Release

**PPI Detailed Report.** This is the official and most comprehensive publication on producer prices. The report contains all the aggregate industry levels and detailed commodity level indexes. It also includes text, tables, technical notes, and special articles. It is published monthly in a bound format and costs \$34 per year (\$42.50 foreign). There is a slight time lag of 30 days between the release of the data and the delivery of the issue containing that data. Please contact the Government Printing Office for a subscription: New Orders, Superintendent of Documents, at P.O. Box 371954, Pittsburgh, PA 15220-7954, or call (202) 512-1800.

**PPI Summary Data News Release.** This is a 4-page summary of important PPI's. The latest published figures as well as final figures for N-4 are shown. The summary also indicates 1-month and 12-month percent changes. Delivery to subscribers is about 2 weeks after the release date. The publication is free. Call (202) 606-7705 to request to be added to the mailing list.

**Monthly Labor Review.** The MLR provides monthly PPI's for selected series as well as occasional technical and analytical articles on the PPI. This publication provides summary data and analytical articles for the other BLS statistical programs as well and caters to a very broad audience. It is published monthly in a bound format and costs \$27 per year (\$33.75 foreign). There is a slight time lag of 30 days between the release of the data and the delivery of the issue containing that data. Please contact the Government Printing Office for a subscription: Superintendent of Documents, Washington, DC 20402, or call (202) 512-1800.





# PPI Program Spotlight

U.S. Department of Labor  
Bureau of Labor Statistics

## How to Use the Producer Price Index for Contract Escalation

Producer price indexes, calculated by the Bureau of Labor Statistics (BLS), measure the average change in prices received by domestic producers for commodities in all stages of processing, for detailed commodities, and for the net output of selected industries. The data are useful in price adjustment clauses because they measure price changes objectively and are free from possible manipulation by either of the contracting parties.

The role of the BLS is to provide requested data and to explain their underlying methodology and limitations. BLS does not encourage or discourage the use of price adjustment measures in purchase or sales agreements. Nor does the Bureau directly assist in writing contracts or provide advice on disputes arising from contract interpretation. However, the Bureau will provide technical and statistical assistance to users who are developing indexing procedures.

The following are general guidelines to consider when developing an escalation agreement. Clauses should be written with great care to avoid serious problems when contract adjustments are implemented.

- **Establish the base selling price subject to escalation.** Specify the item subject to escalation as precisely as possible. Include per-unit quantity or a certain volume of units that will be escalated. Provide the effective month and year of this base selling price (this time period is often called the base period). In addition, indicate the length of time the contract will remain in effect.
- **Select an appropriate index or indexes.** The index or indexes selected will affect the price change and should be chosen carefully. Data users can select from stage-of-processing, or commodity- or industry-based indexes.

Aggregated stage-of-processing (SOP) indexes contain detailed commodity data that are grouped according to their level of fabrication and end-use. SOP indexes, such as the PPI for finished goods, may best indicate the general trend of inflation. The index for finished goods excluding foods may be more appropriate for the user wishing to exclude the effects of volatile movements in food prices.

Commodity indexes are organized by similarity of end-use or material composition, without regard to the industry in which they were produced. Indexes are calculated for specific commodities and for aggregated groupings. Indexes for detailed commodities or commodity groupings indicate specific price trends for individual products.

Industry based indexes are organized by producing industry as defined in the Standard Industrial Classification system. Such indexes reflect the price trends of a constant set of goods and services for the net output of a specific industry and for aggregate groupings.

- **Clearly identify the selected index and cite an appropriate source.** The escalation clause of a contract should identify the selected index by its complete title and any identifying code. (Example: Producer Price Index for industrial electric power, commodity code 0541.) Contracting parties should not cite table numbers and/or table titles in their escalation contracts because they are subject to change.
- **Specify that the selected index will not be seasonally adjusted.** In general, seasonally adjusted indexes are not appropriate in escalation agreements. Because price adjustment clauses usually are intended to capture actual price changes, contracting parties normally would not want to remove seasonal price movements from their adjustment.
- **State the frequency of price adjustment.** The escalation clause should specify whether price adjustments are to be made at fixed intervals, such as quarterly, semi-annually, or annually, or only at the expiration of the contract. Avoid ambiguous wording such as "the index for aluminum mill shapes as of September 30," since several different and equally plausible interpretations are possible for such language.
- **Indicate whether the index used in the adjustment calculation will be preliminary or final.** An index remains preliminary for 4 months after its release. If additional price information is received by BLS during this period, it is incorporated and the index is adjusted. Because the preliminary index is subject to change, the final compilation is recommended.

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# Spotlight

ended for use in contract escalation.

***provide for missing or discontinued data.*** Occasionally a given Producer Price Index may be unavailable for a particular time period. This usually happens because price information was not supplied by a sufficient number of survey respondents to meet BLS publication standards. Sometimes an index is permanently discontinued when a commodity declines in market importance. Escalation clauses should provide successor indexes for such instances. A provision for using the next higher-level series should be included in the contract.

***avoid locking indexes used for escalation into any particular reference base period (e.g. 1982=100).*** Official PPI data for current time periods are not available on previous

reference bases after a base change has been implemented by BLS. Relative movements of any series over time are not affected by a base revision.

- ***Define the mechanics of price adjustment.***

*Simple percentage method* changes the base price by the same percentage as that calculated for the selected producer price index.

*Escalation of a portion of the base price* changes the base price so that only part of it is escalated by a selected producer price index, while the balance remains fixed.

*Composite indexes* are based on several PPI series. The advantage of a composite index is that it may more accurately identify the appropriate change for a base price since it will refer to several of the costs involved in producing the product or service in question.



# Bureau of Labor Statistics Data

Data extracted on: July 21, 1999 (08:25 AM)

## Producer Price Index-Commodities

### Series Catalog:

Series ID : WPU00000000

Not Seasonally Adjusted

Group : All commodities

Item : All commodities

Base Date : 8200

### Data:

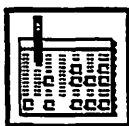
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Ann
1913	12.1	12.0	12.0	12.0	11.9	11.9	12.0	12.0	12.2	12.2	12.1	11.9	12.0
1914	11.8	11.8	11.7	11.7	11.6	11.6	11.6	12.0	12.1	11.7	11.7	11.6	11.8
1915	11.8	11.8	11.8	11.8	11.9	11.8	11.9	11.8	11.8	12.1	12.3	12.8	12.0
1916	13.3	13.5	13.9	14.1	14.2	14.3	14.4	14.7	15.0	15.7	16.8	17.1	14.7
1917	17.6	18.0	18.5	19.7	20.8	21.0	21.2	21.5	21.3	21.1	21.2	21.2	20.2
1918	21.6	21.1	21.8	22.1	22.1	22.2	22.7	23.2	23.7	23.5	23.5	23.5	22.6
1919	23.2	22.4	22.6	22.9	23.3	23.4	24.3	24.9	24.3	24.4	24.9	26.0	23.9
1920	27.2	27.1	27.3	28.5	28.8	28.7	28.6	27.8	26.8	24.9	23.0	20.8	26.6
1921	19.6	18.1	17.7	17.0	16.6	16.1	16.1	16.1	16.1	16.2	16.2	16.0	16.8
1922	15.7	16.0	16.0	16.1	16.6	16.6	17.1	17.0	17.1	17.2	17.3	17.3	16.7
1923	17.6	17.8	18.0	17.9	17.5	17.3	17.0	16.9	17.2	17.1	17.0	16.9	17.3
1924	17.2	17.2	17.0	16.7	16.5	16.4	16.5	16.7	16.7	16.9	17.1	17.5	16.9
1925	17.7	17.9	17.9	17.5	17.5	17.7	18.0	17.9	17.8	17.8	18.0	17.8	17.8
1926	17.8	17.6	17.3	17.3	17.3	17.3	17.1	17.1	17.2	17.1	17.0	16.9	17.2
1927	16.4	16.6	16.5	16.3	16.2	16.2	16.2	16.4	16.6	16.7	16.6	16.6	16.5
1928	16.6	16.5	16.5	16.7	16.8	16.7	16.8	16.8	17.0	16.7	16.5	16.5	16.7
1929	16.5	16.4	16.6	16.5	16.3	16.4	16.6	16.6	16.6	16.4	16.1	16.1	16.4
1930	15.9	15.7	15.5	15.5	15.3	15.0	14.5	14.5	14.5	14.3	14.0	13.7	14.9
1931	13.5	13.2	13.1	12.9	12.6	12.4	12.4	12.4	12.3	12.1	12.1	11.8	12.6
1932	11.6	11.4	11.4	11.3	11.1	11.0	11.1	11.2	11.3	11.1	11.0	10.8	11.2
1933	10.5	10.3	10.4	10.4	10.8	11.2	11.9	12.0	12.2	12.3	12.3	12.2	11.4
1934	12.4	12.7	12.7	12.7	12.7	12.9	12.9	13.2	13.4	13.2	13.2	13.3	12.9
1935	13.6	13.7	13.7	13.8	13.8	13.8	13.7	13.9	13.9	13.9	13.9	14.0	13.8
1936	13.9	13.9	13.7	13.7	13.5	13.7	13.9	14.0	14.0	14.0	14.2	14.5	13.9
1937	14.8	14.9	15.1	15.2	15.1	15.0	15.2	15.1	15.1	14.7	14.4	14.1	14.9

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1938	14.0	13.8	13.7	13.5	13.5	13.5	13.6	13.4	13.5	13.4	13.4	13.3	13.5
1939	13.3	13.3	13.2	13.1	13.1	13.0	13.0	12.9	13.6	13.7	13.6	13.7	13.3
1940	13.7	13.6	13.5	13.5	13.5	13.4	13.4	13.4	13.4	13.6	13.7	13.8	13.5
1941	13.9	13.9	14.0	14.4	14.6	15.0	15.3	15.6	15.8	15.9	15.9	16.2	15.1
1942	16.5	16.7	16.8	17.0	17.0	17.0	17.0	17.1	17.2	17.2	17.3	17.4	17.0
1943	17.5	17.7	17.8	17.9	17.9	17.9	17.8	17.8	17.8	17.8	17.7	17.8	17.8
1944	17.8	17.8	17.9	17.9	17.9	18.0	17.9	17.9	17.9	17.9	18.0	18.0	17.9
1945	18.1	18.1	18.1	18.2	18.3	18.3	18.3	18.2	18.1	18.2	18.4	18.4	18.2
1946	18.4	18.5	18.8	19.0	19.1	19.4	21.5	22.2	21.4	23.1	24.1	24.3	20.8
1947	24.5	24.7	25.3	25.1	25.0	25.0	25.3	25.6	26.1	26.4	26.7	27.2	25.6
1948	27.7	27.2	27.2	27.4	27.5	27.7	28.0	28.2	28.1	27.8	27.8	27.6	27.7
1949	27.3	26.8	26.8	26.5	26.3	26.0	26.0	26.0	26.1	26.0	26.0	25.9	26.3
1950	25.9	26.1	26.1	26.1	26.4	26.6	27.3	27.9	28.4	28.6	29.0	29.7	27.3
1951	30.5	30.9	30.9	30.8	30.7	30.5	30.3	30.1	30.1	30.1	30.1	30.1	30.4
1952	30.0	29.8	29.8	29.6	29.6	29.5	29.6	29.8	29.6	29.5	29.3	29.1	29.6
1953	29.1	29.1	29.2	29.0	29.1	29.0	29.4	29.3	29.4	29.2	29.1	29.2	29.2
1954	29.4	29.3	29.3	29.4	29.4	29.2	29.3	29.3	29.2	29.1	29.2	29.0	29.3
1955	29.2	29.3	29.2	29.3	29.1	29.3	29.3	29.4	29.6	29.6	29.5	29.5	29.3
1956	29.7	29.8	29.9	30.1	30.3	30.3	30.2	30.4	30.6	30.6	30.7	30.8	30.3
1957	31.0	31.0	31.0	31.1	31.0	31.1	31.3	31.4	31.3	31.2	31.3	31.4	31.2
1958	31.5	31.5	31.7	31.6	31.7	31.6	31.6	31.6	31.6	31.5	31.6	31.6	31.6
1959	31.7	31.7	31.7	31.8	31.8	31.7	31.7	31.6	31.7	31.6	31.5	31.5	31.7
1960	31.6	31.6	31.8	31.8	31.7	31.7	31.7	31.6	31.6	31.7	31.7	31.7	31.7
1961	31.8	31.8	31.8	31.6	31.5	31.3	31.5	31.5	31.5	31.5	31.5	31.6	31.6
1962	31.7	31.7	31.7	31.6	31.5	31.5	31.6	31.6	31.9	31.7	31.7	31.6	31.7
1963	31.6	31.5	31.5	31.4	31.5	31.6	31.7	31.6	31.6	31.6	31.7	31.6	31.6
1964	31.8	31.6	31.6	31.6	31.5	31.5	31.6	31.6	31.7	31.7	31.7	31.7	31.6
1965	31.8	31.9	31.9	32.0	32.1	32.4	32.4	32.4	32.4	32.5	32.6	32.8	32.3
1966	32.9	33.2	33.2	33.2	33.2	33.3	33.5	33.6	33.6	33.4	33.3	33.3	33.3
1967	33.4	33.4	33.3	33.1	33.3	33.5	33.5	33.4	33.4	33.4	33.4	33.7	33.4
1968	33.8	34.0	34.1	34.1	34.2	34.2	34.3	34.2	34.4	34.4	34.5	34.6	34.2
1969	34.8	35.0	35.2	35.3	35.5	35.7	35.8	35.7	35.8	35.9	36.1	36.3	35.6
1970	36.5	36.7	36.7	36.8	36.8	36.9	37.1	36.9	37.1	37.1	37.1	37.1	36.9
1971	37.3	37.7	37.8	37.9	38.1	38.2	38.3	38.5	38.3	38.3	38.3	38.6	38.1
1972	38.8	39.2	39.2	39.3	39.5	39.7	40.0	40.1	40.2	40.1	40.3	41.1	39.8
1973	41.6	42.4	43.4	43.6	44.5	45.5	44.9	47.5	46.7	46.3	46.5	47.4	45.0
1974	49.0	50.0	50.6	51.0	51.8	52.0	54.0	55.9	55.9	56.9	57.4	57.3	53.5
1975	57.4	57.2	56.9	57.5	57.9	58.0	58.7	59.0	59.4	59.8	59.5	59.7	58.4
1976	59.9	59.9	60.0	60.6	60.8	61.2	61.6	61.4	61.8	61.9	62.0	62.5	61.1
1977	62.8	63.5	64.1	64.9	65.2	65.0	65.1	65.0	65.3	65.6	65.8	66.2	64.9
1978	66.8	67.5	68.1	69.0	69.5	70.0	70.4	70.4	71.0	71.8	72.1	72.7	69.9
1979	73.8	74.9	75.8	76.9	77.5	78.0	79.2	79.6	80.9	82.1	82.6	83.4	78.7
1980	85.2	86.9	87.5	87.8	88.3	88.7	90.3	91.5	91.7	92.8	93.2	93.8	89.8
1981	95.2	96.1	97.0	98.0	98.3	98.5	99.0	99.0	98.8	98.9	98.8	98.8	98.0
1982	99.7	99.8	99.6	99.6	99.8	100.0	100.4	100.3	100.0	100.2	100.3	100.5	100.0

1983	100.2	100.5	100.4	100.4	100.8	101.0	101.3	101.8	102.0	102.2	102.1	102.3	101.3
1984	102.9	103.2	103.9	104.0	104.1	104.0	104.2	103.8	103.4	103.4	103.7	103.5	103.7
1985	103.4	103.3	103.1	103.3	103.5	103.3	103.2	102.7	102.1	102.9	103.4	103.6	103.2
1986	103.2	101.7	100.3	99.6	100.0	99.9	99.4	99.3	99.4	99.7	99.8	99.7	100.2
1987	100.5	101.0	101.2	101.9	102.6	103.0	103.5	103.8	103.7	104.1	104.2	104.2	102.8
1988	104.6	104.8	104.9	105.8	106.5	107.2	107.9	108.0	108.1	108.2	108.3	109.0	106.9
1989	110.5	110.8	111.5	112.3	113.2	112.9	112.8	112.0	112.4	112.8	112.7	113.0	112.2
1990	114.9	114.4	114.2	114.1	114.6	114.3	114.5	116.5	118.4	120.8	120.1	118.7	116.3
1991	119.0	117.2	116.2	116.0	116.5	116.4	116.1	116.2	116.1	116.4	116.4	115.9	116.5
1992	115.6	116.0	116.1	116.3	117.2	118.0	117.9	117.7	118.0	118.1	117.8	117.6	117.2
1993	118.0	118.4	118.7	119.3	119.7	119.5	119.2	118.7	118.7	119.1	119.0	118.6	118.9
1994	119.1	119.3	119.7	119.7	119.9	120.5	120.7	121.2	121.0	120.9	121.5	121.9	120.4
1995	122.9	123.5	123.9	124.6	124.9	125.3	125.3	125.1	125.2	125.3	125.4	125.7	124.7
1996	126.3	126.2	126.4	127.4	128.1	128.0	128.0	128.3	128.2	128.0	128.2	129.1	127.7
1997	129.7	128.5	127.3	127.0	127.4	127.2	126.9	127.2	127.5	127.8	127.9	126.8	127.6
1998	125.4	125.0	124.7	124.9	125.1	124.8	124.9	124.2	123.8	124.0	123.6	122.8	124.4
1999	122.9	122.3	122.8(P)	123.5(P)	124.5(P)	125.1(P)							

P : Preliminary. All indexes are subject to revision four months after original publication.



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**Calculation of 1966 Hospital Building Lease with Escalators**

Reference Lease - Bate Stamp 19613-19628

Escalator Date	Producer Price Index	PPI on Lease Commencement Date	PPI Fraction	X	Initial Annual Rent	Annual Revised Rent Amount
Jan-66	32.9					\$ 80,940
Jan-76	59.9 /	32.9	1.82	X	80,940	\$ 147,311
Jan-86	103.2 /	32.9	3.14	X	80,940	\$ 254,152
Jan-96	126.3 /	32.9	3.84	X	80,940	\$ 310,810

**Calculation of Rent in Anniversary Years**

	Jun-76	Jun-86	Jun-96
Monthly Rent July - Dec	\$ 6,745	\$ 12,276	\$ 21,179
X 6 Months	6	6	6
Rent for July-Dec	40,470	73,655	127,076
Monthly Rent Jan - June	\$ 12,276	\$ 21,179	\$ 25,901
X 6 Months	6	6	6
Rent for Jan - June	73,655	127,076	155,405
<b>Total Rent for Year</b>	<b>\$ 114,125</b>	<b>\$ 200,731</b>	<b>\$ 282,481</b>

**Total Rent From 7/95 - 12/31/05**

Period	Rent
7/95-12/95	127,076
1996	310,810
1997	310,810
1998	310,810
1999	310,810
2000	310,810
2001	310,810
2002	310,810
2003	310,810
2004	310,810
2005	310,810
<b>Total</b>	<b>3,235,172</b>





**Commonwealth of Virginia vs. Tauber, et. al**  
**Complainants Accounting**

**Attachment #6**

**Calculation of 1966 Land Lease with Escalators**

Reference Bate Stamp - Tauber 19352-19356  
 Bate Stamp - Tauber 02938-02942

	Producer Price Index	PPI on Lease Commencement Date	PPI Fraction	X	Initial Annual Rent	Annual Revised Rent Amount
Jan-66	32.9					\$ 15,600
Jan-76	59.9 /	32.9	1.82	X	15,600	\$ 28,392
Jan-86	103.2 /	32.9	3.14	X	15,600	\$ 48,984
Jan-96	126.3 /	32.9	3.84	X	15,600	\$ 59,904

**Calculation of Rent in Anniversary Years**

	Jun-76	Jun-86	Jun-96
Monthly Rent July - Dec	\$ 1,300	\$ 2,366	\$ 4,082
X 6 Months	6	6	6
<b>Rent for July-Dec</b>	<b>7,800</b>	<b>14,196</b>	<b>24,492</b>
Monthly Rent Jan - June	\$ 2,366	\$ 4,082	\$ 4,992
X 6 Months	6	6	6
<b>Rent for Jan - June</b>	<b>14,196</b>	<b>24,492</b>	<b>29,952</b>
<b>Total Rent for Year</b>	<b>\$ 21,996</b>	<b>\$ 38,688</b>	<b>\$ 54,444</b>

**Total Rent From 7/95 - 12/31/05**

Period	Rent
7/95-12/95	24,492
1996	59,904
1997	59,904
1998	59,904
1999	59,904
2000	59,904
2001	59,904
2002	59,904
2003	59,904
2004	59,904
2005	59,904
<b>Total</b>	<b>623,532</b>

J.APP. 6071



**Calculation of 1968 Addition with Escalators**

	Producer Price Index	PPI on Lease Commencement Date	PPI Fraction	X	Initial Annual Rent	Annual Revised Rent Amount
Jan-66	32.9					\$ 11,232
Jan-76	59.9 /	32.9	1.82	X	11,232	\$ 20,442
Jan-86	103.2 /	32.9	3.14	X	11,232	\$ 35,268
Jan-96	126.3 /	32.9	3.84	X	11,232	\$ 43,131

**Calculation of Rent in Anniversary Years**

	Jun-76	Jun-86	Jun-96
Monthly Rent July - Dec	\$ 936	\$ 1,704	\$ 2,939
X 6 Months	6	6	6
<b>Rent for July-Dec</b>	<u>5,616</u>	<u>10,221</u>	<u>17,634</u>
Monthly Rent Jan - June	\$ 1,704	\$ 2,939	\$ 3,594
X 6 Months	6	6	6
<b>Rent for Jan - June</b>	<u>10,221</u>	<u>17,634</u>	<u>21,565</u>
<b>Total Rent for Year</b>	<u><u>\$ 15,837</u></u>	<u><u>\$ 27,855</u></u>	<u><u>\$ 39,200</u></u>

**Total Rent From 7/95 - 12/31/05**

Period	Rent
7/95-12/95	17,634
1996	43,131
1997	43,131
1998	43,131
1999	43,131
2000	43,131
2001	43,131
2002	43,131
2003	43,131
2004	43,131
2005	43,131
<b>Total</b>	<u><u>448,943</u></u>



## Complainants Accounting

## Loan #1 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

Original Terms	Loan Amount	Begin Date	Rate	Monthly payment	Loan Term
	800,000	1/10/65	6%	5,900	20 years

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Jan-65	1	800,000	2,630	3,270	796,730	Partial month - 20 days interest				
Feb-65	2	796,730	3,984	1,916	794,814					
Mar-65	3	794,814	3,974	1,926	792,888					
Apr-65	4	792,888	3,964	1,936	790,952					
May-65	5	790,952	3,955	1,945	789,007					
Jun-65	6	789,007	3,945	1,955	787,052					
Jul-65	7	787,052	3,935	1,965	785,087					
Aug-65	8	785,087	3,925	1,975	783,113					
Sep-65	9	783,113	3,916	1,984	781,128					
Oct-65	10	781,128	3,906	1,994	779,134	779,064	JMH Supporting Sc	10/31/65	46107	(70)
Nov-65	11	779,134	3,896	2,004	777,130					
Dec-65	12	777,130	3,886	2,014	775,115	775,045	KSJV BS	12/31/65	44948	(70)
<b>1965 Total</b>			<b>45,915</b>	<b>24,885</b>						
Jan-66	13	775,115	3,876	2,024	773,091					
Feb-66	14	773,091	3,865	2,035	771,056					
Mar-66	15	771,056	3,855	2,045	769,012					
Apr-66	16	769,012	3,845	2,055	766,957					
May-66	17	766,957	3,835	2,065	764,891					
Jun-66	18	764,891	3,824	2,076	762,816					
Jul-66	19	762,816	3,814	2,086	760,730					
Aug-66	20	760,730	3,804	2,096	758,634					
Sep-66	21	758,634	3,793	2,107	756,527					
Oct-66	22	756,527	3,783	2,117	754,409					
Nov-66	23	754,409	3,772	2,128	752,282					
Dec-66	24	752,282	3,761	2,139	750,143	750,069	JMHA BS	12/31/66	45090	74
<b>1966 Total</b>			<b>45,828</b>	<b>24,972</b>						
Jan-67	25	750,143	3,751	2,149	747,994					
Feb-67	26	747,994	3,740	2,160	745,834					
Mar-67	27	745,834	3,729	2,171	743,663					

J.A.P.P. 6075

## Complainants Accounting

## Loan #1 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie In to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Apr-67	28	743,663	3,718	2,182	741,481					
May-67	29	741,481	3,707	2,193	739,288					
Jun-67	30	739,288	3,696	2,204	737,085					
Jul-67	31	737,085	3,685	2,215	734,870					
Aug-67	32	734,870	3,674	2,226	732,645					
Sep-67	33	732,645	3,663	2,237	730,408					
Oct-67	34	730,408	3,652	2,248	728,160					
Nov-67	35	728,160	3,641	2,259	725,901					
Dec-67	36	725,901	3,630	2,270	723,630	723,563	JMHA BS	12/31/67	45069	67
<b>1967 Total</b>			<b>44,287</b>	<b>26,513</b>						
Jan-68	37	723,630	3,618	2,282	721,348					
Feb-68	38	721,348	3,607	2,293	719,055					
Mar-68	39	719,055	3,595	2,305	716,750					
Apr-68	40	716,750	3,584	2,316	714,434					
May-68	41	714,434	3,572	2,328	712,106					
Jun-68	42	712,106	3,561	2,339	709,767					
Jul-68	43	709,767	3,549	2,351	707,416					
Aug-68	44	707,416	3,537	2,363	705,053					
Sep-68	45	705,053	3,525	2,375	702,678					
Oct-68	46	702,678	3,513	2,387	700,291					
Nov-68	47	700,291	3,501	2,399	697,893					
Dec-68	48	697,893	3,489	2,411	695,482	695,423	JMHA BS	12/31/68	45260	59
<b>1968 Total</b>			<b>42,652</b>	<b>28,148</b>						
Jan-69	49	695,482	3,477	2,423	693,060					
Feb-69	50	693,060	3,465	2,435	690,625					
Mar-69	51	690,625	3,453	2,447	688,178					
Apr-69	52	688,178	3,441	2,459	685,719					
May-69	53	685,719	3,429	2,471	683,248					
Jun-69	54	683,248	3,416	2,484	680,764					
Jul-69	55	680,764	3,404	2,496	678,268					
Aug-69	56	678,268	3,391	2,509	675,759					
Sep-69	57	675,759	3,379	2,521	673,238					
Oct-69	58	673,238	3,366	2,534	670,704					

J.A.P. 6076

## Complainants Accounting

## Loan #1 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie In to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Nov-69	59	670,704	3,354	2,546	668,158					
Dec-69	60	668,158	3,341	2,559	665,598	665,548	JMHA BS	12/31/69	44900	50
<b>1969 Total</b>			<b>40,916</b>	<b>29,884</b>						
Jan-70	61	665,598	3,328	2,572	663,026					
Feb-70	62	663,026	3,315	2,585	660,442					
Mar-70	63	660,442	3,302	2,598	657,844					
Apr-70	64	657,844	3,289	2,611	655,233					
May-70	65	655,233	3,276	2,624	652,609					
Jun-70	66	652,609	3,263	2,637	649,972					
Jul-70	67	649,972	3,250	2,650	647,322					
Aug-70	68	647,322	3,237	2,663	644,659					
Sep-70	69	644,659	3,223	2,677	641,982					
Oct-70	70	641,982	3,210	2,690	639,292					
Nov-70	71	639,292	3,196	2,704	636,588					
Dec-70	72	636,588	3,183	2,717	633,871	633,818	JMHA BS	12/31/70	45198	53
<b>1970 Total</b>			<b>39,073</b>	<b>31,727</b>						
Jan-71	73	633,871	3,169	2,731	631,141					
Feb-71	74	631,141	3,156	2,744	628,396					
Mar-71	75	628,396	3,142	2,758	625,638					
Apr-71	76	625,638	3,128	2,772	622,866					
May-71	77	622,866	3,114	2,786	620,081					
Jun-71	78	620,081	3,100	2,800	617,281	617,196	JMHA BS	6/30/71	MMRW012	85
Jul-71	79	617,281	3,086	2,814	614,468					
Aug-71	80	614,468	3,072	2,828	611,640					
Sep-71	81	611,640	3,058	2,842	608,798					
Oct-71	82	608,798	3,044	2,856	605,942					
Nov-71	83	605,942	3,030	2,870	603,072					
Dec-71	84	603,072	3,015	2,885	600,187					
<b>1971 Total</b>			<b>37,116</b>	<b>33,684</b>						
Jan-72	85	600,187	3,001	2,899	597,288					
Feb-72	86	597,288	2,986	2,914	594,375					
Mar-72	87	594,375	2,972	2,928	591,446					
Apr-72	88	591,446	2,957	2,943	588,504					

J.A.P. 6077

## Complainants Accounting

## Loan #1 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
May-72	89	588,504	2,943	2,957	585,546					
Jun-72	90	585,546	2,928	2,972	582,574					
Jul-72	91	582,574	2,913	2,987	579,587					
Aug-72	92	579,587	2,898	3,002	576,585					
Sep-72	93	576,585	2,883	3,017	573,568					
Oct-72	94	573,568	2,868	3,032	570,535					
Nov-72	95	570,535	2,853	3,047	567,488					
Dec-72	96	567,488	2,837	3,063	564,426					
<b>1972 Total</b>			<b>35,038</b>	<b>35,762</b>						
Jan-73	97	564,426	2,822	3,078	561,348					
Feb-73	98	561,348	2,807	3,093	558,254					
Mar-73	99	558,254	2,791	3,109	555,146					
Apr-73	100	555,146	2,776	3,124	552,021					
May-73	101	552,021	2,760	3,140	548,882					
Jun-73	102	548,882	2,744	3,156	545,726					
Jul-73	103	545,726	2,729	3,171	542,555					
Aug-73	104	542,555	2,713	3,187	539,367					
Sep-73	105	539,367	2,697	3,203	536,164					
Oct-73	106	536,164	2,681	3,219	532,945					
Nov-73	107	532,945	2,665	3,235	529,710					
Dec-73	108	529,710	2,649	3,251	526,458					
<b>1973 Total</b>			<b>32,833</b>	<b>37,967</b>						
Jan-74	109	526,458	2,632	3,268	523,191					
Feb-74	110	523,191	2,616	3,284	519,907					
Mar-74	111	519,907	2,600	3,300	516,606					
Apr-74	112	516,606	2,583	3,317	513,289					
May-74	113	513,289	2,566	3,334	509,956					
Jun-74	114	509,956	2,550	3,350	506,605					
Jul-74	115	506,605	2,533	3,367	503,238					
Aug-74	116	503,238	2,516	3,384	499,855					
Sep-74	117	499,855	2,499	3,401	496,454					
Oct-74	118	496,454	2,482	3,418	493,036					
Nov-74	119	493,036	2,465	3,435	489,601					

J.A.P.P. 6078



## Complainants Accounting

## Loan #1 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Dec-74	120	489,601	2,448	3,452	486,149					
<b>1974 Total</b>			<b>30,491</b>	<b>40,309</b>						
Jan-75	121	486,149	2,431	3,469	482,680	482,561	First Federal Mortgage Stmt	1/1/75	45358	119
Feb-75	122	482,680	2,413	3,487	479,193					
Mar-75	123	479,193	2,396	3,504	475,689					
Apr-75	124	475,689	2,378	3,522	472,168					
May-75	125	472,168	2,361	3,539	468,629					
Jun-75	126	468,629	2,343	3,557	465,072					
Jul-75	127	465,072	2,325	3,575	461,497					
Aug-75	128	461,497	2,307	3,593	457,905					
Sep-75	129	457,905	2,290	3,610	454,294					
Oct-75	130	454,294	2,271	3,629	450,666					
Nov-75	131	450,666	2,253	3,647	447,019					
Dec-75	132	447,019	2,235	3,665	443,354	443,168	First Federal Mortgage Stmt + JMHJV BS	12/31/75	45358	186
<b>1975 Total</b>			<b>28,005</b>	<b>42,795</b>						
Jan-76	133	443,354	2,217	3,683	439,671					
Feb-76	134	439,671	2,198	3,702	435,969					
Mar-76	135	435,969	2,180	3,720	432,249					
Apr-76	136	432,249	2,161	3,739	428,510					
May-76	137	428,510	2,143	3,757	424,753					
Jun-76	138	424,753	2,124	3,776	420,977					
Jul-76	139	420,977	2,105	3,795	417,182					
Aug-76	140	417,182	2,086	3,814	413,367					
Sep-76	141	413,367	2,067	3,833	409,534					
Oct-76	142	409,534	2,048	3,852	405,682					
Nov-76	143	405,682	2,028	3,872	401,810					
Dec-76	144	401,810	2,009	3,891	397,919	397,722	JMHJV BS	12/31/76	45833	197
<b>1976 Total</b>			<b>25,365</b>	<b>45,435</b>						
Jan-77	145	397,919	1,990	3,910	394,009					

J.A.P.P. 6079

## Commonwealth of VA vs. Tauber, et. al

## Complainants Accounting

## Loan #1 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Feb-77	146	394,009	1,970	3,930	390,079					
Mar-77	147	390,079	1,950	3,950	386,129					
Apr-77	148	386,129	1,931	3,969	382,160					
May-77	149	382,160	1,911	3,989	378,171					
Jun-77	150	378,171	1,891	4,009	374,162					
Jul-77	151	374,162	1,871	4,029	370,133					
Aug-77	152	370,133	1,851	4,049	366,083					
Sep-77	153	366,083	1,830	4,070	362,014					
Oct-77	154	362,014	1,810	4,090	357,924					
Nov-77	155	357,924	1,790	4,110	353,813					
Dec-77	156	353,813	1,769	4,131	349,682	349,473	JMHJV BS	12/31/77		209
<b>1977 Total</b>			<b>22,563</b>	<b>48,237</b>						
Jan-78	157	349,682	1,748	4,152	345,531					
Feb-78	158	345,531	1,728	4,172	341,358					
Mar-78	159	341,358	1,707	4,193	337,165					
Apr-78	160	337,165	1,686	4,214	332,951					
May-78	161	332,951	1,665	4,235	328,716					
Jun-78	162	328,716	1,644	4,256	324,459					
Jul-78	163	324,459	1,622	4,278	320,182					
Aug-78	164	320,182	1,601	4,299	315,883					
Sep-78	165	315,883	1,579	4,321	311,562					
Oct-78	166	311,562	1,558	4,342	307,220					
Nov-78	167	307,220	1,536	4,364	302,856					
Dec-78	168	302,856	1,514	4,386	298,470					
<b>1978 Total</b>			<b>19,588</b>	<b>51,212</b>						
Jan-79	169	298,470	1,492	4,408	294,063					
Feb-79	170	294,063	1,470	4,430	289,633					
Mar-79	171	289,633	1,448	4,452	285,181					
Apr-79	172	285,181	1,426	4,474	280,707					
May-79	173	280,707	1,404	4,496	276,210					
Jun-79	174	276,210	1,381	4,519	271,692					
Jul-79	175	271,692	1,358	4,542	267,150					
Aug-79	176	267,150	1,336	4,564	262,586					

J.A.P.P. 6080

## Commonwealth of VA vs. Tauber, et. al

## Complainants Accounting

## Loan #1 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Sep-79	177	262,586	1,313	4,587	257,999					
Oct-79	178	257,999	1,290	4,610	253,389					
Nov-79	179	253,389	1,267	4,633	248,756					
Dec-79	180	248,756	1,244	4,656	244,099					
<b>1979 Total</b>			<b>16,429</b>	<b>54,371</b>						
Jan-80	181	244,099	1,220	4,680	239,420					
Feb-80	182	239,420	1,197	4,703	234,717					
Mar-80	183	234,717	1,174	4,726	229,991					
Apr-80	184	229,991	1,150	4,750	225,241					
May-80	185	225,241	1,126	4,774	220,467					
Jun-80	186	220,467	1,102	4,798	215,669					
Jul-80	187	215,669	1,078	4,822	210,847					
Aug-80	188	210,847	1,054	4,846	206,002					
Sep-80	189	206,002	1,030	4,870	201,132					
Oct-80	190	201,132	1,006	4,894	196,237					
Nov-80	191	196,237	981	4,919	191,319					
Dec-80	192	191,319	957	4,943	186,375					
<b>1980 Total</b>			<b>13,076</b>	<b>57,724</b>						
Jan-81	193	186,375	932	4,968	181,407					
Feb-81	194	181,407	907	4,993	176,414					
Mar-81	195	176,414	882	5,018	171,396					
Apr-81	196	171,396	857	5,043	166,353					
May-81	197	166,353	832	5,068	161,285					
Jun-81	198	161,285	806	5,094	156,191					
Jul-81	199	156,191	781	5,119	151,072					
Aug-81	200	151,072	755	5,145	145,928					
Sep-81	201	145,928	730	5,170	140,757					
Oct-81	202	140,757	704	5,196	135,561					
Nov-81	203	135,561	678	5,222	130,339					
Dec-81	204	130,339	652	5,248	125,090					
<b>1981 Total</b>			<b>9,515</b>	<b>61,285</b>						
Jan-82	205	125,090	625	5,275	119,816					
Feb-82	206	119,816	599	5,301	114,515					

J.A.P. 6081

## Complainants Accounting

## Loan #1 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Mar-82	207	114,515	573	5,327	109,188					
Apr-82	208	109,188	546	5,354	103,834					
May-82	209	103,834	519	5,381	98,453					
Jun-82	210	98,453	492	5,408	93,045					
Jul-82	211	93,045	465	5,435	87,610					
Aug-82	212	87,610	438	5,462	82,148					
Sep-82	213	82,148	411	5,489	76,659					
Oct-82	214	76,659	383	5,517	71,142					
Nov-82	215	71,142	356	5,544	65,598					
Dec-82	216	65,598	328	5,572	60,026					
<b>1982 Total</b>			<b>5,735</b>	<b>65,065</b>						
Jan-83	217	60,026	300	5,600	54,426					
Feb-83	218	54,426	272	5,628	48,798					
Mar-83	219	48,798	244	5,656	43,142					
Apr-83	220	43,142	216	5,684	37,458					
May-83	221	37,458	187	5,713	31,745					
Jun-83	222	31,745	159	5,741	26,004					
Jul-83	223	26,004	130	5,770	20,234					
Aug-83	224	20,234	101	5,799	14,435					
Sep-83	225	14,435	72	5,828	8,607					
Oct-83	226	8,607	43	5,857	2,750					
Nov-83	227	2,750	14	2,750	0					
<b>1983 Total</b>			<b>1,738</b>	<b>60,026</b>						
<b>Grand Total</b>			<b>536,164</b>	<b>800,000</b>						

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## Complainants Accounting

## Loan #2 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

Original Terms	Loan Amount	Begin Date	Rate	Monthly payment	Loan Term
	100,000	7/1/65	6%	845	20 years

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Jul-65	1	100,000	427	418	99,582	Partial month - 20 days interest				
Aug-65	2	99,582	498	347	99,235					
Sep-65	3	99,235	496	349	98,886					
Oct-65	4	98,886	494	351	98,536	98,529	JMH Supporting Sc	10/31/65	46107	(7)
Nov-65	5	98,536	493	352	98,184					
Dec-65	6	98,184	491	354	97,830	97,823	KSJV BS	12/31/65	44948	(7)
<b>1965 Total</b>			<b>2,900</b>	<b>2,170</b>						
Jan-66	7	97,830	489	356	97,474					
Feb-66	8	97,474	487	358	97,116					
Mar-66	9	97,116	486	359	96,757					
Apr-66	10	96,757	484	361	96,395					
May-66	11	96,395	482	363	96,032					
Jun-66	12	96,032	480	365	95,668					
Jul-66	13	95,668	478	367	95,301					
Aug-66	14	95,301	477	368	94,932					
Sep-66	15	94,932	475	370	94,562					
Oct-66	16	94,562	473	372	94,190					
Nov-66	17	94,190	471	374	93,816					
Dec-66	18	93,816	469	376	93,440	93,433	JMHA BS	12/31/66	45090	7
<b>1966 Total</b>			<b>5,750</b>	<b>4,390</b>						
Jan-67	19	93,440	467	378	93,062					
Feb-67	20	93,062	465	380	92,682					
Mar-67	21	92,682	463	382	92,301					
Apr-67	22	92,301	462	383	91,917					
May-67	23	91,917	460	385	91,532					
Jun-67	24	91,532	458	387	91,145					
Jul-67	25	91,145	456	389	90,755					
Aug-67	26	90,755	454	391	90,364					
Sep-67	27	90,364	452	393	89,971					

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## Complainants Accounting

## Loan #2 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Oct-67	28	89,971	450	395	89,576					
Nov-67	29	89,576	448	397	89,179					
Dec-67	30	89,179	446	399	88,779	88,774	JMHA BS	12/31/67	45069	5
<b>1967 Total</b>			<b>5,480</b>	<b>4,660</b>						
Jan-68	31	88,779	444	401	88,378					
Feb-68	32	88,378	442	403	87,975					
Mar-68	33	87,975	440	405	87,570					
Apr-68	34	87,570	438	407	87,163					
May-68	35	87,163	436	409	86,754					
Jun-68	36	86,754	434	411	86,343					
Jul-68	37	86,343	432	413	85,929					
Aug-68	38	85,929	430	415	85,514					
Sep-68	39	85,514	428	417	85,097					
Oct-68	40	85,097	425	420	84,677					
Nov-68	41	84,677	423	422	84,255					
Dec-68	42	84,255	421	424	83,832	83,828	JMHA BS	12/31/68	45260	4
<b>1968 Total</b>			<b>5,192</b>	<b>4,948</b>						
Jan-69	43	83,832	419	426	83,406					
Feb-69	44	83,406	417	428	82,978					
Mar-69	45	82,978	415	430	82,548					
Apr-69	46	82,548	413	432	82,115					
May-69	47	82,115	411	434	81,681					
Jun-69	48	81,681	408	437	81,244					
Jul-69	49	81,244	406	439	80,806					
Aug-69	50	80,806	404	441	80,365					
Sep-69	51	80,365	402	443	79,922					
Oct-69	52	79,922	400	445	79,476					
Nov-69	53	79,476	397	448	79,029					
Dec-69	54	79,029	395	450	78,579	78,577	JMHA BS	12/31/69	44900	2
<b>1969 Total</b>			<b>4,887</b>	<b>5,253</b>						
Jan-70	55	78,579	393	452	78,127					
Feb-70	56	78,127	391	454	77,672					
Mar-70	57	77,672	388	457	77,216					

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## Complainants Accounting

## Loan #2 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Apr-70	58	77,216	386	459	76,757					
May-70	59	76,757	384	461	76,295					
Jun-70	60	76,295	381	464	75,832					
Jul-70	61	75,832	379	466	75,366					
Aug-70	62	75,366	377	468	74,898					
Sep-70	63	74,898	374	471	74,427					
Oct-70	64	74,427	372	473	73,955					
Nov-70	65	73,955	370	475	73,479					
Dec-70	66	73,479	367	478	73,002	73,000	JMHA BS	12/31/70	45198	2
<b>1970 Total</b>			<b>4,563</b>	<b>5,577</b>						
Jan-71	67	73,002	365	480	72,522					
Feb-71	68	72,522	363	482	72,039					
Mar-71	69	72,039	360	485	71,554					
Apr-71	70	71,554	358	487	71,067					
May-71	71	71,067	355	490	70,578					
Jun-71	72	70,578	353	492	70,085	70,080	JMHA BS	6/30/71	MMRW012	5
Jul-71	73	70,085	350	495	69,591					
Aug-71	74	69,591	348	497	69,094					
Sep-71	75	69,094	345	500	68,594					
Oct-71	76	68,594	343	502	68,092					
Nov-71	77	68,092	340	505	67,588					
Dec-71	78	67,588	338	507	67,081					
<b>1971 Total</b>			<b>4,219</b>	<b>5,921</b>						
Jan-72	79	67,081	335	510	66,571					
Feb-72	80	66,571	333	512	66,059					
Mar-72	81	66,059	330	515	65,544					
Apr-72	82	65,544	328	517	65,027					
May-72	83	65,027	325	520	64,507					
Jun-72	84	64,507	323	522	63,985					
Jul-72	85	63,985	320	525	63,460					
Aug-72	86	63,460	317	528	62,932					
Sep-72	87	62,932	315	530	62,402					
Oct-72	88	62,402	312	533	61,869					

J.A.P. 6086

## Complainants Accounting

## Loan #2 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Nov-72	89	61,869	309	536	61,333					
Dec-72	90	61,333	307	538	60,795					
<b>1972 Total</b>			<b>3,854</b>	<b>6,286</b>						
Jan-73	91	60,795	304	541	60,254					
Feb-73	92	60,254	301	544	59,710					
Mar-73	93	59,710	299	546	59,163					
Apr-73	94	59,163	296	549	58,614					
May-73	95	58,614	293	552	58,062					
Jun-73	96	58,062	290	555	57,508					
Jul-73	97	57,508	288	557	56,950					
Aug-73	98	56,950	285	560	56,390					
Sep-73	99	56,390	282	563	55,827					
Oct-73	100	55,827	279	566	55,261					
Nov-73	101	55,261	276	569	54,692					
Dec-73	102	54,692	273	572	54,121					
<b>1973 Total</b>			<b>3,466</b>	<b>6,674</b>						
Jan-74	103	54,121	271	574	53,546					
Feb-74	104	53,546	268	577	52,969					
Mar-74	105	52,969	265	580	52,389					
Apr-74	106	52,389	262	583	51,806					
May-74	107	51,806	259	586	51,220					
Jun-74	108	51,220	256	589	50,631					
Jul-74	109	50,631	253	592	50,039					
Aug-74	110	50,039	250	595	49,444					
Sep-74	111	49,444	247	598	48,847					
Oct-74	112	48,847	244	601	48,246					
Nov-74	113	48,246	241	604	47,642					
Dec-74	114	47,642	238	607	47,035					
<b>1974 Total</b>			<b>3,054</b>	<b>7,086</b>						
Jan-75	115	47,035	235	610	46,425	46,417	First Federal Mortgage Stmt	1/1/75	45358	8
Feb-75	116	46,425	232	613	45,812					
Mar-75	117	45,812	229	616	45,197					

J.A.P.P. 6087



## Complainants Accounting

## Loan #2 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Apr-75	118	45,197	226	619	44,578					
May-75	119	44,578	223	622	43,955					
Jun-75	120	43,955	220	625	43,330					
Jul-75	121	43,330	217	628	42,702					
Aug-75	122	42,702	214	631	42,070					
Sep-75	123	42,070	210	635	41,436					
Oct-75	124	41,436	207	638	40,798					
Nov-75	125	40,798	204	641	40,157					
Dec-75	126	40,157	201	644	39,513	39,495	First Federal Mortgage Stmt + JMHJV BS	12/31/75	45358	18
<b>1975 Total</b>			<b>2,617</b>	<b>7,523</b>						
Jan-76	127	39,513	198	647	38,865					
Feb-76	128	38,865	194	651	38,215					
Mar-76	129	38,215	191	654	37,561					
Apr-76	130	37,561	188	657	36,903					
May-76	131	36,903	185	660	36,243					
Jun-76	132	36,243	181	664	35,579					
Jul-76	133	35,579	178	667	34,912					
Aug-76	134	34,912	175	670	34,242					
Sep-76	135	34,242	171	674	33,568					
Oct-76	136	33,568	168	677	32,891					
Nov-76	137	32,891	164	681	32,210					
Dec-76	138	32,210	161	684	31,526	31,507	JMHJV BS	12/31/76	45833	19
<b>1976 Total</b>			<b>2,154</b>	<b>7,986</b>						
Jan-77	139	31,526	158	687	30,839					
Feb-77	140	30,839	154	691	30,148					
Mar-77	141	30,148	151	694	29,454					
Apr-77	142	29,454	147	698	28,756					
May-77	143	28,756	144	701	28,055					
Jun-77	144	28,055	140	705	27,350					
Jul-77	145	27,350	137	708	26,642					

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## Complainants Accounting

## Loan #2 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

Effective Amortization Schedule of Initial Loan						Tie in to Supporting Documents				
Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Aug-77	146	26,642	133	712	25,930					
Sep-77	147	25,930	130	715	25,215					
Oct-77	148	25,215	126	719	24,496					
Nov-77	149	24,496	122	723	23,773					
Dec-77	150	23,773	119	726	23,047	23,027	JMHJV BS	12/31/77		20
<b>1977 Total</b>			<b>1,661</b>	<b>8,479</b>						
Jan-78	151	23,047	115	730	22,317					
Feb-78	152	22,317	112	733	21,584					
Mar-78	153	21,584	108	737	20,847					
Apr-78	154	20,847	104	741	20,106					
May-78	155	20,106	101	744	19,362					
Jun-78	156	19,362	97	748	18,613					
Jul-78	157	18,613	93	752	17,861					
Aug-78	158	17,861	89	756	17,106					
Sep-78	159	17,106	86	759	16,346					
Oct-78	160	16,346	82	763	15,583					
Nov-78	161	15,583	78	767	14,816					
Dec-78	162	14,816	74	771	14,045					
<b>1978 Total</b>			<b>1,138</b>	<b>9,002</b>						
Jan-79	163	14,045	70	775	13,270					
Feb-79	164	13,270	66	779	12,492					
Mar-79	165	12,492	62	783	11,709					
Apr-79	166	11,709	59	786	10,923					
May-79	167	10,923	55	790	10,132					
Jun-79	168	10,132	51	794	9,338					
Jul-79	169	9,338	47	798	8,540					
Aug-79	170	8,540	43	802	7,737					
Sep-79	171	7,737	39	806	6,931					
Oct-79	172	6,931	35	810	6,121					
Nov-79	173	6,121	31	814	5,306					
Dec-79	174	5,306	27	818	4,488					
<b>1979 Total</b>			<b>583</b>	<b>9,557</b>						
Jan-80	175	4,488	22	823	3,665					

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## Complainants Accounting

## Loan #2 - Hospital Building Mortgage Amortization Schedule and Tie in to Financial Statements

## Effective Amortization Schedule of Initial Loan

## Tie in to Supporting Documents

Period	Month	Beginning Balance	Interest Portion	Principal	Ending Balance	Mortgage Balance	Source	Date	Bate Stamp	Difference
Feb-80	176	3,665	18	827	2,838					
Mar-80	177	2,838	14	831	2,008					
Apr-80	178	2,008	10	835	1,173					
May-80	179	1,173	6	839	334					
Jun-80	180	334	2	334	(0)					
<b>1980 Total</b>			<b>73</b>	<b>4,488</b>						
<b>Grand Total</b>			<b>51,590</b>	<b>100,000</b>						



Summary of Mortgage Interest on Hospital Building from July 1971 - June 1975

	Building Mortgage #1			Building Mortgage #2			Total Building Mortgages		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
Jul-71	2,814	3,086	5,900	495	350	845	3,308	3,437	6,745
Aug-71	2,828	3,072	5,900	497	348	845	3,325	3,420	6,745
Sep-71	2,842	3,058	5,900	500	345	845	3,341	3,404	6,745
Oct-71	2,856	3,044	5,900	502	343	845	3,358	3,387	6,745
Nov-71	2,870	3,030	5,900	505	340	845	3,375	3,370	6,745
Dec-71	2,885	3,015	5,900	507	338	845	3,392	3,353	6,745
Jan-72	2,899	3,001	5,900	510	335	845	3,409	3,336	6,745
Feb-72	2,914	2,986	5,900	512	333	845	3,426	3,319	6,745
Mar-72	2,928	2,972	5,900	515	330	845	3,443	3,302	6,745
Apr-72	2,943	2,957	5,900	517	328	845	3,460	3,285	6,745
May-72	2,957	2,943	5,900	520	325	845	3,477	3,268	6,745
Jun-72	2,972	2,928	5,900	522	323	845	3,495	3,250	6,745
Total 7/1/71-6/30/72							40,808	40,132	80,940
Jul-72	2,987	2,913	5,900	525	320	845	3,512	3,233	6,745
Aug-72	3,002	2,898	5,900	528	317	845	3,530	3,215	6,745
Sep-72	3,017	2,883	5,900	530	315	845	3,547	3,198	6,745
Oct-72	3,032	2,868	5,900	533	312	845	3,565	3,180	6,745
Nov-72	3,047	2,853	5,900	536	309	845	3,583	3,162	6,745
Dec-72	3,063	2,837	5,900	538	307	845	3,601	3,144	6,745
Jan-73	3,078	2,822	5,900	541	304	845	3,619	3,126	6,745
Feb-73	3,093	2,807	5,900	544	301	845	3,637	3,108	6,745
Mar-73	3,109	2,791	5,900	546	299	845	3,655	3,090	6,745
Apr-73	3,124	2,776	5,900	549	296	845	3,673	3,072	6,745
May-73	3,140	2,760	5,900	552	293	845	3,692	3,053	6,745
Jun-73	3,156	2,744	5,900	555	290	845	3,710	3,035	6,745
Total 7/1/72-6/30/73							43,325	37,615	80,940
Jul-73	3,171	2,729	5,900	557	288	845	3,729	3,016	6,745
Aug-73	3,187	2,713	5,900	560	285	845	3,747	2,998	6,745
Sep-73	3,203	2,697	5,900	563	282	845	3,766	2,979	6,745
Oct-73	3,219	2,681	5,900	566	279	845	3,785	2,960	6,745
Nov-73	3,235	2,665	5,900	569	276	845	3,804	2,941	6,745
Dec-73	3,251	2,649	5,900	572	273	845	3,823	2,922	6,745
Jan-74	3,268	2,632	5,900	574	271	845	3,842	2,903	6,745
Feb-74	3,284	2,616	5,900	577	268	845	3,861	2,884	6,745
Mar-74	3,300	2,600	5,900	580	265	845	3,881	2,864	6,745
Apr-74	3,317	2,583	5,900	583	262	845	3,900	2,845	6,745
May-74	3,334	2,566	5,900	586	259	845	3,920	2,825	6,745
Jun-74	3,350	2,550	5,900	589	256	845	3,939	2,806	6,745
Total 7/1/73-6/30/74							45,997	34,943	80,940
Jul-74	3,367	2,533	5,900	592	253	845	3,959	2,786	6,745
Aug-74	3,384	2,516	5,900	595	250	845	3,979	2,766	6,745
Sep-74	3,401	2,499	5,900	598	247	845	3,999	2,746	6,745
Oct-74	3,418	2,482	5,900	601	244	845	4,018	2,727	6,745
Nov-74	3,435	2,465	5,900	604	241	845	4,039	2,706	6,745
Dec-74	3,452	2,448	5,900	607	238	845	4,059	2,686	6,745
Jan-75	3,469	2,431	5,900	610	235	845	4,079	2,666	6,745
Feb-75	3,487	2,413	5,900	613	232	845	4,099	2,646	6,745

**Commonwealth of Virginia vs. Tauber, et. al.**  
**Complainants Accounting**

**Attachment #10**

**Summary of Mortgage Interest on Hospital Building from July 1971 - June 1975**

	<b>Building Mortgage #1</b>			<b>Building Mortgage #2</b>			<b>Total Building Mortgages</b>		
	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
Mar-75	3,504	2,396	5,900	616	229	845	4,120	2,625	6,745
Apr-75	3,522	2,378	5,900	619	226	845	4,141	2,604	6,745
May-75	3,539	2,361	5,900	622	223	845	4,161	2,584	6,745
Jun-75	3,557	2,343	5,900	625	220	845	<u>4,182</u>	<u>2,563</u>	<u>6,745</u>
<b>Total 7/1/74-6/30/75</b>							<b>48,834</b>	<b>32,106</b>	<b>80,940</b>

J.APP. 6093

Calculation of Depreciation on Hospital Building from July 1972 - June 1975

From JMHI/JMHC Financial Statements				
Financial Statements for the Year Ended	Cost	Accumulated Depreciation	Net Book Value	Change in Accumulated Depreciation
6/30/71	-	-	-	-
6/30/72	624,302	32,214	592,088	32,214
6/30/73	624,302	64,429	559,873	32,215
6/30/74		Detail Not Provided		32,215
6/30/75		Detail Not Provided		32,215

During the years ended 6/30/74 and 6/30/75, the detail of the components of Property, Plant and Equipment are not shown on the face of the financial statements or in the Notes. It is reasonable to assume that the depreciation for the Building remained at \$32,215 per year during 1974 and 1975 given that there are no additional changes in ownership as would be noted in the Notes to the financial statements.

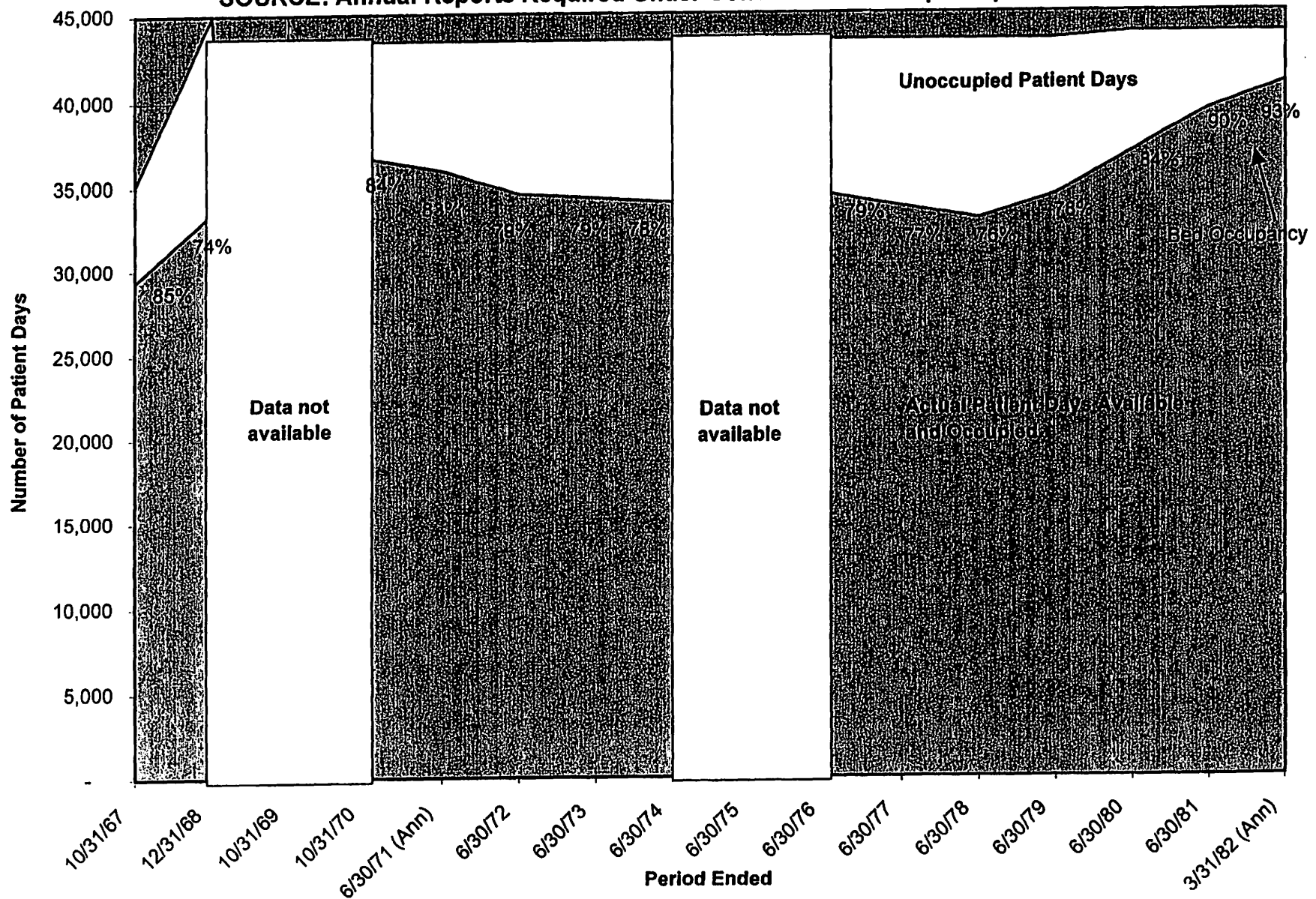




# Complainants Accounting

## Jefferson Memorial Hospital Patient Occupancy Analysis

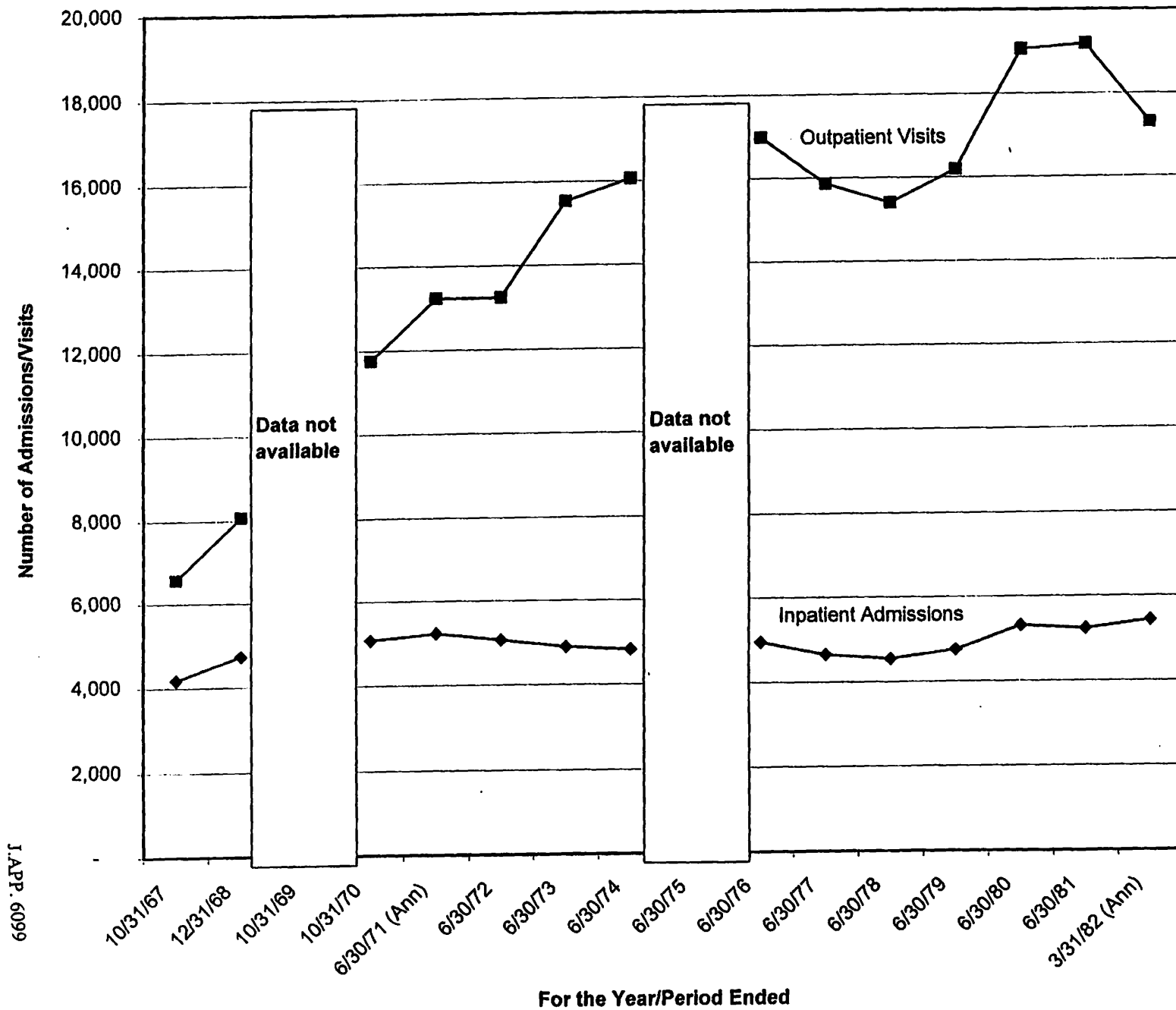
SOURCE: Annual Reports Required Under Contract with Group Hospitalization, Inc.



J.A.P. 6097



# Complainants Accounting



J.A.P.P. 6099



Jefferson Memorial Hospital  
Selected Patient Volume Statistics

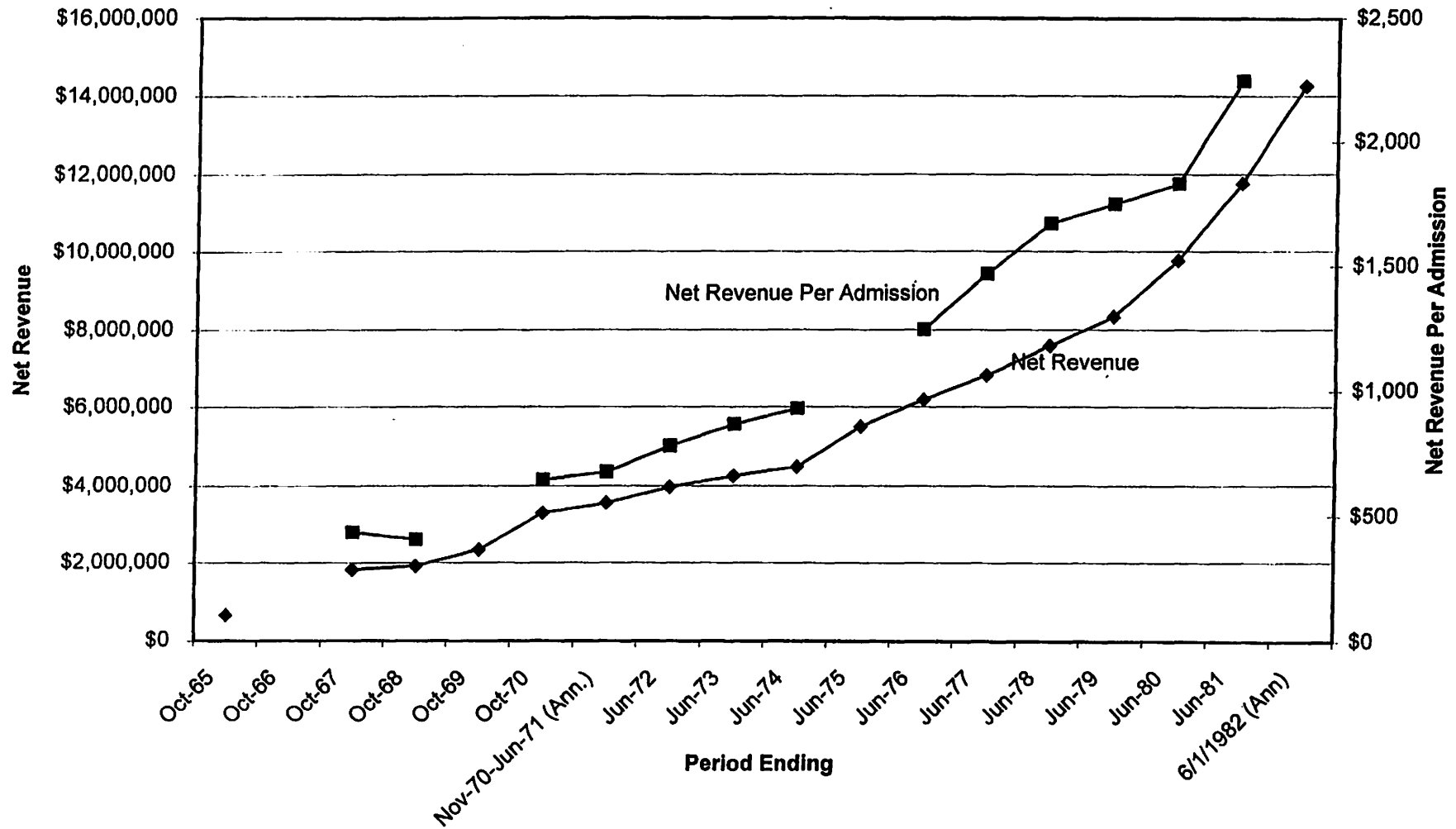
SOURCE: JMH Annual Reports Required Under Contract With Group Hospitalization, Inc.,  
Schedule 3 - Uniform Statistical Data Sheet

Reference Calculation		A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	
																=A X 365 days per year	=N-M	=M/N				
Year Ended	Date Reference	Beds	Inpatient Admissions						Inpatient Days						days per year			Outpatient Visits				
			GHI	Comm.	Medicare	Guar	Medicaid	Total	GHI	Comm.	Medicare	Guar	Medicaid	Total	Available Patient Days	Patient Days Unoccupied	Occupancy	ER	Clinic	Private Ambulatory	Total	
	10/31/67 Tauber 43813	96												29,357	35,040	5,683	84%	5,746	823	-	6,569	
	12/31/68 Tauber 43850	123												33,415	44,895	11,480	74%	6,408		1,668	8,072	
	10/31/69 Not Available																					
	10/31/70 Tauber 43902	119	2,073	2,156	578	212	60	5,079	13,246	12,591	9,501	882	412	36,832	43,435	6,803	84%	9,058	2,689		11,747	
11/1/70 - 6/30/71	Tauber 43955	119	1,379	1,322	382	141	264	3,488	7,974	7,380	6,014	618	1,925	23,911				6,109	2,713		8,822	
	Annualized		2,089	1,983	573	212	396	5,232	11,981	11,070	9,021	927	2,888	35,867	43,435	7,569	83%	9,164	4,070	-	13,233	
	6/30/72 Tauber 43986	119	2,123	1,788	542	189	422	5,084	12,521	10,571	7,380	867	3,151	34,470	43,435	8,965	79%	9,793	3,450		13,243	
	6/30/73 Tauber 44042	119	1,868	1,738	613	163	510	4,892	11,195	10,124	8,078	926	3,709	34,208	43,435	9,227	79%	11,519	4,007		15,526	
	6/30/74 Tauber 44091	119						4,819						33,927	43,435	9,508	76%	13,186	2,876		16,062	
	6/30/75 Not Available																					
	6/30/76 Tauber 44261	119	1,780	1,692	647		710	4,948	11,224	10,766	8,377		4,019	34,388	43,435	9,049	79%	13,121		3,845	16,966	
	6/30/77 Tauber 44357	119	1,675		620		630	4,836	10,733	9,429	8,027	1,663	3,736	33,588	43,435	9,847	77%	11,554	4,307		15,861	
	6/30/78 Tauber 44436	119	1,526	1,772	641		589	4,528	10,268	10,647	7,873		4,057	32,845	43,435	10,590	76%	11,275	4,108		15,383	
	6/30/79 Tauber 44467	120	1,602	1,824	699		619	4,744	10,772	12,053	1,598		3,849	34,270	43,800	9,530	78%	11,525	4,659		16,184	
	6/30/80 Tauber 44527	120	1,724	2,105	829		654	5,312	10,358	12,719	9,153		3,997	36,727	43,800	7,073	84%	13,205	5,859		19,084	
	6/30/81 Tauber 44557	120	1,521	2,030	1,011		672	5,234	10,309	12,868	11,520		4,527	39,224	43,800	4,576	90%	12,871	6,313		19,184	
7/1/81 - 3/31/82	Tauber 44767		1,183	1,576	721		595	4,075	8,419	9,521	8,321		4,369	30,630				8,611	4,360		12,971	
	Annualized		1,577	2,101	861	-	793	5,433	11,225	12,695	11,095	-	5,825	40,840	43,800	2,960	93%	11,481	5,813	-	17,295	
																		81%				

J.A.P.P. 6101



Jefferson Memorial Hospital  
Selected Data From Financial Statements as Reported







Commonwealth of Virginia vs. Tauber, et. al  
Complainants Accounting

Attachment #16

**Calculation of JMH Depreciation Related to Lakeside Plaza Condominiums**

						Depreciation for the year ended:		
	Date		Land	Adjusted	Rate or			
Lakeside Plaza Condominium Unit	Acquired	Cost or Other Basis	Value	Cost Basis	Life in	6/30/84	6/30/85	6/30/86
302 2C	10/1/83	107,449	5,266	102,183	15	5,109	6,812	6,812
313 2D	10/1/83	106,894	5,238	101,655	15	5,083	6,777	6,777
314 2D	10/1/83	106,894	5,238	101,655	15	5,083	6,777	6,777
322 3A	10/1/83	127,828	6,264	121,564	15	6,078	8,104	8,104
824 1B	10/1/83	71,210	3,267	67,942	15	3,397	4,529	4,529
309 1C	3/12/84	86,080	4,202	81,878	15	1,820	5,459	5,459
624 1B	3/12/84	69,360	3,267	66,093	15	1,469	4,406	4,406
724 1B	3/12/84	70,160	3,267	66,893	15	1,487	4,460	4,460
810 1B	3/12/84	70,960	3,267	67,693	15	1,504	4,513	4,513
817 1B	3/12/84	64,000	2,947	61,053	15	1,357	4,070	4,070
Total Lakeside Condos		880,834	42,224	838,610		32,386	55,907	55,907
<b>All Other Depreciable Assets</b>								
Leasehold Improvements				308,168				
Fixed Equipment				166,483				
Furniture and Fixtures				1,207				
Total Other Depreciable Assets				475,857				

J.A.P. 6105



**Composition of Capital Contributions to Joint Venture through 6/30/71**

		Land	Cash	Partners Notes	Mortgage Assumed	Write-offs	Bonds	Unsupported	Net Contribution	Cumulative Contribution	Ineligible
KSJV	3/16/63 Initial Land Contribution	200,153			(79,856)				120,297	120,297	
KSJV	3/16/63 Tauber purchase of stock		100						100	120,397	
KSJV	12/31/63 Remaining capital activity							122,676	122,676	243,073	
KSJV	12/31/64 65% Land Donation to JMHI	(130,099)			79,856				(50,243)	192,830	
KSJV	12/31/64 35% Land withdrawal from Tauber	(70,053)			-				(70,053)	122,776	
KSJV	12/31/64 Remaining capital contributions							165,864	165,864	288,640	
KSJV	12/31/64 Remaining capital withdrawals							(125,572)	(125,572)	163,067	
KSJV	12/31/65 Cash per tax returns		6,787						6,787	169,854	
KSJV	12/31/65 Bonds for excess hospital cost withdrawn						(39,000)		(39,000)	130,854	
KSJV	12/31/65 Cash withdrawn		(1,431)						(1,431)	129,423	
JMHA	1/1/66 Goodwill booked on KSJV conversion								-	129,423	386,804
JMHA	1/1/66 Equipment sale leaseback transaction								-	129,423	340,000
JMHA	1/1/66 Capital Booked for Notes from Partners			60,000					60,000	189,423	
JMHA	12/31/66 Write-off of JMHI balance for excess land cost					(16,528)			(16,528)	172,895	
Total through 6/30/71		-	5,456	60,000	-	(16,528)	(39,000)	162,967	172,895		726,804

Total Eligible Contribution, net	172,895
Plus Ineligible	726,804
Net Contribution excluding operations	<u>899,699</u>

JAPP. 6107



Commonwealth of VA vs. Tauber, et. al.  
Complainants Accounting

Attachment #18

**Reconstructed Journal Entries**

**JMHC acquisition of JMHA - Journal Entry 7/1/71**

		SCENARIO 1 - Book Value		SCENARIO 2 - 1972 Financial Position	
From	Account	DR	CR	DR	CR
JMHA	Cash	1,553		1,553	
JMHA	Notes Receivable Partners	15,972		15,972	
JMHA	Goodwill	386,802		386,802	
JMHA	Buildings, net	631,662		631,663	
JMHA	Equipment, net	101,922		9,313	
JMHI	Accrued Expenses - Rent	41,852			
JMHI	Lease Agreement Payable	280,000		280,000	
JMHI	Bonds Payable - JMHA	20,000		19,500	
JMHI	Payable to JMHA	43,114		43,114	
JMHA	Mortgages Payable		687,276		687,276
JMHI	Receivable from JMHA		29,355		
NEW	Capital Stock (245,000 @ .01 par)		2,450		2,450
NEW	Capital in excess of par		803,796		698,191
	Totals	1,522,877	1,522,877	1,387,917	1,387,917
	Capital in excess of par on BS		703,142		703,142
	Unexplained Difference		100,654		(4,951)

J.A.P.P. 6109

**Jefferson Memorial Hospital Reorganization and Merger with JMHA  
Balance Sheet Summary Before and After 7/1/71 Merger**

	Pre-JMHC		JMHC
	6/30/71 JMHA	6/30/71 JMHI	6/30/72 JMHC
<b>Assets</b>			
Cash in Bank	1,553	56,247	19,855
Bonds - JMHI	20,000		
Notes Receivable	15,972	4,600	19,775
Accounts Receivable	-	712,076	930,905
Receivable from JMHA		29,355	
Goodwill	386,802	0	375,425
Buildings (Cost)	1,048,305	-	624,302
Loan & Settlement Fees (Buildings)	11,188	-	6,794
Total Building Cost	1,059,493	-	631,096
Less: Depreciation	427,831	-	32,214
Building, net	631,662	-	598,882
Land		147,456	147,456
Land Improvements		3,927	3,927
Depreciation		(2,532)	(3,037)
Land & Improvements, net		148,851	148,346
Equipment - Hospital	361,644	429,305	458,263
Less: Depreciation	259,722	144,831	177,026
Equipment, net	101,922	284,474	281,237
Interest, Inventories and Other		57,148	65,387
<b>Total Assets, Net</b>	<b>1,157,911</b>	<b>1,292,751</b>	<b>2,439,812</b>
<b>Liabilities</b>			
Mortgages Payable			
1st Fed S&L - Hospital #1	617,196		582,484
1st Fed S&L - Hospital #2	70,080		63,979
Accounts Payable		429,995	526,339
Payable to JMHA		43,114	
Accrued Expenses		100,849	68,445
Accrued Expenses - Rent		41,852	-
Provision for Contract Adjustment		280,111	231,264
Notes Payable		84,503	26,166
Lease Agreement		280,000	
Bonds Payable		319,000	299,500
Advance Deposits		102,000	103,000
Income Taxes Payable			12,769
Funds Held in Escrow		3,895	4,834
<b>Total Liabilities</b>	<b>687,276</b>	<b>1,685,319</b>	<b>1,272,317</b>
<b>Capital/Stock</b>			
Common Stock			2,450
Donated Capital	-	20,051	20,051
Capital in excess of Par			703,142
<b>Net Book Value of Assets and Liabilities</b>	<b>470,635</b>	<b>(412,619)</b>	<b>441,852</b>

■ =Related party balance

① This goodwill was created between 12/31/65 KSJV Financial Stmtns and 12/31/66 JMHA Financial Stmtns. There is no explanation, nor is there any logical indicator of what generated the asset.

J.APP. 6110



Commonwealth of Virginia et al vs. Tauber  
Complainants Accounting

Attachment #19

**Rollforward of JMH Capital in Excess of Par**

Reference	A	B	C	D	E	F	G	H
Source	Balance Sheet	Balance Sheet	Changes in Financial Position	Changes in Financial Position	=F-A+B+C+D	Balance Sheet		=F-G
Period Ended	Beginning Balance of Capital in Excess of Par	Initial Contribution	Contributions/ Proceeds from sale of common stock	Withdrawals/ JMH Purchase of common stock	Unexplained Difference	Ending Balance of Capital in Excess of Par	Ineligible	Net Capital Contributed through purchases of common stock
6/30/72	-	703,142		-		703,142	666,802	36,340
6/30/73	703,142		220,660		(1,000)	922,802	666,802	256,000
6/30/74	922,802		55,662	(43,908)	17	934,573	666,802	267,771
6/30/75	934,573		10,200	(11,738)	(227,679)	705,356	666,802	38,554
6/30/76	705,356		15,145	(836)	(157,641)	562,024	666,802	(104,778)
6/30/77	562,024		7,008	(18,000)	(18)	551,014	666,802	(115,788)
6/30/78	551,014		63,648	(12,000)	3,927	606,589	666,802	(60,213)
6/30/79	606,589		9,672	-	(16)	616,245	666,802	(50,557)
6/30/80	616,245		12,900	(31,998)	32	597,179	666,802	(69,623)
6/30/81	597,179			-	1,994	599,173	666,802	(67,629)
6/30/82	599,173			(600,471)	1,298	-	666,802	(666,802)
6/30/83	-							(666,802)
6/30/84	-					-		(666,802)
6/30/85	-							(666,802)
			394,895	(718,951)	(379,086)			
								(703,142)
								Net Withdrawal from Capital

J.A.P.P. 6112





**Rollforward of JMH Fund Capital (Deficit)/ Retained Earnings**

Entity	Source	Bate Stamp	Year Ended	Beginning Balance	Contributions	Balance Sheet Adj	Net Income (Loss)	Withdrawals	Ending Balance
JMHI	Balance sheet supporting Schedules	Tauber 46104	10/31/65	-	115,140	①	(140,822)		(25,682)
			10/31/66	(25,682)			(118,076)		
JMHI	Balance sheet	DT 000163	10/31/67				6,212		(305,803)
JMHI	US Tax Return	Tauber 43528	10/31/68	(305,803)	-	38,445	15,359		(251,999)
JMHI	US Tax Return	Tauber 43526	10/31/69	(251,999)	-	-	(327,327)		(579,325)
JMHI	US Tax Return	Tauber 43516	10/31/70	(579,325)	-	500	172,192		(406,633)
JMHI	Operating Deficit Schedule	DT000095	6/30/71	(406,633)	-	(57,551)	51,565		(412,619)
<b>Total Prior to Purported Conversion</b>					<b>115,140</b>	<b>(18,606)</b>	<b>(340,897)</b>	<b>-</b>	
Entity	Source	Bate Stamp	Year Ended	Beginning Balance	Contributions	Balance Sheet Adj	Net Income (Loss)	Withdrawals	Ending Balance
JMHC	Balance Sheet	DT000077	6/30/72	(412,620)	-		208,009		(204,611)
JMHC	US Tax Return	Tauber 43454	6/30/73	(204,611)	-	-	139,974		(64,637)
JMHC	Balance Sheet	DT000048	6/30/74	(64,637)	-	-	10,388		(54,249)
JMHC	Balance Sheet	DT000034	6/30/75	(54,249)	-	-	122,414	(119,992) ③	(51,827)
JMHC	Balance Sheet	Tauber 44273	6/30/76	(51,827)	-	(62,370)	113,027	(79,412) ④	(80,582)
JMHC	Balance Sheet	Tauber 44368	6/30/77	(80,582)	-		115,128		34,546
JMHC	Balance Sheet	Tauber 44741	6/30/78	34,546		5,970 ②	76,257		116,773
JMHC	Balance Sheet	Tauber 44494	6/30/79	116,773			127,141		243,914
JMHC	Balance Sheet	Tauber 44536	6/30/80	243,914			156,882		400,796
JMHC	Statement of Income and Retained Earnings	Tauber 44757	6/30/81	400,796		2,191	95,779		498,766
JMHC	Statement of Income and Retained Earnings	Tauber 44757	6/30/82	498,766		87,923	464,712	(308,942) ⑤	742,459
JCA	Statement of Retained Earnings	Tauber 44786	6/30/83	742,459			59,598	(1,814) ⑥	800,243
JCA	Statement of Retained Earnings	Tauber 44796	6/30/84	800,243			18,133		818,376
<b>Total Subsequent to Purported Conversion</b>					<b>-</b>	<b>33,714</b>	<b>1,707,442</b>	<b>(510,160)</b>	
<b>Total All Periods</b>					<b>115,140</b>			<b>(510,160)</b>	<b>(395,020)</b>

Net Withdrawal

**Notes**

- |                                     |   |
|-------------------------------------|---|
| ① Represents the 65% land donation. | ④ Redemption of 39,709 shares                     |
| ② Net gain on acquisition of stock. | ⑤ Redemption of 129,865 shares                    |
| ③ Redemption of 60,000 shares       | ⑥ Redemption of capital stock                     |
|                                     | = Documents are missing or have not been provided |

J.A.P. 6114

**Rollforward of Capital - Joint Venture**

Entity	Source	Bate Stamp	Year Ended	Beginning Balance	Contributions	Net Income (Loss)	Withdrawals	Ending Balance	Major Contributor to the loss
KSJV	US Tax Return	Tauber 45135	12/31/63	-	243,073	(24,264)	-	218,810	Taxes, Fees, Mort. Interest
KSJV	US Tax Return	Tauber 45296	12/31/64	218,810	165,864	(33,482)	(245,869)	105,323	Mort. Interest, Taxes
KSJV	US Tax Return	Tauber 44959	12/31/65	105,322	6,787	(58,482)	(40,431)	13,198	Deprec., Mort. Interest
JMHA	US Tax Return	Tauber 45097	12/31/66	13,198	786,804	(90,811)	(16,528)	692,660	Deprec., Mort. Interest
JMHA	US Tax Return	Tauber 45079	12/31/67	692,660	-	(68,088)	-	624,572	Deprec., Mort. Interest
JMHA	US Tax Return	Tauber 44926	12/31/68	624,572	-	(51,907)	-	572,665	Deprec., Mort. Interest
JMHA	US Tax Return	Tauber 45235	12/31/69	572,665	-	(26,395)	-	546,270	Deprec., Mort. Interest
JMHA	US Tax Return	Tauber 44894	12/31/70	546,270	-	(50,868)	-	495,401	Deprec., Mort. Interest
JMHA	US Tax Return	Tauber 45189	6/30/71	495,401	-	(24,764)	-	470,637	Deprec., Mort. Interest
<b>Total through 6/30/71</b>					<b>1,202,527</b>	<b>(429,062)</b>	<b>(302,828)</b>		

Net Contribution Excluding Operations **\$ 899,699** See supplemental schedule for composition detail  
 Plus Cumulative Net Loss **(429,062)**  
 Book Value of Assets at 6/30/71 **470,637** Purportedly Converted to JMH on 7/1/71

**For the Period from 12/31/71 - 12/31/98**

Entity	Source	Bate Stamp	Year Ended	Beginning Balance	Contributions	Net Income (Loss)	Withdrawals	Ending Balance	Gross Rents from Hospital Building (see Notes ① and ②)
No Joint Venture during the period from 12/31/71 until 12/31/74									
JMHJV	US Tax Return	Tauber 45333	12/31/75	240,000	-	30,008	(12,500)	257,508	56,000
JMHJV	US Tax Return	Tauber 45842	12/31/76	257,508	-	61,308	(28,627)	290,189	112,000
JMHJV	Statement of Venturer's Capital	Tauber 45846	12/31/77	290,189	-	61,577	(4,954)	346,812	112,000
12/31/78									
12/31/79									
12/31/80									
JMHJV	Statement of Venturer's Capital	Tauber 45764	12/31/81	1,662,047	10,000	(46,697)	-	1,625,350	261,119 ①
JMHJV	Statement of Venturer's Capital	Tauber 45635	12/31/82	1,625,350	247,500	349,622	-	2,222,472	710,265 ①
JMHJV	Statement of Venturer's Capital	Tauber 44815	12/31/83	2,222,472	757,808	422,158	(274,500)	3,127,937	972,360 ①
JMHJV	Statement of Venturer's Capital	Tauber 44823	12/31/84	3,127,937	592,811	646,489	(474,346)	3,892,891	997,782 ①
12/31/85									
JMHJV	US Tax Return	Tauber 45624	12/31/86	3,852,408	-	855,585	(975,143)	3,732,850	1,436,183 ①
JMHJV	US Tax Return	None	12/31/87	3,732,850	19,150	1,099,253	(973,985)	3,877,268	1,580,245 ②
JMHJV	US Tax Return	None	12/31/88	3,877,288	-	1,201,742	(975,000)	4,104,030	1,697,588 ②
JMHJV	US Tax Return	None	12/31/89	4,104,030	124,229	1,082,092	(1,547,464)	3,742,886	1,682,673 ②
JMHJV	US Tax Return	None	12/31/90	3,742,886	-	1,246,563	(1,374,984)	3,614,465	1,665,785 ②
JMHJV	US Tax Return	None	12/31/91	3,614,465	-	1,538,119	(1,369,818)	3,782,767	1,656,999 ②
JMHJV	US Tax Return	None	12/31/92	3,782,767	-	1,569,554	(1,392,665)	3,959,656	
JMHJV	US Tax Return	None	12/31/93	3,959,657	-	1,585,030	(1,689,738)	3,684,949	2,167,976 ②
JMHJV	US Tax Return	None	12/31/94	3,684,949	-	137,659	(1,723,073)	2,099,535	2,240,018
JMHJV	US Tax Return	None	12/31/95	2,099,535	-	1,368,057	(1,429,080)	2,038,532	2,171,478
JMHJV	US Tax Return	None	12/31/96	2,038,532	-	448,531	(880,072)	1,606,991	1,896,360
JMHJV	US Tax Return	None	12/31/97	1,606,991	-	816,380	(361,519)	2,061,852	2,250,589
JMHJV	US Tax Return	None	12/31/98	2,061,852	-	975,826	(735,920)	2,301,758	2,088,316
<b>Total Contributions</b>					<b>1,761,498</b>	<b>(16,367,268)</b>		<b>25,755,755</b>	

- ① =May include rent from the Medical Office Building and other items. There is no segregation on the financial statements/tax returns.  
 ② =Includes Medical Office Building. Amounts have not been segregated on financial statements/tax return.  
 = Documents are missing or have not been provided.

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**Calculation of Profit Credited to Joint Venture for Hospital Building**

		Source
Total Cost of the Building	\$ 1,055,543	Tauber 45282
Less: Costs Paid by JMH	55,543	Tauber 45282
Net Cost to the Joint Venture	\$ 1,000,000	

**1966 Building Lease (See Attachment #5)**

Period	A Annual Rent	B # of Years	=AXB Total Rent
1/1/1966 - 12/31/1975	80,940	10.00	809,400
1/1/1977 - 12/31/1985	147,311	10.00	1,473,108
1/1/1986 - 12/31/1995	254,152	10.00	2,541,516

**Total Rent Included in the Accounting  
Under the 1966 Building Lease**

\$ 4,824,024

**Net Cost of the Building to the Joint Venture**

\$ 1,000,000

**Mortgage Interest on Loan #1 (See Attachment #8)**

536,164

**Mortgage Interest on Loan #2 (See Attachment #9)**

51,590

**Profit Credited to the Joint Venture in the Accounting**

\$ 3,236,270

## ROBERT E. WILSON

### *Background*

Bob is a partner in Arthur Andersen LLP's Southeast Region Healthcare Business Consulting practice and is based in Washington, D.C. Bob's career with Arthur Andersen spans 25 years. Until 1995, he was based in the Seattle office where he had both audit and healthcare business consulting responsibilities. In 1995, he transferred to the Washington, D.C. office to lead the healthcare business consulting practice in the Chesapeake market circle. Which, in 1997, was integrated in the East Region healthcare business consulting practice.

Bob received his Bachelor's degree from the University of Washington, and he also has a Master of Business Administration degree from California State University-Los Angeles. He is a certified public accountant and a member of the Healthcare Financial Association and the Medical Group Management Association.

### *Recent Experience*

- Performing business processing improvement and revenue enhancement projects for healthcare organizations.
- Evaluating the cost benefit of hospital and other healthcare organization mergers and collaborations.
- Performing operational studies of physician groups and hospitals, including flow of patients, physician profiling, and guidelines for diagnosis and treatment.
- Developing physician enterprises including strategy development, group formation, operational integration and managed care preparation.
- Performing market analysis for strategic planning.
- Assisting with planning and developing hospital and physician networks and delivery systems
- Leading projects to redesign revenue and receivables management processes.
- Assisting with managed care marketing and contracting strategy.
- Developing financial projections for single and multi-specialty physician groups as well as multi-hospital systems.



## TABLE OF SUPPORTING ATTACHMENTS

<b>Attachment Number</b>	<b>Description</b>
1	Income Statement Summary
2	Wholesale Price Index renamed to Producer Price Index
3	How to Use the PPI for Contract Escalation
4	Bureau of Labor Statistics PPI Data
5	1966 Building Lease Rent Escalator Calculations
6	1966 Land Lease Rent Escalator Calculations
7	1968 Building Addition Lease Rent Escalator Calculations
8	Loan #1 - Hospital Building Mortgage Amortization Schedule
9	Loan #2 - Hospital Building Mortgage Amortization Schedule
10	Summary of Mortgage Interest (1971 – 1975)
11	Calculation of Depreciation on Hospital Building from 7/72 - 6/75
12	JMH Patient Occupancy Analysis
13	JMH Operational Volumes as Reported to GHI
14	JMH Selected Patient Volume Statistics
15	JMH Selected Data from Financial Statements as Reported
16	Calculation of JMH Depreciation Related to Lakeside Plaza Condos
17	Composition of Capital Contributions to Joint Venture through 6/30/71
18	JMH Reorganization and Merger with JMHA Balance Sheets and Entries
19	Rollforward of JMH Capital in Excess of Par
20	Rollforward of JMH Fund Capital (Deficit)/Retained Earnings
21	Rollforward of Capital - Joint Venture
22	Calculation of Profit Credited to Joint Venture for Hospital Building

### **ASSIGNMENTS OF ERROR**

1. The trial court erred when it failed to make any findings for an accounting tracing the assets and liabilities of Jefferson Memorial Hospital, Inc. (“JMHI”), a Maryland non-profit, to establish the basis for the imposition of a constructive trust upon \$20 million, two buildings, and two real estate parcels.
2. The trial court erred when it failed to hold that the 1975 sale to Jefferson Memorial Hospital Corporation (“JMHC”), a Delaware for profit corporation, constituted the act of trustees in dissolution of JMHI to “wind-up” the not-for-profit corporation.
3. The trial court erred when it held that the 1975 sale to JMHC could be voided by the Attorney General, regardless of its fairness to the not-for-profit corporation JMHI.
4. The trial court erred when it failed to hold that, if JMHI were not previously dissolved, the 1982 sale to Health Group of Virginia (“HGV”) constituted the act of trustees in dissolution of JMHI to “wind-up” the not-for-profit corporation.
5. The trial court erred in holding that rents, profits, and accretions accruing to other separate entities after the winding-up of the not-for-profit corporation are assets in dissolution of JMHI.
6. The trial court erred in holding that rental revenues from the 1982 HGV and 1985 INOVA real estate leases paid to a separate partnership after the winding-up of the not-for-profit corporation are assets in dissolution of JMHI.
7. The trial court erred in holding that the 1994 INOVA Settlement, which was entered into long after the winding-up of the not-for-profit corporation, is an asset in dissolution of JMHI.



8. The trial court erred in holding that a trustee in dissolution, rather than the Complainants, bears the burden of proving the separate nature of the charitable assets in order to exclude the trustee's independent assets from a constructive trust.
9. The trial court erred in holding that appellants failed to demonstrate the separate nature of the not-for-profit's assets and each appellant's separate and individual assets.
10. The trial court erred when it held that the Complainants could assert a claim to buildings and property in which the not-for-profit JMHI never held an ownership interest.
11. The trial court's imposition of a constructive trust upon buildings and property in which the not-for-profit JMHI never held an ownership interest constituted a violation of the Due Process Clause of the United States Constitution, U.S. Const. amend. XIV, § 1.
12. The trial court erred when it held that the Complainants could assert a claim to property where the title to that property had been transferred to bona-fide third party purchasers for value who were not represented in the action.
13. The trial court's imposition of a constructive trust upon property, the title to which was held by third party purchasers for value without notice or representation in the action, constituted a violation of the Due Process Clause of the United States Constitution.
14. The trial court erred when it failed to apply the law in effect at the time the trial court rendered its decision.
15. The trial court's failure to apply Maryland law violated the Full Faith and Credit, Due Process, and Commerce Clauses of the United States Constitution.
16. The trial court erred when it elected to apply Virginia law of *cy pres* rather than Maryland law to govern the distribution of assets of a Maryland not-for-profit corporation following its winding-up.

17. The trial court erred in finding personal and individual liability on the part of the directors or trustees in dissolution of the not-for-profit corporation JMHI where the Complainants provided no evidence in support of their burden to show a lack of good faith on the part of the appellants.
18. The trial court erred in finding personal and individual liability on the part of the directors or trustees in dissolution of the not-for-profit corporation JMHI without an evidentiary hearing on the issue, as requested by appellants.
19. The trial court's imposition of personal liability upon the individual directors or trustees without the presentation of supporting evidence at trial, without a hearing regarding the same, and without due notice of such claims constitutes a violation of Maryland Code Annotated ("Md. Code Ann.") § 2-405, Code of Virginia (1950), as amended ("Va. Code") § 13.1-870, and the Due Process Clause of the United States Constitution.
20. The trial court erred by allowing Complainants to void several purchase transactions while failing to provide a credit or reimbursement for acquisition costs.
21. The trial court erred by using the constructive trust remedy to place the assets of two separate existing charities under a constructive trust for the benefit of another charitable entity.
22. The trial court erred in awarding interest on the \$20 million award from the date of its letter opinion rather than the date of its Final Decree which first set forth an award of interest.
23. The trial court erred by ruling that Va. Code § 8.01-676(C) provides the sole and exclusive method to obtain a stay pending appeal and prohibits any other security except an appeal bond by which a trial court may suspend enforcement of its own decree pending appeal.

### **ASSIGNMENTS OF CROSS-ERROR**

1. The Chancellor erred as a matter of law in allowing Respondents to retain \$31,075,583.00 of the \$51,075,583.00 of past and future net revenues which he determined were assets belonging to the charity based on unspecified equitable principles and the application of a fairness test.
2. The Chancellor erred in failing to award the Commonwealth its attorneys' fees and costs when Respondents failed to render a proper fiduciary accounting.