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Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2011

Open to Public Inspection

A For the 2011 calendar year, or tax year beginning 01-01-2011 and ending 12-31-2011

B Check if applicable
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Terminated
- ☐ Amended return
- ☐ Application pending

C Name of organization
SANTA BARBARA COTTAGE HOSPITAL

Doing Business As

Number and street (or P O box if mail is not delivered to street address) | Room/suite
PO BOX 689

City or town, state or country, and ZIP + 4
SANTA BARBARA, CA 931020689

D Employer identification number
95-1644629

E Telephone number
(805) 682-7111

G Gross receipts $ 703,627,373

F Name and address of principal officer
Ronald Werft
Same as Above
Santa Barbara, CA 93102

H(a) Is this a group return for affiliates? ☐ Yes ☑ No

H(b) Are all affiliates included? ☐ Yes ☐ No
If "No," attach a list (see instructions)

H(c) Group exemption number ▶

I Tax-exempt status ☑ 501(c)(3) ☐ 501(c) ( ) ◀ (insert no) ☐ 4947(a)(1) or ☐ 527

J Website: ▶ WWW COTTAGEHEALTHSYSTEM ORG

K Form of organization ☑ Corporation ☐ Trust ☐ Association ☐ Other ▶

L Year of formation 1888

M State of legal domicile CA

Part I Summary

1 Briefly describe the organization's mission or most significant activities
It is the mission of Santa Barbara Cottage Hospital to provide superior health care through a commitment to our Community and to our core values of excellence, integrity, and compassion The volunteer Board of Directors uses these core values to make decisions that will improve health care access, affordability and quality

2 Check this box ▶ ☐ if the organization discontinued its operations or disposed of more than 25% of its net assets

3	Number of voting members of the governing body (Part VI, line 1a)	**3**	19
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	14
5	Total number of individuals employed in calendar year 2011 (Part V, line 2a)	**5**	2,946
6	Total number of volunteers (estimate if necessary)	**6**	760
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	6,018
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	777,992

		Prior Year	Current Year
Revenue	**8** Contributions and grants (Part VIII, line 1h)	57,309,221	2,065,178
	9 Program service revenue (Part VIII, line 2g)	503,003,844	501,454,547
	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	17,439,686	15,269,866
	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	6,673,911	9,885,771
	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	584,426,662	528,675,362
Expenses	**13** Grants and similar amounts paid (Part IX, column (A), lines 1–3)	2,024,476	1,263,313
	14 Benefits paid to or for members (Part IX, column (A), line 4)	0	0
	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	229,134,149	229,557,436
	16a Professional fundraising fees (Part IX, column (A), line 11e)	19,200	0
	b Total fundraising expenses (Part IX, column (D), line 25) ▶0		
	17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	243,910,311	254,585,769
	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	475,088,136	485,406,518
	19 Revenue less expenses Subtract line 18 from line 12	109,338,526	43,268,844

		Beginning of Current Year	End of Year
Net Assets or Fund Balances	**20** Total assets (Part X, line 16)	1,111,406,611	1,130,882,734
	21 Total liabilities (Part X, line 26)	481,294,143	497,430,249
	22 Net assets or fund balances Subtract line 21 from line 20	630,112,468	633,452,485

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

▶ Signature of officer — 2012-11-14 Date

▶ Joan Bricher Senior Vice President and CFO
Type or print name and title

Paid Preparer's Use Only

Preparer's signature ▶	Date	Check if self-employed ▶ ☐	Preparer's taxpayer identification number (see instructions)
Firm's name (or yours if self-employed), address, and ZIP + 4 ▶			EIN ▶
			Phone no ▶

May the IRS discuss this return with the preparer shown above? (see instructions) ☐ Yes ☐ No

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III . . . . . ☐

1 Briefly describe the organization's mission

It is the mission of Santa Barbara Cottage Hospital (SBCH) to provide superior health care through a commitment to our Community and to our core values of excellence, integrity, and compassion The volunteer Board of Directors uses these core values to make decisions that will improve health care access, affordability and quality

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? . . . . . ☐ Yes ☑ No

If "Yes," describe these new services on Schedule O

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? . . . . . ☐ Yes ☑ No

If "Yes," describe these changes on Schedule O

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a (Code) (Expenses $ 348,991,372 including grants of $ 1,263,313) (Revenue $ 511,335,274)

Santa Barbara Cottage Hospital is a 408-bed acute-care hospital located in the City of Santa Barbara In 2011, the Hospital had 86,409 patient days, served 124,649 outpatients, including emergency services to 42,293 patients The Hospital provides a wide array of inpatient and outpatient services, including but not limited to the areas of cardiology, orthopedics, neurology, trauma, labor & delivery, psychiatric, neonatal intensive care, pediatric intensive care, pediatrics, laboratory, imaging, therapy, diabetes, oncology, emergency and rehabilitation services Community outreach efforts for Cottage Health System in 2011 focused on five health areas cancer, heart disease and stroke, children's health, seniors' health, along with prevention and wellness Activities in these areas included screenings and health fairs, classes, clinics, lectures, and seminars, community services, community collaborations, and coalitions/committees Cottage Health System, which includes Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital and Santa Ynez Valley Cottage Hospital, provides critical funding for community health, charity care, and external grants, while also realizing shortfalls in Medicare, Medi-Cal, and indigent care In 2011, Cottage Health System spent over $120 million on these programs All patients who do not present third-party insurance are automatically screened for eligibility in government health programs and are assisted in applying for charity if the patient does not qualify for any other assistance To ensure that every member of the community has access to healthcare Santa Barbara Cottage Hospital offers full charity care to all patients whose income level is at or below 350% of the Federal Poverty Level (FPL) Discounted care is also available for families who make up to 542% of the FPL The charity care program at Santa Barbara Cottage Hospital is critical to the community as there is no inpatient acute care County Hospital to treat indigent patients who cannot afford care In 2011, Santa Barbara Cottage Hospital provided free or discounted care to 1,586 patients

4b (Code) (Expenses $ including grants of $) (Revenue $)

4c (Code) (Expenses $ including grants of $) (Revenue $)

4d Other program services (Describe in Schedule O)

(Expenses $ 0 including grants of $ 0) (Revenue $ 0)

4e **Total program service expenses** ▶ $ 348,991,372

Part IV Checklist of Required Schedules

			Yes	No
1	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? *If "Yes," complete Schedule A*	1	Yes	
2	Is the organization required to complete *Schedule B, Schedule of Contributors* (see instructions)?	2	Yes	
3	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? *If "Yes," complete Schedule C, Part I*	3		No
4	**Section 501(c)(3) organizations.** Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? *If "Yes," complete Schedule C, Part II*	4	Yes	
5	Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? *If "Yes," complete Schedule C, Part III*	5		No
6	Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? *If "Yes," complete Schedule D, Part I*	6		No
7	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? *If "Yes," complete Schedule D, Part II*	7		No
8	Did the organization maintain collections of works of art, historical treasures, or other similar assets? *If "Yes," complete Schedule D, Part III*	8		No
9	Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? *If "Yes," complete Schedule D, Part IV*	9		No
10	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? *If "Yes," complete Schedule D, Part V*	10	Yes	
11	If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable			
a	Did the organization report an amount for land, buildings, and equipment in Part X, line10? *If "Yes," complete Schedule D, Part VI.*	11a	Yes	
b	Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VII.*	11b	Yes	
c	Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part VIII.*	11c		No
d	Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? *If "Yes," complete Schedule D, Part IX.*	11d		No
e	Did the organization report an amount for other liabilities in Part X, line 25? *If "Yes," complete Schedule D, Part X.*	11e	Yes	
f	Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? *If "Yes," complete Schedule D, Part X.*	11f	Yes	
12a	Did the organization obtain separate, independent audited financial statements for the tax year? *If "Yes," complete Schedule D, Parts XI, XII, and XIII*	12a		No
b	Was the organization included in consolidated, independent audited financial statements for the tax year? *If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional*	12b	Yes	
13	Is the organization a school described in section 170(b)(1)(A)(ii)? *If "Yes," complete Schedule E*	13		No
14a	Did the organization maintain an office, employees, or agents outside of the United States?	14a		No
b	Did the organization have aggregate revenues or expenses of more than $10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at $100,000 or more? *If "Yes," complete Schedule F, Part I*	14b		No
15	Did the organization report on Part IX, column (A), line 3, more than $5,000 of grants or assistance to any organization or entity located outside the U S ? *If "Yes," complete Schedule F, Part II and IV*	15		No
16	Did the organization report on Part IX, column (A), line 3, more than $5,000 of aggregate grants or assistance to individuals located outside the U S ? *If "Yes," complete Schedule F, Part III and IV*	16		No
17	Did the organization report a total of more than $15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? *If "Yes," complete Schedule G, Part I*	17		No
18	Did the organization report more than $15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? *If "Yes," complete Schedule G, Part II*	18		No
19	Did the organization report more than $15,000 of gross income from gaming activities on Part VIII, line 9a? *If "Yes," complete Schedule G, Part III*	19		No
20a	Did the organization operate one or more hospitals? *If "Yes," complete Schedule H*	20a	Yes	
b	If "Yes" to line 20a, did the organization attach its audited financial statement to this return? **Note.** All Form 990 filers that operated one or more hospitals must attach audited financial statements	20b	Yes	

Part IV Checklist of Required Schedules *(continued)*

21	Did the organization report more than $5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? *If "Yes," complete Schedule I, Parts I and II*	**21**	Yes	
22	Did the organization report more than $5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? *If "Yes," complete Schedule I, Parts I and III*	**22**		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? *If "Yes," complete Schedule J*	**23**	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than $100,000 as of the last day of the year, that was issued after December 31, 2002? *If "Yes," answer questions 24b–24d and complete Schedule K. If "No," go to line 25*	**24a**	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	**24b**		No
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	**24c**		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	**24d**		No
25a	**Section 501(c)(3) and 501(c)(4) organizations.** Did the organization engage in an excess benefit transaction with a disqualified person during the year? *If "Yes," complete Schedule L, Part I*	**25a**		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? *If "Yes," complete Schedule L, Part I*	**25b**		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? *If "Yes," complete Schedule L, Part II*	**26**	Yes	
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? *If "Yes," complete Schedule L, Part III*	**27**		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28a**		No
b	A family member of a current or former officer, director, trustee, or key employee? *If "Yes," complete Schedule L, Part IV*	**28b**	Yes	
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or owner? *If "Yes," complete Schedule L, Part IV*	**28c**	Yes	
29	Did the organization receive more than $25,000 in non-cash contributions? *If "Yes," complete Schedule M*	**29**		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? *If "Yes," complete Schedule M*	**30**		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? *If "Yes," complete Schedule N, Part I*	**31**		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? *If "Yes," complete Schedule N, Part II*	**32**		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301 7701-2 and 301 7701-3? *If "Yes," complete Schedule R, Part I*	**33**	Yes	
34	Was the organization related to any tax-exempt or taxable entity? *If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1*	**34**	Yes	
35a	Is any related organization a controlled entity of the filing organization within the meaning of section 512(b)(13)?	**35a**	Yes	
b	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? *If "Yes," complete Schedule R, Part V, line 2*	**35b**	Yes	
36	**Section 501(c)(3) organizations.** Did the organization make any transfers to an exempt non-charitable related organization? *If "Yes," complete Schedule R, Part V, line 2*	**36**		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? *If "Yes," complete Schedule R, Part VI*	**37**		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? **Note.** All Form 990 filers are required to complete Schedule O	**38**	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V . . . . . .

				Yes	No
1a	Enter the number reported in Box 3 of Form 1096 Enter -0- if not applicable	**1a**	605		
b	Enter the number of Forms W-2G included in line 1a *Enter -0-* if not applicable	**1b**	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?			**1c**	Yes	
2a	Enter the number of employees reported on Form W-3, *Transmittal of Wage and Tax Statements* filed for the calendar year ending with or within the year covered by this return	**2a**	2,946			
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns?			**2b**	Yes	
	Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)					
3a	Did the organization have unrelated business gross income of $1,000 or more during the year?			**3a**	Yes	
b	If "Yes," has it filed a Form 990-T for this year? *If "No," provide an explanation in Schedule O*			**3b**	Yes	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account or securities account)?			**4a**		No
b	If "Yes," enter the name of the foreign country ▶ _____ See instructions for filing requirements for Form TD F 90-22 1, Report of Foreign Bank and Financial Accounts					
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year? . .			**5a**		No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?			**5b**		No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?			**5c**		
6a	Does the organization have annual gross receipts that are normally greater than $100,000, and did the organization solicit any contributions that were not tax deductible?			**6a**		No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?			**6b**		
7	**Organizations that may receive deductible contributions under section 170(c).**					
a	Did the organization receive a payment in excess of $75 made partly as a contribution and partly for goods and services provided to the payor?			**7a**		No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?			**7b**		
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?			**7c**		No
d	If "Yes," indicate the number of Forms 8282 filed during the year	**7d**				
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?			**7e**		No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? . .			**7f**		No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?			**7g**		
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?			**7h**		
8	**Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.** Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?			**8**		
9	**Sponsoring organizations maintaining donor advised funds.**					
a	Did the organization make any taxable distributions under section 4966?			**9a**		
b	Did the organization make a distribution to a donor, donor advisor, or related person?			**9b**		
10	**Section 501(c)(7) organizations.** Enter					
a	Initiation fees and capital contributions included on Part VIII, line 12 . . .	**10a**				
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities	**10b**				
11	**Section 501(c)(12) organizations.** Enter					
a	Gross income from members or shareholders	**11a**				
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them)	**11b**				
12a	**Section 4947(a)(1) non-exempt charitable trusts.** Is the organization filing Form 990 in lieu of Form 1041?			**12a**		
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year	**12b**				
13	**Section 501(c)(29) qualified nonprofit health insurance issuers.**					
a	Is the organization licensed to issue qualified health plans in more than one state? **Note.** All 501(c)(29) organizations must list in Schedule O each state in which they are licensed to issue qualified health plans, the amount of reserves required by each state, and the amount of reserves the organization allocated to each state			**13a**		
b	Enter the aggregate amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans	**13b**				
c	Enter the aggregate amount of reserves on hand	**13c**				
14a	Did the organization receive any payments for indoor tanning services during the tax year?			**14a**		No
b	If "Yes," has it filed a Form 720 to report these payments? *If "No," provide an explanation in Schedule O* . .			**14b**		

Part VI **Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI . . . . . ☑

Section A. Governing Body and Management

				Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a	19		
b	Enter the number of voting members included in line 1a, above, who are independent	1b	14		
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2		Yes	
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? .	3			No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4			No
5	Did the organization become aware during the year of a significant diversion of the organization's assets? .	5			No
6	Did the organization have members or stockholders?	6		Yes	
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	7a		Yes	
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b		Yes	
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following				
a	The governing body?	8a		Yes	
b	Each committee with authority to act on behalf of the governing body?	8b		Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9			No

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

			Yes	No
10a	Did the organization have local chapters, branches, or affiliates?	10a		No
b	If "Yes," did the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with the organization's exempt purposes?	10b		
11a	Has the organization provided a complete copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review the Form 990			
12a	Did the organization have a written conflict of interest policy? *If "No," go to line 13*	12a	Yes	
b	Were officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Did the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this was done	12c	Yes	
13	Did the organization have a written whistleblower policy?	13	Yes	
14	Did the organization have a written document retention and destruction policy?	14		No
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	Yes	
b	Other officers or key employees of the organization	15b	Yes	
	If "Yes," to line 15a or 15b, describe the process in Schedule O (see instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		No
b	If "Yes," did the organization follow a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and take steps to safeguard the organization's exempt status with respect to such arrangements?	16b		

Section C. Disclosure

17 List the States with which a copy of this Form 990 is required to be filed ▶ CA

18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection Indicate how you made these available Check all that apply

☐ Own website ☐ Another's website ☑ Upon request

19 Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public See Additional Data Table

20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization ▶

Karen L Jones
400 West Pueblo
Santa Barbara, CA 93105
(805) 569-7224

Part VII **Compensation of Officers, Directors,Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

Check if Schedule O contains a response to any question in this Part VII . . . . . ☐

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization's tax year

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than $100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, or highest compensated employees who received more than $100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than $10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

☐ Check this box if neither the organization nor any related organizations compensated any current or former officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Steve Ainsley Board Member	2	X						0	0	0
(2) J Robert Andrews Esq Board Member	3	X						0	0	0
(3) Margaret Baker Board Member	2	X						0	0	0
(4) Ed Birch PhD Vice Chair	3	X		X				0	0	0
(5) Jon Clark Board Member	2	X						0	0	0
(6) Greg Faulkner Esq Board Member	2	X						0	0	0
(7) Frederick Gluck Board Member	3	X						0	0	0
(8) Judith Hopkinson Board Member	2	X						0	0	0
(9) Angel Iscovich MD Board Member	3	X						0	0	0
(10) Charles A Jackson Board Member	3	X						0	0	0
(11) Alex Koper MD Board Member	2	X						21,935	3,450	0
(12) Jeffrey Kupperman MD Secretary	3	X						12,513	2,500	0
(13) Fred Lukas Board Member	2	X						0	0	0
(14) Gretchen Milligan Chair	4	X		X				0	0	0
(15) Robert Nakasone Vice Chair	3	X		X				0	0	0
(16) Robert Nourse Board Member	2	X						0	0	0
(17) Elliot Prager MD Board Member	2	X						240,231	0	0

Part VII **Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees** (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(18) John Romo Board Member	2	X						0	0	0
(19) Marshall Turner Board Member	2	X						0	0	0
(20) Tom Watson MD Board Member	2	X						11,525	200	0
(21) Ronald C Werft CEO	40			X				0	985,900	614,404
(22) Steven A Fellows COO	40			X				0	578,747	156,703
(23) Joan Bricher CFO	40			X				0	514,928	241,780
(24) Julie Artoux Assistant Secretary	40			X				0	119,146	16,212
(25) David Nichols Manager	40					X		555,748	0	32,255
(26) Charles Cline Clinical Profusionist	40					X		297,555	0	22,505
(27) Allan Cohen Director Pharmacy	40					X		261,266	0	22,505
(28) Stephen S Kaminski MD Director Trauma	40					X		260,816	0	22,505
(29) Melinda Staveley VP CRH & Therapy Services	40					X		255,840	0	36,266
1b **Sub-Total** . . . . . ▶										
c **Total from continuation sheets to Part VII, Section A** . . . . ▶										
d **Total (add lines 1b and 1c)** . . . . . ▶								1,917,429	2,204,871	1,165,135

2 Total number of individuals (including but not limited to those listed above) who received more than $100,000 of reportable compensation from the organization ▶ 456

			Yes	No
3	Did the organization list any **former** officer, director or trustee, key employee, or highest compensated employee on line 1a? *If "Yes," complete Schedule J for such individual*	**3**		No
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than $150,000? *If "Yes," complete Schedule J for such individual*	**4**	Yes	
5	Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? *If "Yes," complete Schedule J for such person*	**5**		No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than $100,000 of compensation from the organization Report compensation for the calendar year ending with or within the organization's tax year

(A) Name and business address	(B) Description of services	(C) Compensation
COMFORCE PO BOX 31001-0893 PASADENA, CA 911100893	CONTRACT LABOR	8,483,023
MCCARTHY BUILDING COMPANIES 20401 SW BIRCH ST 300 NEWPORT BEACH, CA 92660	GENERAL CONTRACTOR	6,728,471
LEE BURKHART LIU INC 13335 MAXELLA AVENUE MARINA DEL REY, CA 90292	ARCHITECT	5,556,127
MAYO MEDICAL LABORATORIES PO BOX 9146 MINNEAPOLIS, MN 554809146	LABORATORY SERVICES	1,786,161
JONES DAY 555 CALIFORNIA STREET 26TH FL SAN FRANCISCO, CA 94104	LEGAL	1,432,168

2 Total number of independent contractors (including but not limited to those listed above) who received more than $100,000 of compensation from the organization ▶ 113

Part VIII Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a	Federated campaigns	1a 0				
	b	Membership dues	1b 0				
	c	Fundraising events	1c 0				
	d	Related organizations	1d 113,134				
	e	Government grants (contributions)	1e 375,286				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f 1,576,758				
	g	Noncash contributions included in lines 1a-1f $ 0					
	h	**Total.** Add lines 1a-1f	▶	2,065,178			
Program Service Revenue			Business Code				
	2a	NET PATIENT SERVICE REVENUE	900099	462,027,706	462,027,706	0	0
	b	LABORATORY REVENUE	900099	27,735,645	27,735,645	0	0
	c	HOSPITAL MEDICAL SUPPLEMENTAL FEE	900099	9,967,191	9,967,191	0	0
	d	MEDICAL OFFICE BUILDING RENTAL	900099	873,789	873,789	0	0
	e	INTERN/RESIDENT AGREEMENT	900099	850,216	850,216	0	0
	f	All other program service revenue		0	0	0	0
	g	**Total.** Add lines 2a–2f	▶	501,454,547			
	3	Investment income (including dividends, interest and other similar amounts)	▶	9,958,099	0	974	9,957,125
	4	Income from investment of tax-exempt bond proceeds	▶	0	0	0	0
	5	Royalties	▶	0	0	0	0
			(i) Real / (ii) Personal				
	6a	Gross rents					
	b	Less rental expenses					
	c	Rental income or (loss)	0 / 0				
	d	Net rental income or (loss)	▶				
			(i) Securities / (ii) Other				
	7a	Gross amount from sales of assets other than inventory	180,263,778 / 0				
	b	Less cost or other basis and sales expenses	174,952,011 / 0				
	c	Gain or (loss)	5,311,767 / 0				
	d	Net gain or (loss)	▶	5,311,767	0	0	5,311,767
Other Revenue	8a	Gross income from fundraising events (not including $ 0 of contributions reported on line 1c) See Part IV, line 18	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from fundraising events	▶				
	9a	Gross income from gaming activities See Part IV, line 19	a				
	b	Less direct expenses	b				
	c	Net income or (loss) from gaming activities	▶				
	10a	Gross sales of inventory, less returns and allowances	a				
	b	Less cost of goods sold	b				
	c	Net income or (loss) from sales of inventory	▶				
		Miscellaneous Revenue	Business Code				
	11a	LAB MANAGEMENT	900099	2,245,820	2,245,820	0	0
	b	INSURANCE RECOVERIES	900099	2,238,729	2,238,729	0	0
	c	CAFETERIA/CAFE/GIFTSHOP/VILLA RIVIERA	900099	1,624,789	1,624,789	0	0
	d	All other revenue		3,776,433	3,771,389	5,044	0
	e	**Total.** Add lines 11a–11d	▶	9,885,771			
	12	**Total revenue.** See Instructions	▶	528,675,362	511,335,274	6,018	15,268,892

Part IX Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D)

Check if Schedule O contains a response to any question in this Part IX . . . . . ☐

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the United States See Part IV, line 21	1,263,313	1,263,313		
2	Grants and other assistance to individuals in the United States See Part IV, line 22	0	0		
3	Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16	0	0		
4	Benefits paid to or for members	0	0		
5	Compensation of current officers, directors, trustees, and key employees	290,477	290,477	0	0
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	101,173	101,173	0	0
7	Other salaries and wages	155,498,172	111,066,910	44,431,262	0
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	13,870,128	9,914,923	3,955,205	0
9	Other employee benefits	47,268,773	33,863,421	13,405,352	0
10	Payroll taxes	12,528,713	8,760,468	3,768,245	0
11	Fees for services (non-employees)				
a	Management	47,887,866	18,527,499	29,360,367	0
b	Legal	4,356,485	0	4,356,485	0
c	Accounting	696,690	0	696,690	0
d	Lobbying	49,769	0	49,769	0
e	Professional fundraising *See Part IV, line 17* . .	0			0
f	Investment management fees	1,995,181	0	1,995,181	0
g	Other	40,872,248	25,302,786	15,569,462	0
12	Advertising and promotion	209,984	76,277	133,707	0
13	Office expenses	11,478,534	4,710,217	6,768,317	0
14	Information technology	933,934	668,948	264,986	0
15	Royalties . .	0	0	0	0
16	Occupancy	9,534,221	6,403,898	3,130,323	0
17	Travel	624,578	68,630	555,948	0
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	0	0	0	0
19	Conferences, conventions, and meetings	118,600	17,246	101,354	0
20	Interest	5,452,267	5,448,301	3,966	0
21	Payments to affiliates	0	0	0	0
22	Depreciation, depletion, and amortization	18,912,586	16,488,265	2,424,321	0
23	Insurance	3,219,463	2,250,893	968,570	0
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	MEDICAL SUPPLIES	89,285,447	89,285,447	0	0
b	HOSPITAL FEE PROGRAM	9,517,684	9,517,684	0	0
c	EQUIPMENT MAINTENANCE	7,695,839	4,751,533	2,944,306	0
d	LICENSES	647,353	136,176	511,177	0
e					
f	All other expenses	1,097,040	76,887	1,020,153	0
25	**Total functional expenses.** Add lines 1 through 24f	485,406,518	348,991,372	136,415,146	0
26	**Joint costs.** Check here ▶ ☐ if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X Balance Sheet

				(A) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		19,745,898	1	6,101,205
	2	Savings and temporary cash investments		71,256,985	2	55,850,652
	3	Pledges and grants receivable, net		0	3	0
	4	Accounts receivable, net		88,682,093	4	89,088,497
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L		250,000	5	250,000
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) Complete Part II of Schedule L		0	6	0
	7	Notes and loans receivable, net		0	7	0
	8	Inventories for sale or use		12,082,758	8	11,746,702
	9	Prepaid expenses and deferred charges		5,610,808	9	3,785,156
	10a	Land, buildings, and equipment cost or other basis *Complete Part VI of Schedule D*	10a 851,749,788			
	b	Less accumulated depreciation	10b 195,035,306	576,302,887	10c	656,714,482
	11	Investments—publicly traded securities		212,291,737	11	203,339,278
	12	Investments—other securities See Part IV, line 11		86,288,986	12	72,325,748
	13	Investments—program-related See Part IV, line 11		0	13	0
	14	Intangible assets		9,088,465	14	8,414,319
	15	Other assets See Part IV, line 11		29,805,994	15	23,266,695
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		1,111,406,611	16	1,130,882,734
Liabilities	17	Accounts payable and accrued expenses		73,921,091	17	67,640,332
	18	Grants payable		0	18	0
	19	Deferred revenue		0	19	34,502
	20	Tax-exempt bond liabilities		336,226,732	20	330,237,401
	21	Escrow or custodial account liability *Complete Part IV of Schedule D*		0	21	0
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons *Complete Part II of Schedule L*		0	22	0
	23	Secured mortgages and notes payable to unrelated third parties		1,629,266	23	0
	24	Unsecured notes and loans payable to unrelated third parties		0	24	0
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24) Complete Part X of Schedule D		69,517,054	25	99,518,014
	26	**Total liabilities.** Add lines 17 through 25		481,294,143	26	497,430,249
Net Assets or Fund Balances		**Organizations that follow SFAS 117, check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		616,825,086	27	620,607,477
	28	Temporarily restricted net assets		7,693,126	28	7,250,752
	29	Permanently restricted net assets		5,594,256	29	5,594,256
		Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 30 through 34.				
	30	Capital stock or trust principal, or current funds			30	
	31	Paid-in or capital surplus, or land, building or equipment fund			31	
	32	Retained earnings, endowment, accumulated income, or other funds			32	
	33	Total net assets or fund balances		630,112,468	33	633,452,485
	34	Total liabilities and net assets/fund balances		1,111,406,611	34	1,130,882,734

Part XI Reconcilliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI . . . . . ☑

1	Total revenue (must equal Part VIII, column (A), line 12) . . .	1	528,675,362
2	Total expenses (must equal Part IX, column (A), line 25)	2	485,406,518
3	Revenue less expenses Subtract line 2 from line 1	3	43,268,844
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) . .	4	630,112,468
5	Other changes in net assets or fund balances (explain in Schedule O)	5	-39,928,827
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	633,452,485

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII . . . . . ☐

			Yes	No
1	Accounting method used to prepare the Form 990 ☐ Cash ☑ Accrual ☐ Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O			
2a	Were the organization's financial statements compiled or reviewed by an independent accountant? . .	2a		No
b	Were the organization's financial statements audited by an independent accountant?	2b	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	2c	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both ☐ Separate basis ☑ Consolidated basis ☐ Both consolidated and separated basis			
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	3a		No
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits . .	3b		

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SCHEDULE A (Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ **Attach to Form 990 or Form 990-EZ.** ▶ **See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

1 ☐ A church, convention of churches, or association of churches **section 170(b)(1)(A)(i).**

2 ☐ A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)

3 ☑ A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**

4 ☐ A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state

_____

5 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)

6 ☐ A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**

7 ☐ An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)

8 ☐ A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)

9 ☐ An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)

10 ☐ An organization organized and operated exclusively to test for public safety See **section 509(a)(4).**

11 ☐ An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a ☐ Type I **b** ☐ Type II **c** ☐ Type III - Functionally integrated **d** ☐ Type III - Other

e ☐ By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)

f If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box ☐

g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

	Yes	No
(i) a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization? **11g(i)**		
(ii) a family member of a person described in (i) above? **11g(ii)**		
(iii) a 35% controlled entity of a person described in (i) or (ii) above? **11g(iii)**		

h Provide the following information about the supported organization(s)

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document? Yes	(iv) No	(v) Did you notify the organization in col (i) of your support? Yes	(v) No	(vi) Is the organization in col (i) organized in the U S ? Yes	(vi) No	(vii) Amount of support?
Total									

Part II **Support Schedule for Organizations Described in IRC 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)**
(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 **Total.** Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 **Public Support.** Subtract line 5 from line 4						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income (Explain in Part IV) Do not include gain or loss from the sale of capital assets						
11 **Total support** (Add lines 7 through 10)						

12 Gross receipts from related activities, etc (See instructions) **12**

13 **First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here**

Section C. Computation of Public Support Percentage

14 Public Support Percentage for 2011 (line 6 column (f) divided by line 11 column (f)) **14**

15 Public Support Percentage for 2010 Schedule A, Part II, line 14 **15**

16a **33 1/3% support test—2011.** If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization

b **33 1/3% support test—2010.** If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization

17a **10%-facts-and-circumstances test—2011.** If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization

b **10%-facts-and-circumstances test—2010.** If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization

18 **Private Foundation** If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions

Part III **Support Schedule for Organizations Described in IRC 509(a)(2)**
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants ")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 **Total.** Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of $5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 **Public Support** (Subtract line 7c from line 6)						

Section B. Total Support

Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) 2011	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
13 **Total support** (Add lines 9, 10c, 11 and 12)						

14 **First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here** ▶☐

Section C. Computation of Public Support Percentage

15 Public Support Percentage for 2011 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2010 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage

17 Investment income percentage for **2011** (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from **2010** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2011.** If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

b **33 1/3% support tests—2010.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and **stop here.** The organization qualifies as a publicly supported organization ▶☐

20 **Private Foundation** If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions ▶☐

Part IV **Supplemental Information.** Supplemental Information. Complete this part to provide the explanation required by Part II, line 10; Part II, line 17a or 17b; or Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

Explanation

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SCHEDULE C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527

▶ **Complete if the organization is described below.**

▶ **Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.**

OMB No 1545-0047

2011

Open to Public Inspection

If the organization answered "Yes," to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered "Yes," to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered "Yes," to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, line 35c (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization	Employer identification number
SANTA BARBARA COTTAGE HOSPITAL	95-1644629

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1 Provide a description of the organization's direct and indirect political campaign activities on behalf of or in opposition to candidates for public office in Part IV

2 Political expenditures ▶ $ _____

3 Volunteer hours _____

Part I-B Complete if the organization is exempt under section 501(c)(3).

1 Enter the amount of any excise tax incurred by the organization under section 4955 ▶ $ _____

2 Enter the amount of any excise tax incurred by organization managers under section 4955 ▶ $ _____

3 If the organization incurred a section 4955 tax, did it file Form 4720 for this year? ☐ Yes ☐ No

4a Was a correction made? ☐ Yes ☐ No

b If "Yes," describe in Part IV

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

1 Enter the amount directly expended by the filing organization for section 527 exempt function activities ▶ $ _____

2 Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt funtion activities ▶ $ _____

3 Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b ▶ $ _____

4 Did the filing organization file **Form 1120-POL** for this year? ☐ Yes ☐ No

5 Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV

(a) Name	**(b)** Address	**(c)** EIN	**(d)** Amount paid from filing organization's funds If none, enter -0-	**(e)** Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A **Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).**

A Check ☐ if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)

B Check ☐ if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)	(a) Filing Organization's Totals	(b) Affiliated Group Totals
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)		
b Total lobbying expenditures to influence a legislative body (direct lobbying)		
c Total lobbying expenditures (add lines 1a and 1b)		
d Other exempt purpose expenditures		
e Total exempt purpose expenditures (add lines 1c and 1d)		
f Lobbying nontaxable amount Enter the amount from the following table in both columns		
g Grassroots nontaxable amount (enter 25% of line 1f)		
h Subtract line 1g from line 1a If zero or less, enter -0-		
i Subtract line 1f from line 1c If zero or less, enter -0-		

If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:
Not over $500,000	20% of the amount on line 1e
Over $500,000 but not over $1,000,000	$100,000 plus 15% of the excess over $500,000
Over $1,000,000 but not over $1,500,000	$175,000 plus 10% of the excess over $1,000,000
Over $1,500,000 but not over $17,000,000	$225,000 plus 5% of the excess over $1,500,000
Over $17,000,000	$1,000,000

j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year? ☐ **Yes** ☐ **No**

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period

Calendar year (or fiscal year beginning in)	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

		(a) Yes	(a) No	(b) Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
a	Volunteers?		No	
b	Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
c	Media advertisements?		No	
d	Mailings to members, legislators, or the public?		No	
e	Publications, or published or broadcast statements?		No	
f	Grants to other organizations for lobbying purposes?		No	
g	Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
h	Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
i	Other activities? If "Yes," describe in Part IV	Yes		49,769
j	Total lines 1c through 1i			49,769
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

Part III-A Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

			Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1		
2	Did the organization make only in-house lobbying expenditures of $2,000 or less?	2		
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3		

Part III-B Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) non-deductible lobbying and political expenditures **(do not include amounts of political expenses for which the section 527(f) tax was paid).**		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information

Identifier	Return Reference	Explanation
SchC_P2B_S00_L01	Schedule C, Part II-B, Line 1	LOBBYING ACTIVITIES ARE CALCULATED AS A PERCENTAGE OF DUES PAID TO VARIOUS ORGANIZATIONS

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SCHEDULE D (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

		(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year		
2	Aggregate contributions to (during year)		
3	Aggregate grants from (during year)		
4	Aggregate value at end of year		

5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? ☐ Yes ☐ No

6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit ☐ Yes ☐ No

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1 Purpose(s) of conservation easements held by the organization (check all that apply)
☐ Preservation of land for public use (e g , recreation or pleasure)
☐ Preservation of an historically importantly land area
☐ Protection of natural habitat
☐ Preservation of a certified historic structure
☐ Preservation of open space

2 Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

		Held at the End of the Year
a	Total number of conservation easements	2a
b	Total acreage restricted by conservation easements	2b
c	Number of conservation easements on a certified historic structure included in (a)	2c
d	Number of conservation easements included in (c) acquired after 8/17/06	2d

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ _____

4 Number of states where property subject to conservation easement is located ▶ _____

5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? ☐ Yes ☐ No

6 Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ _____

7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ $ _____

8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items

(i) Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

(ii) Assets included in Form 990, Part X ▶ $ _____

2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items

a Revenues included in Form 990, Part VIII, line 1 ▶ $ _____

b Assets included in Form 990, Part X ▶ $ _____

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets *(continued)*

3 Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a ☐ Public exhibition
- b ☐ Scholarly research
- c ☐ Preservation for future generations
- d ☐ Loan or exchange programs
- e ☐ Other

4 Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5 During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection? ☐ Yes ☐ No

Part IV Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV and complete the following table

		Amount
c	Beginning balance	1c
d	Additions during the year	1d
e	Distributions during the year	1e
f	Ending balance	1f

2a Did the organization include an amount on Form 990, Part X, line 21? ☐ Yes ☐ No

b If "Yes," explain the arrangement in Part XIV

Part V Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

		(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance	12,120,151	11,387,435	10,754,765	15,792,105	
b	Contributions	0	0	0	0	
c	Investment earnings or losses	-100,999	1,031,032	687,451	-4,904,683	
d	Grants or scholarships	0	0	0	0	
e	Other expenditures for facilities and programs	338,496	269,432	25,782	48,477	
f	Administrative expenses	44,354	28,884	28,999	84,180	
g	End of year balance	11,636,302	12,120,151	11,387,435	10,754,765	

2 Provide the estimated percentage of the year end balance held as

- a Board designated or quasi-endowment ▶ 0 %
- b Permanent endowment ▶ 48 %
- c Term endowment ▶ 52 %

3a Are there endowment funds not in the possession of the organization that are held and administered for the organization by

		Yes	No
(i) unrelated organizations	3a(i)		No
(ii) related organizations	3a(ii)	Yes	
b If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?	3b	Yes	

4 Describe in Part XIV the intended uses of the organization's endowment funds

Part VI Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land	2,282,992	15,913,604		18,196,596
b Buildings	10,150,023	224,011,282	117,638,765	116,522,540
c Leasehold improvements	0	8,538,692	505,275	8,033,417
d Equipment	0	110,687,898	75,357,182	35,330,716
e Other	0	480,165,297	1,534,084	478,631,213
Total. Add lines 1a-1e *(Column (d) should equal Form 990, Part X, column (B), line 10(c).)* ▶				656,714,482

Part VII Investments—Other Securities. See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives	0	
(2) Closely-held equity interests	72,325,748	F
Other		
Total. *(Column (b) should equal Form 990, Part X, col (B) line 12)* ▶	72,325,748	

Part VIII Investments—Program Related. See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
Total. *(Column (b) should equal Form 990, Part X, col (B) line 13)* ▶		

Part IX Other Assets. See Form 990, Part X, line 15.

(a) Description	(b) Book value
Total. *(Column (b) should equal Form 990, Part X, col.(B) line 15.)* . . . . . ▶	

Part X Other Liabilities. See Form 990, Part X, line 25.

1 (a) Description of Liability	(b) Amount
Federal Income Taxes	0
SELF INSURANCE LIABILITY	26,907,096
RETIREMENT PLAN - SERP	6,881
MINIMUM PENSION LIABILITY	33,275,561
INTEREST RATE SWAP LIBILITY	34,790,196
PHYSICIAN GUARANTEE	2,390,437
DUE TO THIRD PARTIES	920,345
CONTINGENT PAYMENT MGPL	1,227,498
Total. *(Column (b) should equal Form 990, Part X, col (B) line 25)* ▶	99,518,014

2. Fin 48 (ASC 740) Footnote In Part XIV, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC740)

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements

1	Total revenue (Form 990, Part VIII, column (A), line 12)	1	
2	Total expenses (Form 990, Part IX, column (A), line 25)	2	
3	Excess or (deficit) for the year Subtract line 2 from line 1	3	
4	Net unrealized gains (losses) on investments	4	
5	Donated services and use of facilities	5	
6	Investment expenses	6	
7	Prior period adjustments	7	
8	Other (Describe in Part XIV)	8	
9	Total adjustments (net) Add lines 4 - 8	9	
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	10	

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

1	Total revenue, gains, and other support per audited financial statements			1	
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12				
a	Net unrealized gains on investments	2a			
b	Donated services and use of facilities	2b			
c	Recoveries of prior year grants	2c			
d	Other (Describe in Part XIV)	2d			
e	Add lines **2a** through **2d**			2e	
3	Subtract line **2e** from line **1**			3	
4	Amounts included on Form 990, Part VIII, line 12, but not on line **1**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total Revenue Add lines **3** and **4c.** (This should equal Form 990, Part I, line 12)			5	

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

1	Total expenses and losses per audited financial statements			1	
2	Amounts included on line 1 but not on Form 990, Part IX, line 25				
a	Donated services and use of facilities	2a			
b	Prior year adjustments	2b			
c	Other losses	2c			
d	Other (Describe in Part XIV)	2d			
e	Add lines **2a** through **2d**			2e	
3	Subtract line **2e** from line **1**			3	
4	Amounts included on Form 990, Part IX, line 25, but not on line **1:**				
a	Investment expenses not included on Form 990, Part VIII, line 7b	4a			
b	Other (Describe in Part XIV)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total expenses Add lines **3** and **4c.** (This should equal Form 990, Part I, line 18)			5	

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b Also complete this part to provide any additional information

Identifier	Return Reference	Explanation
SchD_P05_S00_L04	Schedule D, Part V, Line 4	Endowment funds support specific programs of SBCH
SchD_P10_S00_L01	Schedule D, Part X, Line 1	The System and its affiliates are not-for-profit corporations and are tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and are exempt from income taxation under Section 501(a) of the Code and corresponding provisions of the California Revenue and Taxation Code, except to the extent of income derived from taxable unrelated business activities Unrelated business income is not material to the financial statements The System completed an analysis of its tax positions, in accordance with ASC 740 Income Taxes, and determined that there are no uncertain tax positions taken or expected to be taken The System has recognized no interest or penalties related to uncertain tax positions The System is subject to routine audits by the taxing jurisdictions, however, there are currently no audits for any tax periods in progress The System believes it is no longer subject to income tax examinations for years prior to 2008
SchD_P10_S00_L02	Schedule D, Part X, Line 2	The System completed an analysis of its tax positions, in accordance with ASC 740 Income Taxes, and determined that there are no uncertain tax positions taken or expected to be taken The System has recognized no interest or penalties related to uncertain tax positions The System is subject to routine audits by the taxing jurisdictions, however, there are currently no audits for any tax periods in progress The System believes it is no longer subject to income tax examinations for years prior to 2008

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SCHEDULE H (Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 20.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I Charity Care and Certain Other Community Benefits at Cost

			Yes	No
1a	Did the organization have a charity care policy? If "No," skip to question 6a	1a	Yes	
b	If "Yes," is it a written policy?	1b	Yes	
2	If the organization had multiple hospitals, indicate which of the following best describes application of the charity care policy to the various hospitals ☑ Applied uniformly to all hospitals ☐ Applied uniformly to most hospitals ☐ Generally tailored to individual hospitals			
3	Answer the following based on the charity care eligibility criteria that applies to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing *free* care? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care ☐ 100% ☐ 150% ☐ 200% ☑ Other 3.5 %	3a	Yes	
b	Did the organization use FPG to determine eligibility for providing *discounted* care? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care ☐ 200% ☐ 250% ☐ 300% ☐ 350% ☐ 400% ☑ Other 5.42 %	3b	Yes	
c	If the organization did not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care			
4	Did the organization's policy provide free or discounted care to the "medically indigent"?	4	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	5a	Yes	
b	If "Yes," did the organization's charity care expenses exceed the budgeted amount?	5b	Yes	
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligibile for free or discounted care?	5c		No
6a	Did the organization prepare a community benefit reportduring the tax year?	6a	Yes	
6b	If "Yes," did the organization make it available to the public?	6b	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H			

7 Charity Care and Certain Other Community Benefits at Cost

Charity Care and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Charity care at cost (from Worksheet 1)			11,046,662		11,046,662	2 276 %
b Medicaid (from Worksheet 3, column a)			71,071,582	44,740,899	26,330,683	5 424 %
c Costs of other means-tested government programs (from Worksheet 3, column b)			3,579,807	1,050,324	2,529,483	0 521 %
d **Total** Charity Care and Means-Tested Government Programs	0	0	85,698,051	45,791,223	39,906,828	8 221 %
Other Benefits						
e Community health improvement services and community benefit operations (from (Worksheet 4)			8,064,678		8,064,678	1 661 %
f Health professions education (from Worksheet 5)			8,425,944	5,550,424	2,875,520	0 592 %
g Subsidized health services (from Worksheet 6)			488,806		488,806	0 101 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)			133,666		133,666	0 028 %
j **Total** Other Benefits	0	0	17,113,094	5,550,424	11,562,670	2 382 %
k **Total.** Add lines 7d and 7j	0	0	102,811,145	51,341,647	51,469,498	10 603 %

Part II Community Building Activities Complete this table if the organization conducted any community building activities.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1 Physical improvements and housing						
2 Economic development						
3 Community support						
4 Environmental improvements						
5 Leadership development and training for community members						
6 Coalition building						
7 Community health improvement advocacy						
8 Workforce development						
9 Other						
10 **Total**						

Part III Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

				Yes	No
1	Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No 15?		1	Yes	
2	Enter the amount of the organization's bad debt expense	2	5,588,936		
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's charity care policy	3	0		
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit				

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	103,766,996		
6	Enter Medicare allowable costs of care relating to payments on line 5	6	131,960,994		
7	Subtract line 6 from line 5 This is the surplus or (shortfall)	7	-28,193,998		
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6 Check the box that describes the method used				

☐ Cost accounting system ☑ Cost to charge ratio ☐ Other

Section C. Collection Practices

9a	Did the organization have a written debt collection policy during the tax year?		9a	Yes	
b	If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI		9b	Yes	

Part IV Management Companies and Joint Ventures (see instructions)

	(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest)

How many hospital facilities did the organization operate during the tax year? 1

	Name and address	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)
1	Santa Barbara Cottage Hospital 400 West Pueblo Santa Barbara, CA 93105	X	X	X	X			X		Santa Barbara Cottage Hospital and Cottage Rehab Hospital (operating under one license)

Part V Facility Information *(continued)*

Section B. Facility Policies and Practices.

(Complete a separate Section B for each of the hospital facilities listed in Part V, Section A)

Santa Barbara Cottage Hospital

Name of Hospital Facility:

Line Number of Hospital Facility (from Schedule H, Part V, Section A): 1

		Yes	No
Community Health Needs Assessment (Lines 1 through 7 are optional for 2011)			
1 During the tax year or any prior tax year, did the hospital facility conduct a community health needs assessment ("Needs Assessment")? If "No," skip to question 8	1		No
If "Yes," indicate what the Needs Assessment describes (check all that apply)			
a ☐ A definition of the community served by the hospital facility			
b ☐ Demographics of the community			
c ☐ Existing health care facilities and resources within the community that are available to respond to the health needs of the community			
d ☐ How data was obtained			
e ☐ The health needs of the community			
f ☐ Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups			
g ☐ The process for identifying and prioritizing community health needs and services to meet those needs			
h ☐ The process for consulting with persons representing the community's interests			
i ☐ Information gaps that limit the hospital facility's ability to assess the community's health needs			
j ☐ Other (describe in Part VI)			
2 Indicate the tax year the hospital facility last conducted a Needs Assessment 20 ___			
3 In conducting its most recent Needs Assessment, did the hospital facility take into account input from persons who represent the community served by the hospital facility? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3		
4 Was the hospital facility's Needs Assessment conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4		
5 Did the hospital facility make its Needs Assessment widely available to the public?	5		
If "Yes," indicate how the Needs Assessment was made widely available (check all that apply)			
a ☐ Hospital facility's website			
b ☐ Available upon request from the hospital facility			
c ☐ Other (describe in Part VI)			
6 If the hospital facility addressed needs identified in its most recently conducted Needs Assessment, indicate how (check all that apply)			
a ☐ Adoption of an implementation strategy to address the health needs of the hospital facility's community			
b ☐ Execution of the implementation strategy			
c ☐ Development of a community-wide community benefit plan for the facility			
d ☐ Participation in community-wide community benefit plan			
e ☐ Inclusion of a community benefit section in operational plans			
f ☐ Adoption of a budget for provision of services that address the needs identified in the CHNA			
g ☐ Prioritization of health needs in the community			
h ☐ Prioritization of services that the hospital facility will undertake to meet health needs in its community			
i ☐ Other (describe in Part VI)			
7 Did the hospital facility address all of the needs identified in its most recently conducted Needs Assessment? If "No," explain in Part VI which needs it has not addressed together with the reasons why it has not addressed such needs	7		
Financial Assistance Policy			
Did the hospital facility have in place during the tax year a written financial assistance policy that			
8 Explains eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	8	Yes	
9 Used federal poverty guidelines (FPG) to determine eligibility for providing free care?	9	Yes	
If "Yes," indicate the FPG family income limit for eligibility for free care 350%			
If "No," explain in Part VI the criteria the hospital facility used			

Part V Facility Information *(continued)*

		Yes	No
10 Used FPG to determine eligibility for providing discounted care?	**10**	Yes	
If "Yes," indicate the FPG family income limit for eligibility for discounted care 542% If "No," explain in Part VI the criteria the hospital facility used			
11 Explained the basis for calculating amounts charged to patients?	**11**	Yes	
If "Yes," indicate the factors used in determining such amounts (check all that apply)			
a ☑ Income level			
b ☑ Asset level			
c ☐ Medical indigency			
d ☐ Insurance status			
e ☐ Uninsured discount			
f ☐ Medicaid/Medicare			
g ☑ State regulation			
h ☐ Other (describe in Part VI)			
12 Explained the method for applying for financial assistance?	**12**	Yes	
13 Included measures to publicize the policy within the community served by the hospital facility?	**13**	Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☐ The policy was posted at all times on the hospital facility's web site			
b ☐ The policy was attached to all billing invoices			
c ☐ The policy was posted in the hospital facility's emergency rooms or waiting rooms			
d ☐ The policy was posted in the hospital facility's admissions offices			
e ☐ The policy was provided, in writing, to patients upon admission to the hospital facility			
f ☑ The policy was available upon request			
g ☑ Other (describe in Part VI)			
Billing and Collections			
14 Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	**14**	Yes	
15 Check all of the following collection actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments or arrests			
e ☐ Other similar actions (describe in Part VI)			
16 Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the patient's eligibility under the facility's FAP?	**16**		No
If "Yes," check all actions in which the hospital facility or a third party engaged			
a ☐ Reporting to credit agency			
b ☐ Lawsuits			
c ☐ Liens on residences			
d ☐ Body attachments			
e ☐ Other similar actions (describe in Part VI)			
17 Indicate which efforts the hospital facility made before initiating any of the actions checked in question 16 (check all that apply)			
a ☐ Notified patients of the financial assistance policy upon admission			
b ☐ Notified patients of the financial assistance policy prior to discharge			
c ☐ Notified patients of the financial assistance policy in communications with the patients regarding the patients' bills			
d ☐ Documented its determination of whether patients were eligible for financial assistance under the hospital facility's financial assistance policy			
e ☐ Other (describe in Part VI)			

Part V Facility Information *(continued)*

Policy Relating to Emergency Medical Care

		Yes	No
18 Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy?	**18**	Yes	
If "No," indicate why			
a ☐ The hospital facility did not provide care for any emergency medical conditions			
b ☐ The hospital facility's policy was not in writing			
c ☐ The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)			
d ☐ Other (describe in Part VI)			

Individuals Eligible for Financial Assistance

19 Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care			
a ☐ The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged			
b ☐ The hospital facility used the average of it's three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged			
c ☐ The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged			
d ☐ Other (describe in Part VI)			
20 Did the hospital facility charge any of its patients who were eligible for assistance under the hospital facility's financial assistance policy, and to whom the hospital facility provided emergency or other medically necessary services, more than the amounts generally billed to individuals who had insurance covering such care?	**20**		No
If "Yes," explain in Part VI			
21 Did the hospital facility charge any of its FAP-eligible patients an amount equal to the gross charge for services provided to that patient?	**21**		No
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility
(list in order of size from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? **8**

	Name and address	Type of Facility (Describe)
1	Pacific Diagnostic Laboratories 454 South Patterson Goleta, CA 93117	Outpatient Lab Services
2	Advanced Imaging Center 2410 Fletcher Street Santa Barbara, CA 93105	Outpatient radiology center
3	Cottage Residential Center 312 West Montecito Street Santa Barbara, CA 93101	Substance abuse rehabilitation center
4	SB Cope 2325 De La Vina Street Santa Barbara, CA 93105	Substance abuse and detox treatment
5	Outpatient Rehabilitation 1035 Peach Street Suite 203 San Luis Obisop, CA 93401	Outpatient clinic
6	Children's Outpatient Specialty Clinics (2) 2329 Oak Park Lane Santa Barbara, CA 93105	Outpatient pediatric clinic for hemotology, oncology and gastrointestinal
7	Pediatric Endocrinology Clinic 427 West Pueblo Santa Barbara, CA 93105	Outpatient pediatric endocrineology clinic
8		
9		
10		

Part VI Supplemental Information

Complete this part to provide the following information

1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 9, 10, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21

2 **Community health needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any community health needs assessments reported in Part V, Section B

3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy

4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves

5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)

6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served

7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
SchH_P01_S00_L06a	Schedule H, Part I, Line 6a	Cottage Health System prepares a Community Benefit Report and files it with the State of California, in compliance with California Senate Bill 697 The Community Benefit Report is available to the public upon request

Identifier	ReturnReference	Explanation
SchH_P01_S00_L07	Schedule H, Part I, Line 7	Our costing methodology includes inpatient, outpatient, and emergency department and is broken down by payer categories Both direct and overhead costs have been allocated, by services rendered Each Payer's net revenue is offset by the total cost and the results by Payer are calculated In addition to a hospital-wide cost/charge ratio, we have calculated cost/charge ratios for each Payer, based on the cost of the type of services rendered to their specific patients Therefore, the community benefit amounts attributable to Medicaid and other government programs are calculated based on their specific cost/charge ratio

Identifier	ReturnReference	Explanation
SchH_P01_S00_L07g	Schedule H, Part I, Line 7g	Palliative Care services are provided at no cost to the patient

Identifier	ReturnReference	Explanation
SchH_P03_S0A_L04	Schedule H, Part III, Section A, Line 4	No note in Audited Financial statements regarding bad debt Bad debt is not included in Community Benefit report Bad Debt expense is derived from cost to charge ratios

Identifier	ReturnReference	Explanation
SchH_P03_S0B_L08	Schedule H, Part III, Section B, Line 8	The hospital provides care to patients whose insurance (Medicare) does not cover the entire cost of their care The loss on services provided to Medicare recipients represents a significant shortfall for Medicare patients to the hospital This provides significant aid to the elderly in the community The dollars reported are taken from the 2011 Medicare Cost Report and are derived following their guidelines of allowable and non-allowable costs

Identifier	ReturnReference	Explanation
SchH_P03_S0C_L09b	Schedule H, Part III, Section C, Line 9b	All patients receive 6 statements over 135 days, which include a statement about how to inquire about financial assistance Patients who are known to qualify for charity care or are in the process of applying for charity care are not sent to collection until a final charity care determination is made If they qualify, their account is written down to zero

Identifier	ReturnReference	Explanation
SchH_P05_S0B_L13	Schedule H, Part V, Section B, Line 13	A summary of the policy is posted in admitting offices The full policy is reported to and available from the OSHPD website The policy can also be obtained upon request from a Patient Financial Counselor, whose contact information is provided on all billing statements along with a message regarding financial assistance

Identifier	ReturnReference	Explanation
SchH_P05_S0B_L19	Schedule H, Part V, Section B, Line 19	The maximum that could be charged is based on % of charges that is lower than commercial rates

Identifier	ReturnReference	Explanation
SchH_P06_S00_L02	Schedule H, Part VI, Line 2	Cottage Health System is currently in the process of updating its review of community needs In its last assessment in 2009, Cottage Health System began an overhaul of its community benefit process and programs First, Cottage reviewed focus areas of local, state, and national organizations to determine its own focus areas and then next reviewed its internal community outreach programs to ensure they aligned Cottage Health System reviewed its external community grants process Funds were shifted from the Foundation to Operations and grant guidelines were developed around the identified focus areas Both the focus areas and grant program were part of an overall Community Benefit Plan that was approved by the Board of Directors in early 2010 As part of the community benefit review in 2009, Cottage Health System reviewed focus areas of multiple organizations The Centers for Disease Control and Prevention and The National Health Foundation were reviewed at the national level, and the California Department of Public Health was reviewed at a state level Locally, four organizations' focus areas and reports were reviewed Santa Barbara County Public Health Department Status Report 2009, Santa Barbara KIDS Network, United Way of Santa Barbara, and Santa Barbara Neighborhood Clinics Cottage Health System conducts a regular community perception survey, which includes questions regarding community needs Cottage Health System also held a brainstorming session with 20 different hospital departments, and the Community Health Coordinating Committee provided input After reviewing all of the information, Cottage Health System determined the greatest needs to be children's health, seniors' health, cancer, heart disease and stroke, and prevention and wellness

Identifier	ReturnReference	Explanation
SchH_P06_S00_L03	Schedule H, Part VI, Line 3	Cottage Health System has a multi-faceted Financial Assistance Program to ensure that patients who do not have insurance are screened for eligibility in a government-sponsored healthcare plan and receive information about charity care programs Every patient who does not present the hospital with proof of insurance or existing government support will be given a handout (in English or Spanish) upon registration that is compliant with California Assembly Bill 774 (AB774) The handout contains information about the Hospital's charity care programs This includes where to obtain applications, income guidelines, other qualification information and contact information for Customer Service and the Admitting department The Hospital posts information about the charity care program in all registration areas required by AB774 Signs in English and Spanish are located in all areas where patients are registered for inpatient and outpatient services Signs are also located in the patient billing office and cashier office Patients will also be contacted by an admitting representative or eligibility counselor to assist the patient in determining eligibility for government-sponsored insurance programs and assist with the application process at no cost to the patient Patient Financial Counselors who answer customer service calls are instructed to offer charity care applications to all patients who indicate they have financial need Santa Barbara Cottage Hospital also works co-operatively with the County of Santa Barbara to provide non-emergency charity care services, this program is known as the Community Service Program All members of the Community who meet the financial criteria are eligible for the Community Service Program, but must be referred by a physician When patients who visit the Santa Barbara Public Health Department Clinic have a need for a medically-necessary but non-emergent service, the physicians and Clinic staff inform the patient of the Community Service Program and help the patient to apply Independent physicians in the Community were made aware of the program and how to access services on behalf of their patients

Identifier	ReturnReference	Explanation
SchH_P06_S00_L04	Schedule H, Part VI, Line 4	Santa Barbara County is situated on the southern coast of California, with Ventura County bordering on the east, San Luis Obispo County on the north, and Kern County on the northeastern corner Roughly rectangular in shape, the county contains 2,750 square miles of varied terrain Much of the county is mountainous The Santa Ynez, San Rafael and Sierra Madre mountains extend in a predominately east-west direction Within the county, there are numerous fertile agricultural areas, including the Santa Maria, Cuyama, Lompoc, and Santa Ynez Valleys, and the southeast coastal plain These areas, which include most of the developed land, also accommodate the majority of the population The Los Padres National Forest, in the eastern part of the county, covers approximately 44 percent of the total county area The county's 430,200 population is divided into five sub regions South Coast (205,800), Lompoc Valley (61,200), Santa Maria Valley (137,600), Santa Ynez Valley (24,000), Cuyama (1,500) For people reporting one race, 88 6% are White, 2 4% are Black or African American, 1 7% are American Indian or Alaska Native, 4 5% are Asian, less than 0 3% are Native Hawaiian or Other Pacific Islander, and 2 5% reported 2 or more races 40 4% are persons of Hispanic or Latino origin Twenty-one percent of the county's population are foreign-born, and 32 8% of persons over the age of five reported speaking a language other than English at home 12 7% of county residents live below the poverty level

Identifier	ReturnReference	Explanation
SchH_P06_S00_L05	Schedule H, Part VI, Line 5	The Board of Directors is made up of prominent community members who volunteer their time to ensure that the Santa Barbara Community has access to high-quality, affordable healthcare The Board of Directors is actively involved in the Hospital's strategic decisions and takes its commitment to the Community very seriously The Board approves of an annual financial budget and ten-year financial plan to guarantee the Hospital will continue to offer hospital services to the Community for years to come The Board also approves of annual top goals that are consistent with the mission, vision and values of the Hospital The financial forethought of the Board of Directors resulted in surplus funds that are being used to rebuild the facility Santa Barbara Cottage Hospital is building a new hospital in order to comply with the unfunded mandate of the State of California's Senate Bill 1953 (SB1953), which requires all hospitals to retrofit or rebuild in order to withstand a major earthquake The Hospital used this opportunity to live the core value of excellence by ensuring that the new facility will meet the current and future healthcare needs of the Community This is the largest project in the Hospital's history As the new facility is built the Hospital continues to evaluate bed allocations in order to ensure that Subacute services continue to be available, determining dedicated pediatric bed needs, and allocating beds by patient care unit based upon projected health needs Santa Barbara Cottage Hospital works cooperatively with the open medical staff to improve healthcare in the community The Hospital is exploring how to better align with physicians in order to provide the highest quality of care

Identifier	ReturnReference	Explanation
SchH_P06_S00_L06	Schedule H, Part VI, Line 6	Cottage Health System is the parent organization of Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital and Santa Ynez Valley Cottage Hospital and Goleta Valley Professional Buildings, Inc These organizations have a common Board of Directors Cottage Health System Hospitals are the sole hospital providers in the Community and strategic plans are created with all the Hospitals and their Communities in mind Santa Barbara Cottage Hospital Foundation provides grants to various organizations to promote healthy living and support nurse-training programs in the Community Santa Barbara Cottage Hospital is the largest hospital in the system and provides the widest array of services As such, Santa Barbara Cottage Hospital experiences the largest amount of charity care and Medicaid shortfall from cost The hospital also provides the majority of community benefit programs, which are reported in the Cottage Health System Community Benefit Report

Identifier	ReturnReference	Explanation
SchH_P06_S00_L07	Schedule H, Part VI, Line 7	Cottage Health System files an annual community benefit report in the State of California

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Schedule I (Form 990)

Department of the Treasury
Internal Revenue Service

Grants and Other Assistance to Organizations, Governments and Individuals in the United States

Complete if the organization answered "Yes," to Form 990, Part IV, line 21 or 22.
▶ Attach to Form 990

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I General Information on Grants and Assistance

1 Does the organization maintain records to substantiate the amount of the grants or assistance, the grantees' eligibility for the grants or assistance, and the selection criteria used to award the grants or assistance? . . . ☑ Yes ☐ No

2 Describe in Part IV the organization's procedures for monitoring the use of grant funds in the United States

Part II Grants and Other Assistance to Governments and Organizations in the United States.

Complete if the organization answered "Yes" to Form 990, Part IV, line 21 for any recipient that received more than $5,000. Check this box if no one recipient received more than $5,000. Use Part IV and Schedule I-1 (Form 990) if additional space is needed . . . ▶ ☐

(a) Name and address of organization or government	(b) EIN	(c) IRC Code section if applicable	(d) Amount of cash grant	(e) Amount of non-cash assistance	(f) Method of valuation (book, FMV, appraisal, other)	(g) Description of non-cash assistance	(h) Purpose of grant or assistance
See Additional Data Table							

2 Enter total number of section 501(c)(3) and government organizations listed in the line 1 table . . . ▶ 15

3 Enter total number of other organizations listed in the line 1 table . . . ▶ 0

Part III **Grants and Other Assistance to Individuals in the United States.** Complete if the organization answered "Yes" to Form 990, Part IV, line 22. Use Schedule I-1 (Form 990) if additional space is needed.

(a) Type of grant or assistance	(b) Number of recipients	(c) Amount of cash grant	(d) Amount of non-cash assistance	(e) Method of valuation (book, FMV, appraisal, other)	(f) Description of non-cash assistance

Part IV **Supplemental Information.** Complete this part to provide the information required in Part I, line 2, and any other additional information.

Identifier	Return Reference	Explanation
SchI_P01_S00_L02	Schedule I, Part I, Line 2	Grant funds are monitored through the Community Health Coordinating Committee of CHS Grantees are required to submit a report in June of each year that is reviewed by the committee prior to entire amount of funds being disbursed

Additional Data

Return to Form

Software ID: 11000129
Software Version: v1.00
EIN: 95-1644629
Name: SANTA BARBARA COTTAGE HOSPITAL

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	**(b)** EIN	**(c)** IRC Code section if applicable	**(d)** Amount of cash grant	**(e)** Amount of non-cash assistance	**(f)** Method of valuation (book, FMV, appraisal, other)	**(g)** Description of non-cash assistance	**(h)** Purpose of grant or assistance
Santa Barbara City College721 Cliff Drive Santa Barbara, CA 93109	95-3234551	government	360,000				Support of the Nursing Department at Santa Barbara City College
California State University Channel Islands - FoundationOne University Drive Camarillo, CA 93012	77-0433230	government	292,000				Support of the BSN program in Santa Barbara

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	**(b)** EIN	**(c)** IRC Code section if applicable	**(d)** Amount of cash grant	**(e)** Amount of non-cash assistance	**(f)** Method of valuation (book, FMV, appraisal, other)	**(g)** Description of non-cash assistance	**(h)** Purpose of grant or assistance
Santa Barbara County Education Office440 Cathedral Oaks Road Santa Barbara, CA 93160	95-6000940	government	200,000				Support of 1) Welcome Every Baby program which supports new parents with education and child development guideance, and 2) Health Linkages program focused on child development and health
University of California Regents University Drive Santa Barbara, CA 93106	95-4377221	government	101,524				Support of research programs

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	**(b)** EIN	**(c)** IRC Code section if applicable	**(d)** Amount of cash grant	**(e)** Amount of non-cash assistance	**(f)** Method of valuation (book, FMV, appraisal, other)	**(g)** Description of non-cash assistance	**(h)** Purpose of grant or assistance
Casa EsperanzaPO Box 24116 Santa Barbara, CA 93121	77-0502754	501(c)3	73,166				Casa Esperanza assists homeless individuals and families achieve self-sufficiency, by helping as many as possible access the services they need to transition to stable employment and housing
Carpinteria Unified School District 5201 Eighth Street Carpinteria, CA 93013	95-6101195	government	66,518				Funding helps the Carpinteria Children's Project at Main ensure all children entering Kindergarten are healthy, safe and ready to succeed in school with a strong foundation for learning

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	**(b)** EIN	**(c)** IRC Code section if applicable	**(d)** Amount of cash grant	**(e)** Amount of non-cash assistance	**(f)** Method of valuation (book, FMV, appraisal, other)	**(g)** Description of non-cash assistance	**(h)** Purpose of grant or assistance
Sarah HousePO Box 20031 Santa Barbara, CA 93120	77-0224415	501(c)3	30,000				The grant is used to off-set the end of life care provided to low income patients that transfer from the Hospital to the palliative care facility
Easy Lift Transportation53 Cass Place Suite D Goleta, CA 93117	95-3642272	501(c)(3)	25,000				Funding supports Easy Lift's Dial-A-Ride Program Individuals that require paratransit services are either physically or cognitively impaired, and cannot feasibly use common types of public transportation such as the bus Dial-A-Ride allows people to access medical and other service centers essential to their physical and mental health

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	**(b)** EIN	**(c)** IRC Code section if applicable	**(d)** Amount of cash grant	**(e)** Amount of non-cash assistance	**(f)** Method of valuation (book, FMV, appraisal, other)	**(g)** Description of non-cash assistance	**(h)** Purpose of grant or assistance
Visiting Nurse and HOSPICE Care Foundation222 East Canon Perdido Street Santa Barbara, CA 93101	95-1641969	501(c)3	25,000				Supports Alliance for Living and Dying Well
Willbridge of Santa Barbara1215 East Montecito Street Santa Barbara, CA 93130	57-1194195	501(c)3	20,850				The grant supports transitional beds for homeless patients who are not appropriate for discharge to the streets or shelters and who need supervised convalescence

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	**(b)** EIN	**(c)** IRC Code section if applicable	**(d)** Amount of cash grant	**(e)** Amount of non-cash assistance	**(f)** Method of valuation (book, FMV, appraisal, other)	**(g)** Description of non-cash assistance	**(h)** Purpose of grant or assistance
Family Services Agency123 West Gutierrez Street Santa Barbara, CA 93101	95-1644031	501(c)3	20,000				Funding assists frail, isolated and low income seniors maintain independent living, access financial and food assistance, and live safely in their environment
Santa Barbara Public Health Dept 300 North San Antonio Road Santa Barbara, CA 93110	95-6002833	government	20,000				Grant funding supports the tatoo removal project People with anti-social, gang or prison tattoos often encounter negative attitudes, stereotyping, prejudices and discrimination There is an identified need in our community for a mechanism by which people who are trying to become productive can remove these marks of distinction and the psychological and physical barriers that they carry In doing so, this will provide them better educational and employment opportunities

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	**(b)** EIN	**(c)** IRC Code section if applicable	**(d)** Amount of cash grant	**(e)** Amount of non-cash assistance	**(f)** Method of valuation (book, FMV, appraisal, other)	**(g)** Description of non-cash assistance	**(h)** Purpose of grant or assistance
Thresholds to Recovery1038 Pittsfield Lane Ventura, CA 93001	77-0335136	501(c)3	10,450				Grant funding provides help to individuals who have been intoxicated in public The program offers an alternative to incarceration Program follow-up includes referral for treatment of alcoholism as an effort in recovery
Hospital Hospitality Houses 924 Anacapa Street Suite 1-T Santa Barbara, CA 93101	77-0434600	501(c)(3)	10,200				Funding helps provide low cost housing to families of severely ill or injured hospital and extended treatment patients who cannot provide their own lodging

Form 990,Schedule I, Part II, Grants and Other Assistance to Governments and Organizations in the United States

(a) Name and address of organization or government	**(b)** EIN	**(c)** IRC Code section if applicable	**(d)** Amount of cash grant	**(e)** Amount of non-cash assistance	**(f)** Method of valuation (book, FMV, appraisal, other)	**(g)** Description of non-cash assistance	**(h)** Purpose of grant or assistance
California Retina Research Fund515 East Micheltorena Santa Barbara, CA 93103	54-2071912	501(3)(c)	5,075				Eye research support

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Schedule J (Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I Questions Regarding Compensation

			Yes	No
1a	Check the appropiate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items			
	☐ First-class or charter travel	☐ Housing allowance or residence for personal use		
	☐ Travel for companions	☐ Payments for business use of personal residence		
	☐ Tax idemnification and gross-up payments	☐ Health or social club dues or initiation fees		
	☐ Discretionary spending account	☐ Personal services (e g , maid, chauffeur, chef)		
b	If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement orprovision of all the expenses described above? If "No," complete Part III to explain	**1b**		
2	Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?	**2**		
3	Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply			
	☑ Compensation committee	☐ Written employment contract		
	☑ Independent compensation consultant	☑ Compensation survey or study		
	☐ Form 990 of other organizations	☑ Approval by the board or compensation committee		
4	During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization			
a	Receive a severance payment or change-of-control payment?	**4a**		No
b	Participate in, or receive payment from, a supplemental nonqualified retirement plan?	**4b**	Yes	
c	Participate in, or receive payment from, an equity-based compensation arrangement?	**4c**		No
	If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III			
	Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.			
5	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of			
a	The organization?	**5a**		No
b	Any related organization?	**5b**		No
	If "Yes," to line 5a or 5b, describe in Part III			
6	For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of			
a	The organization?	**6a**		No
b	Any related organization?	**6b**		No
	If "Yes," to line 6a or 6b, describe in Part III			
7	For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III	**7**		No
8	Were any amounts reported in Form 990, Part VII, paid or accured pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III	**8**		No
9	If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?	**9**		

Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees. Use Schedule J-1 if additional space needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

Note. The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, columns (D) and (E) for that individual

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) Elliot Prager MD	(i)	236,762	0	3,469	0	4,273	244,504	0
	(ii)	0	0	0	0	0	0	0
(2) Ronald C Werft	(i)	0	0	0	0	0	0	0
	(ii)	725,498	249,255	11,147	604,149	10,255	1,600,304	0
(3) Steven A Fellows	(i)	0	0	0	0	0	0	0
	(ii)	423,622	125,335	29,789	146,448	10,255	735,449	0
(4) Joan Bricher	(i)	0	0	0	0	0	0	0
	(ii)	409,331	98,073	7,524	231,525	10,255	756,708	0
(5) Stephen S Kaminski MD	(i)	260,019	0	796	12,250	10,255	283,320	0
	(ii)	0	0	0	0	0	0	0
(6) Charles Cline	(i)	297,273	0	282	12,250	10,255	320,060	0
	(ii)	0	0	0	0	0	0	0
(7) Allan Cohen	(i)	243,007	14,889	3,369	12,250	10,255	283,770	0
	(ii)	0	0	0	0	0	0	0
(8) Melinda Staveley	(i)	216,036	34,257	5,547	26,011	10,255	292,106	0
	(ii)	0	0	0	0	0	0	0
(9) David Nichols	(i)	124,951	430,797	0	22,000	10,255	588,003	0
	(ii)	0	0	0	0	0	0	0

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8 Also complete this part for any additional information

Identifier	Return Reference	Explanation
SchJ_P01_S00_L03	Schedule J, Part I, Line 3	On an annual basis the Executive Compensation Committee (ECC) of the Board of Directors meets to determine appropriate compensation for executives, including the CEO, COO, CFO, and vice presidents All members of the ECC are independent members of the Board of Directors The ECC engages an independent consultant to prepare comparative compensation reports for each position The executive's individual performance will also be considered when determining compensation The ECC recommends compensation for the executives to the full Board for approval This process takes place annually for all executives
SchJ_P01_S00_L04	Schedule J, Part I, Line 4	The amounts reported in the current year's deferred compensation includes recognition of past service The amounts are subject to a substantial risk of forfeiture Any amounts paid under this plan in the future will be reported again as reportable compensation in the year paid

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Schedule K (Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I Bond Issues

	(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
							Yes	No	Yes	No	Yes	No
A	California Health Facilities Financing Auhtority	52-1643828	13033FQT0	11-20-2003	120,987,862	Refund 1985 issuance and hospital replacement project		X		X		X
B	California Statewide Communities Development Authority	68-0164610	130795Y76	10-20-2010	300,168,359	Refund 2008 issue		X		X		X

Part II Proceeds

		A	B	C	D
1	Amount of bonds retired	0	0		
2	Amount of bonds defeased	0	0		
3	Total proceeds of issue	120,987,862	300,168,359		
4	Gross proceeds in reserve funds	0	0		
5	Capitalized interest from proceeds	0	0		
6	Proceeds in refunding escrow	20,100,000	277,300,000		
7	Issuance costs from proceeds	1,366,915	2,937,382		
8	Credit enhancement from proceeds	300,700	0		
9	Working capital expenditures from proceeds	0	19,931,000		
10	Capital expenditures from proceeds	96,513,947	0		
11	Other spent proceeds	0	277,300,000		
12	Other unspent proceeds	0	0		
13	Year of substantial completion	2015	2012		

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
14	Were the bonds issued as part of a current refunding issue?	X		X					
15	Were the bonds issued as part of an advance refunding issue?		X		X				
16	Has the final allocation of proceeds been made?	X		X					
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X					

Part III Private Business Use

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?		X		X				
2	Are there any lease arrangements that may result in private business use of bond-financed property?	X		X					

Part III Private Business Use *(Continued)*

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?		X		X				
b	If 'Yes' to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
c	Are there any research agreements that may result in private business use of bond-financed property?		X		X				
d	If 'Yes' to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶		0 02 %		0 02 %				
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶		0 %		0 %				
6	Total of lines 4 and 5		0 02 %		0 02 %				
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X		X					

Part IV Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X	X					
2	Is the bond issue a variable rate issue?	X			X				
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?	X			X				
b	Name of provider	Morgan Stanley							
c	Term of hedge		22 0						
d	Was the hedge superintegrated?		X						
e	Was a hedge terminated?	X							
4a	Were gross proceeds invested in a GIC?		X		X				
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
5	Were any gross proceeds invested beyond an available temporary period?		X		X				
6	Did the bond issue qualify for an exception to rebate?	X		X					

Part V Procedures To Undertake Corrective Action

Check the box if the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations . . . . . ☑ Yes ☐ No

Part VI Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

Identifier	Return Reference	Explanation
SchK_P04_S00_L03c	Schedule K, Part IV, Line 3c	In 2010, 2 of the 5 qualified hedges were terminated

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Schedule L (Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Transactions with Interested Persons

▶ Complete if the organization answered "Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V lines 38a or 40b.
▶ Attach to Form 990 or Form 990-EZ. ▶See separate instructions.

OMB No 1545-0047

2011

Open to Public Inspection

Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

1 (a) Name of disqualified person	(b) Description of transaction	(c) Corrected? Yes	(c) Corrected? No

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958 . . . . . ▶ $

3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization . . . . . ▶ $

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a

(a) Name of interested person and purpose	(b) Loan to or from the organization? To	(b) Loan to or from the organization? From	(c) Original principal amount	(d) Balance due	(e) In default? Yes	(e) In default? No	(f) Approved by board or committee? Yes	(f) Approved by board or committee? No	(g) Written agreement? Yes	(g) Written agreement? No
(1) Herb Geary Home Purchase		X	250,000	250,000		No	Yes		Yes	
Total . . . . . ▶ $				250,000						

Part III Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of grant or type of assistance

Part IV **Business Transactions Involving Interested Persons.**

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) Santa Barbara Cardiovascular Medical Group	Board member is a partner	157,486	Medical Professional Fees		No
(2) Jo Ellen watson	Wife of Board Member	101,173	Salary & Benefits		No

Part V **Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule L (see instructions)

Identifier	Return Reference	Explanation

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SCHEDULE O
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2011

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Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Identifier	Return Reference	Explanation
F990_P06_S0A_L02	Form 990, Part VI, Section A, Line 2	J Robert Andrews and Greg Faulkner, business relationship

Identifier	Return Reference	Explanation
F990_P06_S0A_L06	Form 990, Part VI, Section A, Line 6	Cottage Health System is the sole corporate member of Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital, Santa Ynez Valley Cottage Hospital and Goleta Valley Professional Buildings, Inc

Identifier	Return Reference	Explanation
F990_P06_S0A_L07a	Form 990, Part VI, Section A, Line 7a	Cottage Health System is the sole corporate member of Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital, Santa Ynez Valley Cottage Hospital, and Goleta Valley Professional Buildings, Inc and can appoint Directors to the Board

Identifier	Return Reference	Explanation
F990_P06_S0A_L07b	Form 990, Part VI, Section A, Line 7b	The Board of Directors for Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital, Santa Ynez Valley Cottage Hospital, and Goleta Valley Professional Buildings, Inc must obtain prior approval of the Board of Directors for Cottage Health System, in order to a) amend or restate the Articles of Incorporation or Bylaws, b) implement the annual budget and long-term capital and operational budget, c) sell, lease, mortgage, pledge, merge, consolidate or make any other disposition of any material part of the property and assets of this corporation, or d) voluntarily dissolve the corporation

Identifier	Return Reference	Explanation
F990_P06_S0B_L11b	Form 990, Part VI, Section B, Line 11b	Form 990 is prepared under the direction of the Vice President of Finance and CFO Form 990 is reviewed by VP Finance, CFO and independent tax consultants prior to submitting to the Audit and Compliance Committee All members of the Board receive a copy of the organization's form 990 for review prior to filing

Identifier	Return Reference	Explanation
F990_P06_S0B_L12c	Form 990, Part VI, Section B, Line 12c	The purpose of the Conflict of Interest policy is to protect the interest of the Hospital when it contemplates entering into a transaction or arrangement that could benefit the private interest of a Director or Officer of Cottage Health System, Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital, Santa Ynez Valley Cottage Hospital, Santa Barbara Cottage Hospital Foundation and Goleta Valley Professional Buildings, Inc , collectively known as Cottage Health System The Cottage Health System Directors have a duty to 1) discharge their duties to benefit the Cottage Health System and not the Directors personally 2) disclose situations with the potential for conflict of interest with the vision and mission of Cottage Health System 3) refrain from discussing confidential Cottage Health System business with others Each Board member and officer will annually complete the Cottage Health System Directors Annual Conflict Disclosure Form The Disclosure information will be reviewed annually by the Board Chair and the results reported to the full Board Each Director or Officer will disclose to the Board Chair for items to be discussed at a Board meeting If there are any material financial or personal interests a Board member/family member may have in a Board decision, the Director or Officer will disclose this to the Committee Chair for items to be discussed at Board Committees, before the Board reviews the transaction and takes action In general, an Officer who had disclosed a potential conflict should be excused from the decision making portion of the discussion and is prohibited from voting on a matter involving a potential conflict of interest If the Board has reasonable cause to believe that a Director or Officer failed to disclose a material financial interest or other potential material conflict of interest, the Board Chair shall inform the member of the basis for the belief and afford the member an opportunity to explain the alleged failure to disclose After hearing the Director or Officer's response and conducting any further necessary investigation, the Board determines if the Director or Officer failed to disclose a material financial or other potential material conflict of interest The Board Chair shall take appropriate corrective action Committee Chairs who address conflict of interest situations with a Board Committee member are responsible for reporting such situations to the Board Chair Key employees are treated as all other employees of Cottage Health System and sign an annual conflict of interest form These forms are reviewed by Compliance and any issues are brought to the Chief Compliance Officer

Identifier	Return Reference	Explanation
F990_P06_S0B_L15	Form 990, Part VI, Section B, Line 15	On an annual basis the Executive Compensation Committee (ECC) of the Board of Directors meets to determine appropriate compensation for executives, including the CEO, COO, CFO, and vice presidents All members of the ECC are independent members of the Board of Directors The ECC engages an independent consultant to prepare comparative compensation reports for each position The executive's individual performance will also be considered when determining compensation The ECC recommends compensation for the executives to the full Board for approval This process takes place annually for all executives

Identifier	Return Reference	Explanation
F990_P06_S0C_L19	Form 990, Part VI, Section C, Line 19	Governing documents can be obtained upon request from the Assistant Secretary of the Board Tax filings can be obtained upon request from the CFO Audited Financial Statements are attached to the Form 990 in accordance with IRS instructions

Identifier	Return Reference	Explanation
F990_P11_S00_L05	Form 990, Part XI, Line 5	UNREALIZED GAINS/LOSSES ON INVESTMENTS - ($13,022,878), CHANGE IN EQUITY INTEREST IN ALTERNATIVE INVESTMENTS - ($3,000,219), CHANGE IN FV INTEREST RATE SWAPS - ($11,846,126), UNREALIZED GAINS/LOSSES ON RESTRICTED CONTRIBUTIONS - ($626,092), CHANGE IN PENSION LIABILITY - ($11,399,012), DEFERRED REVENUE RECORDED ON PART VIII - ($34,500)

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SCHEDULE R (Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2011

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Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity
(1) Pacific Diagnostic Laboratories LLC PO Box 689 Santa Barbara, CA 93102 20-5038438	Outpatient laboratory services	CA	29,987,483	25,467,648	SANTA BARBARA COTTAGE HOSPITAL

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) Cottage Health System PO Box 689 Santa Barbara, CA 931020689 77-0431902	Parent organization for 3 hospitals and medical professional building	CA	501 (C) (3)	11b-II	N/A		No
(2) Goleta Valley Cottage Hospital PO Box 689 Santa Barbara, CA 931020689 95-2413596	Hospital	CA	501 (C) (3)	3	Cottage Health System	Yes	
(3) Santa Ynez Valley Cottage Hospital Inc PO Box 689 Santa Barbara, CA 931020689 95-2224265	Hospital	CA	501 (C) (3)	3	Cottage Health System	Yes	
(4) Santa Barbara Cottage Hospital Foundation PO Box 689 Santa Barbara, CA 931020689 95-3802238	Foundation to support Santa Barbara Cottage Hospital	CA	501 (C) (3)	7	Santa Barbara Cottage Hospital	Yes	
(5) Goleta Valley Professional Blds PO Box 689 Santa Barbara, CA 931020689 77-0004202	Medical Prof Bldg	CA	501 (C) (3)	11b-II	Cottage Health System	Yes	
(6) RISB Foundation 2415 De La Vina St Santa Barbara, CA 931023819 26-0433816	Fundraising	CA	501(c)(3)	7	N/A		

Part III **Identification of Related Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations? Yes	(h) No	(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner? Yes	(j) No	(k) Percentage ownership

Part IV **Identification of Related Organizations Taxable as a Corporation or Trust** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
(1) Villa Riviera Real Estate Company Inc PO Box 689 Santa Barbara, CA 93102 27-2996284	Workforce housing developer	CA	SBCHF	C	0	39,324,510	1 00 %

Part V Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

		Yes	No
1	During the tax year, did the orgranization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?		
a	Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties **(iv)** rent from a controlled entity	1a	No
b	Gift, grant, or capital contribution to related organization(s)	1b	No
c	Gift, grant, or capital contribution from related organization(s)	1c	No
d	Loans or loan guarantees to or for related organization(s)	1d	Yes
e	Loans or loan guarantees by related organization(s)	1e	Yes
f	Sale of assets to related organization(s)	1f	No
g	Purchase of assets from related organization(s)	1g	No
h	Exchange of assets with related organization(s)	1h	No
i	Lease of facilities, equipment, or other assets to related organization(s)	1i	Yes
j	Lease of facilities, equipment, or other assets from related organization(s)	1j	Yes
k	Performance of services or membership or fundraising solicitations for related organization(s)	1k	Yes
l	Performance of services or membership or fundraising solicitations by related organization(s)	1l	Yes
m	Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	1m	Yes
n	Sharing of paid employees with related organization(s)	1n	Yes
o	Reimbursement paid to related organization(s) for expenses	1o	Yes
p	Reimbursement paid by related organization(s) for expenses	1p	Yes
q	Other transfer of cash or property to related organization(s)	1q	Yes
r	Other transfer of cash or property from related organization(s)	1r	Yes

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1) See Additional Data Table			
(2)			
(3)			
(4)			
(5)			
(6)			

Part VI Unrelated Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 37.)

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization See instructions regarding exclusion for certain investment partnerships

(a) Name, address, and EIN of entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Predominant income(related, unrelated, excluded from tax under sections 512-514)	(e) Are all partners section 501(c)(3) organizations?		(f) Share of total income	(g) Share of end-of-year assets	(h) Disproprtionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
				Yes	No			Yes	No		Yes	No	

Schedule R (Form 990) 2011

Part VII Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation	

Additional Data

Return to Form

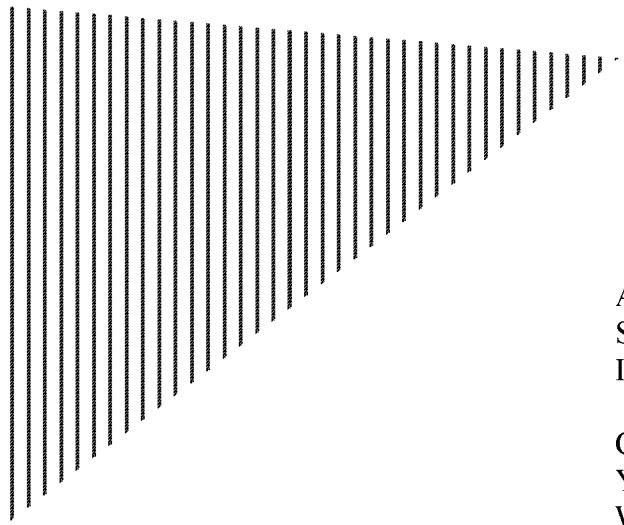
Software ID: 11000129
Software Version: v1.00
EIN: 95-1644629
Name: SANTA BARBARA COTTAGE HOSPITAL

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary Activity	(c) Legal Domicile (State or Foreign Country)	(d) Exempt Code section	(e) Public charity status (if 501(c)(3))	(f) Direct Controlling Entity	g Section 512(b)(13) controlled organization	
Cottage Health System PO Box 689 Santa Barbara, CA 931020689 77-0431902	Parent organization for 3 hospitals and medical professional building	CA	501 (C)(3)	11b-II	N/A		No
Goleta Valley Cottage Hospital PO Box 689 Santa Barbara, CA 931020689 95-2413596	Hospital	CA	501 (C)(3)	3	Cottage Health System	Yes	
Santa Ynez Valley Cottage Hospital Inc PO Box 689 Santa Barbara, CA 931020689 95-2224265	Hospital	CA	501 (C)(3)	3	Cottage Health System	Yes	
Santa Barbara Cottage Hospital Foundation PO Box 689 Santa Barbara, CA 931020689 95-3802238	Foundation to support Santa Barbara Cottage Hospital	CA	501 (C)(3)	7	Santa Barbara Cottage Hospital	Yes	
Goleta Valley Professional Blds PO Box 689 Santa Barbara, CA 931020689 77-0004202	Medical Prof Bldg	CA	501 (C)(3)	11b-II	Cottage Health System	Yes	
RISB Foundation 2415 De La Vina St Santa Barbara, CA 931023819 26-0433816	Fundraising	CA	501(c)(3)	7	N/A		

Form 990, Schedule R, Part V - Transactions With Related Organizations

	(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount Involved ($)	(d) Method of determining amount involved
(1)	Santa Barbara Cottage Hospital Foundation	q	212,496	accrual
(2)	Santa Barbara Cottage Hospital Foundation	r	335,538	accrual
(3)	Santa Barbara Cottage Hospital Foundation	ı	235,488	accrual
(4)	Goleta Valley Cottage Hospital	m	123,720	accrual
(5)	Goleta Valley Cottage Hospital	n	2,852,230	accrual
(6)	Santa Ynez Valley Cottage Hospital Inc	n	809,877	accrual
(7)	Santa Barbara Cottage Hospital Foundation	o	88,766	accrual
(8)	Santa Ynez Valley Cottage Hospital Inc	o	60,438	accrual
(9)	Santa Barbara Cottage Hospital Foundation	p	214,017	accrual
(10)	Goleta Valley Cottage Hospital	p	37,127,676	accrual
(11)	Goleta Valley Professional Blds	p	417,814	cash
(12)	Santa Ynez Valley Cottage Hospital Inc	q	2,099,391	cash
(13)	Goleta Valley Cottage Hospital	q	741,901	accrual
(14)	Goleta Valley Cottage Hospital	r	1,364,117	cash
(15)	Santa Ynez Valley Cottage Hospital Inc	r	256,493	cash
(16)	RISB Foundation	c	174,610	accrual



Audited Consolidated Financial Statements and Supplementary Information

Cottage Health System
Years Ended December 31, 2011 and 2010
With Report of Independent Auditors

Ernst & Young LLP

Ernst & Young

Cottage Health System

Audited Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2011 and 2010

Contents

Ernst & Young LLP
725 South Figueroa Street
Los Angeles, California 90017
Tel +1 213 977 3200
www.ey.com

Report of Independent Auditors

Board of Directors
Cottage Health System

We have audited the accompanying consolidated balance sheets of Cottage Health System (the System) as of December 31, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended These financial statements are the responsibility of the System's management Our responsibility is to express an opinion on these financial statements based on our audits

We conducted our audits in accordance with auditing standards generally accepted in the United States Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement We were not engaged to perform an audit of the System's internal control over financial reporting Our audits included consideration of internal control over financial reporting as a basis for designing auditing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting Accordingly, we express no such opinion An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation We believe that our audits provide a reasonable basis for our opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cottage Health System at December 31, 2011 and 2010, and the consolidated results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U S generally accepted accounting principles

As discussed in Note 1 to the consolidated financial statements, the System changed (1) its method of accounting for insurance claims and related insurance recoveries and (2) its classification of the provision for doubtful accounts in the statement of operations These changes are the result of the adoption of amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update (ASU) No 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, effective January 1, 2011, and ASU No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, applied retroactive to January 1, 2010

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole The accompanying consolidating balance sheets as of December 31, 2011 and 2010, and the consolidating statements of operations and changes in net assets for the years then ended, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements The information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole

Ernst + Young LLP

April 30, 2012

Cottage Health System

Consolidated Balance Sheets

	December 31	
	2011	**2010**
Assets		
Current assets		
Cash and cash equivalents	**$ 13,737,431**	$ 32,278,086
Short-term investments	**264,533,256**	229,839,406
Patient accounts receivable (less allowance for doubtful accounts of $27,264,000 in 2011 and $25,634,000 in 2010)	**97,171,454**	96,303,188
Current portion of assets limited as to use	**1,343,000**	1,200,000
Other receivables	**11,890,069**	19,963,858
Inventories	**12,394,169**	12,621,447
Prepaid expenses and other current assets	**7,219,695**	6,351,159
Total current assets	**408,289,074**	398,557,144
Assets limited as to use, less current portion		
By Board	**60,299,857**	137,271,811
Self-insurance trusts	**6,731,777**	6,145,018
Total assets limited as to use	**67,031,634**	143,416,829
Property, plant and equipment, net	**742,268,555**	629,484,951
Other assets	**31,995,717**	28,649,353
Interest in net assets and amounts due from affiliates	**257,831,793**	253,167,487
Total assets	**$1,507,416,773**	$1,453,275,764

	December 31	
	2011	2010
Liabilities and net assets		
Current liabilities		
Accounts payable	**$ 52,165,301**	$ 57,931,512
Accrued expenses and other liabilities	**27,753,720**	24,481,968
Current portion of accrued self-insurance claims	**6,918,407**	5,829,604
Current maturities of long-term debt	**5,610,000**	6,654,266
Total current liabilities	**92,447,428**	94,897,350
Other liabilities		
Accrued self-insurance claims, less current portion	**23,385,614**	18,018,049
Long-term debt, less current maturities	**333,995,000**	339,605,000
Pension liability and other	**99,440,221**	53,572,812
	456,820,835	411,195,861
Total liabilities	**549,268,263**	506,093,211
Net assets		
Unrestricted	**859,714,685**	858,228,977
Temporarily restricted	**79,321,221**	71,278,091
Permanently restricted	**19,112,604**	17,675,485
Total net assets	**958,148,510**	947,182,553
Total liabilities and net assets	**$1,507,416,773**	$1,453,275,764

See accompanying notes.

Cottage Health System

Consolidated Statements of Operations

	Year Ended December 31	
	2011	**2010**
Unrestricted revenues, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	**$ 584,377,906**	$ 548,188,184
Provision for doubtful accounts	**(16,016,545)**	(13,586,894)
Net patient service revenue	**568,361,361**	534,601,290
Hospital Medi-Cal supplemental payment	**10,996,544**	29,129,182
Other operating revenue	**4,816,777**	5,830,168
Net assets released from restrictions	**323,536**	175,207
Total unrestricted revenues, gains and other support	**584,498,218**	569,735,847
Expenses		
Salaries and benefits	**288,528,295**	262,057,134
Supplies and services	**183,553,492**	165,528,984
Hospital quality assurance fee	**10,092,910**	29,976,936
Professional fees	**31,874,327**	27,473,863
Insurance	**3,802,330**	2,816,561
Depreciation and amortization	**25,318,114**	26,227,458
Interest	**996,848**	4,042,703
Total expenses	**544,166,316**	518,123,639
Operating income	**40,331,902**	51,612,208
Other (loss) income		
Investment (loss) income	**(3,232,654)**	28,445,702
Change in fair value of interest rate swaps	**(11,846,126)**	(18,866,703)
Loss on extinguishment of debt	**–**	(1,716,937)
Change in unrestricted net assets of affiliates	**(3,344,784)**	67,531,190
Total other (loss) income	**(18,423,564)**	75,393,252
Excess of revenues over expenses	**21,908,338**	127,005,460
Change in pension liability	**(20,600,974)**	8,131,347
(Decrease) increase in unrestricted net assets	**$ 1,307,364**	$ 135,136,807

See accompanying notes.

Cottage Health System

Consolidated Statements of Changes in Net Assets

	Year Ended December 31	
	2011	**2010**
Unrestricted net assets		
Excess of revenues over expenses	**$ 21,908,338**	$ 127,005,460
Change in pension liability	**(20,600,974)**	8,131,347
(Decrease) increase in unrestricted net assets	**1,307,364**	135,136,807
Temporarily restricted net assets		
Contributions	**423,753**	65,275
Investment (losses) gains	**(145,353)**	916,846
Net assets released from restrictions	**(323,536)**	(175,207)
Changes in value of contribution from charitable remainder trusts	**(6,263)**	7,040
Change in net assets of affiliates	**8,272,873**	(49,915,822)
Increase (decrease) in temporarily restricted net assets	**8,221,474**	(49,101,868)
Permanently restricted net assets		
Change in net assets of affiliates	**1,437,119**	1,632,193
Increase in permanently restricted net assets	**1,437,119**	1,632,193
Increase in net assets	**10,965,957**	87,667,132
Net assets at beginning of year	**947,182,553**	859,515,421
Net assets at end of year	**$ 958,148,510**	$ 947,182,553

See accompanying notes.

Cottage Health System

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2011	**2010**
Operating activities		
Increase in net assets	**$ 10,965,957**	$ 87,667,132
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	**25,318,114**	26,227,458
Provision for doubtful accounts	**16,016,545**	13,586,894
Change in investments designated as trading, including net unrealized gains/losses	**38,436,849**	(3,682,705)
Equity in losses of alternative investments	**3,111,496**	5,963,965
Change in fair value of interest rate swaps, net of cash collateral	**11,846,126**	18,473,862
Loss on extinguishment of debt	**–**	1,716,937
Change in pension liability	**20,600,974**	(8,131,347)
Change in interest in net assets and amounts due from affiliates	**(4,664,306)**	37,768,397
Changes in operating assets and liabilities		
Patient accounts receivable	**(16,884,811)**	(26,850,572)
Other receivables, inventories, prepaid expenses and other current assets	**7,432,531**	(18,284,051)
Accounts payable	**(5,766,211)**	7,928,827
Accrued expenses and other liabilities	**3,271,752**	1,804,239
Accrued self-insurance claims	**6,456,368**	503,826
Net cash provided by operating activities	**116,141,384**	144,692,862
Investing activities		
Purchases of property, plant and equipment and property held for use, net	**(138,101,718)**	(180,379,075)
Change in other assets and liabilities	**10,073,945**	(5,722,004)
Net cash used in investing activities	**(128,027,773)**	(186,101,079)
Financing activities		
Proceeds from issuance of debt	**–**	292,600,000
Principal payments on debt and capital lease obligations	**(6,654,266)**	(278,572,400)
Net cash (used in) provided by financing activities	**(6,654,266)**	14,027,600
Net decrease in cash and cash equivalents	**(18,540,655)**	(27,380,617)
Cash and cash equivalents at beginning of year	**32,278,086**	59,658,703
Cash and cash equivalents at end of year	**$ 13,737,431**	$ 32,278,086

Cottage Health System

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31	
	2011	2010
Supplemental disclosure of cash flow information		
Interest paid (net of capitalized interest)	**$ 1,985,688**	$ 320,888

Supplemental schedule of noncash financing activities

The System capitalized construction in progress for approximately $5,112,000 and $10,272,000 at December 31, 2011 and 2010, respectively, that we had not paid for The offsetting amount due was recorded in the consolidated balance sheets under accounts payable

See accompanying notes

1. Organization and Summary of Significant Accounting Policies

Organization

Cottage Health System (the System) was organized in 1996 as a not-for-profit California corporation to provide health care services through three acute care hospitals (collectively, the Hospitals) and related organizations in Santa Barbara, California The System is affiliated with the following not-for-profit entities, each of which shares a common Board of Directors (Board)

- Santa Barbara Cottage Hospital (Santa Barbara Cottage) – an accredited 408-bed acute care facility offering inpatient and outpatient services

- Santa Ynez Valley Cottage Hospital (Santa Ynez Cottage) – an accredited 10-bed acute care facility offering inpatient and outpatient services

- Goleta Valley Cottage Hospital (Goleta Valley Cottage) – an accredited 122-bed acute care facility offering inpatient and outpatient services

- Goleta Valley Professional Buildings, Inc (the Professional Building) – a medical office building adjacent to Goleta Valley Cottage The Professional Building leases office space to medical providers and others

- Santa Barbara Cottage Hospital Foundation (the Santa Barbara Cottage Foundation) – a charitable foundation which solicits funds for the benefit of Santa Barbara Cottage

The System is the sole corporate member of the above entities except for the Santa Barbara Cottage Foundation (see Note 5) The System is also affiliated with the following not-for-profit entities which are governed by separate Boards of Directors

- Santa Ynez Valley Cottage Hospital Foundation (Santa Ynez Cottage Foundation) – a charitable foundation which solicits funds for the benefit of Santa Ynez Cottage

- Goleta Valley Cottage Hospital Foundation (Goleta Valley Cottage Foundation) – a charitable foundation which solicits funds for the benefit of Goleta Valley Cottage

- Rehabilitation Hospital Foundation (Rehabilitation Foundation) – a charitable foundation which solicits funds for the benefit of rehabilitation programs performed at Santa Barbara Cottage

1. Organization and Summary of Significant Accounting Policies (continued)

Santa Barbara Cottage is the sole corporate member of Pacific Diagnostic Laboratories, LLC, a reference laboratory

Basis of Presentation

The accompanying financial statements consolidate all not-for-profit organizations controlled by the System through sole corporate membership status, and all for-profit organizations which the System holds a controlling financial interest, including the accounts of Santa Barbara in Cottage, Goleta Valley Cottage, Santa Ynez Cottage, the Professional Building and Pacific Diagnostic Laboratories All significant intercompany accounts and transactions have been eliminated

Santa Barbara Cottage

The System accounts for the Santa Barbara Cottage Foundation under the provisions of Financial Accounting Standards Board (FASB), Accounting Standard Codification (FASB ASC) 958, *Not-for-Profit-Entities* FASB ASC 958 addresses situations in which the recipient organization and the specified beneficiary meet the criteria defining them as financially interrelated organizations If the organizations are financially interrelated, the recipient organization reports an asset and contribution revenue when it receives assets from the donor, and the specified beneficiary reports its interest in the net assets of the recipient organization The System periodically adjusts its interest for its share of the change in net assets of the Santa Barbara Cottage Foundation

Santa Barbara Cottage and the Santa Barbara Cottage Foundation's Board of Directors have historically been made up of the same individuals However, neither the Santa Barbara Cottage Foundation's bylaws nor its articles of incorporation give Santa Barbara Cottage, its Board of Directors, or any other party the power to appoint or select members of the Santa Barbara Cottage Foundation's Board of Directors As a result, Santa Barbara Cottage does not control the Santa Barbara Cottage Foundation through the power to select the Foundation's directors The Santa Barbara Cottage Foundation solicits funds for the sole benefit of Santa Barbara Cottage As such, the Santa Barbara Cottage Foundation and Santa Barbara Cottage are financially interrelated organizations as defined under FASB ASC 958 The interest in the net assets of the Santa Barbara Cottage Foundation is included in the financial statements The System records Santa Barbara Cottage Foundation's change in unrestricted net assets above the performance indicator because Santa Barbara Cottage has access to Santa Barbara Cottage Foundation's assets at will because of their common board of directors

1. Organization and Summary of Significant Accounting Policies (continued)

The Rehabilitation Foundation solicits funds for the sole benefit of rehabilitation services performed at Santa Barbara Cottage As such, the Rehabilitation Foundation and Santa Barbara Cottage are financially interrelated organizations as defined by FASB ASC 958 The interest in the net assets of the Rehabilitation Foundation is included in the consolidated financial statements

Goleta Valley Cottage

Goleta Valley Cottage and Goleta Valley Cottage Foundation are financially interrelated organizations as defined by FASB ASC 958 due to Goleta Valley Cottage's ability to influence the operating and financial decisions of Goleta Valley Cottage Foundation and Goleta Valley Cottage's ongoing economic interest in the net assets of the Goleta Valley Cottage Foundation The interest in the net assets of the Goleta Valley Cottage Foundation is included in the consolidated financial statements

Santa Ynez Cottage

Santa Ynez Cottage and Santa Ynez Cottage Foundation are financially interrelated organizations as defined by FASB ASC 958 due to Santa Ynez Valley Cottage's ability to influence the operating and financial decisions of Santa Ynez Cottage Foundation and Santa Ynez Cottage's ongoing economic interest in the net assets of the Santa Ynez Cottage Foundation The interest in the net assets of the Santa Ynez Cottage Foundation is included in the consolidated financial statements

1. Organization and Summary of Significant Accounting Policies (continued)

Summarized financial information for the Foundations follows (as of or for the year ended) (please refer to Note 5 for significant transactions between the System and the Foundations)

	December 31	
	2011	**2010**
Santa Barbara Cottage Foundation		
Total assets	**$ 235,388,000**	$ 233,024,000
Net assets	**227,234,000**	227,195,000
Increase (decrease) in net assets	**39,000**	(41,406,000)
Rehabilitation Foundation		
Total assets	**$ 9,892,000**	$ 7,995,000
Net assets	**9,881,000**	7,994,000
Increase in net assets	**1,887,000**	1,713,000
Goleta Valley Cottage Foundation		
Total assets	**$ 11,041,000**	$ 8,333,000
Net assets	**11,041,000**	8,333,000
Increase in net assets	**2,708,000**	4,234,000
Santa Ynez Cottage Foundation		
Total assets	**$ 9,678,000**	$ 9,646,000
Net assets	**9,676,000**	9,646,000
Increase (decrease) in net assets	**30,000**	(2,309,000)

Use of Estimates

The preparation of financial statements in conformity with U S generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements Estimates also affect the reported amounts of revenues and expenses during the reporting period Actual results could differ from these estimates

1. Organization and Summary of Significant Accounting Policies (continued)

Community Benefit and Charity Care

In furtherance of their charitable purpose, the Hospitals provide a wide variety of benefits to the community A large number of prevention and wellness programs are provided by the Hospitals including low cost immunizations, wellness fairs, health screenings, and health education classes, and the donation of space for use by community groups Additionally, the Hospitals and the Foundations provide multiple health care-related grants to local nonprofit organizations and support educational programs to increase the supply of health care professionals

A patient is classified as a charity patient by reference to certain established policies of the Hospitals Essentially, these policies define charity services as those services for which no payment is anticipated and includes patients who are unable to pay deductible and coinsurance amounts as determined by the insurance plan These charges are not included in accounts receivable or net patient service revenue The costs and expenses incurred in providing charity care are included in the Hospitals' operating expenses It is the Hospitals' policy to treat emergency patients regardless of their ability to pay Charity care, uncompensated care to Medicare and Medicaid beneficiaries, and community benefits provided for the years ended December 31 were as follows

	2011	2010
Costs to provide charity care	**$ 11,679,000**	$ 9,997,000
Uncompensated costs to Medicare and Medicaid services	**96,467,000**	83,228,000
Expenses incurred to provide community benefits	**12,585,000**	11,464,000
	$ 120,731,000	$ 104,689,000

Net Patient Service Revenue

The Hospitals have agreements with third-party payors that provide for payments to the Hospitals at amounts different from its established rates Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments Net patient service revenue is reported on the accrual basis in the period in which services are provided, net of third-party contractual allowances for Medicare, Medicaid, managed care, and other programs Contractual allowances include differences between established billing rates and amounts estimated by management as reimbursable under various cost reimbursement formulas and contracts in effect

1. Organization and Summary of Significant Accounting Policies (continued)

Net patient service revenues recognized for the years ended December 31 is as follows

	2011	2010
	(In Thousands)	
Government	**$ 182,627**	$ 171,498
Contracted	**373,642**	338,812
Self-pay and others	**28,109**	37,878
Patient service revenue (net of contractual allowances and discounts	**584,378**	548,188
Provision for doubtful accounts	**(16,017)**	(13,587)
Net patient service revenue	**$ 568,361**	$ 534,601

The administrative procedures related to the cost reimbursement programs in effect generally preclude final determination of amounts due to or payable by the Hospitals until cost reports are audited or otherwise reviewed and settled upon by the applicable administrative agencies Normal estimation differences between final settlements and amounts accrued in previous years are reported as adjustments of net patient service revenue in the current year In 2011 and 2010, the Hospitals settled several previously filed Medicare and Medicaid cost reports and recorded changes in estimates benefiting net patient service revenue and excess of revenues over expenses totaling $1,008,000 and $331,000, respectively In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent reviews

The Hospitals are reimbursed for services provided to patients under certain programs administered by governmental agencies The Medicare program accounted for approximately 23% and 23% of the System's net patient service revenue in 2011 and 2010, respectively The Medicaid programs accounted for approximately 10% of the System's net patient service revenue in 2011 and 13% in 2010 Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation The Hospitals believe that they are in compliance with all applicable laws and regulations and are not aware of any pending or threatened investigations involving allegations of potential wrongdoing While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs

1. Organization and Summary of Significant Accounting Policies (continued)

Bad Debt Write-offs

In July 2011, the FASB issued Accounting Standards Update (ASU) No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-07) The provisions of ASU 2011-07 require certain health care entities to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the statement of operations rather than an operating expense Additional disclosures related to sources of patient service revenue and allowance for uncollectible accounts will also be required This new guidance is effective for fiscal years beginning after December 15, 2011, with early adoption permitted The System adopted the provisions of ASU 2011-07 as of and for the year ended December 31, 2011, and retrospectively applied the presentation requirements to all periods presented

Electronic Health Records Incentive Payments

The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act (HITECH) The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medicare and Medicaid incentive payment program beginning in 2011 for eligible providers that adopt and meaningfully use certified EHR technology Eligibility for annual Medicare incentive payments is dependent on providers demonstrating meaningful use of EHR technology in each period over a four-year period Initial Medicaid incentive payments are available to providers that adopt, implement or upgrade certified EHR technology Providers must demonstrate meaningful use of such technology in subsequent years to qualify for additional Medicaid incentive payments

Through December 31, 2011, the System has received no EHR incentive payments

Investments

The System participates with other affiliates in a master custodial account (Custodial Account) The System records its share of the income, expenses, gains and losses of the Custodial Account based on its pro-rata share of the Custodial Account's total fair value The System's share of the Custodial Account's assets was 71% and 70% at December 31, 2011 and 2010, respectively

1. Organization and Summary of Significant Accounting Policies (continued)

The Custodial Account invests in equity securities, debt securities, mutual funds and alternative investments including funds-of-funds, limited partnerships, and private equity funds These alternative investments implement a range of strategies including, but not limited to, long/short equity positions, arbitrage investment activities, emerging markets investments, and real estate Some of these partnership/funds have specific industry focus in their investment assets or specific asset investments in their strategy focus At the investment manager's discretion, the fund may invest in marketable equity and fixed income securities denominated in both U S and foreign currency with exposure to both emerging markets and developed markets Alternative investments, other than private equities, are redeemable monthly or quarterly or annually with a short notice period of usually 60 days or less Private Equities are subject to lock up provisions of 10 years

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheets based on quoted prices from recognized securities exchanges Management determines the appropriate classification of all marketable securities at the date of purchase and reevaluates such designations at each balance sheet date Such investments have been designated as trading securities at December 31, 2011 and 2010 Properties held for investment are stated at cost, which is not in excess of fair value

Investment income or loss (including realized and unrealized gains and losses on trading securities, interest, dividends, and equity interests in gains and losses of alternative investments) is reported as excess of revenues over expenses in unrestricted net assets unless the income or loss is restricted by donor or law Realized and unrealized gains and losses with respect to disposition of investments are based on the specific-identification method

The System accounts for its ownership interests in the alternative investments under the equity method of accounting The gain or loss from the alternative investments is included in investment income in the consolidated statements of operations As of December 31, 2011 and 2010, these alternative investments comprised approximately 29% and 23%, respectively, of the System's total investments, including assets limited as to use

1. Organization and Summary of Significant Accounting Policies (continued)

Derivatives and Hedging Activities

The System follows FASB ASC 815, *Derivative and Hedging*, which requires derivative financial instruments, such as interest rate swaps, to be recognized as assets or liabilities in the balance sheets at fair value Derivatives that do not qualify for hedge accounting are adjusted to fair value in the consolidated statements of operations, above the performance indicator At December 31, 2011, the System's derivative instruments do not qualify for hedge accounting and are limited to interest rate swap agreements with a notional amount totaling $248,750,000 (see Note 6) The System entered into interest rate swap agreements to manage its interest rate risk

Inventories

Inventories are recorded at cost (by the first-in, first-out method), which is not in excess of market

Assets Limited as to Use

Assets limited as to use include unrestricted resources designated by the Board for replacement and acquisitions of property, plant and equipment, and self-insurance trust funds for medical malpractice claims

Property, Plant and Equipment

Property, plant and equipment are recorded at cost at the date of acquisition Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets Leasehold improvements and equipment under capital lease obligations are amortized on the straight-line method over the shorter of the lease term or the estimated useful life and are included in depreciation and amortization expense Interest cost incurred on borrowed funds net of interest income on proceeds from bonds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets (see Note 6) Repairs and maintenance are charged to expense as incurred

1. Organization and Summary of Significant Accounting Policies (continued)

The general range of useful lives is as follows

Buildings	10 – 40 years
Land improvements	10 – 20 years
Equipment	3 – 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support at fair market value at the date of donation, and are excluded from excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used Gifts of long-lived assets with explicit restrictions on use and gifts of cash or other assets that must be used to acquire long-lived assets are reported as temporarily restricted support Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service

Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

The System reviews long-lived assets for impairment when events or changes in business conditions indicate that their carrying value may not be recoverable The System considers assets to be impaired and writes them down to fair value if expected associated undiscounted cash flows are less than the carrying amounts Fair value is the present value of the associated cash flows The System has determined that no long-lived assets are impaired at December 31, 2011

Donations and Donor-Restricted Net Assets

Donations are generally made to the Santa Barbara Cottage Foundation, Rehabilitation Foundation, Goleta Valley Cottage Foundation, and Santa Ynez Cottage Foundation (collectively, the Foundations) for the benefit of the Hospitals To the extent expenditures are made for the purpose intended, funds are transferred from the Foundations Unrestricted donations received directly by the Hospitals are included in other operating revenues Resources restricted by donors to specific time periods or operating purposes are recorded as temporarily restricted net assets Permanently restricted net assets have been restricted by donors to be maintained by the Hospitals in perpetuity

1. Organization and Summary of Significant Accounting Policies (continued)

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received The gifts are reported as either temporarily or permanently restricted net assets if they are received with donor stipulations that limit the use of the donated assets When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets used in operations are reclassified as unrestricted net assets and reported as net assets released from restrictions Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions (other operating revenue) in the consolidated statements of operations Resources temporarily restricted by donors for additions to property, plant and equipment whose purpose has been met are recorded as an increase in unrestricted net assets in the consolidated statements of operations

Donor-restricted resources are invested in cash, marketable equity securities, and mutual funds until expended Donor-restricted resources held by the Foundations are included in the System's interest in net assets and amounts due from affiliates Assets held by the System which are temporarily restricted by donors for operational uses are included in cash and cash equivalents and short-term investments Resources held by the System, which are restricted by donors for capital acquisitions and permanently restricted assets, are included in other assets in the consolidated balance sheets

Accrued Self-Insurance Claims

The System is self-insured for certain employee health care claims Employee health care claims, including an estimate for incurred but not reported claims, are estimated by management based on historical experience Total accruals were $2,897,000 and $2,399,000 at December 31, 2011 and 2010, respectively

The System is self-insured up to $750,000 per workers' compensation claim Claims in excess of these amounts are commercially insured Accruals for the self-insurance portion of claims liabilities, including an estimate for claims incurred but not reported, are estimated by an actuary based on the Hospitals' claims experience and are discounted by an interest factor of 2% in 2011 and 2010 Total accruals at December 31, 2011 and 2010, were $20,635,000 and $15,459,000, respectively The System's self-insurance obligations are guaranteed by the state of California through an alternative security program in the amount of $13,184,000 and $13,671,000 at December 31, 2011 and 2010, respectively

1. Organization and Summary of Significant Accounting Policies (continued)

The System is self-insured for general and professional liability claims up to $500,000 per claim Individual claims in excess of $500,000 are covered by claims-made insurance policies An irrevocable trust fund has been established for the self-insurance program Accruals for the self-insured portion of claims liabilities, including an estimate for claims incurred but not reported, are estimated by an actuary based upon the System's claims experience and are discounted by an interest factor of 2% in 2011 and 2010 Total liabilities were $6,772,000 and $5,651,000 at December 31, 2011 and 2010, respectively

Estimated claims payable are continually monitored and reviewed and, as settlements are made or accruals adjusted, differences are reflected in current operations Self-insurance accruals expected to be paid in the following year are included in accrued expenses and other liabilities The remaining self-insured accruals are reported in noncurrent liabilities

See discussion of change in accounting principle related to self-insured liabilities effective as of December 31, 2011, as discussed in "Recently Issued Accounting Standards" following

Cash Equivalents and Short-Term Investments

The System considers all highly liquid debt instruments with remaining maturities, at acquisition date, of three months or less, to be cash equivalents Financial instruments including debt securities with maturities over 90 days at the time of purchase and marketable securities are included in short-term investments Cash and cash equivalents and short-term investments exclude amounts which are limited as to use and resources which are permanently restricted by donors or temporarily restricted by donors for capital purchases

Concentrations of Credit Risk

Financial instruments which potentially subject the System to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable The investment portfolio is managed by the System within the guidelines established by the Board of Directors which, as a matter of policy, limit the amounts which may be invested in any one issue Concentrations of credit risk with respect to accounts receivable are limited, except with respect to programs under contract with the federal and state governments, due to the large number of payors comprising the System's patient base

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The System's consolidated balance sheets include the following financial instruments cash and cash equivalents, investments, accounts receivable, accounts payable and accrued liabilities, and long-term obligations Investments are stated at fair value based primarily on quoted market prices (the composition of which is described elsewhere in Notes 1 and 4) The System considers the carrying amounts of all other current assets and liabilities to approximate their fair value because of the relatively short period of time between origination of the instruments and their expected realization or settlement The carrying amount of Fixed Rate Demand Revenue bonds Series 2003 B is $50,740,000 and for Series 2010 is $288,865,000, while the fair value is $51,459,000 and $297,987,000 as of December 31, 2011, respectively The fair value was determined using a discounted cash flow analysis and is considered to be Level 2 inputs

Income Taxes

The System and its affiliates are not-for-profit corporations and are tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and are exempt from income taxation under Section 501(a) of the Code and corresponding provisions of the California Revenue and Taxation Code, except to the extent of income derived from taxable unrelated business activities Unrelated business income is not material to the financial statements

The System completed an analysis of its tax positions, in accordance with ASC 740 Income Taxes, and determined that there are no uncertain tax positions taken or expected to be taken The System has recognized no interest or penalties related to uncertain tax positions The System is subject to routine audits by the taxing jurisdictions, however, there are currently no audits for any tax periods in progress The System believes it is no longer subject to income tax examinations for years prior to 2008

Performance Indicator

Management considers excess of revenues over expenses to be the System's performance indicator Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include items such as change in pension liability, cumulative effect of changes in accounting principle, reclassification of endowment net assets and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets)

1. Organization and Summary of Significant Accounting Policies (continued)

Physician Guarantees

The System has agreements with nonemployed physicians that guarantee a certain level of income to the physicians The physicians are expected to practice in the System's defined area for a defined period Amounts paid to the physician during the guarantee period are ratably forgiven, resulting in income to the physician in the years of forgiveness The carrying amounts of the asset and liability for the System's obligation under these guarantees are $3,467,000 and $2,527,000, respectively, at December 31, 2011, and $3,656,000 and $2,945,000, respectively, at December 31, 2010, and are included in other assets and pension liability and other in the accompanying consolidated balance sheets Recourse provisions in the contracts provide for recovery of amounts paid if all terms of the contract are not fulfilled

Fair Value Measurement

As defined in FASB ASC 820, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date In order to increase consistency and comparability in fair value measurements, FASB ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below

Level 1 Quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities The fair value hierarchy gives the highest priority to Level 1 inputs

Level 2 Observable prices that are based on inputs not quoted on active markets, but corroborated by market data

Level 3 Unobservable inputs are used when little or no market data is available The fair value hierarchy gives the lowest priority to Level 3 inputs

1. Organization and Summary of Significant Accounting Policies (continued)

Assets and liabilities measured at fair value are based on one or more of three valuation techniques noted in the tables below

(a) Market approach Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities

(b) Cost approach Amount that would be required to replace the service capacity of an asset (replacement cost)

(c) Income approach Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models)

In determining fair value, the System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as considers counterparty credit risk in its assessment of fair value

At December 31, 2011, the System held certain assets and instruments that are required to be measured at fair value on a recurring basis These included a beneficial interest in securitized commercial bonds and loans that have a contractual cash flow The fair value is the present value of estimated future cash flows, which are estimated using observable market information, including default rates, for instruments with similar securitized assets The System has categorized this investment as Level 2

The fair value of the System's interest rate swap contracts is determined by calculating the value of the discounted cash flows of the difference between the fixed interest rate of the interest rate swaps and the counterparty's forward LIBOR curve, which would be the input used in the valuations The forward LIBOR curve is readily available in public markets or can be derived from information available in public quoted markets Therefore, the System has categorized the interest rate swaps as Level 2

1. Organization and Summary of Significant Accounting Policies (continued)

Financial assets and liabilities carried at fair value as of December 31, 2011, are classified in the table below in one of the three categories described above

	Level 1	Level 2	Total	Valuation Technique (a, b, c)
Assets				
Marketable equity securities				
Domestic equities	$ 87,054,994	$ 82,156	$ 87,137,150	a
Foreign equities	10,086,473	–	10,086,473	a
Fixed income securities				
Government bonds	–	33,518,857	33,518,857	a
Corporate bonds	–	66,119,729	66,119,729	a
Mutual funds	17,777,164	–	17,777,164	a
Other	705,436	410,077	1,115,513	a
Liabilities				
Interest rate swaps	–	(34,790,196)	(34,790,196)	c

Financial assets and liabilities carried at fair value as of December 31, 2010, are classified in the table below in one of the three categories described above

	Level 1	Level 2	Total	Valuation Technique (a, b, c)
Assets				
Marketable equity securities				
Domestic equities	$ 62,090,120	$ 1,405,210	$ 63,495,330	a
Foreign equities	7,001,256	–	7,001,256	a
Fixed income securities				
Government bonds	7,152,831	24,187,575	31,340,406	a
Corporate bonds	–	124,294,563	124,294,563	a
Mutual funds	21,068,591	–	21,068,591	a
Other	426,231	426,021	852,252	a
Liabilities				
Interest rate swaps	–	(22,944,000)	(22,944,000)	c

1. Organization and Summary of Significant Accounting Policies (continued)

Recently Issued Accounting Standards

In August 2010, the FASB issued ASU No 2010-23, *Measuring Charity Care for Disclosure* ASU 2010-23 provides guidance regarding the measurement basis for charity care disclosure purposes Under this guidance, the charity care disclosure should be measured based on the direct and indirect costs of providing these services ASU 2010-23 is effective for fiscal years beginning after December 15, 2010 As the System is currently reporting its charity care on this basis, adoption of this guidance did not have a material effect, on the System's financial statement disclosures

In August 2010, the FASB issued ASU No 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries* ASU 2010-24 concluded that health care entities should no longer net insurance recoveries against a related claim liability, the claim liability should be determined without consideration of insurance recoveries ASU 2010-24 is effective for fiscal years beginning after December 15, 2010 The effect on the System is an increase in claim liability with a corresponding increase in receivable from insurance recovery of $5,047,000 at December 31, 2011

Reclassifications

Certain prior year amounts in the consolidated financial statements have been reclassified to conform to the current year presentation These reclassification primarily result from the adoption of amendments to the FASB Accounting Standards Codification resulting from Accounting Standards Update (ASU) No 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, effective January 1, 2011, and ASU No 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, applied retroactive to January 1, 2010

Subsequent Events

The System has evaluated subsequent events occurring between the end of the most recent fiscal year and April 30, 2012, the date the financial statements were available for issuance

2. Property, Plant and Equipment

Property, plant and equipment at December 31 is summarized as follows

	2011	2010
Buildings and improvements	**$ 274,485,376**	$ 258,427,493
Equipment	**162,217,545**	162,754,820
	436,702,921	421,182,313
Less accumulated depreciation and amortization	**(252,680,557)**	(232,966,956)
	184,022,364	188,215,357
Construction in progress	**536,966,959**	419,990,362
Land	**21,279,232**	21,279,232
Property, plant and equipment, net	**$ 742,268,555**	$ 629,484,951

Property, plant and equipment increased due to $138,102,000 of 2011 expenditures, principally the result of construction under the Facilities Master Plan (see Note 8) The increases were offset by depreciation and amortization of $25,318,000 for in-use facilities

3. Pension and Other Post-Retirement Benefit Plan

The System sponsors the Cottage Health System Cash Balance Retirement Plan (the Plan) The Plan is a contributory defined benefit pension plan covering substantially all of the employees of the Hospitals The Plan calls for a minimum contribution by the System to the participant's account equal to 2% of salary and an additional voluntary contribution by the participants up to 3% of the participant's salary, which will be matched 100% by the System

The System also sponsors a Supplemental Executive Retirement Plan (the SERP), a defined benefit pension plan covering selected executives of the Hospitals The SERP provides for payments to executives at retirement equal to a percent of monthly base pay averaged over the final number of months of service as defined in the Plan

Executive Supplemental Retirement Program

The System provides certain executives a supplemental retirement program The program is defined as deferred compensation under the IRC Section 457(f) The annual contribution is 6 95% of base year's salary with the contributions vesting five years from crediting date, or at

3. Pension and Other Post-Retirement Benefit Plan (continued)

age 62, or immediately in the event of death, disability or involuntary termination without cause The unvested account balances are assets of the System and are included in other assets and the accrued expense is included in pension liability and other

In addition to providing pension benefits, the System provides certain health care benefits for retired employees who elect to continue care under the Medi-Gap Retiree Health Coverage Plan Substantially all of the System's employees who retire upon reaching age 60 (with 25 or more years of service) may become eligible for these benefits until they reach age 65 These and similar benefits for active employees are provided through the System's self-insurance program The System pays health care claims as they come due

The following table sets forth the changes in benefit obligations, changes in plan assets, and components of net periodic benefit cost for both pension plans and the post-retirement health care benefit plan as measured by consulting actuaries as of the end of each year

	Pension Benefits December 31		Other Benefits December 31	
	2011	**2010**	**2011**	**2010**
Change in projected benefit obligation				
Benefit obligation at beginning of year	**$ 182,417,818**	$ 152,226,087	**$ 3,179,198**	$ 2,860,891
Service cost	**11,680,143**	9,101,418	**183,879**	155,091
Interest cost	**9,832,021**	9,281,071	**164,146**	162,839
Plan participant's contributions	**7,003,544**	6,487,765	**34,317**	23,306
Actuarial losses	**12,617,397**	12,002,911	**58,892**	35,351
Benefits paid	**(6,291,964)**	(6,681,434)	**(40,230)**	(58,280)
Plan amendments	**–**	–	**104,000**	–
Projected benefit obligation at end of year	**$ 217,258,959**	$ 182,417,818	**$ 3,684,202**	$ 3,179,198

3. Pension and Other Post-Retirement Benefit Plan (continued)

	Pension Benefits December 31		Other Benefits December 31	
	2011	**2010**	**2011**	**2010**
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 168,792,717**	$ 136,894,728	**$ –**	$ –
Actual return on plan assets	**(4,338,236)**	22,091,658	**–**	–
Employer contribution	**4,600,000**	10,000,000	**5,913**	34,974
Plan participant contributions	**7,003,544**	6,487,765	**34,317**	23,306
Benefits paid	**(6,291,964)**	(6,681,434)	**(40,230)**	(58,280)
Fair value of plan assets at end of year	**$ 169,766,061**	$ 168,792,717	**$ –**	$ –
Funded status included in other assets (accrued benefits cost included in pension liability and other)	**$ (47,492,898)**	$ (13,625,101)	**$ (3,684,202)**	$ (3,179,198)

Included in unrestricted net assets at December 31, 2011 and 2010, are the following amounts that have not been recognized in net periodic pension cost

	Pension Benefits December 31		Other Benefits December 31	
	2011	**2010**	**2011**	**2010**
Unrecognized prior service costs	**$ (790,135)**	$ (1,052,078)	**$ (754,797)**	$ (739,052)
Unrecognized actuarial (loss) gain	**(57,137,513)**	(36,349,237)	**(8,291)**	50,605

3. Pension and Other Post-Retirement Benefit Plan (continued)

Pension assets carried at fair value as of December 31, 2011, are classified in the table below in one of the three categories described above

	Assets* at Fair Value as of December 31, 2011				Valuation Techniques
	Level 1	Level 2	Level 3	Total	(a,b,c)
Cash and cash equivalents	$ 7,170,242	$ –	$ –	$ 7,170,242	a
Marketable equity securities					
Domestic equities	68,614,565	–	–	68,614,565	a
Foreign equities	8,411,192	–	–	8,411,192	a
Fixed income securities					
Government bonds	–	19,177,502	–	19,177,502	a
Corporate bonds	–	4,476,762	–	4,476,762	a
Mutual funds	27,389,971	–	–	27,389,971	a
Alternative investments	–	24,758,810	–	24,758,810	a
Private equities	–	–	1,321,010	1,321,010	c
Other	537,452	–	–	537,452	a
Total assets at fair value	$ 112,123,422	$ 48,413,074	$ 1,321,010	$ 161,857,506	

Pension assets carried at fair value as of December 31, 2010, are classified in the table below in one of the three categories described above

	Assets* at Fair Value as of December 31, 2010				Valuation Techniques
	Level 1	Level 2	Level 3	Total	(a,b,c)
Cash equivalents	$ 3,986,805	$ –	$ –	$ 3,986,805	a
Marketable equity securities					
Domestic equities	53,355,028	–	–	53,355,028	a
Foreign equities	9,251,398	–	–	9,251,398	a
Fixed income securities					
Government bonds	–	2,709,968	–	2,709,968	a
Corporate bonds	4,807,715	6,575,803	–	11,383,518	a
Mutual funds	54,859,273			54,859,273	a
Alternative investments	–	26,935,954	–	26,935,954	a
Total assets at fair value	$ 126,260,219	$ 36,221,725	$ –	$ 162,481,944	

* Excludes loans to participants of $7,908,555 and $6,310,773 as of December 31, 2011 and 2010, respectively, as they are designated as notes receivable from participants

3. Pension and Other Post-Retirement Benefit Plan (continued)

	Private Equities
Balance at December 31, 2010	$ –
Realized/unrealized losses	(80,854)
Purchase, sales, insurance and settlements, net	1,401,864
Balance at December 31, 2011	$ 1,321,010

Included in the Cottage Health System Cash Balance Retirement Plan asset portfolio are alternative investments such as hedge funds and private equities with an estimated fair value of $26,079,820 and $26,935,954 as of December 31, 2011 and 2010, respectively Alternative investments held within a company's pension plan assets are subject to the FASB ASC 820 fair value measurement The alternative investment fair value was measured at the December 31, 2011, net asset value, which was based on quoted prices for comparable market transactions

Changes in plan assets and benefit obligations recognized as a change in unrestricted net assets during 2011 and 2010 include

	Pension Benefits Year Ended December 31		Other Benefits Year Ended December 31	
	2011	**2010**	**2011**	**2010**
Unrecognized actuarial (loss) gain	**$ (32,091,544)**	$ (2,924,134)	**$ (58,895)**	$ (35,351)
Amortization of unrecognized prior service costs	**261,943**	202,665	**88,255**	88,255
Amortization of prior actuarial loss	**11,303,267**	10,799,912	**–**	–
Amortization of amendment loss	**–**	–	**(104,000)**	–
	$ (20,526,334)	$ 8,078,443	**$ (74,640)**	$ 52,904

The unrecognized prior service costs and unrecognized prior actuarial losses, which are included as a reduction of unrestricted net assets, will be recognized as components of future net periodic (benefit) cost of $433,000 and $14,085,000, respectively, during 2012

3. Pension and Other Post-Retirement Benefit Plan (continued)

The accumulated benefit obligation for the defined benefit pension plans was $210,589,355 and $176,417,000 at December 31, 2011 and 2010, respectively

	Pension Benefits Year Ended December 31		Other Benefits Year Ended December 31	
	2011	**2010**	**2011**	**2010**
Components of net periodic benefit cost				
Service cost	**$ 11,680,143**	$ 9,101,418	**$ 183,879**	$ 155,091
Interest cost	**9,832,021**	9,281,071	**164,146**	162,839
Expected return on plan assets	**(15,135,911)**	(13,012,881)	**–**	–
Amortization of prior service cost	**261,943**	202,665	**88,255**	88,255
Recognized net actuarial loss	**11,303,267**	10,799,912	**–**	–
Net periodic benefit cost	**$ 17,941,463**	$ 16,372,185	**$ 436,280**	$ 406,185

	Pension Benefits Year Ended December 31		Other Benefits Year Ended December 31	
	2011	**2010**	**2011**	**2010**
Weighted-average assumptions used to determine benefit obligations at December 31				
Discount rate	**4.75%**	5 25%	**4.75%**	5 25%
Expected long-term rate of return on plan assets	**8.75%**	9 00%	**N/A**	N/A
Rate of compensation increase	**5.00%**	5 00%	**N/A**	N/A
Weighted-average assumptions used to determine net periodic benefit cost for year ended at December 31				
Discount rate	**4.75%**	5 25%	**4.75%**	5 25%
Expected long-term return on plan assets	**8.75%**	9 00%	**N/A**	N/A
Rate of compensation increase	**5.00%**	5 00%	**N/A**	N/A

3. Pension and Other Post-Retirement Benefit Plan (continued)

The expected rate of return on plan assets is updated annually, taking into consideration the Plan's asset allocation, historical returns on the types of assets held in the Plan, and the current economic environment

	December 31	
	2011	**2010**
Assumed health care cost trend rates at December 31		
Health care cost trend rate assumed for next year	**8.5%**	8 5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0%**	5 0%
Year that the rate reaches the ultimate trend rate	**2018**	2018

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans A one-percentage-point change in assumed health care cost trend rates would have the following effect

	1-Percentage Point Increase	**1-Percentage Point Decrease**
Effect on total of service and interest cost	$ *	$ **
Effect on post retirement benefit obligation	$ *	$ **

* The portion of the retiree health plan costs paid by the System is limited to the 2004 level, plus an increase of 4 5% per year for future years Costs in excess of this limit will be paid by the retiree Consequently, an increase in health care costs has no effect on service and interest costs or benefit obligations

** The excise taxes that are expected to apply in 2018 would negate any impact of a decrease in health care trend rates

3. Pension and Other Post-Retirement Benefit Plan (continued)

Plan Assets

The composition of plan assets at December 31, 2011 and 2010, is as follows

	Pension Benefits		Other Benefits	
	2011	**2010**	**2011**	**2010**
Asset category				
Equity securities	**48%**	38%	**–%**	–%
Fixed income securities	**14**	9	**–**	–
Mutual funds	**17**	34	**–**	–
Alternative investments (including private equities)	**16**	17	**–**	–
Other	**5**	2	**–**	–
	100%	100%	**–%**	–%

The primary objective is to achieve the highest possible total return commensurate with safety and preservation of capital in real (inflation adjusted) terms The overall investment strategy does not follow the conventional weighted-average target asset allocations, but rather targets a return as required by current and future plan liabilities Investments are broadly diversified to mitigate the specific risk of any particular asset class Investments are diversified among common stocks, fixed income instruments, cash equivalents, real estate, and alternative investments In addition, investments are diversified within asset classes by style and size

The overriding long-term objective is to ensure that the Plan is able to meet its distribution requirements while growing the assets to meet future liability expenditures, adjusted for inflation The return on the assets should meet or exceed the sum of the distribution rate, inflation rate, and growth of the assets to accommodate current and future liabilities

3. Pension and Other Post-Retirement Benefit Plan (continued)

Defined Contribution Plan

Employees of Pacific Diagnostics are covered by a 401(k) defined contribution retirement plan Pacific Diagnostics matches up to 4% of employee compensation, 100% of an employee's contributions on the first 3% of compensation, and 50% of an employee's contributions on the next 2% of compensation Pacific Diagnostic's contributions are included in salaries and benefits in the amounts of $254,000 and $233,000 for 2011 and 2010, respectively Cash Flows

Contributions

The System expects to contribute $15,000,000 (unaudited) to its pension plans and $167,000 (unaudited) to its other post retirement benefit plan in 2012

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid

	Pension Benefits	Other Benefits
2012	$ 10,997,472	$ 166,743
2013	11,341,701	244,103
2014	14,609,952	250,773
2015	16,596,002	233,287
2016	15,510,375	245,783
Years 2017-2021	98,673,008	1,567,443

4. Investments and Assets Limited as to Use

Investments, recorded at fair market value at December 31 comprised the following investment categories and balance sheet lines

	Affiliates' Master Custodial Account	Self-Insurance Trusts	Other Managed Accounts	Total
2011				
Cash and cash equivalents	$ 29,161,249	$ 4	$ 222,355	$ 29,383,608
Marketable equity securities	97,223,623	–	–	97,223,623
Fixed income securities	71,097,094	8,074,773	20,466,719	99,638,586
Mutual funds	17,777,164	–	–	17,777,164
Alternative investments(*)	97,789,552	–	–	97,789,552
Other	705,436	–	410,077	1,115,513
	$ 313,754,118	$ 8,074,777	$ 21,099,151	$ 342,928,046
Short-term investments	$ 244,274,533	$ –	$ 20,258,723	$ 264,533,256
Current portion of assets limited as to use	–	1,343,000	–	1,343,000
Assets limited as to use	59,889,780	6,731,777	410,077	67,031,634
Other assets	9,589,805	–	430,351	10,020,156
	$ 313,754,118	$ 8,074,777	$ 21,099,151	$ 342,928,046

	Affiliates' Master Custodial Account	Self-Insurance Trusts	Other Managed Accounts	Total
2010				
Cash and cash equivalents	$ 45,701,937	$ 3	$ 871,369	$ 46,573,309
Marketable equity securities	70,496,586	–	–	70,496,586
Fixed income securities	128,977,077	7,345,015	19,312,877	155,634,969
Mutual funds	21,068,591	–	–	21,068,591
Alternative investments(*)	89,797,864	–	–	89,797,864
Other	426,231	–	426,021	852,252
	$ 356,468,286	$ 7,345,018	$ 20,610,267	$ 384,423,571
Short-term investments	$ 209,913,123	$ –	$ 19,926,284	$ 229,839,407
Current portion of assets limited as to use	–	1,200,000	–	1,200,000
Assets limited as to use	136,845,790	6,145,018	426,021	143,416,829
Other assets	9,709,373	–	257,962	9,967,335
	$ 356,468,286	$ 7,345,018	$ 20,610,267	$ 384,423,571

(*) Alternative investments are accounted for on the equity method, however, the carrying amount approximates the fair value of these investments

4. Investments and Assets Limited as to Use (continued)

Investment income (loss) for the years ended December 31 includes the following

	2011	2010
Interest and dividends	**$ 8,140,179**	$ 11,060,573
Realized gains, including equity interest in earnings of alternative investments and joint ventures	**2,224,420**	13,259,601
Changes in unrealized (losses) gains on trading securities	**(13,597,245)**	4,125,528
	$ (3,232,654)	$ 28,445,702

5. Transactions with Related Parties

A summary of the significant transactions between the System and its affiliates follows

The Santa Barbara Cottage Foundation

The Santa Barbara Cottage Foundation was established to engage in the solicitation, receipt, and administration of contributions for the sole benefit of Santa Barbara Cottage The Santa Barbara Cottage Foundation's unrestricted net assets are distributed to the Santa Barbara Cottage Hospital in amounts and in periods determined by the Santa Barbara Cottage Foundation's Board of Directors, which may restrict the use of these funds for specific purposes The Santa Barbara Cottage Foundation's temporarily restricted net assets are held or distributed to Santa Barbara Cottage at the donor's request

Donations from the Santa Barbara Cottage Foundation for the years ended December 31 were as follows

	2011	2010
To Santa Barbara Cottage For capital assets	**$ –**	$ 55,000,000

During 2011 and 2010, Cottage Health System and Santa Barbara Cottage provided facilities and administrative services to the Santa Barbara Cottage Foundation for consideration of $866,785 and $945,000, respectively At December 31, 2011 and 2010, amounts due from the Santa Barbara Cottage Foundation totaled $44,857 and $1,129,000, respectively These amounts are due on a current basis and have been eliminated through the recording of the System's net interest in the Foundation

5. Transactions with Related Parties (continued)

Santa Ynez Cottage Foundation

Santa Ynez Cottage received $842,000 and $3,346,000 in contributions from Santa Ynez Cottage Foundation for capital assets in 2011 and 2010, respectively

6. Long-Term Debt

Long-term debt at December 31 consists of the following

	2011	2010
CSCDA Fixed Rate Revenue Bonds, Series 2010 payable in annual installments through 2040, with interest rates ranging from 2 0% to 5 0%	**$ 288,865,000**	$ 292,600,000
CHFFA Fixed Rate Demand Revenue Bonds, Series 2003B payable in annual installments through 2033, with interest rates ranging from 3 7% to 5 25%	**50,740,000**	52,030,000
Notes payable	–	1,629,266
	339,605,000	346,259,266
Less current maturities	**(5,610,000)**	(6,654,266)
Long-term debt, net of current maturities	**$ 333,995,000**	$ 339,605,000

The System uses debt to finance a portion of Santa Barbara Cottage and Goleta Valley Cottage replacement hospitals and certain other capital improvements In 2010, the System issued $292,600,000 of California Statewide Communities Development Authority, noted in table above as CSCDA Fixed Rate Revenue Bonds, Series 2010 (Series 2010 Bonds) to refinance the Series 2008 A-E CSCDA Variable Rate Revenue Bonds A loss on extinguishment of debt of $1,716,000 was recorded as a component of other income (loss) in the 2010 consolidated statement of operations

Santa Barbara Cottage, Goleta Valley Cottage, and Santa Ynez Cottage comprise the Members of the Obligated Group and as such all three are jointly and severally obligated with respect to the obligations issued under the bond indentures collateralizing the bonds The System is not a member of the Obligated Group, but acts as the Obligated Group Representative

6. Long-Term Debt (continued)

Bond Covenants

The Master Trust Indentures (Indentures) govern the disposition and repayments of the Series 2003B Bonds and Series 2010 Bonds The terms of the Indentures require the Obligated Group to pledge all of the revenues or any other amounts held in any fund or account established pursuant to the Indentures for the terms of the Series 2003B and Series 2010 Bonds The Indentures and Agreement contain restrictions which, among other things, require maintenance of certain financial ratios, limit the disposal of assets, and restrict certain additional indebtedness At December 31, 2011 and 2010, the Obligated Group complied with all financial covenants

In 2011 and 2010, interest costs incurred were $16,684,000 and $14,943,000, respectively, of which $15,691,000 and $10,900,000, respectively, was capitalized as part of the costs of construction in progress The amounts capitalized are reduced by investment income earned on tax exempt financings borrowed for specific qualifying projects Investment income earned that was capitalized as part of construction in progress was $0 and $3,500 in 2011 and 2010, respectively

The aggregate amounts of annual maturities and sinking fund payments for the years subsequent to December 31, 2011, are as follows

2012	$ 5,610,000
2013	5,785,000
2014	6,030,000
2015	6,270,000
2016	6,570,000
Thereafter	309,340,000
	$ 339,605,000

Interest Rate Swaps

The System has interest rate swap contracts (the Swaps) with notional amounts and termination dates to match each of the outstanding variable rate bonds prior to the repayment of the variable rate bonds Concurrent with the repayment of the variable rate bonds, two of the contracts with a combined notional amount of $102,300,000 were terminated with a payment to the Swap Counterparty of $19,931,000

6. Long-Term Debt (continued)

Under the terms of the Swaps, the System has agreed to pay to Morgan Stanley Capital Services, Inc (the Swap Counterparty) fixed rates of interest ranging from 3 592% to 3 667% and the Swap Counterparty has agreed to pay the System 68% of one-month LIBOR, based on the notional amounts of the Swaps For 2011 and 2010, the decrease in fair value of all interest rate swaps of $11,846,000 and $18,867,000, respectively, has been recorded as a component of other (loss) income in the consolidated statements of operations The fair value of the Swaps is recorded in other liabilities and totaled $34,790,000 and $22,944,000 in 2011 and 2010, respectively Payments to the Swap Counterparty increased interest costs by $0 in 2011 and $7,587,000 in 2010 Subsequent to the repayment of the variable rate bonds, payments to the Swap Counterparty were recorded as investment (loss) income

In March 2011, the System entered into an additional interest rate swap contract with the Swap Counterparty effectively reversing an existing swap contract Under the terms of the Swap contract, the Swap Counterparty agreed to pay the System a fixed rate of interest of 2 53% The notional value of the interest rate swap is $73,750,000

Each of the interest rate swap agreements has collateral posting thresholds when the mark-to-market exceeds $40,000,000 The System has a cash collateral balance with the Swap Counterparty of $0 and $393,000 at December 31, 2011 and 2010, respectively The System has offset the fair value of the collateral against the fair value of the swap liability in the consolidated balance sheets as a reduction of other long-term liabilities, pursuant to the provision of FASB ASC 210-20, *Offsetting of Amounts Related to Certain Contracts*

7. Temporarily and Permanently Restricted Net Assets

Temporarily and permanently restricted net assets at December 31 are available for the following purposes

	2011	2010
Purchase of equipment and construction	**$ 66,695,581**	$ 59,359,065
Patient care services and hospital operations	**27,960,321**	25,771,515
Research	**1,307,285**	1,618,043
Health education	**1,135,538**	1,082,970
Nursing and medical education	**1,331,906**	1,118,988
Employee assistance	**3,194**	2,995
	$ 98,433,825	$ 88,953,576

7. Temporarily and Permanently Restricted Net Assets (continued)

Temporarily restricted net assets at December 31, 2011 and 2010, include $71,691,000 and $63,391,000, respectively, of donor-restricted resources held by the affiliates on behalf of the Hospitals Permanently restricted net assets of $19,113,000 and $17,675,000 were held by the System at December 31, 2011 and 2010, respectively These resources are restricted to investments to be held in perpetuity, the income from which is expendable to support health care services and research

FASB ASC 958 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) UPMIFA was enacted in California on September 30, 2008, with an effective date of January 1, 2009 The net asset classification provisions of FASB ASC 958 were adopted by the System in 2009 when UPMIFA was enacted into law in California FASB ASC 958 also contains disclosure provisions which are included below

Endowment The System's endowment includes all permanently and certain temporarily restricted net assets which contain donor restrictions as to use as well as board-designated funds

Funds with Deficiencies The fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the System to retain as a fund of perpetual duration Deficiencies of this nature are reported in unrestricted net assets unless the income from such endowment funds is restricted as to use in which case such amounts are reflected in temporarily restricted net assets There were no such deficiencies as of December 31, 2011 and 2010

Return Objectives and Risk Parameters The System has investment policies that attempt to provide a predictable stream of funding to programs supported by operations as well as endowment donations Assets are invested in a manner that is intended to produce results that exceed the respective benchmark while assuming a moderate level of investment risk Actual returns in any given year may vary from this amount

Strategies Employed for Achieving Objectives To satisfy its long-term rate-of-return objectives, the System relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends) The System targets a diversified asset allocation to achieve its long-term return objectives within prudent risk constraints

7. Temporarily and Permanently Restricted Net Assets (continued)

Interpretation of Relevant Law The System has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary As a result of this interpretation, the System classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until the donor's restriction is met and the funds are appropriated In accordance with UPMIFA, the System considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds

(1) The duration and preservation of the fund

(2) The purposes of the donor-restricted endowment fund

(3) General economic conditions

(4) The possible effect of inflation and deflation

(5) The expected total return from income and the appreciation of investments

(6) Other resources of the System

(7) The investment policies of the System

The endowment net asset composition by type of fund as of December 31, 2011, consists of the following

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	**$ 6,042,046**	**$ 5,594,256**	**$ 11,636,302**
Total funds	**$ 6,042,046**	**$ 5,594,256**	**$ 11,636,302**

7. Temporarily and Permanently Restricted Net Assets (continued)

The endowment net asset composition by type of fund as of December 31, 2010, consists of the following

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 6,525,895	$ 5,594,256	$ 12,120,151
Total funds	$ 6,525,895	$ 5,594,256	$ 12,120,151

The changes in endowment net assets for the year ended December 31, 2011, are as follows

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 6,525,895**	**$ 5,594,256**	**$ 12,120,151**
Investment return			
Investment income	**350,765**	–	**350,765**
Net depreciation (realized and unrealized)	**(496,118)**	–	**(496,118)**
Total investment return	**(145,353)**	–	**(145,353)**
Appropriation	**(338,496)**	–	**(338,496)**
Endowment net assets, end of year	**$ 6,042,046**	**$ 5,594,256**	**$ 11,636,302**

7. Temporarily and Permanently Restricted Net Assets (continued)

The changes in endowment net assets for the year ended December 31, 2010, are as follows

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,793,179	$ 5,594,256	$ 11,387,435
Investment return			
Investment income	373,965	–	373,965
Net appreciation (realized and unrealized)	698,887	–	698,887
Total investment return	1,072,852	–	1,072,852
Appropriations	(340,136)	–	(340,136)
Endowment net assets, end of year	$ 6,525,895	$ 5,594,256	$ 12,120,151

8. Commitments and Contingencies

Leases

Goleta Valley Cottage leases land on which the acute care facility was built from the Santa Barbara Cottage Foundation

8. Commitments and Contingencies (continued)

The following is a summary of minimum noncancelable operating lease commitments (including renewal options) for the years ending December 31

	Operating Leases	
	Land and Building	Equipment
2012	$ 3,285,000	$ 1,558,000
2013	2,786,000	1,122,000
2014	2,602,000	880,000
2015	2,400,000	645,000
2016	2,357,000	323,000
Thereafter	21,414,000	–
Total minimum lease payments	$ 34,844,000	$ 4,528,000

Construction Projects

The Hospitals are required to comply with the Hospital Seismic Safety Act (SB1953), which regulates the seismic performance of all aspects of hospital facilities in California SB1953 imposes near-term and long-term compliance deadlines for seismic safety assessments, submission of corrective plans, and the retrofitting or replacement of the Hospitals' facilities to comply with current seismic standards These requirements are expected to result in significant operational changes and capital outlays Based on preliminary estimates, total costs for the Hospitals' Facilities Master Plan are estimated to be $810 million (unaudited) for Santa Barbara Cottage Actual amounts could differ from these estimates The City of Santa Barbara and the Office of Statewide Health Planning and Development have approved the plans for Santa Barbara Cottage The project consists of eight phases Construction for phases one, two and three is complete and a certificate of occupancy was received in September 2011 for phase four The plan for Goleta Valley Cottage received approval from the City of Goleta and the Office of Statewide Planning and Development Construction began in early 2011 and is anticipated to be completed in early 2014 This plan has an estimated cost of $115 million (unaudited) Completion of the new wing at Santa Ynez Valley Cottage was completed in early 2011 and the remodel of the existing space is anticipated to be completed by early 2013 The total project is estimated at $14 million (unaudited)

8. Commitments and Contingencies (continued)

Subsequent Event

On February 12, 2012, patients were moved into phase four of Santa Barbara Cottage Hospital This phase includes 197 patient care beds, surgical services, radiology, labor and delivery and support departments such as nutrition, materials and sterile processing The estimated cost of this phase, including equipment, is $410 million

Asset Retirement Obligations

In 2006, the System adopted FASB ASC 410, *Asset Retirement and Environmental Obligations*, which clarifies that the term "conditional asset retirement obligations" (ARO) and refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlements are conditional on a future event that may or may not be within the control of the entity The guidance indicates that an entity must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated and also clarifies when an entity should have sufficient information to reasonably estimate the fair value of an asset retirement obligation The System is subject to state requirements to retrofit certain buildings to current seismic standards by as early as 2013 Management has evaluated and estimated costs by which such facility will be brought into compliance with the current code (through replacement or retrofit), the settlement date and costs involved, including cost for asbestos abatement A liability of $200,000 has been recorded in the consolidated balance sheets

Legal Proceedings

The System and its affiliates are defendants in various legal actions arising from the normal conduct of business Management believes that the ultimate resolution of the various proceedings will not have a material adverse effect upon its consolidated financial position, results of operations or cash flows

9. Functional Expenses

The System provides general health care services to residents within its geographic location Expenses related to providing these services for the year ended December 31 are as follows

	2011	2010
Health care services	**$ 392,634,152**	$ 386,252,837
General and administrative	**151,532,164**	131,870,802
	$ 544,166,316	$ 518,123,639

Supplementary Information

Cottage Health System

Consolidating Balance Sheet

December 31, 2011

	Obligated Group				Total			Pacific			
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group	Cottage Health System	Professional Building	Diagnostic Laboratories	Affiliates Net Assets	Elimination Entries	Total Consolidated
Assets											
Current assets											
Cash and cash equivalents	$ 5,206,338	$ 1,554,395	$ 3,519,421	$ –	$ 10,280,154	$ 1,110,742	$ 1,446,668	$ 899,867	$ –	$ –	$ 13,737,431
Short-term investments	253,054,231	9,842,163	1,636,862	–	264,533,256	–	–	–	–	–	264,533,256
Patient accounts receivable, net	84,893,444	10,235,985	2,042,025	–	97,171,454	–	–	–	–	–	97,171,454
Current portion of assets limited as to use	1,343,000	–	–	–	1,343,000	–	–	–	–	–	1,343,000
Other receivables	21,074,062	229,445	152,721	–	21,456,228	106,602	30,089	4,319,130	–	(14,021,980)	11,890,069
Due from affiliates	2,391,894	9,418	255,073	(2,345,898)	310,487	793,643	95,925	–	–	(1,200,055)	–
Inventories	11,041,822	564,500	82,967	–	11,689,289	–	–	704,880	–	–	12,394,169
Prepaid expenses and other current assets	3,344,917	543,843	104,428	–	3,993,188	2,786,268	–	440,239	–	–	7,219,695
Total current assets	382,349,708	22,979,749	7,793,497	(2,345,898)	410,777,056	4,797,255	1,572,682	6,364,116	–	(15,222,035)	408,289,074
Assets limited as to use, less current portion											
By Board	60,299,857	–	–		60,299,857	–	–	–	–	–	60,299,857
Self-insurance trusts	6,731,777	–	–	–	6,731,777	–	–	–	–	–	6,731,777
Total assets limited as to use	67,031,634	–	–	–	67,031,634	–	–	–	–	–	67,031,634
Property, plant and equipment, net	646,169,804	61,562,541	12,417,354	–	720,149,699	8,009,410	3,564,768	10,544,678	–	–	742,268,555
Other assets	29,864,535	88,397	153,556		30,106,488	358,702		8,414,319		(6,883,792)	31,995,717
Interest in net assets and amounts due from affiliates	–	–	–	–	–	–	–	–	257,831,793		257,831,793
Total assets	$ 1,125,415,681	$ 84,630,687	$ 20,364,407	$ (2,345,898)	$ 1,228,064,877	$ 13,165,367	$ 5,137,450	$ 25,323,113	$ 257,831,793	$ (22,105,827)	$ 1,507,416,773

Cottage Health System

Consolidating Balance Sheet (continued)

December 31, 2011

	Obligated Group				Total			Pacific			
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group	Cottage Health System	Professional Building	Diagnostic Laboratories	Affiliates Net Assets	Elimination Entries	Total Consolidated
Liabilities and net assets											
Current liabilities											
Accounts payable	$ 43.903.533	$ 5.488.293	$ 665.052	$ –	$ 50.056.878	$ 1.015.439	$ 86.900	$ 1.006.084	$ –	$ –	$ 52.165.301
Accrued expenses and other liabilities	20.027.223	2.786.554	456.511	–	23.270.288	3.207.546	52.526	1.223.360	–	–	27.753.720
Current portion of accrued self-insurance claims	5.832.301	633.300	143.063	–	6.608.664	309.743	–	–	–	–	6.918.407
Due to affiliates	–	2.588.819	476.366	(2.345.898)	719.287	376.944	417.814	291.799	–	(1.805.844)	–
Current maturities of long-term debt	5.610.000	–	–	–	5.610.000	–	–	–	–	–	5.610.000
Total current liabilities	75.373.057	11.496.966	1.740.992	(2.345.898)	86.265.117	4.909.672	557.240	2.521.243	–	(1.805.844)	92.447.428
Accrued self-insurance claims, less current portion	20.597.577	2.060.294	442.325	–	23.100.196	–	–	285.418	–	–	23.385.614
Long-term debt, less current maturities	317.912.246	–	–	16.082.754	333.995.000	–	3.006.718	12.680.467	–	(15.687.185)	333.995.000
Pension liability and other	78.080.316	19.026.055	1.369.005	(16.082.754)	82.392.622	14.095.406	–	2.952.193	–	–	99.440.221
Total liabilities	491.963.196	32.583.315	3.552.322	(2.345.898)	525.752.935	19.005.078	3.563.958	18.439.321	–	(17.493.029)	549.268.263
Net assets											
Member's capital	–	–	–	–	–	–	–	6.883.792	–	(6.883.792)	–
Unrestricted	620.607.477	51.837.372	16.723.448	–	689.168.297	(5.839.711)	1.573.492	–	172.541.613	2.270.994	859.714.685
Temporarily restricted	7.250.752	210.000	88.637	–	7.549.389	–	–	–	71.771.832	–	79.321.221
Permanently restricted	5.594.256	–	–	–	5.594.256	–	–	–	13.518.348	–	19.112.604
Total net assets	633.452.485	52.047.372	16.812.085	–	702.311.942	(5.839.711)	1.573.492	6.883.792	257.831.793	(4.612.798)	958.148.510
Total liabilities and net assets	$ 1.125.415.681	$ 84.630.687	$ 20.364.407	$ (2.345.898)	$ 1.228.064.877	$ 13.165.367	$ 5.137.450	$ 25.323.113	$ 257.831.793	$ (22.105.827)	$ 1.507.416.773

Cottage Health System

Consolidating Statement of Operations

Year Ended December 31, 2011

	Obligated Group										
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Total Obligated Group	Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Equity Interest in Affiliates Activity	Elimination Entries	Total Consolidated
Unrestricted revenues, gains and other support											
Patient Service Revenue (net of contractual allowances and discounts)	$474,513,472	$ 67,129,188	$ 13,799,601	$ –	$555,442,261	$ –	$ –	$ 28,935,645	$ –	$ –	$584,377,906
Provision for doubtful accounts	(12,485,766)	(1,749,156)	(581,623)	–	(14,816,545)	–	–	(1,200,000)	–	–	(16,016,545)
Net patient service revenue	462,027,706	65,380,032	13,217,978	–	540,625,716	–	–	27,735,645	–	–	568,361,361
Hospital Medi-Cal supplemental payment	10,596,467	368,788	31,289	–	10,996,544	–	–	–	–	–	10,996,544
Other operating revenue	3,249,105	253,347	1,001,016	–	4,503,468	511,165	672,565	11,355,918	(842,000)	(11,384,339)	4,816,777
Net assets released from restrictions	307,430	–	16,106	–	323,536	–	–	–	–	–	323,536
Total unrestricted revenues, gains and other support	476,180,708	66,002,167	14,266,389	–	556,449,264	511,165	672,565	39,091,563	(842,000)	(11,384,339)	584,498,218
Expenses											
Salaries and benefits	234,123,089	31,205,586	7,565,575	–	272,894,250	219,336	–	15,414,709	–	–	288,528,295
Supplies and services	157,003,220	20,002,728	3,985,622	–	180,991,570	(3,868,487)	318,448	17,655,384	(159,084)	(11,384,339)	183,553,492
Hospital quality assurance fee	9,517,684	575,226	–	–	10,092,910	–	–	–	–	–	10,092,910
Professional fees	25,774,758	1,928,266	675,734	–	28,378,758	746,516	34,122	2,714,931	–	–	31,874,327
Insurance	3,036,563	513,258	68,472	–	3,618,293	–	1,137	182,900	–	–	3,802,330
Depreciation and amortization	16,941,017	2,379,326	575,581	–	19,895,924	3,406,407	40,744	1,975,039	–	–	25,318,114
Interest	992,876	7	–	–	992,883	–	49,995	56,654	(49,995)	(52,689)	996,848
Total expenses	447,389,207	56,604,397	12,870,984	–	516,864,588	503,772	444,446	37,999,617	(209,079)	(11,437,028)	544,166,316
Operating income (loss)	28,791,501	9,397,770	1,395,405	–	39,584,676	7,393	228,119	1,091,946	(632,921)	52,689	40,331,902
Investment (loss) income	(1,942,316)	(166,346)	20,196	–	(2,088,466)	–	447	–	–	(1,144,635)	(3,232,654)
Changes in fair value of interest rate swaps	(11,846,126)	–	–	–	(11,846,126)	–	–	–	–	–	(11,846,126)
Loss on extinguishment of debt	–	–	–		–	–	–	–	–	–	–
Change in unrestricted net assets of the affiliates	–	–	–	–	–	–	–	–	(4,412,765)	1,067,981	(3,344,784)
Excess (deficiency) of revenues over expenses	15,003,059	9,231,424	1,415,601	–	25,650,084	7,393	228,566	1,091,946	(5,045,686)	(23,965)	21,908,338
Change in pension liability	(11,399,012)	(2,812,297)	(542,561)	–	(14,753,870)	(5,847,104)	–	–	–	–	(20,600,974)
(Decrease) increase in unrestricted net assets	$ 3,604,047	$ 6,419,127	$ 873,040	$ –	$ 10,896,214	$ (5,839,711)	$ 228,566	$ 1,091,946	$ (5,045,686)	$ (23,965)	$ 1,307,364

Cottage Health System

Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2011

	Obligated Group										
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Total Obligated Group	Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Equity Interest in Affiliates Activity	Elimination Entries	Total Consolidated
Unrestricted net assets											
Excess (deficiency) of revenues over expenses	$ 15,003,059	$ 9,231,424	$ 1,415,601	$ –	$ 25,650,084	$ 7,393	$ 228,566	$ 1,091,946	$ (5,045,686)	$ (23,965)	$ 21,908,338
Change in pension liability	(11,399,012)	(2,812,297)	(542,561)	–	(14,753,870)	(5,847,104)	–	–	–	–	(20,600,974)
Increase in unrestricted net assets	3,604,047	6,419,127	873,040	–	10,896,214	(5,839,711)	228,566	1,091,946	(5,045,686)	(23,965)	1,307,364
Temporarily restricted net assets											
Contributions	188,753	210,000	25,000	–	423,753	–	–	–	–	–	423,753
Investment gains (loss)	(145,353)	–	–	–	(145,353)	–	–	–	–	–	(145,353)
Net assets released from restrictions	(307,430)	–	(16,106)	–	(323,536)	–	–	–	–	–	(323,536)
Changes in value of contributions from charitable remainder trusts	–	–	(6,263)	–	(6,263)	–	–	–	–	–	– (6,263)
Change in net assets of affiliates	–	–	–	–	–	–	–	–	8,272,873	–	8,272,873
Increase in temporarily restricted net assets	(264,030)	210,000	2,631	–	(51,399)	–	–	–	8,272,873	–	8,221,474
Permanently restricted net assets											
Changes in net assets of the Affiliates	–	–	–	–	–	–	–	–	1,437,119	–	1,437,119
Increase (decrease) in permanently restricted net assets	–	–	–	–	–	–	–	–	1,437,119	–	1,437,119
Increase (decrease) in net assets	3,340,017	6,629,127	875,671	–	10,844,815	(5,839,711)	228,566	1,091,946	4,664,306	(23,965)	10,965,957
Net assets at beginning of year	630,112,468	45,418,245	15,936,414	–	691,467,127	–	1,344,926	5,791,846	253,167,487	(4,588,833)	947,182,553
Net assets at end of year	$ 633,452,485	$ 52,047,372	$ 16,812,085	$ –	$ 702,311,942	$ (5,839,711)	$ 1,573,492	$ 6,883,792	$ 257,831,793	$ (4,612,798)	$ 958,148,510

Cottage Health System

Consolidating Balance Sheet

December 31, 2010

	Obligated Group									
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Total Obligated Group	Professional Building	Pacific Diagnostic Laboratories	Affiliates Net Assets	Elimination Entries	Total Consolidated
Assets										
Current assets										
Cash and cash equivalents	$ 20.345.969	$ 8.213.467	$ 2.603.117	$ –	$ 31.162.553	$ 1.195.299	$ (79.766)	$ –	$ –	$ 32.278.086
Short-term investments	214.267.034	13.980.200	1.592.172	–	229.839.406	–	–	–	–	229.839.406
Patient accounts receivable, net	85.614.984	9.380.757	1.307.447	–	96.303.188	–	–	–	–	96.303.188
Current portion of assets limited as to use	1.200.000	–	–	–	1.200.000	–	–	–	–	1.200.000
Other receivables	28.975.991	772.397	141.172	–	29.889.560	2.343	3.068.957	–	(12.997.002)	19.963.858
Due from affiliates	3.996.670	(4.258)	338.323	(2.862.924)	1.467.811	93.730	–	–	(1.561.541)	–
Inventories	11.616.847	460.375	78.314	–	12.155.536	–	465.911	–	–	12.621.447
Prepaid expenses and other current assets	5.253.670	559.308	125.443	–	5.938.421	–	412.738	–	–	6.351.159
Total current assets	371.271.165	33.362.246	6.185.988	(2.862.924)	407.956.475	1.291.372	3.867.840	–	(14.558.543)	398.557.144
Assets limited as to use, less current portion										
By Board	137.271.811	–	–	–	137.271.811	–	–	–	–	137.271.811
Self-insurance trusts	6.145.018	–	–	–	6.145.018	–	–	–	–	6.145.018
Total assets limited as to use	143.416.829	–	–	–	143.416.829	–	–	–	–	143.416.829
Property, plant and equipment, net	566.512.246	38.017.292	12.063.973	–	616.593.511	3.100.798	9.790.642	–	–	629.484.951
Other assets	25.194.135	140.628	17.971	–	25.352.734	–	9.088.465	–	(5.791.846)	28.649.353
Interest in net assets and amounts due from affiliates	–	–	–	–	–	–	–	253.167.487	–	253.167.487
Total assets	$ 1.106.394.375	$ 71.520.166	$ 18.267.932	$ (2.862.924)	$ 1.193.319.549	$ 4.392.170	$ 22.746.947	$ 253.167.487	$ (20.350.389)	$ 1.453.275.764

Cottage Health System

Consolidating Balance Sheet (continued)

December 31, 2010

	Obligated Group									
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Total Obligated Group	Professional Building	Pacific Diagnostic Laboratories	Affiliates Net Assets	Elimination Entries	Total Consolidated
Liabilities and net assets										
Current liabilities										
Accounts payable	$ 52.281.864	$ 3.884.725	$ 672.465	$ –	$ 56.839.054	$ –	$ 1.092.458	$ –	$ –	$ 57.931.512
Accrued expenses and other liabilities	20.116.485	3.037.408	155.611	–	23.309.504	40.526	1.131.938	–	–	24.481.968
Current portion of accrued self-insurance claims	5.148.641	541.000	139.963	–	5.829.604	–	–	–	–	5.829.604
Due to affiliates	–	2.605.949	676.108	(2.862.924)	419.133	–	(266.497)	–	(152.636)	–
Current maturities of long-term debt and capital lease obligations	6.654.266	–	–	–	6.654.266	–	–	–	–	6.654.266
Total current liabilities	84.201.256	10.069.082	1.644.147	(2.862.924)	93.051.561	40.526	1.957.899	–	(152.636)	94.897.350
Accrued self-insurance claims, less current portion	16.319.874	1.356.941	341.234	–	18.018.049	–	–	–	–	18.018.049
Long-term debt and capital lease obligations, less current maturities	323.522.246	–	–	16.082.754	339.605.000	3.006.718	12.602.202	–	(15.608.920)	339.605.000
Pension liability and other	52.238.531	14.675.898	346.137	(16.082.754)	51.177.812	–	2.395.000	–	–	53.572.812
Total liabilities	476.281.907	26.101.921	2.331.518	(2.862.924)	501.852.422	3.047.244	16.955.101	–	(15.761.556)	506.093.211
Net assets										
Member's capital	–	–	–	–	–	–	5.791.846	–	(5.791.846)	–
Unrestricted	616.825.086	45.418.245	15.850.408	–	678.093.739	1.344.926	–	177.587.299	1.203.013	858.228.977
Temporarily restricted	7.693.126	–	86.006	–	7.779.132	–	–	63.498.959	–	71.278.091
Permanently restricted	5.594.256	–	–	–	5.594.256	–	–	12.081.229	–	17.675.485
Total net assets	630.112.468	45.418.245	15.936.414	–	691.467.127	1.344.926	5.791.846	253.167.487	(4.588.833)	947.182.553
Total liabilities and net assets	$ 1.106.394.375	$ 71.520.166	$ 18.267.932	$ (2.862.924)	$ 1.193.319.549	$ 4.392.170	$ 22.746.947	$ 253.167.487	$ (20.350.389)	$ 1.453.275.764

Cottage Health System

Consolidating Statement of Operations

Year Ended December 31, 2010

	Obligated Group									
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Total Obligated Group	Professional Building	Pacific Diagnostic Laboratories	Equity Interest in Affiliates Activity	Elimination Entries	Total Consolidated
Unrestricted revenues, gains and other support										
Patient Service Revenue (net of contractual allowaces and discounts)	$ 453,539,049	$ 62,188,325	$ 12,334,309	$ –	$ 528,061,683	$ –	$ 21,473,895	$ –	$ (1,347,394)	$ 548,188,184
Provision for doubtful accounts	(10,929,196)	(1,724,383)	(443,315)	–	(13,096,894)	–	(490,000)	–	–	(13,586,894)
Net patient service revenue	442,609,853	60,463,942	11,890,994	–	514,964,789	–	20,983,895	–	(1,347,394)	534,601,290
Hospital Medi-Cal supplemental fee	28,100,410	962,493	66,279	–	29,129,182	–	–	–	–	29,129,182
Other operating revenue (deficit)	59,513,555	551,489	3,503,828	–	63,568,872	625,168	9,403,401	(58,345,504)	(9,421,769)	5,830,168
Net assets released from restrictions	175,207	–	–	–	175,207	–	–	–	–	175,207
Total unrestricted revenues, gains and other support	530,399,025	61,977,924	15,461,101	–	607,838,050	625,168	30,387,296	(58,345,504)	(10,769,163)	569,735,847
Expenses										
Salaries and benefits	214,869,271	28,140,180	7,105,689	–	250,115,140	–	11,941,994	–	–	262,057,134
Supplies and services	140,194,319	17,243,363	3,241,086	–	160,678,768	286,207	15,492,256	(159,084)	(10,769,163)	165,528,984
Hospital quality assurance fee	28,267,344	1,709,592	–	–	29,976,936	–	–	–	–	29,976,936
Professional fees	22,525,287	1,811,388	750,530	–	25,087,205	21,829	2,364,829	–	–	27,473,863
Insurance	2,773,840	(79,265)	54,788	–	2,749,363	–	67,198	–	–	2,816,561
Depreciation and amortization	22,245,437	2,604,606	244,082	–	25,094,125	85,379	1,047,954	–	–	26,227,458
Interest	4,042,098	55	–	–	4,042,153	49,995	46,482	(49,995)	(45,932)	4,042,703
Total expenses	434,917,596	51,429,919	11,396,175	–	497,743,690	443,410	30,960,713	(209,079)	(10,815,095)	518,123,639
Operating income (loss)	95,481,429	10,548,005	4,064,926	–	110,094,360	181,758	(573,417)	(58,136,425)	45,932	51,612,208
Investment income	26,874,859	1,005,480	37,878	–	27,918,217	–	–	–	527,485	28,445,702
Changes in fair value of interest rate swaps	(18,866,703)	–	–	–	(18,866,703)	–	–	–	–	(18,866,703)
Loss on extinguishment of debt	(1,716,937)	–	–	–	(1,716,937)	–	–	–	–	(1,716,937)
Change in unrestricted net assets of the affiliates	–	–	–	–	–	–	–	68,651,657	(1,120,467)	67,531,190
Excess (deficiency) of revenues over expenses	101,772,648	11,553,485	4,102,804	–	117,428,937	181,758	(573,417)	10,515,232	(547,050)	127,005,460
Change in pension liability	6,735,303	1,191,182	204,862	–	8,131,347	–	–	–	–	8,131,347
Increase (decrease) in unrestricted net assets	$ 108,507,951	$ 12,744,667	$ 4,307,666	$ –	$ 125,560,284	$ 181,758	$ (573,417)	$ 10,515,232	$ (547,050)	$ 135,136,807

Cottage Health System

Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2010

	Obligated Group									
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Total Obligated Group	Professional Building	Pacific Diagnostic Laboratories	Equity Interest in Affiliates Activity	Elimination Entries	Total Consolidated
Unrestricted net assets										
Excess (deficiency) of revenues over expenses	$ 101,772,648	$ 11,553,485	$ 4,102,804	$ –	$ 117,428,937	$ 181,758	$ (573,417)	$ 10,515,232	$ (547,050)	$ 127,005,460
Change in pension liability	6,735,303	1,191,182	204,862	–	8,131,347	–	–	–	–	8,131,347
Increase in unrestricted net assets	108,507,951	12,744,667	4,307,666	–	125,560,284	181,758	(573,417)	10,515,232	(547,050)	135,136,807
Temporarily restricted net assets										
Contributions	65,275	–	–	–	65,275	–	–	–	–	65,275
Investment gains	916,846	–	–	–	916,846	–	–	–	–	916,846
Net assets released from restrictions	(175,207)	–	–	–	(175,207)	–	–	–	–	(175,207)
Changes in value of contributions from charitable remainder trusts	–	–	7,040	–	7,040	–	–	–	–	7,040
Change in net assets of affiliates	–	–	–	–	–	–	–	(49,915,822)	–	(49,915,822)
Increase in temporarily restricted net assets	806,914	–	7,040	–	813,954	–	–	(49,915,822)	–	(49,101,868)
Permanently restricted net assets										
Changes in net assets of the Affiliates	–	–	–	–	–	–	–	1,632,193	–	1,632,193
Increase (decrease) in permanently restricted net assets	–	–	–	–	–	–	–	1,632,193	–	1,632,193
Increase (decrease) in net assets	109,314,865	12,744,667	4,314,706	–	126,374,238	181,758	(573,417)	(37,768,397)	(547,050)	87,667,132
Net assets at beginning of year	520,797,603	32,673,578	11,621,708	–	565,092,889	1,163,168	6,365,263	290,935,884	(4,041,783)	859,515,421
Net assets at end of year	$ 630,112,468	$ 45,418,245	$ 15,936,414	$ –	$ 691,467,127	$ 1,344,926	$ 5,791,846	$ 253,167,487	$ (4,588,833)	$ 947,182,553

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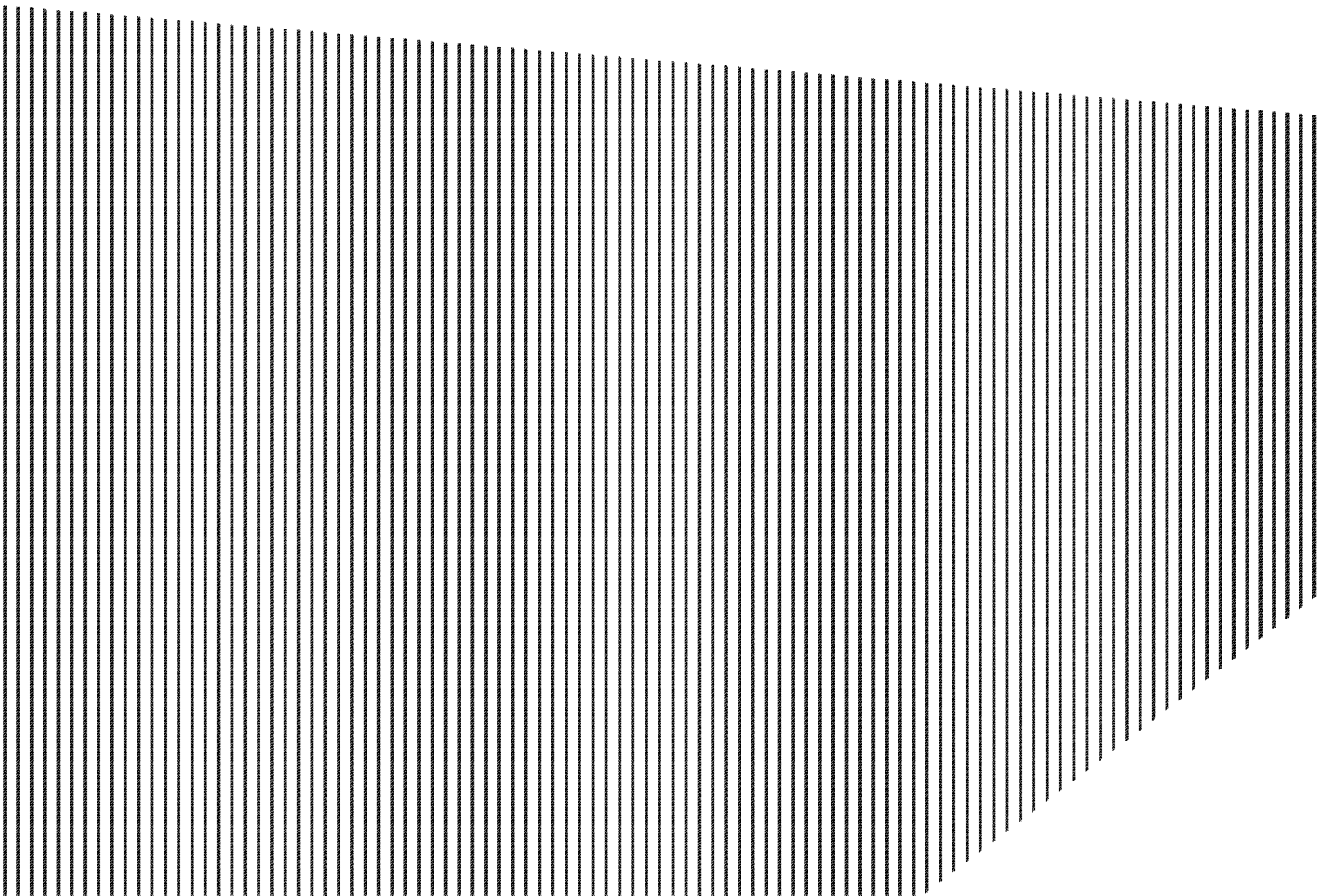

Form 990, Part VII - Compensation of Officers, Directors,Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
Charles Cline Clinical Profusionist	40					X		297,555	0	22,505
Allan Cohen Director Pharmacy	40					X		261,266	0	22,505
Stephen S Kaminski MD Director Trauma	40					X		260,816	0	22,505
Melinda Staveley VP CRH & Therapy Services	40					X		255,840	0	36,266

Additional Data

Software ID: 11000129
Software Version: v1.00
EIN: 95-1644629
Name: SANTA BARBARA COTTAGE HOSPITAL

Form 990, Special Condition Description:

Special Condition Description

Form 990, Part VII - Compensation of Officers, Directors,Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

(A) Name and Title	(B) Average hours per week	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W- 2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
Steve Ainsley Board Member	2	X						0	0	0
J Robert Andrews Esq Board Member	3	X						0	0	0
Margaret Baker Board Member	2	X						0	0	0
Ed Birch PhD Vice Chair	3	X		X				0	0	0
Jon Clark Board Member	2	X						0	0	0
Greg Faulkner Esq Board Member	2	X						0	0	0
Frederick Gluck Board Member	3	X						0	0	0
Judith Hopkinson Board Member	2	X						0	0	0
Angel Iscovich MD Board Member	3	X						0	0	0
Charles A Jackson Board Member	3	X						0	0	0
Alex Koper MD Board Member	2	X						21,935	3,450	0
Jeffrey Kupperman MD Secretary	3	X						12,513	2,500	0
Fred Lukas Board Member	2	X						0	0	0
Gretchen Milligan Chair	4	X		X				0	0	0
Robert Nakasone Vice Chair	3	X		X				0	0	0
Robert Nourse Board Member	2	X						0	0	0
Elliot Prager MD Board Member	2	X						240,231	0	0
John Romo Board Member	2	X						0	0	0
Marshall Turner Board Member	2	X						0	0	0
Tom Watson MD Board Member	2	X						11,525	200	0
Ronald C Werft CEO	40			X				0	985,900	614,404
Steven A Fellows COO	40			X				0	578,747	156,703
Joan Bricher CFO	40			X				0	514,928	241,780
Julie Artoux Assistant Secretary	40			X				0	119,146	16,212
David Nichols Manager	40					X		555,748	0	32,255