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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

2012

Open to Public Inspection

A For the 2012 calendar year, or tax year beginning 01-01-2012 , 2012, and ending 12-31-2012

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 $ 709,861,310

F Name and address of principal officer
Ronald Werft
same as C 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

Activities & Governance

3	Number of voting members of the governing body (Part VI, line 1a)	**3**	16
4	Number of independent voting members of the governing body (Part VI, line 1b)	**4**	12
5	Total number of individuals employed in calendar year 2012 (Part V, line 2a)	**5**	3,219
6	Total number of volunteers (estimate if necessary)	**6**	889
7a	Total unrelated business revenue from Part VIII, column (C), line 12	**7a**	13,364,218
b	Net unrelated business taxable income from Form 990-T, line 34	**7b**	104,290

		Prior Year	Current Year
Revenue			
8	Contributions and grants (Part VIII, line 1h)	2,065,178	2,086,846
9	Program service revenue (Part VIII, line 2g)	501,454,547	542,778,800
10	Investment income (Part VIII, column (A), lines 3, 4, and 7d)	15,269,866	11,999,419
11	Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	9,885,771	12,934,133
12	Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	528,675,362	569,799,198
Expenses			
13	Grants and similar amounts paid (Part IX, column (A), lines 1–3)	1,263,313	1,916,555
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)	229,557,436	252,276,896
16a	Professional fundraising fees (Part IX, column (A), line 11e)	0	0
b	Total fundraising expenses (Part IX, column (D), line 25) ▶0		
17	Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	254,585,769	299,542,302
18	Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	485,406,518	553,735,753
19	Revenue less expenses Subtract line 18 from line 12	43,268,844	16,063,445
Net Assets or Fund Balances		**Beginning of Current Year**	**End of Year**
20	Total assets (Part X, line 16)	1,130,882,734	1,160,226,356
21	Total liabilities (Part X, line 26)	497,430,249	485,260,002
22	Net assets or fund balances Subtract line 21 from line 20	633,452,485	674,966,354

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 — 2013-11-14 Date

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

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			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 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 $ 448,916,269 including grants of $ 1,916,555) (Revenue $ 555,712,933)

Santa Barbara Cottage Hospital is a 408-bed acute-care hospital located in the City of Santa Barbara In 2012, the Hospital had 83,234 patient days, served 124,828 outpatients, including emergency services to 44,246 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 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 from Medicare, Medi-Cal, and indigent care In 2012, Cottage Health System spent over $144 million on these programs, the majority of which were the expenses of Santa Barbara Cottage Hospital Community outreach efforts for Cottage Health System in 2012 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 Santa Barbara Cottage Hospital has also been diligent in ensuring that all patients have adequate access to care 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 2012, Santa Barbara Cottage Hospital provided free or discounted care to 1,557 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** ▶ 448,916,269

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 for escrow or custodial account liability, 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, line 10? *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 and XII*	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 and XII 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, Parts I and IV*	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 United States? *If "Yes," complete Schedule F, Parts 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 United States? *If "Yes," complete Schedule F, Parts 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 (see instructions)*	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 hospital facilities? *If "Yes," complete Schedule H*	20a	Yes	
b	If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?	20b	Yes	

Part IV Checklist of Required Schedules *(continued)*

21	Did the organization report more than $5,000 of grants and other assistance to any government or organization 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, line 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 lines 24b through 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, highest 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 employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? *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**	Yes	
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 direct or indirect 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, Part II, III, or IV, and Part V, line 1*	**34**	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	**35a**	Yes	
b	If 'Yes' to line 35a, 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 11b 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	486		
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	3,219		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? **Note.** If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions)	2b		Yes	
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, securities account, or other financial 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 as charitable contributions? . . .	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.** See the instructions for additional information the organization must report on Schedule O	13a			
b	Enter the 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 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** 16			
	If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O			
b	Enter the number of voting members included in line 1a, above, who are independent **1b** 12			
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 this 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 ☐ Other (explain in Schedule O)

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 during the tax year

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 (805) 569-7294

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 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 organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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			
See Additional Data Table										

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(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			
1b **Sub-Total** . . . . . ▶										
c **Total from continuation sheets to Part VII, Section A** . . . . ▶										
d **Total (add lines 1b and 1c)** . . . . . ▶								2,003,119	3,537,241	1,401,840

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 ▶ 487

			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**	Yes	
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
McCarthy Building Company 20401 SW BIRCH ST 300 NEWPORT BEACH CA 92660	GENERAL CONTRACTOR	20,615,043
Comforce PO BOX 31001-0893 PASADENA CA 911100893	CONTRACT LABOR	7,180,636
Armstrong Associates 1825 State St STE 202 Santa Barbara CA 93101	General Contracting	5,627,080
Nichols Management Group LTD , P O BOX 1288 571 York St York Harbor ME 03911	PDL Lab Management	3,279,184
Lee Burkhart Lui Inc 13335 Maxella Avenue Marina del Rey CA 90292	Architects	2,628,258

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 ▶ 133

Part VIII Statement of Revenue

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

				(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 881,122				
	e	Government grants (contributions)	1e 398,348				
	f	All other contributions, gifts, grants, and similar amounts not included above	1f 807,376				
	g	Noncash contributions included in lines 1a-1f $	0				
	h	**Total.** Add lines 1a-1f	▶	2,086,846			
Program Service Revenue			Business Code				
	2a	NET PATIENT SERVICE REVENUE	900099	494,373,445	494,373,445	0	0
	b	LABORATORY SERVICES	900099	28,052,430	14,688,212	13,364,218	0
	c	CA HOSPITAL FEE PROGRAM	900099	14,909,448	14,909,448	0	0
	d	EHR MEDICARE & MEDI-CAL INCENTIVE PMTS	900099	3,351,997	3,351,997	0	0
	e	MEDICAL OFFICE BLDG RENTAL	900099	1,196,076	1,196,076	0	0
	f	All other program service revenue		895,404	895,404	0	0
	g	**Total.** Add lines 2a–2f	▶	542,778,800			
	3	Investment income (including dividends, interest, and other similar amounts)	▶	9,204,721	0	0	9,204,721
	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	142,856,810 / 0				
	b	Less cost or other basis and sales expenses	140,062,112 / 0				
	c	Gain or (loss)	2,794,698 / 0				
	d	Net gain or (loss)	▶	2,794,698	0	0	2,794,698
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	1,812,690	1,812,690	0	0
	b	INSURANCE RECOVERIES	900099	5,605,535	5,605,535	0	0
	c	CAFETERIA/GIFT SHOP/DELI/VILLA RIVIERA	900099	1,595,919	1,595,919	0	0
	d	All other revenue		3,919,989	3,919,989	0	0
	e	**Total.** Add lines 11a–11d	▶	12,934,133			
	12	**Total revenue.** See Instructions	▶	569,799,198	542,348,715	13,364,218	11,999,419

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)

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	1,916,555	1,916,555		
2 Grants and other assistance to individuals in the United States See Part IV, line 22				
3 Grants and other assistance to governments, organizations, and individuals outside the United States See Part IV, lines 15 and 16				
4 Benefits paid to or for members				
5 Compensation of current officers, directors, trustees, and key employees	21,880	21,880	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)	105,283	105,283	0	0
7 Other salaries and wages	163,009,424	136,386,689	26,622,735	0
8 Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions)	20,817,558	17,392,549	3,425,009	0
9 Other employee benefits	55,274,999	45,663,014	9,611,985	0
10 Payroll taxes	13,047,752	10,764,480	2,283,272	0
11 Fees for services (non-employees)				
a Management	40,665,253	19,854,785	20,810,468	0
b Legal	6,390,534	0	6,390,534	0
c Accounting	679,216	0	679,216	0
d Lobbying	34,151	0	34,151	0
e Professional fundraising services See Part IV, line 17	0			0
f Investment management fees	2,226,747		2,226,747	0
g Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O)	44,680,450	32,572,365	12,108,085	0
12 Advertising and promotion	186,277	58,510	127,767	0
13 Office expenses	11,861,540	9,007,916	2,853,624	0
14 Information technology	1,073,159	900,731	172,428	0
15 Royalties . .	0	0	0	0
16 Occupancy	8,832,623	6,598,217	2,234,406	0
17 Travel	538,164	127,347	410,817	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	164,587	28,356	136,231	0
20 Interest	16,626,899	12,486,274	4,140,625	0
21 Payments to affiliates	0	0	0	0
22 Depreciation, depletion, and amortization	36,924,807	35,518,613	1,406,194	0
23 Insurance	2,472,746	1,339,297	1,133,449	0
24 Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24e If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O)				
a MEDICAL SUPPLIES	88,569,973	88,569,878	95	0
b HOSPITAL FEE PROGRAM	21,847,024	21,847,024	0	0
c EQUIPMENT MAINTENANCE	8,535,917	7,287,239	1,248,678	0
d CONSTRUCTION EXPENSE	5,266,616	0	5,266,616	0
e All other expenses	1,965,619	469,267	1,496,352	0
25 **Total functional expenses.** Add lines 1 through 24e	553,735,753	448,916,269	104,819,484	0
26 **Joint costs.** Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation Check here ▶ ☐ if following SOP 98-2 (ASC 958-720)				

Part X Balance Sheet

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

				(A) Beginning of year		(B) End of year
Assets	1	Cash—non-interest-bearing		6,101,205	1	19,975,346
	2	Savings and temporary cash investments		55,850,652	2	57,392,976
	3	Pledges and grants receivable, net		0	3	0
	4	Accounts receivable, net		89,088,497	4	89,723,230
	5	Loans and other 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	Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Complete Part II of Schedule L		0	6	0
	7	Notes and loans receivable, net		0	7	0
	8	Inventories for sale or use		11,746,702	8	13,187,406
	9	Prepaid expenses and deferred charges		3,785,156	9	8,663,402
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a 873,565,311			
	b	Less accumulated depreciation	10b 220,290,500	656,714,482	10c	653,274,811
	11	Investments—publicly traded securities		203,339,278	11	181,392,001
	12	Investments—other securities See Part IV, line 11		72,325,748	12	89,390,151
	13	Investments—program-related See Part IV, line 11		0	13	
	14	Intangible assets		8,414,319	14	7,740,172
	15	Other assets See Part IV, line 11		23,266,695	15	39,236,861
	16	**Total assets.** Add lines 1 through 15 (must equal line 34)		1,130,882,734	16	1,160,226,356
Liabilities	17	Accounts payable and accrued expenses		67,640,332	17	57,201,792
	18	Grants payable		0	18	0
	19	Deferred revenue		34,502	19	3,015
	20	Tax-exempt bond liabilities		330,237,401	20	323,718,127
	21	Escrow or custodial account liability Complete Part IV of Schedule D		0	21	0
	22	Loans and other 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		0	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		99,518,014	25	104,337,068
	26	**Total liabilities.** Add lines 17 through 25		497,430,249	26	485,260,002
Net Assets or Fund Balances		**Organizations that follow SFAS 117 (ASC 958), check here ▶ ☑ and complete lines 27 through 29, and lines 33 and 34.**				
	27	Unrestricted net assets		620,607,477	27	661,162,205
	28	Temporarily restricted net assets		7,250,752	28	8,209,893
	29	Permanently restricted net assets		5,594,256	29	5,594,256
		Organizations that do not follow SFAS 117 (ASC 958), 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		633,452,485	33	674,966,354
	34	Total liabilities and net assets/fund balances		1,130,882,734	34	1,160,226,356

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	569,799,198
2	Total expenses (must equal Part IX, column (A), line 25)	2	553,735,753
3	Revenue less expenses Subtract line 2 from line 1	3	16,063,445
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	633,452,485
5	Net unrealized gains (losses) on investments	5	20,868,874
6	Donated services and use of facilities	6	0
7	Investment expenses	7	0
8	Prior period adjustments	8	0
9	Other changes in net assets or fund balances (explain in Schedule O)	9	4,581,550
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	674,966,354

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
	If 'Yes,' check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both ☐ Separate basis ☐ Consolidated basis ☐ Both consolidated and separate basis			
b	Were the organization's financial statements audited by an independent accountant?	2b	Yes	
	If 'Yes,' check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both ☐ Separate basis ☑ Consolidated basis ☐ Both consolidated and separate basis			
c	If "Yes," to line 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?	2c	Yes	
	If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O			
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

2012

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 described in **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 - Non-functionally integrated

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 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?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of monetary support
			Yes	No	Yes	No	Yes	No	
Total									

Part II **Support Schedule for Organizations Described in Sections 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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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 Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
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 2012 (line 6, column (f) divided by line 11, column (f)) **14**

15 Public support percentage for 2011 Schedule A, Part II, line 14 **15**

16a **33 1/3% support test—2012.** 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—2011.** If the organization did not check a 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—2012.** 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—2011.** 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 Section 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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(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 2012 (line 8, column (f) divided by line 13, column (f))	15	
16	Public support percentage from 2011 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage

17	Investment income percentage for **2012** (line 10c, column (f) divided by line 13, column (f))	17	
18	Investment income percentage from **2011** Schedule A, Part III, line 17	18	

19a **33 1/3% support tests—2012.** 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—2011.** 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.** Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and 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

2012

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, Part V, 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 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 function 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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable 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)).

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(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?	Yes		34,151
j	Total Add lines 1c through 1i			34,151
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 carry over 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) and if either (a) BOTH Part III-A, lines 1 and 2, are answered "No" OR (b) Part III-A, line 3, is answered "Yes."

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) nondeductible 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, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1. 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, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

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 can 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 education) ☐ Preservation of an historically important land area
☐ Protection of natural habitat ☐ Preservation of a certified historic structure
☐ Preservation of open space

2 Complete lines 2a through 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, and not on a historic structure listed in the National Register	2d

3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax 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 section 170(h)(4)(B)(ii)? ☐ Yes ☐ No

9 In Part XIII, 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 (ASC 958), 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 XIII, the text of the footnote to its financial statements that describes these items

b If the organization elected, as permitted under SFAS 116 (ASC 958), 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 (ASC 958) 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 acquisition, 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 XIII

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 XIII 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 XIII Check here if the explanation has been provided in Part XIII . . . . . ☐

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

		(a) Current year	(b) Prior year	b (c) Two years back	(d) Three years back	(e) Four years back
1a	Beginning of year balance	11,636,302	12,120,151	11,387,435	10,754,765	15,792,105
b	Contributions	0	0	0	0	0
c	Net investment earnings, gains, and losses	1,323,701	-100,999	1,031,032	687,451	-4,904,683
d	Grants or scholarships	0	0	0	0	0
e	Other expenditures for facilities and programs	358,958	338,496	269,432	25,782	48,477
f	Administrative expenses	59,184	44,354	28,884	28,999	84,180
g	End of year balance	12,541,861	11,636,302	12,120,151	11,387,435	10,754,765

2 Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as

- a Board designated or quasi-endowment ▶ 0 %
- b Permanent endowment ▶ 45 %
- c Temporarily restricted endowment ▶ 55 %

The percentages in lines 2a, 2b, and 2c should equal 100%

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 XIII 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	15,913,603		18,196,595
b Buildings	10,358,789	647,028,595	138,195,490	519,191,894
c Leasehold improvements	0	8,582,888	968,624	7,614,264
d Equipment	0	147,445,508	79,328,293	68,117,215
e Other	0	41,952,936	1,798,093	40,154,843
Total. Add lines 1a through 1e *(Column (d) must equal Form 990, Part X, column (B), line 10(c).)* ▶				653,274,811

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	89,390,151	F
Other		
Total. *(Column (b) must equal Form 990, Part X, col (B) line 12)* ▶	89,390,151	

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) must 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) must 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) Book value
Federal income taxes	0
SELF INSURANCE LIABILITY	28,051,271
RETIREMENT PLAN - SERP	7,141
MINIMUM PENSION LIABILITY	39,324,062
INTEREST RATE SWAP LIABILITY	33,160,066
PHYSICIAN GUARANTEE	3,300,363
CONTINGENT PAYMENT MGPL	494,165
Total. *(Column (b) must equal Form 990, Part X, col (B) line 25)* ▶	104,337,068

2. Fin 48 (ASC 740) Footnote In Part XIII, 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 (ASC 740) Check here if the text of the footnote has been provided in Part XIII ☑

Part XI 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 XIII)	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 XIII)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total revenue Add lines **3** and **4c.** (This must equal Form 990, Part I, line 12)			5	

Part XII 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 XIII)	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 XIII)	4b			
c	Add lines **4a** and **4b**			4c	
5	Total expenses Add lines **3** and **4c.** (This must equal Form 990, Part I, line 18)			5	

Part XIII 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, line 2, Part XI, lines 2d and 4b, and Part XII, 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_L02	Schedule D, Part X, Line 2	The System and its affiliates, except for Pacific Diagnostic Laboratories, 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 2009

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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

2012

Open to Public Inspection

Name of the organization
SANTA BARBARA COTTAGE HOSPITAL

Employer identification number
95-1644629

Part I Financial Assistance and Certain Other Community Benefits at Cost

			Yes	No
1a	Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	1a	Yes	
b	If "Yes," was it a written policy?	1b	Yes	
2	If the organization had multiple hospital facilities, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year			
	☑ Applied uniformly to all hospital facilities ☐ Applied uniformly to most hospital facilities ☐ Generally tailored to individual hospital facilities			
3	Answer the following based on the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year			
a	Did the organization use Federal Poverty Guidelines (FPG) as a factor in determining eligibility for providing *free* care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for *free* care	3a	Yes	
	☐ 100% ☐ 150% ☐ 200% ☑ Other 350 %			
b	Did the organization use FPG as a factor in determining eligibility for providing *discounted* care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care	3b	Yes	
	☐ 200% ☐ 250% ☐ 300% ☐ 350% ☐ 400% ☑ Other 542 %			
c	If the organization used factors other than FPG in determining eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization used an asset test or other threshold, regardless of income, as a factor in determining eligibility for free or discounted care			
4	Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for 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 financial assistance 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 report during the tax year?	6a	Yes	
b	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 Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance 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 Financial Assistance at cost (from Worksheet 1)			16,320,877	0	16,320,877	2 95 %
b Medicaid (from Worksheet 3, column a)			99,931,474	51,858,916	48,072,558	8 68 %
c Costs of other means-tested government programs (from Worksheet 3, column b)			5,177,547	1,586,663	3,590,884	0 65 %
d **Total** Financial Assistance and Means-Tested Government Programs	0	0	121,429,898	53,445,579	67,984,319	12 28 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			9,606,231	0	9,606,231	1 74 %
f Health professions education (from Worksheet 5)			9,006,005	5,595,612	3,410,393	0 62 %
g Subsidized health services (from Worksheet 6)			521,490	0	521,490	0 09 %
h Research (from Worksheet 7)			0	0	0	
i Cash and in-kind contributions for community benefit (from Worksheet 8)			240,446	0	240,446	0 04 %
j **Total.** Other Benefits	0	0	19,374,172	5,595,612	13,778,560	2 49 %
k **Total.** Add lines 7d and 7j	0	0	140,804,070	59,041,191	81,762,879	14 77 %

Part II **Community Building Activities** Complete this if the organization conducted any community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(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 Explain in Part VI the methodology used by the organization to estimate this amount	2	8,110,651		
3	Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit	3	0		
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements				

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	107,053,279		
6	Enter Medicare allowable costs of care relating to payments on line 5	6	141,441,465		
7	Subtract line 6 from line 5 This is the surplus (or shortfall)	7	-34,388,186		
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** (owned 10% or more by officers, directors, trustees, key employees, and physicians—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					
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10					
11					
12					
13					

Part V Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest—see instructions)
How many hospital facilities did the organization operate during the tax year?
1

	Name, address, and primary website address	Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
1	Santa Barbara Cottage Hospital 400 West Pueblo Santa Barbara, CA 93105 www cottagehealthsystem org	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 or facility reporting groups listed in Part V, Section A)

Name of hospital facility or facility reporting group Santa Barbara Cottage Hospital

For single facility filers only: line Number of Hospital Facility (from Schedule H, Part V, Section A) 1

			Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)				
1	During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9	1		
	If "Yes," indicate what the CHNA report 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 the community health 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 CHNA 20 ___			
3	In conducting its most recent CHNA, did the hospital facility take into account input from representatives of the community served by the hospital facility, including those with special knowledge of or expertise in public health? 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 CHNA 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 CHNA report widely available to the public?	5		
	If "Yes," indicate how the CHNA report 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 CHNA, indicate how (check all that apply to date)			
a	☐ Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA			
b	☐ Execution of the implementation strategy			
c	☐ Participation in the development of a community-wide plan			
d	☐ Participation in the execution of a community-wide 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 its 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 CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	7		
8a	Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	8a		
b	If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	8b		
c	If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? $___			

Part V Facility Information *(continued)*

Financial Assistance Policy		Yes	No
9 Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	**9**	Yes	
10 Used federal poverty guidelines (FPG) to determine eligibility for providing *free* care?	**10**	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			
11 Used FPG to determine eligibility for providing *discounted* care?	**11**	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			
12 Explained the basis for calculating amounts charged to patients?	**12**	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)			
13 Explained the method for applying for financial assistance?	**13**	Yes	
14 Included measures to publicize the policy within the community served by the hospital facility?	**14**	Yes	
If "Yes," indicate how the hospital facility publicized the policy (check all that apply)			
a ☐ The policy was posted on the hospital facility's website			
b ☐ The policy was attached to 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 on admission to the hospital facility			
f ☑ The policy was available upon request			
g ☑ Other (describe in Part VI)			
Billing and Collections			
15 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?	**15**	Yes	
16 Check all of the following 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			
e ☐ Other similar actions (describe in Part VI)			
17 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?	**17**		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)			

Part V Facility Information *(continued)*

18 Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)

- **a** ☑ Notified individuals of the financial assistance policy on admission
- **b** ☑ Notified individuals of the financial assistance policy prior to discharge
- **c** ☑ Notified individuals 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)

Policy Relating to Emergency Medical Care

		Yes	No
19 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?	**19**	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)			

Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)

20 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 its 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)			
21 During the tax year, did the hospital facility charge any FAP-eligible individuals 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?	**21**		No
If "Yes," explain in Part VI			
22 During the tax year, did the hospital facility charge any FAP-eligible individuals an amount equal to the gross charge for any service provided to that individual?	**22**		No
If "Yes," explain in Part VI			

Part V Facility Information *(continued)*

Section C. Other Health Care 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 health care 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, Part V, Section A, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22

2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any 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

8 **Facility reporting group(s).** If applicable, for each hospital facility in a facility reporting group provide the descriptions required for Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 10, 11, 12h, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22

Identifier	ReturnReference	Explanation
SchH_P01_S00_L06a	Schedule H, Part I, Line 6a	Cottage Health System prepares a Community Benefit Report on behalf of Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital and Santa Ynez Valley Cottage Hospital It is filed with the State of California, in compliance with California Senate Bill 697 The Community Benefit Report is available to the public upon request
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
SchH_P01_S00_L07g	Schedule H, Part I, Line 7g	Palliative Care services are provided at no cost to the patient
SchH_P03_S0A_L04	Schedule H, Part III, Section A, Line 4	Bad debt is not included in the Community Benefit report FOOTNOTE 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 income rather than an operating expense Additional disclosures related to sources of patient service revenue and allowance for uncollectible accounts is 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, 2012, and retrospectively applied the presentation requirements to all periods presented
SchH_P03_S0B_L08	Schedule H, Part III, Section B, Line 8	The shortfall from total costs for Medicare patients is a significant loss to the hospital The Hospital is providing care to patients whose insurance (Medicare) does not cover the entire cost of their care This provides significant aid to the elderly in the community Some of these elderly people would qualify under FAP guidelines for charity care under any other Payer program The dollars reported are taken from the 2012 Medicare Cost Report and are derived following their guidelines of allowable and non-allowable costs
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
SchH_P05_S0B_L14	Schedule H, Part V, Section B, Line 14	A summary of the policy is posted in admitting offices The full policy is reported to and available from the OSHPD website (www oshpd ca gov) 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 Patients that do not present any third party insurance information receive a brochure and eligibility counseling for the Patient Business Office
SchH_P05_S0B_L20	Schedule H, Part V, Section B, Line 20	The maximum that could be charged is based on % of charges that is lower than commercial rates
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
SchH_P06_S00_L03	Schedule H, Part VI, Line 3	Santa Barbara Cottage Hospital 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
SchH_P06_S00_L04	Schedule H, Part VI, Line 4	Santa Barbara County consists of 2,750 square miles of land and inland water area Approximately rectangular in shape, Santa Barbara County is bordered on the north by San Luis Obispo County, on the east by Ventura County, and on the south and west by 107 miles of Pacific coastline 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 Los Padres National Forest, in the eastern part of the county, covers approximately 44 percent of the total county area Vandenberg Air Force Base is in the Lompoc region, while UCSB is on the South Coast "North County" refers to the area west and north of Gaviota and includes the Lompoc, Santa Maria, Santa Ynez and Cuyama valleys "South Coast" refers to the Goleta, Santa Barbara, and Carpinteria coastal plain Santa Barbara County's 423,895 population is divided into six sub regions Carpinteria Valley (4 2%), Santa Barbara/Goleta Region (43 5%), Santa Ynez Valley (5 3%), Lompoc Valley (14%), Santa Maria Valley (31%), Guadalupe Valley (1 7%), and the Cuyama Valley (3%) Of the total population, 50% are females The median age is 33 6 years Twenty-nine percent of the population is 0-17 years old, 58 % are 20-54 years old and 13% are 65 and older 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 Of the County's population, 21%are foreign-born, 32 8% of persons over the age of five reported speaking a language other than English at home, and 12 7% of county residents live below the poverty level
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 long-term 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
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
SchH_P06_S00_L07	Schedule H, Part VI, Line 7	Cottage Health System files an annual community benefit report in the State of California on behalf of Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital and Santa Ynez Valley Cottage Hospital

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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

2012

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. Part II can be duplicated 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 . . . . . ▶ 18

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. Part III can be duplicated 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, Part III, column (b), 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 Cottage Health System 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: 12000197
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 College 721 Cliff Drive Santa Barbara, CA 93109	95-3234551	government	540,000				Support of Nursing Department at Santa Barbara City College
California State University Channel Islands Foundation One University Drive Camarillo, CA 93012	77-0433230	government	292,000				Support of the BSN program in Santa Barbara
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 guidance, and (2) Health Linkages program which focuses on child development and health
Casa EsperanzaPO Box 24116 Santa Barbara, CA 93121	77-0502754	501(c)3	134,633				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
University of California RegentsUniversity Drive Santa Barbara, CA 93106	95-4377221	government	121,065				Support of research programs
American Indian Health Services4141 State Street Santa Barbara, CA 93110	77-0398793	501(c)3	97,600				Support of the American Indian Oral Health Program to ensure access to dental needs
Foundation for Santa Barbara City College721 Cliff Drive Santa Barbara, CA 93109	95-3234551	501(c)3	90,000				Support of the SBCC Nursing Programs
Carpinteria Unified School District5201 Eighth Street Carpinteria, CA 93013	95-6101195	government	89,684				Funding helps the Carpinteria Children's Project to ensure all children entering Kindergarten are healthy and ready to succeed in school with a strong foundation for learning
Visiting Nurse and HOSPICE Care Foundation222 East Canon Perdido Street Santa Barbara, CA 93101	95-1641969	501(c)3	65,000				Supports Alliance for Living and Dying well
Mental Wellness Center of SB 617 Garden Street Santa Barbara, CA 93101	95-1962659	501(c)3	60,000				To assist with Recovery Learning Center and Employement Services 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
Jodi House Inc625 Chapala Street Santa Barbara, CA 93101	95-3836137	501(c)3	50,000				Funding for the Brain Injury Support Center
Council on Alcoholism and Drug Abuse232 East Canon Perdido Santa Barbara, CA 93101	95-1878858	501(c)3	35,000				Support of the County Social Model Residential Detox Program
Franklin Elementary School 1111 East Mason Street Santa Barbara, CA 93103	30-0690985	government	32,000				Support of the Franklin Obesity Initiative to fight childhood obesity
Sarah HousePO Box 20031 Santa Barbara, CA 93120	77-0224415	501(c)3	30,000				Offset the end of life care provided to low income patients that transfer from the Hospital Palliative Care facility
Easy Lift Transportation53 Cass Place Suite D Goleta, CA 93117	95-3642272	501(c)3	25,000				This program supports individuals that require paratransit services and are either phycically or cognitively impaired and cannot feasibly use common types of public transportation Dial-A-Ride allows people to access medical and other service centers essential to their physical and mental health
Family Service Agency CRIS 123 West Gutierrez Street Santa Barbara, CA 93101	95-1644031	501(c)3	20,000				Community services for Senior Citizens
Willbridge of Santa Barbara 1215 East Montecito Street Santa Barbara, CA 93130	57-1194195	501(c)3	12,812				Support for transitional housing beds for homeless patients who are not appropriate for discharge to the streets or shelters and who need supervised convalescence
Thresholds to Recovery1038 Pittsfield Lane Ventura, CA 93001	77-0335136	501(c)3	8,000				Grant funding provides help to individuals who have been intoxicated in the public The program offers an alternative to incarceration Program follow-up includes referal for treatment of alcoholism as an effort in recovery

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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

2012

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 or provision of all of 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 filing organization used to establish the compensation of the organization's CEO/Executive Director Check all that apply Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III			
	☐ 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 Regulations 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 duplicate copies if additional space is 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, applicable column (D) and (E) amounts for that individual

(A) Name and Title	**(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 as deferred in prior Form 990
	(i) Base compensation	**(ii)** Bonus & incentive compensation	**(iii)** Other reportable compensation				
See Additional Data Table							

Part III Supplemental Information

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II
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 Melinda Stavely received a payout from the 457(f) plan in the amount of $14,020

Additional Data

Return to Form

Software ID: 12000197
Software Version: v1.00
EIN: 95-1644629
Name: SANTA BARBARA COTTAGE HOSPITAL

Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) 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 compensation				
Ronald C Werft	(I)	0	0	0	0	0	0	0
	(II)	747,865	248,541	14,093	619,353	15,736	1,645,588	0
Steven A Fellows	(I)	0	0	0	0	0	0	0
	(II)	439,361	123,935	13,160	159,051	15,736	751,243	0
Joan Bricher	(I)	0	0	0	0	0	0	0
	(II)	424,551	101,024	15,107	223,576	15,786	780,044	0
Jeffrey Gauvin MD	(I)	518,986	0	0	12,250	13,143	544,379	0
	(II)	0	0	0	0	0	0	0
David Nichols	(I)	127,177	399,090	0	12,250	12,448	550,965	0
	(II)	0	0	0	0	0	0	0
Stephen Kaminski MD	(I)	384,600	0	828	12,250	15,736	413,414	0
	(II)	0	0	0	0	0	0	0
Charles Cline	(I)	280,043	0	302	12,250	15,403	307,998	0
	(II)	0	0	0	0	0	0	0
Melinda Staveley	(I)	206,642	33,324	27,663	26,508	15,403	309,540	14,020
	(II)	0	0	0	0	0	0	0
Herbert Geary	(I)	0	0	0	0	0	0	0
	(II)	281,358	39,661	12,705	31,664	15,714	381,102	0
Lisa Moore	(I)	0	0	0	0	0	0	0
	(II)	279,182	39,374	2,245	31,514	15,736	368,051	0
Alberto Kywi	(I)	0	0	0	0	0	0	0
	(II)	279,483	45,766	44,788	31,534	16,625	418,196	19,005
Afshin Fatholahi	(I)	0	0	0	0	0	0	0
	(II)	220,964	39,202	4,695	27,497	15,714	308,072	0

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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 Part VI.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2012

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 Authority	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 legally 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 escrows	0	0		
7	Issuance costs from proceeds	1,366,915	2,937,359		
8	Credit enhancement from proceeds	300,700	0		
9	Working capital expenditures from proceeds	0	0		
10	Capital expenditures from proceeds	99,220,247	0		
11	Other spent proceeds	20,100,000	297,231,000		
12	Other unspent proceeds	0	0		
13	Year of substantial completion	2012	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 of bond-financed property?		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%		0%		%		%	
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%		0%		%		%	
7	Does the bond issue meet the private security or payment test?		X		X				
8a	Has there been a sale or disposition of any of the bond financed property to a nongovernmental person other than a 501(c)(3) organization since the bonds were issued?		X		X				
b	If "Yes" to line 8a, enter the percentage of bond-financed property sold or disposed of	%		%		%		%	
c	If "Yes" to line 8a, was any remedial action taken pursuant to Regulations sections 1 141-12 and 1 145-2?								
9	Has the organization established written procedures to ensure that all nonqualified bonds of the issue are remediated in accordance with the requirements under Regulations sections 1 141-12 and 1 145-2?	X		X					

Part IV Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has the issuer filed Form 8038-T?	X		X					
2	If "No" to line 1, did the following apply?								
a	Rebate not due yet?								
b	Exception to rebate?								
c	No rebate due?								
	If you checked "No rebate due" in line 2c, provide in Part VI the date the rebate computation was performed								
3	Is the bond issue a variable rate issue?		X		X				
4a	Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?		X		X				
b	Name of provider								
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								

Part IV Arbitrage *(Continued)*

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
5a	Were gross proceeds invested in a guaranteed investment contract (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?								
6	Were any gross proceeds invested beyond an available temporary period?		X		X				
7	Has the organization established written procedures to monitor the requirements of section 148?	X		X					

Part V Procedures To Undertake Corrective Action

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has 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?	X		X					

Part VI Supplemental Information. Complete this part to provide additional information for responses to questions on Schedule K (see instructions).

Identifier	Return Reference	Explanation

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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, line 38a or 40b.
▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2012

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) Relationship between disqualified person and organization	(c) Description of transaction	(d) Corrected? Yes	No

2 Enter the amount of tax incurred by 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-EZ, Part V, line 38a, or Form 990, Part IV, line 26, or if the organization reported an amount on Form 990, Part X, line 5, 6, or 22

(a) Name of interested person	(b) Relationship with organization	(c) Purpose of loan	(d) Loan to or from the organization? To	From	(e) Original principal amount	(f) Balance due	(g) In default? Yes	No	(h) Approved by board or committee? Yes	No	(i) Written agreement? Yes	No
(1) Herb Geary	Vice President	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 assistance	(d) Type of assistance	(e) Purpose 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	(e) Sharing of organization's revenues? No
(1) Santa Barbara Gastro Medical Group	Board Member Ed Bentley MD is Partner	64,480	Medical Professional Fees		No
(2) JoEllen Watson	Wife of Board Member	105,283	Employee		No
(3) Santa Barbara Cardio Medical Group	Board Member Thomas Watson MD is partner	187,567	Medical Professional Fees		No
(4) Santa Barbara Gastro Medical Group	Board Member Ed Bentley MD is a partner	84,980	Lease		No
(5) Santa Barbara Cardio Med Group	Board member Thomas Watson is partner	167,878	Lease		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

2012

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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 are partners in the same law firm

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 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 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	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_L09	Form 990, Part XI, Line 9	CHANGE IN FV INTEREST RATE SWAPS = 1,630,130 , CHANGE IN PENSION LIABILITY 2,951,420,

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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

2012

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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" to Form 990, Part IV, line 33.)

(a) Name, address, and EIN (if applicable) 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	29,880,870	24,532,736	SANTA BARBARA COTTAGE HOSPITAL

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" to 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 entity? Yes	(g) 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		No

Part III **Identification of Related Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" to 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) Disproprtionate 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" to 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	(i) Section 512 (b)(13) controlled entity? Yes	(i) No
(1) Villa Riviera Real Estate Company PO Box 689 Santa Barbara, CA 93102 27-2996284	Workforce housing developer	CA	SBCHF	C			0 %		No

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

		Yes	No
Note. Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule			
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 or **(iv)** rent from a controlled entity	1a	Yes	
b Gift, grant, or capital contribution to related organization(s)	1b		No
c Gift, grant, or capital contribution from related organization(s)	1c	Yes	
d Loans or loan guarantees to or for related organization(s)	1d	Yes	
e Loans or loan guarantees by related organization(s)	1e		No
f Dividends from related organization(s)	1f		No
g Sale of assets to related organization(s)	1g		No
h Purchase of assets from related organization(s)	1h		No
i Exchange of assets with related organization(s)	1i		No
j Lease of facilities, equipment, or other assets to related organization(s)	1j	Yes	
k Lease of facilities, equipment, or other assets from related organization(s)	1k	Yes	
l Performance of services or membership or fundraising solicitations for related organization(s)	1l	Yes	
m Performance of services or membership or fundraising solicitations by related organization(s)	1m	Yes	
n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)	1n	Yes	
o Sharing of paid employees with related organization(s)	1o	Yes	
p Reimbursement paid to related organization(s) for expenses	1p	Yes	
q Reimbursement paid by related organization(s) for expenses	1q	Yes	
r Other transfer of cash or property to related organization(s)	1r	Yes	
s Other transfer of cash or property from related organization(s)	1s	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-s)	(c) Amount involved	(d) Method of determining amount involved
See Additional Data Table			

Part VI **Unrelated Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" to 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 section 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	

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

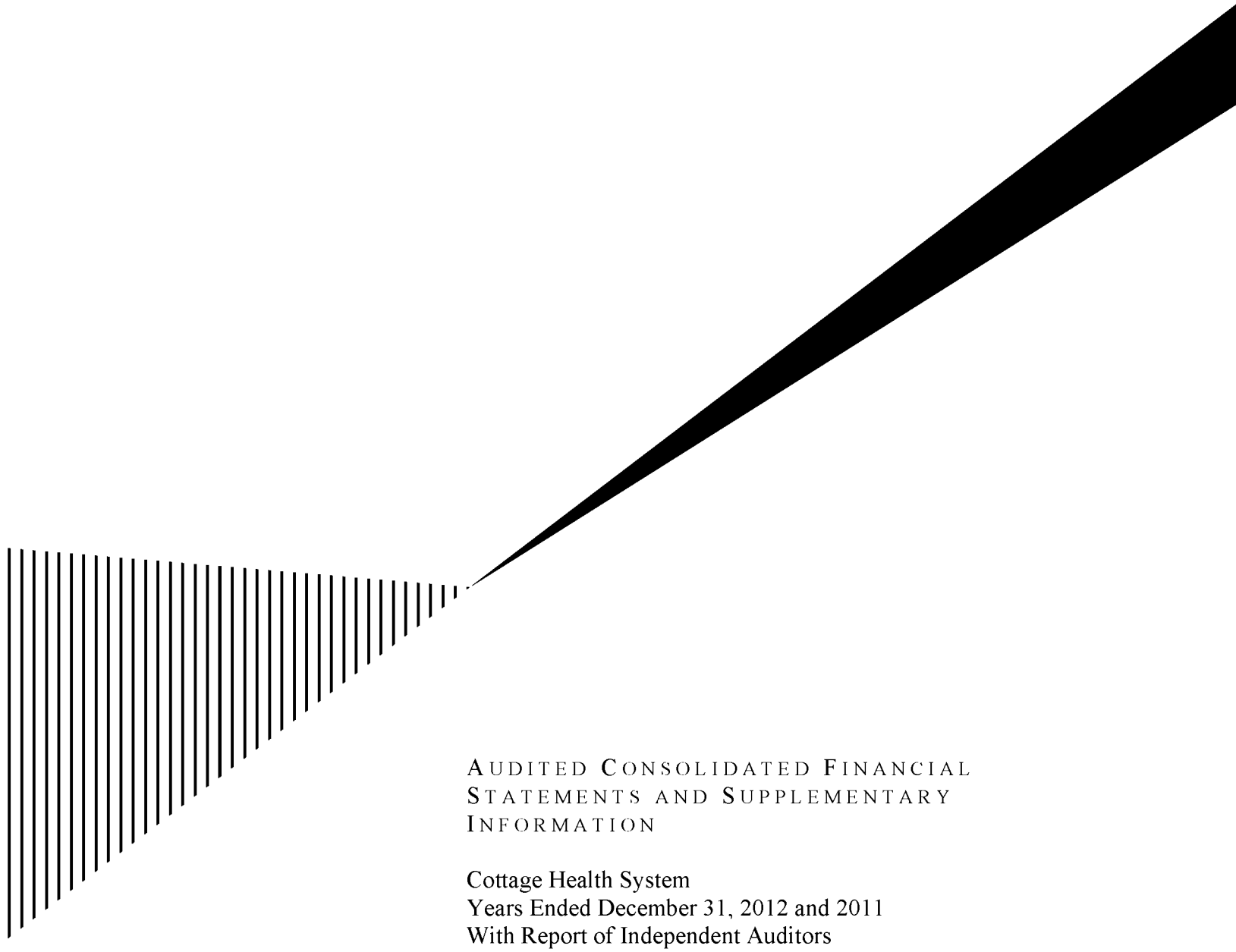
Software ID: 12000197
Software Version: v1.00
EIN: 95-1644629
Name: SANTA BARBARA COTTAGE HOSPITAL

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		No

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

(a) Name of other organization	(b) Transaction type(a-s)	(c) Amount Involved	(d) Method of determining amount involved
Goleta Valley Cottage Hospital	a-i	880,746	accrual
Goleta Valley Cottage Hospital	l	3,290,587	accrual
Goleta Valley Cottage Hospital	o	826,606	accrual
Goleta Valley Cottage Hospital	p	1,861,549	accrual
Goleta Valley Cottage Hospital	q	39,749,749	accrual
Goleta Valley Cottage Hospital	r	407,049	accrual
Goleta Valley Cottage Hospital	s	247,876	accrual
Santa Ynez Valley Cottage Hospital Inc	l	1,052,003	accrual
Santa Ynez Valley Cottage Hospital Inc	o	329,547	accrual
Santa Ynez Valley Cottage Hospital Inc	q	3,177,876	accrual
Santa Barbara Cottage Hospital Foundation	c	881,071	accrual
Santa Barbara Cottage Hospital Foundation	q	201,381	accrual
Santa Barbara Cottage Hospital Foundation	r	401,361	accrual
Goleta Valley Professional Blds	a-i	23,785	accrual
Goleta Valley Professional Blds	q	601,679	accrual



AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

Cottage Health System
Years Ended December 31, 2012 and 2011
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Cottage Health System

Audited Consolidated Financial Statements
and Supplementary Information

Years Ended December 31, 2012 and 2011

Contents

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Report of Independent Auditors

Board of Directors
Cottage Health System

We have audited the accompanying consolidated financial statements of Cottage Health System (the System), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in conformity with U S generally accepted accounting principles, this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error

Auditor's Responsibility
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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control Accordingly, we express no such opinion An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cottage Health System as of December 31, 2012 and 2011, 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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole The accompanying supplementary information is presented for purposes of additional analysis and are not a required part of the 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 the audit of the 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, 2013

Cottage Health System

Consolidated Balance Sheets

	December 31	
	2012	**2011**
Assets		
Current assets		
Cash and cash equivalents	**$ 35,721,427**	$ 13,737,431
Short-term investments	**20,942,754**	20,258,723
Patient accounts receivable (less allowance for doubtful accounts of $28,089,000 in 2012 and $27,264,000 in 2011)	**97,301,013**	97,171,454
Other receivables	**19,657,130**	11,890,069
Inventories	**13,808,733**	12,394,169
Prepaid expenses and other current assets	**13,427,473**	7,219,695
Total current assets	**200,858,530**	162,671,541
Investments	**281,317,140**	254,294,689
Assets limited as to use		
By Board	**27,227,462**	60,299,857
Self-insurance trusts	**8,131,945**	8,074,777
Total assets limited as to use	**35,359,407**	68,374,634
Property, plant, and equipment, net	**757,956,511**	742,268,555
Other assets	**31,547,852**	29,465,143
Interest in net assets and amounts due from the Foundations	**261,574,670**	257,831,793
Total assets	**$ 1,568,614,110**	$ 1,514,906,355

	December 31	
	2012	2011
Liabilities and net assets		
Current liabilities		
Accounts payable	**$ 44,060,549**	$ 52,165,301
Accrued expenses and other liabilities	**26,967,014**	27,753,720
Current portion of accrued self-insurance claims	**6,789,594**	6,918,407
Current maturities of long-term debt and capital lease obligations	**5,785,000**	5,610,000
Total current liabilities	**83,602,157**	92,447,428
Other liabilities		
Accrued self-insurance claims, less current portion	**24,745,100**	23,385,614
Long-term debt and capital lease obligations, less current maturities	**328,210,000**	333,995,000
Pension liability and other	**111,975,058**	106,929,803
	464,930,158	464,310,417
Total liabilities	**548,532,315**	556,757,845
Net assets		
Unrestricted	**916,025,657**	859,714,685
Temporarily restricted	**84,614,499**	79,321,221
Permanently restricted	**19,441,639**	19,112,604
Total net assets	**1,020,081,795**	958,148,510
Total liabilities and net assets	**$ 1,568,614,110**	$ 1,514,906,355

See accompanying notes.

Cottage Health System

Consolidated Statements of Income

	Year Ended December 31	
	2012	**2011**
Unrestricted revenues, gains and other support		
Patient service revenue (net of contractual allowances and discounts)	**$ 625,824,780**	$ 584,377,906
Provisions for doubtful accounts	**(20,904,726)**	(16,016,545)
Net patient service revenue	**604,920,054**	568,361,361
Hospital Medi-Cal supplemental fee	**15,723,513**	10,996,544
Other operating revenue	**7,927,366**	4,816,777
Net assets released from restrictions	**683,672**	323,536
Total unrestricted revenues, gains and other support	**629,254,605**	584,498,218
Expenses		
Salaries and benefits	**305,740,455**	288,528,295
Supplies and services	**187,035,074**	183,553,492
Hospital quality assurance fee	**22,698,548**	10,092,910
Professional fees	**34,773,901**	31,874,327
Insurance	**3,504,833**	3,802,330
Depreciation and amortization	**42,181,008**	25,318,114
Interest	**12,486,656**	996,848
Total expenses	**608,420,475**	544,166,316
Operating income	**20,834,130**	40,331,902
Other income (loss)		
Investment income (loss)	**30,351,216**	(3,232,654)
Change in fair value of interest rate swaps	**1,630,130**	(11,846,126)
Change in unrestricted net assets of the Foundations	**(138,185)**	(3,344,784)
Total other income (loss)	**31,843,161**	(18,423,564)
Excess of revenues over expenses	**52,677,291**	21,908,338
Change in pension liability	**3,633,681**	(20,600,974)
Increase in unrestricted net assets	**$ 56,310,972**	$ 1,307,364

See accompanying notes.

Cottage Health System

Consolidated Statements of Changes in Net Assets

	Year Ended December 31	
	2012	**2011**
Unrestricted net assets		
Excess of revenues over expenses	**$ 52,677,291**	$ 21,908,338
Change in pension liability	**3,633,681**	(20,600,974)
Increase in unrestricted net assets	**56,310,972**	1,307,364
Temporarily restricted net assets		
Contributions	**1,143,169**	423,753
Investment gains (losses)	**1,264,516**	(145,353)
Net assets released from restrictions	**(683,672)**	(323,536)
Changes in value of contribution from charitable remainder trusts	**5,454**	(6,263)
Change in net assets of the Foundations	**3,563,811**	8,272,873
Increase in temporarily restricted net assets	**5,293,278**	8,221,474
Permanently restricted net assets		
Change in net assets of the Foundations	**329,035**	1,437,119
Increase in permanently restricted net assets	**329,035**	1,437,119
Increase in net assets	**61,933,285**	10,965,957
Net assets at beginning of year	**958,148,510**	947,182,553
Net assets at end of year	**$ 1,020,081,795**	$ 958,148,510

See accompanying notes.

Cottage Health System

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2012	**2011**
Operating activities		
Increase in net assets	**$ 61,933,285**	$ 10,965,957
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	**42,181,008**	25,318,114
Provision for doubtful accounts	**20,904,726**	16,016,545
Change in investments designated as trading, including net unrealized gains/losses	**6,522,342**	41,548,345
Change in fair value of interest rate swaps, net of cash collateral	**(1,630,130)**	11,846,126
Change in pension liability	**(3,633,681)**	20,600,974
Change in interest in net assets and amounts due from the Foundations	**(3,742,877)**	(4,664,306)
Changes in operating assets and liabilities		
Patient accounts receivable	**(21,034,285)**	(16,884,811)
Inventories, other receivables, prepaid expenses and other current assets	**(15,389,403)**	7,432,531
Accounts payable	**(8,104,752)**	(5,766,211)
Accrued expenses and other liabilities	**6,395,623**	3,271,752
Accrued self-insurance claims	**1,230,673**	6,456,368
Net cash provided by operating activities	**85,632,529**	116,141,384
Investing activities		
Purchases of property, plant, and equipment and property held for use, net	**(57,728,277)**	(138,127,718)
Proceeds from sale of property, plant, and equipment	**140,687**	26,000
Change in other assets and liabilities	**3,689,682**	14,618,505
Net cash used in investing activities	**(53,897,908)**	(123,483,213)
Financing activities		
Principal payments on debt and capital lease obligations	**(5,610,000)**	(6,654,266)
Payment to counterparties of interest rate swaps net of amounts received	**(4,140,625)**	(4,544,560)
Net cash used in financing activities	**(9,750,625)**	(11,198,826)
Net increase (decrease) in cash and cash equivalents	**21,983,996**	(18,540,655)
Cash and cash equivalents at beginning of year	**13,737,431**	32,278,086
Cash and cash equivalents at end of year	**$ 35,721,427**	$ 13,737,431

Cottage Health System

Consolidated Statements of Cash Flows (continued)

	Year Ended December 31	
	2012	**2011**
Supplemental disclosure of cash flow information		
Interest paid	**$ 16,908,871**	$ 17,195,851

Supplemental schedule of noncash financing activities

The System capitalized construction in progress for approximately $5,370,000 and $5,112,000 at December 31, 2012 and 2011, respectively, that had not been paid. The offsetting amount due was recorded in the consolidated balance sheets under accounts payable.

See accompanying notes.

Cottage Health System

Notes to Consolidated Financial Statements

December 31, 2012

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 451-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 (Pacific Diagnostic), 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 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 Santa Barbara Cottage Foundation through the power to select Santa Barbara Cottage Foundation's directors Thus, Santa Barbara Cottage Foundation is not consolidated in these financial statements 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 consolidated balance sheets 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 balance sheets The System records the change in net assets in the Rehabilitation Foundation above the performance indicator

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 balance sheets The System records the change in net assets in the Goleta Valley Cottage Foundation above the performance indicator

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 balance sheets The System records the change in net assets in the Santa Ynez Cottage Foundation above the performance indicator

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	
	2012	**2011**
Santa Barbara Cottage Foundation		
Total assets	**$ 240,484,000**	$ 235,388,000
Net assets	**229,672,000**	227,234,000
Increase in net assets	**2,438,000**	39,000
Rehabilitation Foundation		
Total assets	**$ 11,612,000**	$ 9,892,000
Net assets	**11,605,000**	9,881,000
Increase in net assets	**1,724,000**	1,887,000
Goleta Valley Cottage Foundation		
Total assets	**$ 11,027,000**	$ 11,041,000
Net assets	**11,027,000**	11,041,000
(Decrease) increase in net assets	**(14,000)**	2,708,000
Santa Ynez Cottage Foundation		
Total assets	**$ 9,270,000**	$ 9,678,000
Net assets	**9,270,000**	9,676,000
(Decrease) increase in net assets	**(406,000)**	30,000

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, 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

	2012	2011
Costs to provide charity care	**$ 17,001,000**	$ 11,679,000
Uncompensated costs to Medicare and Medicaid services (unaudited)	**113,091,000**	96,467,000
Expenses incurred to provide community benefits (unaudited)	**13,977,000**	12,585,000
	$ 144,069,000	$ 120,731,000

Net Patient Service Revenue

The Hospitals have agreements with third-party payors that provide for payments to the Hospitals at amounts different from their 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,

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

managed care, and other programs and insurers Contractual allowances include differences between established billing rates and amounts estimated by management as reimbursable under various cost reimbursement formulas and contracts in effect

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

	2012	2011
	(In Thousands)	
Government	**$ 189,305**	$ 182,627
Contracted	**407,536**	373,642
Self-pay and others	**28,984**	28,109
Patient service revenue (net of contractual allowances and discounts	**625,825**	584,378
Provision for doubtful accounts	**(20,905)**	(16,017)
Net patient service revenue	**$ 604,920**	$ 568,361

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 settlement year In 2012 and 2011, 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 $4,721,000 and $1,008,000, 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 21% and 23% of the System's net patient service revenue in 2012 and 2011, respectively The Medicaid programs accounted for approximately 10% of the System's net patient service revenue in 2012 and 2011

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

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

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 income rather than an operating expense Additional disclosures related to sources of patient service revenue and allowance for uncollectible accounts is 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, 2012, and retrospectively applied the presentation requirements to all periods presented

Hospital Medi-Cal Supplemental Payment and Quality Assurance Fee

The California Hospital Fee Program (the Program) was signed into law by the governor of California and became effective on January 1, 2010 Amending-legislation, to conform to changes requested by the Centers for Medicare and Medicaid Services (CMS) during the approval process, was signed into law by the governor of California and became effective September 8, 2010 The primary legislation (AB 1383) and amending legislation (AB 1653) contain two components the Quality Assurance Fee Act, which governs the "hospital fee" or "Quality Assurance Fee" (QA Fee) paid by participating hospitals, and the Medi-Cal Hospital Provider Stabilization Act, which governs supplemental Medi-Cal payments (Supplemental Payments) made to providers Hospital participation is mandatory, with limited exceptions In December 2010, CMS gave final approval of the program

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

On May 9, 2011, CMS completed its preliminary review of the major components for a six-month extension of the Program for the period January 1, 2011 through June 30, 2011 (Six-Month Program) On December 29, 2011, CMS approved the Six-Month Program The System recorded Supplemental Payments in the amount of $10 9 million, and QA Fees in the amount of $10 0 million in the accompanying consolidated statement of income during the year ended December 31, 2011

CMS approved a 30-month extension of the Program (30-Month Program) for the period July 1, 2011 through December 31, 2013 The legislation governing the 30-Month Program was amended to allow for the fee-for-service portion to be administered separately from the managed care portion In June 2012, CMS approved the fee-for-service portion of the 30-Month Program Accordingly, during the year ended December 31, 2012, the System recorded $15 7 million in Supplemental Payments and $22 7 million in QA Fees as Hospital Fee Program revenues and expenses, respectively, in the accompanying consolidated statements of income related to the July 1, 2011 through December 31, 2012, period for the approved fee for-service portion of the 30-Month Program A pre-paid expense of $6,576,000 was paid for managed care QA fees as of December 31, 2012

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

For the year ended December 31, 2012, the System recognized $1,178,000 of Medicaid meaningful use revenues, and $3,156,000 of Medicare meaningful use revenues Such revenues are included in other revenues in the statement of income The System accounts for EHR incentive payments under the grant accounting method

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

Investments

The System participates with other affiliates in a 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 (units) of the Custodial Account's total fair value The System's share of the Custodial Account's assets was 65% and 71% at December 31, 2012 and 2011, respectively

The Custodial Account invests in equity securities, debt securities, mutual funds and alternative investments including funds-of-funds, limited partnerships, real estate 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 a 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 real estate and private equities, are redeemable monthly, quarterly or annually with a short notice period of usually 60 days or less Certain private equity funds and real estate funds are subject to lock up provisions of ten 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, 2012 and 2011

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 Custodial Account 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 income As of December 31, 2012 and

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

2011, these alternative investments comprised approximately 35% and 31%, respectively, of the Custodial Account's total investments, including assets limited as to use

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 consolidated balance sheets at fair value Derivatives that do not qualify for hedge accounting are adjusted to fair value in the consolidated statements of income, above the performance indicator At December 31, 2011, the System's derivative instruments did not qualify for hedge accounting and were 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 discounted cash flows The System has determined that no long-lived assets are impaired at December 31, 2012

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 income 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 income

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 $2,299,094 and $2,897,000 at December 31, 2012 and 2011, 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 2012 and 2011 Total accruals at December 31, 2012 and 2011, were $20,284,000 and $20,635,000, respectively The System's self-insurance obligations are guaranteed by the state of California through an alternative security program in the amount of $15,907,000 and $13,184,000 at December 31, 2012 and 2011, 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 2012 and 2011 Total liabilities were $8,952,000 and $6,772,000 at December 31, 2012 and 2011, 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

Consistent with ASU 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, the System calculates and records insurance claims irrespective of insurance recoveries The related insurance recoveries of $7,521,000 and $5,047,000 at December 31, 2012 and 2011, respectively, are recorded as assets and reviewed for collectibility at period-end

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 and Custodial Account are 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 $49,385,000 and for Series 2010 is $284,610,000, while the fair value is $50,138,000 and $315,681,000 as of December 31, 2012, 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, except for Pacific Diagnostic Laboratories, 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 FASB 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 2009

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 $4,370,000 and $3,311,000, respectively, at December 31, 2012, and $3,467,000 and $2,527,000, respectively, at December 31, 2011, 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 Measurements and Disclosures*, 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

Financial assets and liabilities carried at fair value as of December 31, 2012, 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				
Investment in Custodial Accounts	$ –	$ 307,524,539	$ 307,524,539	a
Cash and short-term investments	5,970,196	–	5,970,196	a
Fixed income securities				
Government bonds	–	2,872,502	2,872,502	a
Corporate bonds	–	20,857,187	20,857,187	a
Other	–	394,877	394,877	a
Interest rate swaps	–	7,280,261	7,280,261	c
Total assets	$ 5,970,196	$ 338,929,366	$ 344,899,562	
Liabilities				
Interest rate swaps	$ –	$ (40,440,327)	$ (40,440,327)	c
	$ –	$ (40,440,327)	$ (40,440,327)	

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				
Investment in Custodial Accounts	$ –	$ 313,754,118	$ 313,754,118	a
Cash and short-term investments	222,359	–	222,359	a
Fixed income securities				
Government bonds	–	2,893,794	2,893,794	a
Corporate bonds	–	25,647,698	25,647,698	a
Other	–	410,077	410,077	a
Interest rate swaps	–	7,489,582	7,489,582	c
Total assets	$ 222,359	$ 350,195,269	$ 350,417,628	
Liabilities				
Interest rate swaps	$ –	$ (42,279,778)	$ (42,279,778)	c
	$ –	$ (42,279,778)	$ (42,279,778)	

The fair values of the instruments included in Level 1 were determined through quoted market prices Level 1 instruments include cash and short-term investments such as money market funds The fair values of Level 2 instruments were determined through evaluated bid prices based on recent trading activity and other relevant information, including market interest rate curves and referenced credit spreads, estimated prepayment rates, where applicable, are used for valuation purposes and are provided by third-party services where quoted market values are not available As discussed earlier, the investments in the Custodial Account are comprised of cash, short-term investments, equity securities, debt securities, mutual funds and alternative investments The fair values of these underlying investments are determined using a variety of sources including direct quoted prices for identical assets in active market or quoted prices for similar assets and liabilities in active markets or other inputs that are observable for the asset, either directly or indirectly, for substantially the full term of the financial asset As such, the investments in the Custodial Account have been designated 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)

Subsequent Events

The System has evaluated subsequent events occurring between the end of the most recent fiscal year and April 30, 2013, the date the financial statements were available for issuance

Reclassifications

Certain reclassifications were made to the 2011 consolidated financial statement presentation to conform to the 2012 presentation

2. Property, Plant, and Equipment

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

	2012	2011
Buildings and improvements	**$ 699,204,288**	$ 274,485,376
Equipment	**200,048,253**	162,217,545
	899,252,541	436,702,921
Less accumulated depreciation	**(282,252,325)**	(252,680,557)
	617,000,216	184,022,364
Construction in progress	**119,677,063**	536,966,959
Land	**21,279,232**	21,279,232
Property, plant, and equipment, net	**$ 757,956,511**	$ 742,268,555

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

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

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 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 the consolidated balance sheets

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

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

	Pension Benefits December 31		Other Benefits December 31	
	2012	**2011**	**2012**	**2011**
Change in projected benefit obligation				
Benefit obligation at beginning of year	**$ 217,258,959**	$ 182,417,818	**$ 3,684,202**	$ 3,179,198
Service cost	**13,663,369**	11,680,143	**213,280**	183,879
Interest cost	**10,649,082**	9,832,021	**171,039**	164,146
Plan participant's contributions	**8,568,895**	7,003,544	**44,238**	34,317
Actuarial losses (gains)	**18,416,597**	12,617,397	**(352,820)**	58,892
Benefits paid	**(5,935,181)**	(6,291,964)	**(73,397)**	(40,230)
Plan amendments	–	–	–	104,000
Projected benefit obligation at end of year	**$ 262,621,721**	$ 217,258,959	**$ 3,686,542**	$ 3,684,202

	Pension Benefits December 31		Other Benefits December 31	
	2012	**2011**	**2012**	**2011**
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 169,766,061**	$ 168,792,717	**$ –**	$ –
Actual return on plan assets	**19,201,171**	(4,338,236)	**–**	–
Employer contribution	**14,500,000**	4,600,000	**29,159**	5,913
Plan participant contributions	**8,568,895**	7,003,544	**44,238**	34,317
Benefits paid	**(5,935,181)**	(6,291,964)	**(73,397)**	(40,230)
Fair value of plan assets at end of year	**$ 206,100,946**	$ 169,766,061	**$ –**	$ –
Accrued benefits cost included in pension liability and other	**$ (56,520,775)**	$ (47,492,898)	**$ (3,686,542)**	$ (3,684,202)

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

Included in unrestricted net assets at December 31, 2012 and 2011, are the following amounts that have not been recognized in net periodic pension cost

	Pension Benefits December 31		Other Benefits December 31	
	2012	2011	2012	2011
Unrecognized prior service costs	$ (479,702)	$ (790,135)	$ (631,875)	$ (754,797)
Unrecognized actuarial (loss) gain	(54,290,009)	(57,137,513)	344,533	(8,291)

Pension assets carried at fair value as of December 31, 2012, are classified in the table below in one of the three categories described in Note 1

	Assets* at Fair Value as of December 31, 2012				Valuation Techniques
	Level 1	Level 2	Level 3	Total	(a,b,c)
Cash and cash equivalents	$ 17,532,488	$ –	$ –	$ 17,532,488	a
Marketable equity securities					
Domestic equities	96,324,031	–	–	96,324,031	a
Foreign equities	3,077,208	–	–	3,077,208	a
Fixed income securities					
Government bonds	–	21,006,219	–	21,006,219	a
Corporate bonds	–	3,985,357	–	3,985,357	a
Mutual funds	17,829,124	–	–	17,829,124	a
Private equities	–	–	38,259,842	38,259,842	c
Total asset at fair value	$ 134,762,851	$ 24,991,576	$ 38,259,842	$ 198,014,269	

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	$ 7,169,214	$ –	$ –	$ 7,169,214	a
Marketable equity securities					
Domestic equities	68,614,566	–	–	68,614,566	a
Foreign equities	8,411,192	–	–	8,411,192	a
Fixed income securities					
Government bonds	–	3,489,680	–	3,489,680	a
Corporate bonds	–	4,476,762	–	4,476,762	a
Mutual funds	43,077,792	–	–	43,077,792	a
Private equities	–	–	26,079,820	26,079,820	c
Other	537,452	–	–	537,452	a
Total asset at fair value	$ 127,810,216	$ 7,966,442	$ 26,079,820	$ 161,856,478	

* Excludes loans to participants of $8,086,677 and $7,908,555 as of December 31, 2012 and 2011, respectively, as they are designated as notes receivable from participants

	Private Equities
Balance at December 31, 2010	$ 26,935,956
Realized losses	(2,398,744)
Unrealized losses	(5,708,204)
Purchases	18,664,504
Sales	(11,413,692)
Balance at December 31, 2011	26,079,820
Unrealized gains	**4,112,778**
Purchases	**8,067,244**
Balance at December 31, 2012	**38,259,842**
Unrealized gains pertaining to assets held at end of the year	**$ 11,790,734**

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

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 $38,260,000 and $26,080,000 as of December 31, 2012 and 2011, 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 using net asset value at the December 31, 2012

Changes in plan assets and benefit obligations recognized as a change in unrestricted net assets during 2012 and 2011 include

	Pension Benefits Year Ended December 31		Other Benefits Year Ended December 31	
	2012	**2011**	**2012**	**2011**
Unrecognized actuarial (loss) gain	**$ (13,868,726)**	$ (32,091,544)	**$ 352,821**	$ (58,895)
Amortization of unrecognized prior service costs	**310,433**	261,943	**122,922**	88,255
Amortization of prior actuarial loss	**16,716,231**	11,303,267	–	–
Amortization of amendment loss	–	–	–	(104,000)
	$ 3,157,938	$ (20,526,334)	**$ 475,743**	$ (74,640)

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 cost of $363,000 and $14,104,000, respectively, during 2012

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

The accumulated benefit obligation for the defined benefit pension plans was $255,187,593 and $210,589,355 at December 31, 2012 and 2011, respectively

	Pension Benefits Year Ended December 31		Other Benefits Year Ended December 31	
	2012	**2011**	**2012**	**2011**
Components of net periodic benefit cost				
Service cost	**$ 13,663,369**	$ 11,680,143	**$ 213,280**	$ 183,879
Interest cost	**10,649,082**	9,832,021	**171,039**	164,146
Expected return on plan assets	**(14,653,300)**	(15,135,911)	–	–
Amortization of prior service cost	**310,433**	261,943	**122,922**	88,255
Recognized net actuarial loss	**16,716,231**	11,303,267	–	–
Net periodic benefit cost	**$ 26,685,815**	$ 17,941,463	**$ 507,241**	$ 436,280

	Pension Benefits Year Ended December 31		Other Benefits Year Ended December 31	
	2012	**2011**	**2012**	**2011**
Weighted-average assumptions used to determine benefit obligations at December 31				
Discount rate	**4.25% to 4.50%**	4 75%	**3.80%**	4 75%
Expected long-term rate of return on plan assets	**8.00%**	8 75%	**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	**4.25% to 4.50%**	4 75%	**3.80%**	4 75%
Expected long-term return on plan assets	**8.00%**	8 75%	**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	
	2012	**2011**
Assumed health care cost trend rates at December 31		
Health care cost trend rate assumed for next year	**7.5%**	8 0%
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, 2012 and 2011, is as follows

	Pension Benefits		Other Benefits	
	2012	**2011**	**2012**	**2011**
Asset category				
Equity securities	**50%**	48%	**–%**	–%
Fixed income securities	**13**	14	–	–
Mutual funds	**9**	17	–	–
Alternative investments (including private equities)	**19**	16	–	–
Other	**9**	5	–	–
	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

Defined Contribution Plan

Employees of Pacific Diagnostic are covered by a 401(k) defined contribution retirement plan Pacific Diagnostic 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 $280,000 and $254,000 for 2012 and 2011, respectively

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

Contributions

The System expects to contribute $12,000,000 to its pension plans and $1,026,000 to its other post-retirement benefit plan in 2013

Estimated Future Benefit Payments

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

	Pension Benefits	Other Benefits
2013	$ 11,531,586	$ 172,399
2014	16,921,487	197,800
2015	17,019,369	192,743
2016	16,058,042	207,354
2017	17,963,422	210,211
Years 2018-2021	109,506,398	1,384,665

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' Custodial Account	Self-Insurance Trusts	Other Managed Accounts	Total
2012				
Cash and cash equivalents	**$ –**	**$ 26**	**$ 5,970,170**	**$ 5,970,196**
Investment in Custodial Account	**307,524,539**	**–**	**–**	**307,524,539**
Fixed income securities	**–**	**8,131,919**	**15,597,771**	**23,729,690**
Other	**–**	**–**	**394,876**	**394,876**
	$ 307,524,539	**$ 8,131,945**	**$ 21,962,817**	**$ 337,619,301**
Short-term investments	**$ –**	**$ –**	**$ 20,942,754**	**$ 20,942,754**
Investments	**280,691,953**	**–**	**625,187**	**281,317,140**
Assets limited as to use				
By Board	**26,832,586**	**–**	**394,876**	**27,227,462**
By self-insurance trusts	**–**	**8,131,955**	**–**	**8,131,945**
	$ 307,524,539	**$ 8,131,945**	**$ 21,962,817**	**$ 337,619,301**

	Affiliates' Custodial Account	Self-Insurance Trusts	Other Managed Accounts	Total
2011				
Cash and cash equivalents	$ –	$ –	$ 222,355	$ 222,355
Investment in Custodial Account	313,754,118	–	–	313,754,118
Fixed income securities	–	8,074,777	20,466,719	28,541,496
Other	–	–	410,077	410,077
	$ 313,754,118	$ 8,074,777	$ 21,099,151	$ 342,928,046
Short-term investments	$ –	$ –	$ 20,258,723	$ 20,258,723
Investments	253,864,338	–	430,351	254,294,689
Assets limited as to use				
By Board	59,889,780	–	410,077	60,299,857
By self-insurance trusts	–	8,074,777	–	8,076,777
	$ 313,754,118	$ 8,074,777	$ 21,099,151	$ 342,928,046

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

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

	2012	2011
Interest and dividends	**$ 7,119,960**	$ 8,140,171
Net realized gains	**2,729,584**	5,335,916
Net unrealized gains (losses)	**20,501,672**	(16,708,741)
Total investment income (loss)	**$ 30,351,216**	$ (3,232,654)

Net unrealized gains (losses) at December 30, 2012 and 2011, were $8,478,000 and ($11,878,000), respectively

Substantially all of System's investments are held in the Custodial Account The Custodial Account provides a vehicle whereby virtually all entities associated with the System can seek to optimize investment returns while managing investment risk Entities participating in the Custodial Account that are not consolidated in the accompanying financial statements have the ability to direct their invested amounts and liquidate and/or withdraw their interest without penalty as soon as practicable based on market conditions

The Custodial Account asset allocation at December 31 is as follows

	2012	2011
Cash and cash equivalents	**10%**	9%
Marketable equity securities	**39%**	31%
Fixed-income securities	**12%**	23%
Mutual funds	**4%**	6%
Alternative investments	**35%**	31%
	100%	100%

The System Investment Subcommittee (the Investment Committee) of the Board of Directors is responsible for recommending asset allocations among fixed-income, equity and alternative investments At least annually, the Investment Committee reviews targeted allocations and, if necessary, recommends adjustments to targeted asset allocations Given the diversity of the underlying securities in which the Custodial Account invests, management does not believe there is a significant concentration of credit risk Direct expenses of the Custodial Account are less than 0 5% of total assets

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

During 2012 and 2011, the System and Santa Barbara Cottage provided facilities and administrative services to the Santa Barbara Cottage Foundation for consideration of $1,098,524 and $866,785, respectively At December 31, 2012 and 2011, amounts due from the Santa Barbara Cottage Foundation totaled $798,992 and $44,857, 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

Santa Ynez Cottage Foundation

Santa Ynez Cottage received $767,548 and $842,000 in contributions from Santa Ynez Cottage Foundation for capital assets in 2012 and 2011, respectively

6. Long-Term Debt

Long-term debt at December 31 consists of the following

	2012	2011
CSCDA Fixed Rate Revenue Bonds, Series 2010 payable in annual installments through 2040, with interest rates ranging from 2 0% to 5 0%	**$ 284,610,000**	$ 288,865,000
CHFFA Fixed Rate Demand Revenue Bonds, Series 2003B payable in annual installments through 2033, with interest rates ranging from 3 7% to 5 25%	**49,385,000**	50,740,000
	333,995,000	339,605,000
Less current maturities	**(5,785,000)**	(5,610,000)
Long-term debt, net of current maturities	**$ 328,210,000**	$ 333,995,000

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 the 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

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

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, 2012 and 2011, the Obligated Group complied with all financial covenants

6. Long-Term Debt (continued)

In 2012 and 2011, interest costs incurred were $16,229,000 and $16,684,000, respectively, of which $3,743,000 and $15,691,000, 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 For the years ended December 31, 2012 and 2011, there was no investment income earned that was capitalized as part of construction in progress

The aggregate amounts of annual maturities and sinking fund payments for the years subsequent to December 31, 2012, are as follows

2013	$ 5,785,000
2014	6,030,000
2015	6,270,000
2016	6,570,000
2017	6,880,000
Thereafter	302,460,000
	$ 333,995,000

Interest Rate Swaps

The System has three interest rate swap contracts (the Swaps) with a combined notional amount of $175,000,000 and termination dates of November 1, 2036 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 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

A benefit of $1,630,000 for 2012 and a charge in 2011 of $11,846,000 has been recorded as a component of other income (loss) in the consolidated statements of income related to the interest rate swaps The fair value of three of the Swaps is recorded in other liabilities and totaled $40,440,000 and $42,780,000 as of December 31, 2012 and 2011, respectively The fair value of the fourth swap is recorded in other assets and totaled $7,280,000 and $7,490,000 in 2012 and 2011, respectively Payments to the Swap Counterparty of $4,140,000 and $4,545,000 were recorded as investment income (loss) as of December 31, 2012 and 2011, respectively

6. Long-Term Debt (continued)

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 at December 31, 2012 and 2011, respectively

7. Temporarily and Permanently Restricted Net Assets

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

	2012	2011
Purchase of equipment and construction	**$ 70,744,223**	$ 66,695,581
Patient care services and hospital operations	**29,404,999**	27,960,321
Research	**1,206,985**	1,307,285
Health education	**1,158,546**	1,135,538
Nursing and medical education	**1,538,191**	1,331,906
Employee assistance	**3,194**	3,194
	$ 104,056,138	$ 98,433,825

Temporarily restricted net assets at December 31, 2012 and 2011, include $75,336,000 and $71,691,000, respectively, of donor-restricted resources held by the affiliates on behalf of the Hospitals Permanently restricted net assets of $19,442,000 and $19,113,000 were held by the System at December 31, 2012 and 2011, 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

7. Temporarily and Permanently Restricted Net Assets (continued)

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, 2012 and 2011

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

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

7. Temporarily and Permanently Restricted Net Assets (continued)

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, 2012, consists of the following

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	**$ 6,947,605**	**$ 5,594,256**	**$ 12,541,861**
Total funds	**$ 6,947,605**	**$ 5,594,256**	**$ 12,541,861**

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 changes in endowment net assets for the year ended December 31, 2012, are as follows

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 6,042,046**	**$ 5,594,256**	**$ 11,636,302**
Investment return			
Investment income	**278,878**	–	**278,878**
Net appreciation (realized and unrealized)	**985,638**	–	**985,638**
Total investment return	**1,264,516**	–	**1,264,516**
Appropriation	**(358,957)**	–	**(358,957)**
Endowment net assets, end of year	**$ 6,947,605**	**$ 5,594,256**	**$ 12,541,861**

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

8. Commitments and Contingencies

Leases

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

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
2013	$ 2,898,367	$ 1,114,471
2014	2,675,785	859,367
2015	2,451,291	617,925
2016	2,396,463	308,963
2017	2,285,681	–
Thereafter	7,990,594	–
Total minimum lease payments	$ 37,698,181	$ 2,900,727

Rent and lease expense under the operating leases totals approximately $6,580,000 and $6,469,000 for the years ended December 31, 2012 and 2011, respectively

Construction Projects

The Hospitals are required to comply with the Hospital Seismic Safety Act (SB 1953), which regulates the seismic performance of all aspects of hospital facilities in California SB 1953 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 through four are complete Phase five, which includes demolition of existing buildings began in June 2012 and will continue through December 2014

8. Commitments and Contingencies (continued)

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 $125 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 the end of 2013 The total project cost is estimated at $14 million (unaudited)

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 $1,190,000 and $200,000 have been recorded in the December 31, 2012 and 2011, 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

	2012	2011
Health care services	**$ 425,216,584**	$ 392,634,152
General and administrative	**183,203,891**	151,532,164
	$ 608,420,475	$ 544,166,316

Supplementary Information

Cottage Health System

Consolidating Balance Sheet

December 31, 2012

	Obligated Group										
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Total Obligated Group	Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Foundations' Net Assets	Elimination Entries	Total Consolidated
Assets											
Current assets											
Cash and cash equivalents	$ 18 791 058	$ 2 293 003	$ 6 460 108	$ –	$ 27 544 169	$ 5 256 397	$ 1 731 573	$ 1 189 288	$ –	$ –	$ 35 721 427
Short-term investments	19 024 820	–	1 917 935	–	20 942 755	–	–	–	–	–	20 942 755
Patient accounts receivable net	85 204 882	10 336 242	1 759 889	–	97 301 013	–	–	–	–	–	97 301 013
Other receivables	15 026 002	1 120 266	665 146	–	16 811 414	301 620	19 996	4 519 528	–	(1 995 428)	19 657 130
Due from affiliates	8 189 427	2 475	9 243	(7 391 938)	809 207	1 001 689	134 291	–	–	(1 945 187)	–
Inventories	12 428 078	543 183	78 143	–	13 049 404	–	–	759 329	–	–	13 808 733
Prepaid expenses and other current assets	8 267 750	863 597	161 146	–	9 292 493	3 722 728	16 600	395 652	–	–	13 427 473
Total current assets	166 932 017	15 158 766	11 051 610	(7 391 938)	185 750 455	10 282 434	1 902 460	6 863 797	–	(3 940 615)	200 858 531
Investments	273 146 204	7 610 674	43 749	–	280 800 627	516 513	–	–	–	–	281 317 140
Assets limited as to use less current portion											
By Board	27 227 462	–	–	–	27 227 462	–	–	–	–	–	27 227 462
Self-insurance trusts	8 131 945	–	–	–	8 131 945	–	–	–	–	–	8 131 945
Total assets limited as to use	35 359 407	–	–	–	35 359 407	–	–	–	–	–	35 359 407
Property plant and equipment net	643 346 044	80 776 386	12 749 995	–	736 872 425	7 019 492	4 135 827	9 928 767	–	–	757 956 511
Other assets	45 301 514	–	–	–	45 301 514	–	–	7 740 172	–	(21 493 835)	31 547 851
Interest in net assets and amounts due from the Foundations	–	–	–	–	–	–	–	–	261 574 670	–	261 574 670
Total assets	$ 1 164 085 186	$ 103 545 826	$ 23 845 354	$ (7 391 938)	$ 1 284 084 428	$ 17 818 439	$ 6 038 287	$ 24 532 736	$ 261 574 670	$ (25 434 450)	$ 1 568 614 110

Cottage Health System

Consolidating Balance Sheet (continued)

December 31, 2012

	Obligated Group				Total			Pacific			
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group	Cottage Health System	Professional Building	Diagnostic Laboratories	Foundations' Net Assets	Elimination Entries	Total Consolidated
Liabilities and net assets											
Current liabilities											
Accounts payable	$ 35 187 710	$ 4 686 217	$ 629 918	$ –	$ 40 503 845	$ 2 442 748	$ –	$ 1 113 956	$ –	$ –	$ 44 060 549
Accrued expenses and other liabilities	18 621 469	2 776 559	813 715	–	22 211 743	3 351 862	69 429	1 333 980	–	–	26 967 014
Current portion of accrued self-insurance claims	5 729 165	709 800	173 194	–	6 612 159	177 435	–	–	–	–	6 789 594
Due to affiliates	–	7 327 180	829 165	(7 391 938)	764 407	1 187 916	36 562	669 458	–	(2 658 343)	–
Current maturities of long-term debt and capital lease obligations	5 785 000	–	–	–	5 785 000	–	–	–	–	–	5 785 000
Total current liabilities	65 323 344	15 499 756	2 445 992	(7 391 938)	75 877 154	7 159 961	105 991	3 117 394	–	(2 658 343)	83 602 157
Accrued self-insurance claims less current portion	21 755 896	1 931 355	715 446	–	24 402 697	(19 207)	–	361 610	–	–	24 745 100
Long-term debt and capital lease obligations	312 127 246	–	–	16 082 754	328 210 000	–	4 058 706	13 785 547	–	(17 844 253)	328 210 000
Pension liability and other	89 912 346	21 053 316	917 431	(16 082 754)	95 800 339	15 562 834	–	611 885	–	–	111 975 058
Total liabilities	489 118 832	38 484 427	4 078 869	(7 391 938)	524 290 190	22 703 588	4 164 697	17 876 436	–	(20 502 596)	548 532 315
Net assets											
Member's capital	–	–	–	–	–	–	–	6 656 300	–	(6 656 300)	–
Unrestricted	661 162 205	64 926 577	18 832 344	–	744 921 126	(4 885 149)	1 873 590	–	172 391 644	1 724 446	916 025 657
Temporarily restricted	8 209 893	134 822	934 141	–	9 278 856	–	–	–	75 335 643	–	84 614 499
Permanently restricted	5 594 256	–	–	–	5 594 256	–	–	–	13 847 383	–	19 441 639
Total net assets	674 966 354	65 061 399	19 766 485	–	759 794 238	(4 885 149)	1 873 590	6 656 300	261 574 670	(4 931 854)	1 020 081 795
Total liabilities and net assets	$ 1 164 085 186	$ 103 545 826	$ 23 845 354	$ (7 391 938)	$ 1 284 084 428	$ 17 818 439	$ 6 038 287	$ 24 532 736	$ 261 574 670	$ (25 434 450)	$ 1 568 614 110

Cottage Health System

Consolidating Balance Sheet

December 31, 2011

	Obligated Group				Total						
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group	Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Foundations' 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	18 621 861	–	1 636 862	–	20 258 723	–	–	–	–	–	20 258 723
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	–	–	–	–	–	–	–	–	–	–	–
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	146 574 338	13 137 586	7 793 497	(2 345 898)	165 159 523	4 797 255	1 572 682	6 364 116	–	(15 222 035)	162 671 541
Investments	244 022 175	9 884 960	28 852	–	253 935 987	358 702	–	–	–	–	254 294 689
Assets limited as to use less current portion											
By Board	60 299 857	–	–		60 299 857	–	–	–	–	–	60 299 857
Self-insurance trusts	8 074 777	–	–	–	8 074 777	–	–	–	–	–	8 074 777
Total assets limited as to use	68 374 634	–	–	–	68 374 634	–	–	–	–	–	68 374 634
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	27 764 312	45 600	124 704	–	27 934 616	–	–	8 414 319	–	(6 883 792)	29 465 143
Interest in net assets and amounts due from the Foundations	–	–	–	–	–	–	–	–	257 831 793	–	257 831 793
Total assets	$ 1 132 905 263	$ 84 630 687	$ 20 364 407	$ (2 345 898)	$ 1 235 554 459	$ 13 165 367	$ 5 137 450	$ 25 323 113	$ 257 831 793	$ (22 105 827)	$ 1 514 906 355

Cottage Health System

Consolidating Balance Sheet (continued)

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	Foundations' 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	85 569 898	19 026 055	1 369 005	(16 082 754)	89 882 204	14 095 406	–	2 952 193	–	–	106 929 803
Total liabilities	499 452 778	32 583 315	3 552 322	(2 345 898)	533 242 517	19 005 078	3 563 958	18 439 321	–	(17 493 029)	556 757 845
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	$ 1 132 905 263	$ 84 630 687	$ 20 364 407	$ (2 345 898)	$ 1 235 554 459	$ 13 165 367	$ 5 137 450	$ 25 323 113	$ 257 831 793	$ (22 105 827)	$ 1 514 906 355

Cottage Health System

Consolidating Statement of Operations

Year Ended December 31, 2012

	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 the Foundations' Activity	Elimination Entries	Total Consolidated
Unrestricted revenues, gains and other support											
Patient Service Revenue (net of contractual allowances and discounts)	$ 510 809 267	$ 70 374 821	$ 14 888 262	$ –	$ 596 072 350	$ –	$ –	$ 29 752 430	$ –	$ –	$ 625 824 780
Provision for doubtful accounts	(16 435 822)	(2 191 604)	(577 300)	–	(19 204 726)	–	–	(1 700 000)	–	–	(20 904 726)
Net patient service revenue	494 373 445	68 183 217	14 310 962	–	576 867 624	–	–	28 052 430	–	–	604 920 054
Hospital Medi-Cal supplemental fee	14 909 448	765 781	48 284	–	15 723 513	–	–	–	–	–	15 723 513
Other operating revenue	3 535 931	3 064 124	991 069	–	7 591 124	455 132	685 378	13 544 370	(767 548)	(13 581 090)	7 927 366
Net assets released from restrictions	403 544	275 178	4 950	–	683 672	–	–	–	–	–	683 672
Total unrestricted revenues, gains and other support	513 222 368	72 288 300	15 355 265	–	600 865 933	455 132	685 378	41 596 800	(767 548)	(13 581 090)	629 254 605
Expenses											
Salaries and benefits	246 793 335	33 119 349	8 028 947	–	287 941 631	194 856	–	17 603 968	–	–	305 740 455
Supplies and services	160 098 328	21 074 753	3 925 459	–	185 098 540	(3 655 358)	304 048	19 028 018	(159 084)	(13 581 090)	187 035 074
Hospital quality assurance fee	21 847 024	851 524	–	–	22 698 548	–	–	–	–	–	22 698 548
Professional fees	28 781 285	1 827 870	619 550	–	31 228 705	1 091 388	31 943	2 421 865	–	–	34 773 901
Insurance	2 332 864	614 166	417 921	–	3 364 951	–	–	139 882	–	–	3 504 833
Depreciation and amortization	34 760 702	1 636 022	878 427	–	37 275 151	2 816 126	–	2 089 731	–	–	42 181 008
Interest	12 486 274	382	–	–	12 486 656	–	50 132	546 453	(50 132)	(546 453)	12 486 656
Total expenses	507 099 812	59 124 066	13 870 304	–	580 094 182	447 012	386 123	41 829 917	(209 216)	(14 127 543)	608 420 475
Operating income (loss)	6 122 556	13 164 234	1 484 961	–	20 771 751	8 120	299 255	(233 117)	(558 332)	546 453	20 834 130
Investment income (loss)	29 850 622	778 059	35 028	–	30 663 709	–	843	5 625	–	(318 961)	30 351 216
Changes in fair value of interest rate swaps	1 630 130	–	–	–	1 630 130	–	–	–	–	–	1 630 130
Loss on extinguishment of debt	–	–	–	–	–	–	–	–	–	–	–
Change in unrestricted net assets of the Foundations	–	–	–	–	–	–	–	–	408 363	(546 548)	(138 185)
Excess (deficiency) of revenues over expenses	37 603 308	13 942 293	1 519 989	–	53 065 590	8 120	300 098	(227 492)	(149 969)	(319 056)	52 677 291
Change in pension liability	2 951 420	(853 088)	588 907	–	2 687 239	946 442	–	–	–	–	3 633 681
Increase (decrease) in unrestricted net assets	$ 40 554 728	$ 13 089 205	$ 2 108 896	$ –	$ 55 752 829	$ 954 562	$ 300 098	$ (227 492)	$ (149 969)	$ (319 056)	$ 56 310 972

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 the Foundations' 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 fee	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 Foundations	–	–	–	–	–	–	–	–	(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)
Increase (decrease) 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, 2012

	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 the Foundations' Activity	Elimination Entries	Total Consolidated
Unrestricted net assets											
Excess (deficiency) of revenues over expenses	$ 37 603 308	$ 13 942 293	$ 1 519 989	$ –	$ 53 065 590	$ 8 120	$ 300 098	$ (227 492)	$ (149 969)	$ (319 056)	$ 52 677 291
Change in pension liability	2 951 420	(853 088)	588 907	–	2 687 239	946 442	–	–	–	–	3 633 681
Increase (decrease) in unrestricted net assets	40 554 728	13 089 205	2 108 896	–	55 752 829	954 562	300 098	(227 492)	(149 969)	(319 056)	56 310 972
Temporarily restricted net assets											
Contributions	98 169	200 000	845 000	–	1 143 169	–	–	–	–	–	1 143 169
Investment gains (loss)	1 264 516	–	–	–	1 264 516	–	–	–	–	–	1 264 516
Net assets released from restrictions	(403 544)	(275 178)	(4 950)	–	(683 672)	–	–	–	–	–	(683 672)
Changes in value of contributions from charitable remainder trusts	–	–	5 454	–	5 454	–	–	–	–	–	5 454
Change in net assets of the Foundations	–	–	–	–	–	–	–	–	3 563 811	–	3 563 811
Increase (decrease) in temporarily restricted net assets	959 141	(75 178)	845 504	–	1 729 467	–	–	–	3 563 811	–	5 293 278
Permanently restricted net assets											
Changes in net assets of the Affiliates	–	–	–	–	–	–	–	–	329 035	–	329 035
Increase in permanently restricted net assets	–	–	–	–	–	–	–	–	329 035	–	329 035
Increase (decrease) in net assets	41 513 869	13 014 027	2 954 400	–	57 482 296	954 562	300 098	(227 492)	3 742 877	(319 056)	61 933 285
Net assets at beginning 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
Net assets at end of year	$ 674 966 354	$ 65 061 399	$ 19 766 485	$ –	$ 759 794 238	$ (4 885 149)	$ 1 873 590	$ 6 656 300	$ 261 574 670	$ (4 931 854)	$ 1 020 081 795

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 the Foundations' 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 the Foundations	–	–	–	–	–	–	–	–	8 272 873	–	8 272 873
Increase (decrease) 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 Foundations	–	–	–	–	–	–	–	–	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

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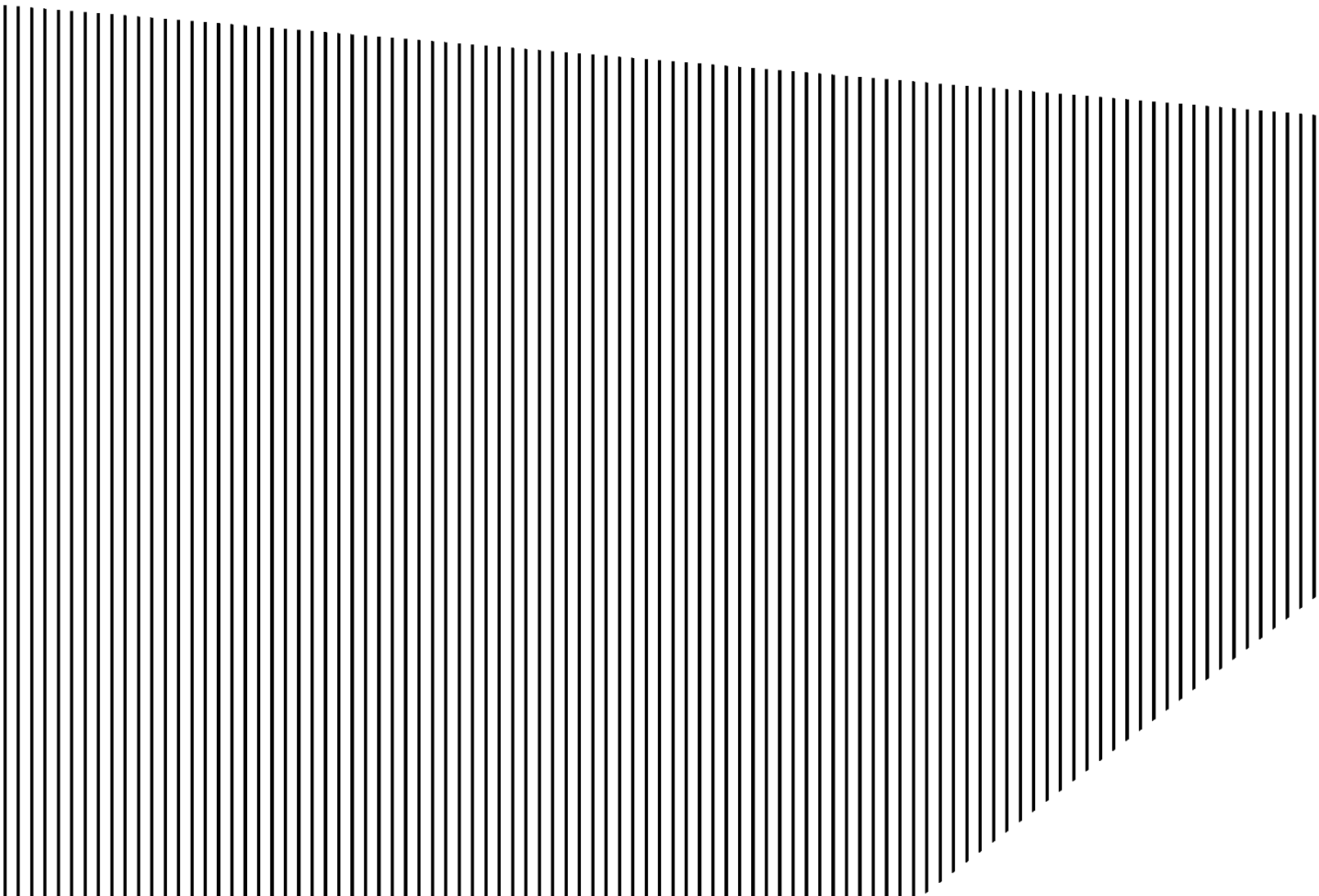

Additional Data

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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 (list any hours for related organizations below dotted line)	(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			
Judith Hopkinson Director	1 3	X						0	0	0
Jon Clark Director	1 3	X						0	0	0
P Steven Ainsley Director	1 3	X						0	0	0
Gregory Faulkner Director	1 3	X						0	0	0
Elliot Prager MD Director	1 3	X						0	0	0
J Robert Andrews Director (Partial Year)	1 3	X						0	0	0
Edward Bentley MD Director	1 3	X						0	0	0
Angel Inscovich MD Director (partial year)	1 3	X						0	0	0
John Romo Committee Chair	1 25 3 75	X						0	0	0
Marshall Turner Jr Committee Chair	1 25 3 75	X						0	0	0
Thomas Watson MD Committee Chair	1 25 3 75	X						11,805	0	0
Charles A Jackson Committee Chair	1 25 3 75	X						0	0	0
Fred Lukas Committee Chair	1 25 3 75	X						0	0	0
Margaret Baker Committee Chair	1 25 3 75	X						0	0	0
Jeffrey Kupperman MD Secretary (Partial year)	1 25 3 75	X		X				1,342	0	0
Alex Koper MD Secretary (Partial year)	1 25 3 75	X		X				10,075	2,500	0
Fred Gluck Vice Chair (Partial Year)	1 25 3 75	X		X				0	0	0
Ed Birch PhD Vice Chair (Partial Year)	1 25 3 75	X		X				0	0	0
Robert Nakasone Vice Chair (Partial Year)	1 25 3 75	X		X				0	0	0
Robert Nourse Vice Chair (Partial Year)	1 25 3 75	X		X				0	0	0
Gretchen Milligan Board Chair	5 15	X		X				0	0	0
Ronald C Werft CEO	15 45			X				0	1,010,499	635,089
Steven A Fellows COO	22 5 27 5			X				0	576,456	174,787
Joan Bricher CFO	12 5 37 5			X				0	540,682	239,362
Julie Artoux Assistant Secretary	12 5 37 5			X				0	117,680	18,962

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 (list any hours for related organizations below dotted line)	(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			
Jeffrey Gauvin MD Dir Surg Education	40 0					X		520,228	0	25,393
David Nichols VP Business Devel-Lab	40 0					X		526,266	0	24,698
Stephen Kaminski MD Dir Trama Svcs & SICU	40 0					X		385,428	0	27,986
Charles Cline Clinical Perfusionist	40 0					X		280,346	0	27,653
Melinda Staveley VP CRH and Therapy Services	40 0					X		267,629	0	41,912
Herbert Geary VP Pt Care Svcs & CNO	0 40						X	0	333,724	47,378
Lisa Moore VP Clinical Services	0 40						X	0	320,801	47,250
Alberto Kywi VP ISD/CIO	0 40						X	0	370,037	48,159
Afshin Fatholahi VP Support Services	0 40						X	0	264,862	43,211