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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 private foundations)

Do not enter Social Security numbers on this form as it may be made public

By law, the IRS generally cannot redact the information on the form

Information about Form 990 and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990)

OMB No 1545-0047

2013

Open to Public Inspection

A For the 2013 calendar year, or tax year beginning 01-01-2013 , 2013, and ending 12-31-2013

<b>B</b> Check if applicable <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	<b>C</b> Name of organization SANTA YNEZ VALLEY COTTAGE HOSPITAL		<b>D Employer identification number</b>  95-2224265
	Doing Business As		
	Number and street (or P O box if mail is not delivered to street address) PO BOX 689	Room/suite	<b>E Telephone number</b>  (805) 682-7111
	City or town, state or province, country, and ZIP or foreign postal code SANTA BARBARA, CA 931020689		<b>G</b> Gross receipts \$ 25,142,279
	<b>F</b> Name and address of principal officer Ronald Werft same as above SB, CA 93102		
<b>I</b> Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) ( ) <input type="checkbox"/> (Insert no ) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		<b>H(a)</b> Is this a group return for subordinates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	
<b>J Website:</b> WWW.COTTAGEHEALTHSYSTEM.ORG		<b>H(b)</b> Are all subordinates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list (see instructions)	
		<b>H(c)</b> Group exemption number	

<b>K</b> Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other	<b>L</b> Year of formation 1962	<b>M</b> State of legal domicile CA
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Part I

Summary

Activities & Governance	<b>1</b> Briefly describe the organization's mission or most significant activities It is the mission of Santa Ynez Valley 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. SYVCH is a rural hospital and is designated a critical access hospital. The hospital provides critical emergency services which allow for local stabilization of the patient and transfer to an affiliated hospital that provides a higher level of care.		
	<b>2</b> Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
Revenue	<b>3</b> Number of voting members of the governing body (Part VI, line 1a) . . . . .	<b>3</b>	17
	<b>4</b> Number of independent voting members of the governing body (Part VI, line 1b) . . . . .	<b>4</b>	13
	<b>5</b> Total number of individuals employed in calendar year 2013 (Part V, line 2a) . . . . .	<b>5</b>	93
	<b>6</b> Total number of volunteers (estimate if necessary) . . . . .	<b>6</b>	214
	<b>7a</b> Total unrelated business revenue from Part VIII, column (C), line 12 . . . . .	<b>7a</b>	0
	<b>b</b> Net unrelated business taxable income from Form 990-T, line 34 . . . . .	<b>7b</b>	0
Expenses	<b>8</b> Contributions and grants (Part VIII, line 1h) . . . . .	<b>Prior Year</b> 1,711,995	<b>Current Year</b> 357,086
	<b>9</b> Program service revenue (Part VIII, line 2g) . . . . .	14,421,990	14,416,038
	<b>10</b> Investment income (Part VIII, column (A), lines 3, 4, and 7d ) . . . . .	74,744	397,395
	<b>11</b> Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	100,163	227,194
	<b>12</b> Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12) . . . . .	16,308,892	15,397,713
	<b>13</b> Grants and similar amounts paid (Part IX, column (A), lines 1–3 ) . . . .	9,411	12,000
	<b>14</b> Benefits paid to or for members (Part IX, column (A), line 4) . . . . .	0	0
Net Assets or Fund Balances	<b>15</b> Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	7,676,487	8,152,210
	<b>16a</b> Professional fundraising fees (Part IX, column (A), line 11e) . . . . .	0	0
	<b>b</b> Total fundraising expenses (Part IX, column (D), line 25) <input type="checkbox"/> 0		
	<b>17</b> Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e) . . . . .	6,259,078	5,441,263
	<b>18</b> Total expenses. Add lines 13–17 (must equal Part IX, column (A), line 25)	13,944,976	13,605,473
	<b>19</b> Revenue less expenses. Subtract line 18 from line 12 . . . . .	2,363,916	1,792,240
Net Assets or Fund Balances		<b>Beginning of Current Year</b>	<b>End of Year</b>
	<b>20</b> Total assets (Part X, line 16) . . . . .	23,836,111	27,126,420
	<b>21</b> Total liabilities (Part X, line 26) . . . . .	4,069,626	3,710,966
	<b>22</b> Net assets or fund balances. Subtract line 21 from line 20 . . . . .	19,766,485	23,415,454

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.

<b>Sign Here</b>	<div><div></div><div>Signature of officer</div></div>	<div><div></div><div>Date</div></div>			
	<div><div></div><div>Joan Bricher CFO</div><div>Type or print name and title</div></div>				
<b>Paid Preparer Use Only</b>	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> 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

For Paperwork Reduction Act Notice, see the separate instructions.

Cat No 11282Y

Form 990 (2013)

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response or note to any line in this Part III

1

Briefly describe the organization’s mission

It is the mission of Santa Ynez Valley 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

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 \$ 11,925,646 including grants of \$ 12,000 ) (Revenue \$ 14,556,568 )

Santa Ynez Valley Cottage Hospital is a 10-bed acute-care hospital located in the rural area known as the Santa Ynez Valley In 2013, the Hospital had 593 patient days, served 16,661 outpatients including emergency services to 6,751 patients The Hospital provided essential emergency treatment, inpatient acute care, outpatient surgical services, laboratory, imaging diagnostic services and cardiac rehabilitation services to the residents of the Santa Ynez Valley, including the communities of Solvang, Buellton, Santa Ynez, Los Olivos, and Ballard Santa Ynez Valley Cottage Hospital provides emergency services to anyone seeking care, regardless of their ability to pay All patients who do not present with 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 Cottage Health System, which includes Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital and Santa Ynez Valley Cottage Hospital, provides critical funding for community health, charity care, and external grants, while also realizing shortfalls in Medicare, Medi-Cal, and indigent care Activities in these areas included screenings and health fairs, classes, clinics, lectures, and seminars, community services, community collaborations, and coalitions/committees In 2013, Cottage Health System spent over \$146 million on these programs In order to ensure that the Community has access to physician specialists, the Hospital also rents medical office space on a per clinic basis In 2013 , Santa Ynez provided 89 patients with financial assistance In 2013, the Hospital provided flu shots at a reduced cost to the community, low cost bike helmets and CPR classes The hospital's cardiac rehabilitation service also provides a low cost exercise program for seniors Santa Ynez Valley Cottage Hospital is also rebuilding and retrofitting its facilities in order to comply with the unfunded California mandate that requires hospitals to be able to withstand a major earthquake or close its doors The Hospital is complying with the State mandate in order to ensure that hospital services remain accessible to the Community

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 ▶ 11,925,646

Part IV

Checklist of Required Schedules

		Yes	No
<b>1</b>	Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A</i> 	Yes	
<b>2</b>	Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)? 	Yes	
<b>3</b>	Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i> . . . . .		No
<b>4</b>	<b>Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II</i> 	Yes	
<b>5</b>	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? <i>If "Yes," complete Schedule C, Part III</i> . . . . .		No
<b>6</b>	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? <i>If "Yes," complete Schedule D, Part I</i> . . . . .		No
<b>7</b>	Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? <i>If "Yes," complete Schedule D, Part II</i> . . . . .		No
<b>8</b>	Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III</i> . . . . .		No
<b>9</b>	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? <i>If "Yes," complete Schedule D, Part IV</i> . . . . .		No
<b>10</b>	Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V</i> . . . . .		No
<b>11</b>	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		
<b>a</b>	Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI</i> 	Yes	
<b>b</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? <i>If "Yes," complete Schedule D, Part VII</i> 	Yes	
<b>c</b>	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? <i>If "Yes," complete Schedule D, Part VIII</i> . . . . .		No
<b>d</b>	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? <i>If "Yes," complete Schedule D, Part IX</i> . . . . .		No
<b>e</b>	Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X</i> 	Yes	
<b>f</b>	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)? <i>If "Yes," complete Schedule D, Part X</i> 	Yes	
<b>12a</b>	Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI and XII</i> . . . . .		No
<b>b</b>	Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional</i> 	Yes	
<b>13</b>	Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E</i> . . . . .		No
<b>14a</b>	Did the organization maintain an office, employees, or agents outside of the United States? . . . . .		No
<b>b</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? <i>If "Yes," complete Schedule F, Parts I and IV</i> . . . . .		No
<b>15</b>	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or other assistance to or for any foreign organization? <i>If "Yes," complete Schedule F, Parts II and IV</i> . . . . .		No
<b>16</b>	Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or other assistance to or for foreign individuals? <i>If "Yes," complete Schedule F, Parts III and IV</i> . . . . .		No
<b>17</b>	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? <i>If "Yes," complete Schedule G, Part I (see instructions)</i> . . . . .		No
<b>18</b>	Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II</i> . . . . .		No
<b>19</b>	Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III</i> . . . . .		No
<b>20a</b>	Did the organization operate one or more hospital facilities? <i>If "Yes," complete Schedule H</i> . . . . . 	Yes	
<b>b</b>	If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return? 	Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants or other assistance to any domestic organization or government on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	21		No
22	Did the organization report more than \$5,000 of grants or other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .	22	Yes	
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? <i>If "Yes," complete Schedule J</i> . . . . .	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? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25a</i> . . . . .	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . .	24b		
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		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . .	24d		
25a	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</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? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	25b		No
26	Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? <i>If so, complete Schedule L, Part II</i> . . . . .	26		No
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? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	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? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	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? <i>If "Yes," complete Schedule L, Part IV</i> . . . .	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . .	29	Yes	
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	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? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i> . . . . .	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)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	35b	Yes	
36	<b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	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? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? <b>Note.</b> 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 or note to any line in this Part V

☐

		Yes	No			
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	29			
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	93			
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? <b>Note.</b> 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" to line 3b, 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	<b>Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.</b> 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	<b>Section 4947(a)(1) non-exempt charitable trusts.</b> 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? <b>Note.</b> 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 or note to any line 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 . . . . .	17	
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			
1b	Enter the number of voting members included in line 1a, above, who are independent . . . . .	13	
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	No
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
7b	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		
8a	The governing body? . . . . .	8a	Yes
8b	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
10b	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
11b	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
12b	Were officers, directors, or trustees, and key employees required to disclose annually interests that could give rise to conflicts? . . . . .	12b	Yes
12c	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	Yes
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?		
15a	The organization's CEO, Executive Director, or top management official . . . . .	15a	Yes
15b	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
16b	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. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request <input type="checkbox"/> 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 Jones Grandidier 400 West Pueblo Santa Barbara, CA 93105 (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 or note to any line 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			
(1) Judith Hopkinson Director	2 3 8	X						0	0	0
(2) Gregory Faulkner Director	2 3 8	X						0	0	0
(3) Elliot Prager MD Director	2 3 8	X						0	0	0
(4) Lori Gaskin PhD Director	2 3 8	X						0	0	0
(5) Dorothy Largay PhD Director	2 3 8	X						0	0	0
(6) Edward Bentley MD Director	2 3 8	X						0	0	0
(7) John Romo Committee Chair	25 4 75	X						0	0	0
(8) Jon Clark Committee Chair	25 4 75	X						0	0	0
(9) Thomas Watson MD Committee Chair	25 4 75	X						0	13,065	0
(10) Charles A Jackson Committee Chair (partial year)	25 4 75	X						0	0	0
(11) Gretchen Milligan Committee Chair	25 4 75	X						0	0	0
(12) Fred Lukas Committee Chair	25 4 75	X						0	0	0
(13) Margaret Baker Committee Chair	25 4 75	X						0	0	0
(14) Alex Koper MD Secretary	25 4 75	X		X				0	42,252	0
(15) Marshall Turner Jr Vice Chair	25 4 75	X		X				0	0	0
(16) Robert Nakasone Vice Chair	25 4 75	X		X				0	0	0
(17) P Steven Ainsley Vice Chair	25 4 75	X		X				0	0	0



Part VII

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

(A) Name and Title	(B) Average hours per week (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			
(18) Robert Nourse Board Chair	1 19	X		X				0	0	0
(19) Ronald C Werft CEO	3 57			X				0	1,102,878	718,319
(20) Steven A Fellows COO	2 5 47 5			X				0	632,925	198,617
(21) Joan F Bricher CFO	2 5 47 5			X				0	564,018	211,993
(22) Julie J Artoux Assistant Secretary	2 5 47 5			X				0	121,989	27,354
(23) Wende A Cappetta VP SYVCH	40 0				X			213,235	0	37,631
(24) Madeline Lozano Clinical Lab Coord	40 0					X		168,290	0	24,506
(25) Craig B Meyers Clin Lab Scientst III	40 0					X		162,865	0	24,045
(26) Gayle A Mercado Clinical Manager	40 0					X		161,568	0	25,344
(27) Denise M Holmes Clinical Mgr-SYVCH	40 0					X		154,462	0	24,889
(28) Ricardo Gonzalez Menchaca RT III Radiographer	0 0					X		141,028	0	24,298
1b Sub-Total . . . . .										
c Total from continuation sheets to Part VII, Section A . . . . .										
d Total (add lines 1b and 1c) . . . . .								1,001,448	2,477,127	1,316,996

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	19	
3	Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	3	No
4	For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i> . . . . .	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? <i>If "Yes," complete Schedule J for such person</i> . . . . .	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
	HOSPITAL BUILDING & EQUIP CO 11330 Olive Blvd Saint Louis MO 63141	Contractor fees	409,576
	CALIFORNIA EM-1 MEDICAL SERVICES 7032 COLLECTION CENTER DR CHICAGO IL 60693	PHYSICIAN SERVICES	251,620
	SHARED IMAGING LLC BOX 88544 MILWAUKEE WI 532880544	RADIOLOGY SERVICES	160,251
	STEVE PITTS INSPECTION SERVICE 4673 Tiffany Park Circle Santa Maria CA 93455	Construction Inspection	143,772
	SOLVANG LUTHERAN HOME INC 636 Atterdag Road Solvang CA 93463	Food Services	103,922
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 ▶6		

Part VIII

Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII

				(A)	(B)	(C)	(D)
				Total revenue	Related or exempt function revenue	Unrelated business revenue	Revenue excluded from tax under sections 512-514
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns . . . . .	1a	0			
	b	Membership dues . . . . .	1b	2,160			
	c	Fundraising events . . . . .	1c	0			
	d	Related organizations . . . . .	1d	0			
	e	Government grants (contributions)	1e	9,603			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f	345,323			
	g	Noncash contributions included in lines 1a-1f \$		27,014			
	h	Total. Add lines 1a-1f . . . . .		357,086			
Program Service Revenue	2a	NET PATIENT SERVICE REVENUE	Business Code				
			900099	14,314,063	14,314,063	0	0
	b	HOSPITAL MEDI-CAL SUPPLEMENTAL	900099	71,435	71,435	0	0
	c	PHYSICIAN ROOM RENT	900099	30,540	30,540	0	0
	d						
	e						
	f	All other program service revenue		0	0	0	0
	g	Total. Add lines 2a-2f . . . . .		14,416,038			
Other Revenue	3	Investment income (including dividends, interest, and other similar amounts) . . . . .		206,184	0	0	206,184
	4	Income from investment of tax-exempt bond proceeds . . . . .		0	0	0	0
	5	Royalties . . . . .		0	0	0	0
	6a	Gross rents	(i) Real				
			(ii) Personal				
	b	Less rental expenses					
	c	Rental income or (loss)	0	0			
	d	Net rental income or (loss) . . . . .					
	7a	Gross amount from sales of assets other than inventory	(i) Securities				
			(ii) Other				
	b	Less cost or other basis and sales expenses	9,908,763	0			
	c	Gain or (loss)	9,717,552	0			
	d	Net gain or (loss) . . . . .	191,211	0			
	8a	Gross income from fundraising events (not including \$ 0 of contributions reported on line 1c) See Part IV, line 18 . . . . .					
			a	14,505			
	b	Less direct expenses . . . . .	b	27,014			
	c	Net income or (loss) from fundraising events . . . . .		-12,509		0	-12,509
	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	THRIFT SHOP REVENUE	453310	99,173	0	0	99,173
	b	MANAGEMENT SERVICES	900099	109,170	109,170	0	0
	c	REBATES & REFUNDS	900099	16,788	16,788	0	0
	d	All other revenue . . . . .		14,572	14,572	0	0
	e	Total. Add lines 11a-11d . . . . .		239,703			
	12	Total revenue. See Instructions . . . . .		15,397,713	14,556,568	0	484,059

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 or note to any line 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.	0	0		
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.	12,000	12,000		
3	Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16.	0	0		
4	Benefits paid to or for members.	0	0		
5	Compensation of current officers, directors, trustees, and key employees.	250,866	0	250,866	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).	10,893	10,893	0	0
7	Other salaries and wages.	5,161,851	4,751,197	410,654	0
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	699,957	629,130	70,827	0
9	Other employee benefits.	1,632,782	1,449,427	183,355	0
10	Payroll taxes.	395,861	368,116	27,745	0
11	Fees for services (non-employees):				
a	Management.	1,539	0	1,539	0
b	Legal.	17,307	0	17,307	0
c	Accounting.	7,814	0	7,814	0
d	Lobbying.	4,037	0	4,037	0
e	Professional fundraising services. See Part IV, line 17.	0			0
f	Investment management fees.	45,733	0	45,733	0
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	1,274,801	1,067,055	207,746	0
12	Advertising and promotion.	0	0	0	0
13	Office expenses.	243,040	181,922	61,118	0
14	Information technology.	52,785	46,672	6,113	0
15	Royalties.	0	0	0	0
16	Occupancy.	320,254	269,832	50,422	0
17	Travel.	11,571	7,974	3,597	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.	2,369	1,725	644	0
20	Interest.	0	0	0	0
21	Payments to affiliates.	0	0	0	0
22	Depreciation, depletion, and amortization.	950,665	887,476	63,189	0
23	Insurance.	108,998	100,610	8,388	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	SYSTEM MANAGEMENT ALLOCATION	1,130,172	962,421	167,751	0
b	MEDICAL SUPPLIES	705,757	705,757	0	0
c	EQUIPMENT MAINTENANCE	485,140	464,872	20,268	0
d	DUES & SUBSCRIPTIONS	28,852	671	28,181	0
e	All other expenses	50,429	7,896	42,533	0
25	Total functional expenses. Add lines 1 through 24e.	13,605,473	11,925,646	1,679,827	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 <input type="checkbox"/> if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

Check if Schedule O contains a response or note to any line in this Part X

				(A)		(B)
				Beginning of year		End of year
Assets	1	Cash—non-interest-bearing		6,442,236	1	1,182,892
	2	Savings and temporary cash investments		1,979,556	2	1,916,927
	3	Pledges and grants receivable, net		0	3	0
	4	Accounts receivable, net		1,759,889	4	2,198,494
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees Complete Part II of Schedule L		0	5	0
	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		78,143	8	116,555
	9	Prepaid expenses and deferred charges		161,146	9	143,283
	10a	Land, buildings, and equipment cost or other basis Complete Part VI of Schedule D	10a21,195,026			
	b	Less accumulated depreciation	10b8,054,827	12,749,995	10c	13,140,199
	11	Investments—publicly traded securities		0	11	5,162,388
	12	Investments—other securities See Part IV, line 11		0	12	2,370,522
	13	Investments—program-related See Part IV, line 11		0	13	
	14	Intangible assets		0	14	
	15	Other assets See Part IV, line 11		665,146	15	895,160
	16	Total assets. Add lines 1 through 15 (must equal line 34)		23,836,111	16	27,126,420
Liabilities	17	Accounts payable and accrued expenses		1,443,632	17	1,502,841
	18	Grants payable		0	18	0
	19	Deferred revenue		0	19	0
	20	Tax-exempt bond liabilities		0	20	0
	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		2,625,994	25	2,208,125
	26	Total liabilities. Add lines 17 through 25		4,069,626	26	3,710,966
Net Assets or Fund Balances	Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.					
	27	Unrestricted net assets		18,832,344	27	22,904,344
	28	Temporarily restricted net assets		934,141	28	511,110
	29	Permanently restricted net assets		0	29	0
	Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> 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		19,766,485	33	23,415,454
	34	Total liabilities and net assets/fund balances		23,836,111	34	27,126,420

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI . . . . .

1	Total revenue (must equal Part VIII, column (A), line 12) . . . . .	1	15,397,713
2	Total expenses (must equal Part IX, column (A), line 25) . . . . .	2	13,605,473
3	Revenue less expenses Subtract line 2 from line 1 . . . . .	3	1,792,240
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A)) . . . . .	4	19,766,485
5	Net unrealized gains (losses) on investments . . . . .	5	561,127
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	1,295,602
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	23,415,454

Part XII Financial Statements and Reporting

Check if Schedule O contains a response or note to any line in this Part XII . . . . .

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> 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? 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 <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		No
2b	Were the organization's financial statements audited by an independent accountant? 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 <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis	Yes	
2c	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? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
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?		No
3b	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		

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.**  
▶ **Information about Schedule A (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.**

OMB No 1545-0047

2013

Open to Public  
Inspection

<b>Name of the organization</b> SANTA YNEZ VALLEY COTTAGE HOSPITAL	<b>Employer identification number</b> 95-2224265
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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	<input type="checkbox"/>	A church, convention of churches, or association of churches described in <b>section 170(b)(1)(A)(i).</b>
2	<input type="checkbox"/>	A school described in <b>section 170(b)(1)(A)(ii).</b> (Attach Schedule E )
3	<input checked="" type="checkbox"/>	A hospital or a cooperative hospital service organization described in <b>section 170(b)(1)(A)(iii).</b>
4	<input type="checkbox"/>	A medical research organization operated in conjunction with a hospital described in <b>section 170(b)(1)(A)(iii).</b> Enter the hospital's name, city, and state _____
5	<input type="checkbox"/>	An organization operated for the benefit of a college or university owned or operated by a governmental unit described in <b>section 170(b)(1)(A)(iv).</b> (Complete Part II )
6	<input type="checkbox"/>	A federal, state, or local government or governmental unit described in <b>section 170(b)(1)(A)(v).</b>
7	<input type="checkbox"/>	An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in <b>section 170(b)(1)(A)(vi).</b> (Complete Part II )
8	<input type="checkbox"/>	A community trust described in <b>section 170(b)(1)(A)(vi)</b> (Complete Part II )
9	<input type="checkbox"/>	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 <b>section 509(a)(2).</b> (Complete Part III )
10	<input type="checkbox"/>	An organization organized and operated exclusively to test for public safety See <b>section 509(a)(4).</b>
11	<input type="checkbox"/>	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 <b>section 509(a)(3).</b> Check the box that describes the type of supporting organization and complete lines 11e through 11h <b>a</b> <input type="checkbox"/> Type I <b>b</b> <input type="checkbox"/> Type II <b>c</b> <input type="checkbox"/> Type III - Functionally integrated <b>d</b> <input type="checkbox"/> Type III - Non-functionally integrated
e	<input type="checkbox"/>	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	<input type="checkbox"/>	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? <b>(i)</b> A person who directly or indirectly controls, either alone or together with persons described in <b>(ii)</b> and <b>(iii)</b> below, the governing body of the supported organization? <b>(ii)</b> A family member of a person described in <b>(i)</b> above? <b>(iii)</b> A 35% controlled entity of a person described in <b>(i)</b> or <b>(ii)</b> above?	
h	Provide the following information about the supported organization(s)	

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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 2013 (line 6, column (f) divided by line 11, column (f))	14		
15 Public support percentage for 2012 Schedule A, Part II, line 14	15		
16a 33 1/3% support test—2013. 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—2012. 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—2013. 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—2012. 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 IIISupport 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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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 2013 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2012 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2013 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2012 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2013. 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—2012. 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.** 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		
Return Reference	Explanation	

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. ▶ Information about Schedule C (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.**

OMB No 1545-0047

2013

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 SANTA YNEZ VALLEY COTTAGE HOSPITAL	Employer identification number 95-2224265
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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?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input type="checkbox"/> 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 <b>Form 1120-POL</b> for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> 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															
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		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		
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														
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-															
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?		<input type="checkbox"/> Yes <input type="checkbox"/> 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) 2010	(b) 2011	(c) 2012	(d) 2013	(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)		(b)
		Yes	No	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		4,037
j	Total. Add lines 1c through 1i.			4,037
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

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.

Return Reference	Explanation
Schedule C, Part II-B, Line 1	Lobbying activities are calculated as a percentage of dues paid to various organizations

[illegible]

SCHEDULE D  
(Form 990)

Supplemental Financial Statements

OMB No 1545-0047

2013

Open to Public Inspection

Department of the Treasury  
Internal Revenue Service

► 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. ► Information about Schedule D (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

Name of the organization SANTA YNEZ VALLEY COTTAGE HOSPITAL	Employer identification number 95-2224265
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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? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	
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? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	

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
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register

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 |
| 1c |        |
| 1d |        |
| 1e |        |
| 1f |        |

c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance
- 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 . . . . .					
b Contributions . . . . .					
c Net investment earnings, gains, and losses					
d Grants or scholarships . . . . .					
e Other expenditures for facilities and programs . . . . .					
f Administrative expenses . . . . .					
g End of year balance . . . . .					

- 2

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

Board designated or quasi-endowment
- b

Permanent endowment
- c

Temporarily restricted endowment

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
- (i) unrelated organizations . . . . .

3a(i)

Yes

No

(ii) related organizations . . . . .

3a(ii)

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

3b
- Part VI Land, Buildings, and Equipment.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 11a. 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 . . . . .  | 0                                    | 22,582                         |                              | 22,582         |
| b Buildings . . . . .  | 0                                    | 10,811,957                     | 2,548,108                    | 8,263,849      |
| c Leasehold improvements . . . . .   | 0                                    | 0                              | 0                            | 0              |
| d Equipment . . . . .  | 0                                    | 6,899,735                      | 5,373,737                    | 1,525,998      |
| e Other . . . . .  | 0                                    | 3,460,752                      | 132,982                      | 3,327,770      |
| Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).) |                                      |                                |                              | 13,140,199     |
- Schedule D (Form 990) 2013





<b>Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return</b> Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.				
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	

<b>Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.</b> Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.				
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	

<b>Part XIII Supplemental Information</b>
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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.

Return Reference	Explanation
Schedule D, Part X, Line 2	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. 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.

[illegible]

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.  
► Information about Schedule H (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization  
SANTA YNEZ VALLEY COTTAGE HOSPITAL

Employer identification number  
95-2224265

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  <input checked="" type="checkbox"/> Applied uniformly to all hospital facilities <input type="checkbox"/> Applied uniformly to most hospital facilities <input type="checkbox"/> 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 <i>free</i> care? If "Yes," indicate which of the following was the FPG family income limit for eligibility for <i>free</i> care  <input type="checkbox"/> 100% <input type="checkbox"/> 150% <input type="checkbox"/> 200% <input checked="" type="checkbox"/> Other <u>350 %</u>  b Did the organization use FPG as a factor in determining eligibility for providing <i>discounted</i> care? If "Yes," indicate which of the following was the family income limit for eligibility for discounted care . . . . .  <input type="checkbox"/> 200% <input type="checkbox"/> 250% <input type="checkbox"/> 300% <input type="checkbox"/> 350% <input type="checkbox"/> 400% <input checked="" type="checkbox"/> Other <u>542 %</u>  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"? . . . . .	3a Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? . . . . .	3b Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount? . . . . .	4 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 eligible for free or discounted care? . . . . .	5a Yes	
6a	Did the organization prepare a community benefit report during the tax year? . . . . .	5b	No
b	If "Yes," did the organization make it available to the public? . . . . .	5c	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H	6a Yes	
		6b Yes	

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) . . . .			72,471	0	72,471	0 533 %
b Medicaid (from Worksheet 3, column a) . . . . .			732,678	171,745	560,933	4 123 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . .			26,836	4,123	22,713	0 167 %
d <b>Total</b> Financial Assistance and Means-Tested Government Programs . .	0	0	831,985	175,868	656,117	4 823 %
<b>Other Benefits</b>						
e Community health improvement services and community benefit operations (from Worksheet 4) . . . .			25,956	0	25,956	0 191 %
f Health professions education (from Worksheet 5) . . . .						
g Subsidized health services (from Worksheet 6) . . . .			62,877	29,888	32,989	0 242 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)						
j <b>Total</b> Other Benefits . . . .	0	0	88,833	29,888	58,945	0 433 %
k <b>Total</b> . Add lines 7d and 7j . .	0	0	920,818	205,756	715,062	5 256 %

Part II

Community Building Activities

Complete this table 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

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

332,949

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

5,850,090

6

Enter Medicare allowable costs of care relating to payments on line 5.

6

5,692,645

7

Subtract line 6 from line 5. This is the surplus (or shortfall).

7

157,445

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				
9				
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, primary website address, and state license number

		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
	See Additional Data Table										

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 )  
Santa Ynez Valley Cottage Hospital

Name of hospital facility or facility reporting group

If reporting on Part V, Section B for a single hospital facility 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 . . . . . If "Yes," indicate what the CHNA report describes (check all that apply)	1	Yes
a	<input checked="" type="checkbox"/> A definition of the community served by the hospital facility		
b	<input checked="" type="checkbox"/> Demographics of the community		
c	<input checked="" type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
d	<input checked="" type="checkbox"/> How data was obtained		
e	<input checked="" type="checkbox"/> The health needs of the community		
f	<input checked="" type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g	<input checked="" type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet the community health needs		
h	<input checked="" type="checkbox"/> The process for consulting with persons representing the community's interests		
i	<input checked="" type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs		
j	<input type="checkbox"/> Other (describe in Part VI)		
2	Indicate the tax year the hospital facility last conducted a CHNA 20 <u>13</u>		
3	In conducting its most recent CHNA, did the hospital facility take into account input from persons who represent the broad interests 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	Yes
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	No
5	Did the hospital facility make its CHNA report widely available to the public? . . . . . If "Yes," indicate how the CHNA report was made widely available (check all that apply)	5	Yes
a	<input checked="" type="checkbox"/> Hospital facility's website (list url) <u>http //santaynezvalley healthforecast net/</u>		
b	<input type="checkbox"/> Other website (list url) _____		
c	<input checked="" type="checkbox"/> Available upon request from the hospital facility		
d	<input type="checkbox"/> 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 as of the end of the tax year)		
a	<input type="checkbox"/> Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
b	<input type="checkbox"/> Execution of the implementation strategy		
c	<input type="checkbox"/> Participation in the development of a community-wide plan		
d	<input type="checkbox"/> Participation in the execution of a community-wide plan		
e	<input type="checkbox"/> Inclusion of a community benefit section in operational plans		
f	<input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA		
g	<input type="checkbox"/> Prioritization of health needs in its community		
h	<input type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i	<input checked="" type="checkbox"/> 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	No
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	No
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		
<b>9</b> 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?		<b>9</b>	Yes		
<b>10</b> Used federal poverty guidelines (FPG) to determine eligibility for providing <i>free</i> care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for free care <u>350</u> % If "No," explain in Part VI the criteria the hospital facility used		<b>10</b>	Yes		
<b>11</b> Used FPG to determine eligibility for providing <i>discounted</i> care? . . . . . If "Yes," indicate the FPG family income limit for eligibility for discounted care <u>542</u> % If "No," explain in Part VI the criteria the hospital facility used		<b>11</b>	Yes		
<b>12</b> Explained the basis for calculating amounts charged to patients? . . . . . If "Yes," indicate the factors used in determining such amounts (check all that apply)		<b>12</b>	Yes		
<b>a</b> <input checked="" type="checkbox"/> Income level					
<b>b</b> <input checked="" type="checkbox"/> Asset level					
<b>c</b> <input type="checkbox"/> Medical indigency					
<b>d</b> <input type="checkbox"/> Insurance status					
<b>e</b> <input type="checkbox"/> Uninsured discount					
<b>f</b> <input type="checkbox"/> Medicaid/Medicare					
<b>g</b> <input checked="" type="checkbox"/> State regulation					
<b>h</b> <input type="checkbox"/> Residency					
<b>i</b> <input type="checkbox"/> Other (describe in Part VI)					
<b>13</b> Explained the method for applying for financial assistance? . . . . .		<b>13</b>	Yes		
<b>14</b> Included measures to publicize the policy within the community served by the hospital facility? . . . . . If "Yes," indicate how the hospital facility publicized the policy (check all that apply)		<b>14</b>	Yes		
<b>a</b> <input type="checkbox"/> The policy was posted on the hospital facility's website					
<b>b</b> <input type="checkbox"/> The policy was attached to billing invoices					
<b>c</b> <input type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms					
<b>d</b> <input type="checkbox"/> The policy was posted in the hospital facility's admissions offices					
<b>e</b> <input type="checkbox"/> The policy was provided, in writing, to patients on admission to the hospital facility					
<b>f</b> <input checked="" type="checkbox"/> The policy was available upon request					
<b>g</b> <input checked="" type="checkbox"/> Other (describe in Part VI)					
Billing and Collections					
<b>15</b> 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? . . . . .		<b>15</b>	Yes		
<b>16</b> 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 individual's eligibility under the facility's FAP					
<b>a</b> <input type="checkbox"/> Reporting to credit agency					
<b>b</b> <input type="checkbox"/> Lawsuits					
<b>c</b> <input type="checkbox"/> Liens on residences					
<b>d</b> <input type="checkbox"/> Body attachments					
<b>e</b> <input type="checkbox"/> Other similar actions (describe in Section C)					
<b>17</b> 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 individual's eligibility under the facility's FAP? . . . . .				<b>17</b>	No
If "Yes," check all actions in which the hospital facility or a third party engaged					
<b>a</b> <input type="checkbox"/> Reporting to credit agency					
<b>b</b> <input type="checkbox"/> Lawsuits					
<b>c</b> <input type="checkbox"/> Liens on residences					
<b>d</b> <input type="checkbox"/> Body attachments					
<b>e</b> <input type="checkbox"/> Other similar actions (describe in Section C)					

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 individuals regarding the individuals' bills
- d

☒

Documented its determination of whether individuals were eligible for financial assistance under the hospital facility's financial assistance policy
- e

☐

Other (describe in Section C)

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? . . . . . If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> 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	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input checked="" type="checkbox"/> Other (describe in Part VI)		
21	During the tax year, did the hospital facility charge any FAP-eligible individual 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? . . . . . If "Yes," explain in Part VI		No
22	During the tax year, did the hospital facility charge any FAP-eligible individual an amount equal to the gross charge for any service provided to that individual? . . . . . If "Yes," explain in Part VI		No



**Section C. Supplemental Information for Part V, Section B.** Provide descriptions required for Part V, Section B, lines 1j, 3, 4, 5d, 6i, 7, 10, 11, 12i, 14g, 16e, 17e, 18e, 19c, 19d, 20d, 21, and 22. If applicable, provide separate descriptions for each facility in a facility reporting group, designated by "Facility A," "Facility B," etc.

[illegible]

Part V

Facility Information (continued)

**Section D. 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? \_\_\_\_\_

Name and address	Type of Facility (describe)
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

Part VI

Supplemental Information

Provide the following information

- 1
- Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II and Part III, lines 2, 3, 4, 8 and 9b
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs 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

Form and Line Reference	Explanation
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.
Schedule H, Part I, Line 7	The 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 to charge ratio, we have calculated cost to 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 to charge ratio.

Form and Line Reference	Explanation
Schedule H, Part I, Line 7g	Cardiac Rehab services are provided at a loss to the hospital
Schedule H, Part III, Section A, Line 2	Patient service revenue, net of contractual allowances and discounts, is reduced by the provision for bad debts, and accounts receivable is reduced by an allowance for uncollectible accounts. The System establishes an allowance for uncollectible accounts based on many factors, including payer mix, age of receivables, historical cash collection experience, and other relevant information. A significant portion of the Systems uninsured patients will be unable or unwilling to pay for services provided and a significant portion of the Systems insured patients will be unable or unwilling to pay for co-payments and deductibles. Thus, the System records a significant provision for bad debts related to these insured and uninsured patients in the period the services are provided. The System writes down the expected reimbursement after reasonable collection efforts have been exhausted.

Form and Line Reference	Explanation
Schedule H, Part III, Section A, Line 4	Bad debt is not included in the Community Benefit report FOOTNOTE Patient service revenue, net of contractual allowances and discounts, is reduced by the provision for bad debts, and accounts receivable is reduced by an allowance for uncollectible accounts The System establishes an allowance for uncollectible accounts based on many factors, including payer mix, age of receivables, historical cash collection experience, and other relevant information A significant portion of the Systems uninsured patients will be unable or unwilling to pay for services provided and a significant portion of the Systems insured patients will be unable or unwilling to pay for co-payments and deductibles Thus, the System records a significant provision for bad debts related to these insured and uninsured patients in the period the services are provided The System writes down the expected reimbursement after reasonable collection efforts have been exhausted
Schedule H, Part III, Section B, Line 8	Santa Ynez Valley Cottage Hospital is designated a critical access hospital (CAH) and did not experience a shortfall from allowable costs in 2013

Form and Line Reference	Explanation
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.
Schedule H, Part VI, Line 2	Cottage Health System, through its hospitals Santa Barbara Cottage Hospital, Goleta Valley Cottage Hospital and Santa Ynez Valley Cottage Hospital, assesses the needs of the community through the Community Health Needs Assessment. For each hospital, an outside consultant was engaged to review the relevant health and population statistics, conduct a telephone survey of identified community members and hold focus groups with community leaders who represented a broad group of community members. Along with the CHNA conducted by the Hospital, CHS also utilizes the health assessment prepared by the County of Santa Barbara to assess the health of the community.

Form and Line Reference	Explanation
Schedule H, Part VI, Line 3	<p>Cottage Health System has a multifaceted 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 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.</p>
Schedule H, Part VI, Line 4	<p>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 Countys 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. The population age breakdown is: 29% percent is 0 to 17 years old, 58 % are 20 to 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 Countys 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. The residents of the County are served by 5 hospitals throughout the county.</p>

Form and Line Reference	Explanation
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 Ynez Valley Community has access to high-quality, affordable healthcare. The Board of Directors is actively involved in the Hospital strategic decisions and takes its commitment to the Community very seriously. The Board approves of an annual financial budget and ten-year financial plan to guarantee the Hospital will continue to offer hospital services to the Community for years to come. The Board also approves of annual top goals that are consistent with the mission, vision and values of the Hospital. The financial forethought of the Board of Directors resulted in surplus funds that are being used to rebuild the facility. SYVCH 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. SYVCH 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.
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. SYVCH is the smallest of the three hospitals and the only federally-designated critical access hospital.



Form and Line Reference	Explanation
Schedule H, Part VI, Line 7	Cottage Health System files an annual community benefit report in the State of California



Schedule I  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Name of the organization  
SANTA YNEZ VALLEY COTTAGE HOSPITAL

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

▶ Information about Schedule I (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public  
Inspection

Employer identification number  
95-2224265

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

2

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

3

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

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
(1) Nursing Scholarships	4	12,000	0		

Part IV

Supplemental Information. Provide the information required in Part I, line 2, Part III, column (b), and any other additional information.

Return Reference	Explanation
Schedule I, Part I, Line 2	Scholarship applications are reviewed before funds are disbursed and verification that the student has enrolled and paid for the semester is required before funds are disbursed

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, line 23.  
▶ Attach to Form 990. ▶ See separate instructions.

▶ Information about Schedule J (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization  
SANTA YNEZ VALLEY COTTAGE HOSPITAL

Employer identification number  
95-2224265

Part I

Questions Regarding Compensation

	Yes	No
<div><div>1a</div><div>Check the appropriate 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</div><div><div><div><input type="checkbox"/> First-class or charter travel</div><div><input type="checkbox"/> Travel for companions</div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input type="checkbox"/> Discretionary spending account</div></div><div><div><input type="checkbox"/> Housing allowance or residence for personal use</div><div><input type="checkbox"/> Payments for business use of personal residence</div><div><input type="checkbox"/> Health or social club dues or initiation fees</div><div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div></div></div>		
<div><div>b</div><div>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</div></div>	1b	
<div><div>2</div><div>Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all directors, trustees, officers, including the CEO/Executive Director, regarding the items checked in line 1a?</div></div>	2	
<div><div>3</div><div>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</div><div><div><input checked="" type="checkbox"/> Compensation committee</div><div><input checked="" type="checkbox"/> Independent compensation consultant</div><div><input checked="" type="checkbox"/> Form 990 of other organizations</div><div><input type="checkbox"/> Written employment contract</div><div><input checked="" type="checkbox"/> Compensation survey or study</div><div><input checked="" type="checkbox"/> Approval by the board or compensation committee</div></div></div>		
<div><div>4</div><div>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</div></div>		
<div><div>a</div><div>Receive a severance payment or change-of-control payment?</div></div>	4a	No
<div><div>b</div><div>Participate in, or receive payment from, a supplemental nonqualified retirement plan?</div></div>	4b	Yes
<div><div>c</div><div>Participate in, or receive payment from, an equity-based compensation arrangement?</div></div> <div>If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III</div>	4c	No
<div><div></div><div>Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.</div></div>		
<div><div>5</div><div>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</div></div>		
<div><div>a</div><div>The organization?</div></div>	5a	No
<div><div>b</div><div>Any related organization?</div></div> <div>If "Yes," to line 5a or 5b, describe in Part III</div>	5b	No
<div><div>6</div><div>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</div></div>		
<div><div>a</div><div>The organization?</div></div>	6a	No
<div><div>b</div><div>Any related organization?</div></div> <div>If "Yes," to line 6a or 6b, describe in Part III</div>	6b	No
<div><div>7</div><div>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</div></div>	7	No
<div><div>8</div><div>Were any amounts reported in Form 990, Part VII, paid or accrued 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</div></div>	8	No
<div><div>9</div><div>If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?</div></div>	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

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.

Return Reference	Explanation
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 executives' 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. Additional details found in the narrative for Schedule O, Part VI, Line 15.
Schedule J, Part I, Line 4	The amounts reported in the current years' deferred compensation include 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. 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 accompanying consolidated balance sheets. The amounts reported in the current year's deferred compensation include 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. No payouts were made this year.

Additional Data

Software ID: 13000241  
Software Version: v1.00  
EIN: 95-2224265  
Name: SANTA YNEZ VALLEY 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 CEO	(i)	0	0	0	0	0	0	0
	(ii)	810,869	279,660	12,349	700,565	17,754	1,821,197	0
Steven A Fellows COO	(i)	0	0	0	0	0	0	0
	(ii)	480,586	141,176	11,163	180,863	17,754	831,542	0
Joan F Bricher CFO	(i)	0	0	0	0	0	0	0
	(ii)	449,279	107,214	7,524	194,115	17,878	776,010	0
Julie J Artoux Assistant Secretary	(i)	0	0	0	0	0	0	0
	(ii)	111,391	9,248	1,350	12,250	15,104	149,343	0
Wende A Cappetta VP SYVCH	(i)	178,995	30,994	3,246	23,906	13,725	250,866	0
	(ii)	0	0	0	0	0	0	0
Madeline Lozano Clinical Lab Coord	(i)	156,536	158	11,596	8,358	16,148	192,796	0
	(ii)	0	0	0	0	0	0	0
Craig B Meyers Clin Lab Scientst III	(i)	160,099	158	2,608	8,013	16,033	186,911	0
	(ii)	0	0	0	0	0	0	0
Gayle A Mercado Clinical Manager	(i)	150,425	10,858	285	8,064	17,280	186,912	0
	(ii)	0	0	0	0	0	0	0
Denise M Holmes Clinical Mgr-SYVCH	(i)	142,446	11,554	462	7,700	17,189	179,351	0
	(ii)	0	0	0	0	0	0	0
Ricardo Gonzalez Menchaca RT III Radiographer	(i)	131,476	158	9,394	7,018	17,280	165,326	0
	(ii)	0	0	0	0	0	0	0



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.  
▶ Information about Schedule L (Form 990 or 990-EZ) and its instructions is at  
[www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047  
**2013**  
**Open to Public Inspection**

Name of the organization  
SANTA YNEZ VALLEY COTTAGE HOSPITAL

Employer identification number  
95-2224265

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?		(e) Original principal amount	(f) Balance due	(g) In default?		(h) Approved by board or committee?	(i) Written agreement?	
			To	From			Yes	No		Yes	No
Total ▶ \$											

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	No
(1) Teresa Bentley	Wife of Board Member	10,893	Employee		No

**Part V**

**Supplemental Information**  
Provide additional information for responses to questions on Schedule L (see instructions)

Return Reference	Explanation
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SCHEDULE M  
(Form 990)

Noncash Contributions

OMB No 1545-0047

2013

Open to Public Inspection

►Complete if the organizations answered "Yes" on Form 990, Part IV, lines 29 or 30.  
► Attach to Form 990.

►Information about Schedule M (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

Name of the organization  
SANTA YNEZ VALLEY COTTAGE HOSPITAL

Employer identification number  
95-2224265

Part I

Types of Property

	(a) Check if applicable	(b) Number of contributions or items contributed	(c) Noncash contribution amounts reported on Form 990, Part VIII, line 1g	(d) Method of determining noncash contribution amounts
1 Art—Works of art . . . . .				
2 Art—Historical treasures . . . . .				
3 Art—Fractional interests . . . . .				
4 Books and publications . . . . .				
5 Clothing and household goods . . . . .	X		27,014	Fair Market Value
6 Cars and other vehicles . . . . .				
7 Boats and planes . . . . .				
8 Intellectual property . . . . .				
9 Securities—Publicly traded . . . . .				
10 Securities—Closely held stock . . . . .				
11 Securities—Partnership, LLC, or trust interests . . . . .				
12 Securities—Miscellaneous . . . . .				
13 Qualified conservation contribution—Historic structures . . . . .				
14 Qualified conservation contribution—Other . . . . .				
15 Real estate—Residential . . . . .				
16 Real estate—Commercial . . . . .				
17 Real estate—Other . . . . .				
18 Collectibles . . . . .				
19 Food inventory . . . . .				
20 Drugs and medical supplies . . . . .				
21 Taxidermy . . . . .				
22 Historical artifacts . . . . .				
23 Scientific specimens . . . . .				
24 Archeological artifacts . . . . .				
25 Other ► ( )				
26 Other ►( )				
27 Other ►( )				
28 Other ► ( )				

29 Number of Forms 8283 received by the organization during the tax year for contributions for which the organization completed Form 8283, Part IV, Donee Acknowledgement . . . . .

29

0

30a During the year, did the organization receive by contribution any property reported in Part I, lines 1 through 28, that it must hold for at least three years from the date of the initial contribution, and which is not required to be used for exempt purposes for the entire holding period? . . . . .

30a

No

b If "Yes," describe the arrangement in Part II

31 Does the organization have a gift acceptance policy that requires the review of any non-standard contributions?

31

Yes

32a Does the organization hire or use third parties or related organizations to solicit, process, or sell noncash contributions? . . . . .

32a

No

b If "Yes," describe in Part II

33 If the organization did not report an amount in column (c) for a type of property for which column (a) is checked, describe in Part II

**Part III**

**Supplemental Information.** Provide the information required by Part I, lines 30b, 32b, and 33, and whether the organization is reporting in Part I, column (b), the number of contributions, the number of items received, or a combination of both. Also complete this part for any additional information.

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.**

**▶ Information about Schedule O (Form 990 or 990-EZ) and its instructions is at  
[www.irs.gov/form990](http://www.irs.gov/form990).**

OMB No 1545-0047

**2013**

**Open to Public  
Inspection**

Name of the organization  
SANTA YNEZ VALLEY COTTAGE HOSPITAL

**Employer identification number**

95-2224265

Return Reference	Explanation
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

Return Reference	Explanation
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

Return Reference	Explanation
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 from 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

Return Reference	Explanation
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.



Return Reference	Explanation
Form 990, Part VI, Section B, Line 12c	<p>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:</p> <ol style="list-style-type: none"> <li>1 ) discharge their duties to benefit the Cottage Health System and not the Directors personally</li> <li>2 ) disclose situations with the potential for conflict of interest with the vision and mission of Cottage Health System</li> <li>3 ) refrain from discussing confidential Cottage Health System business with others.</li> </ol> <p>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 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.</p>

Return Reference	Explanation
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 employed officers and key employees.

Return Reference	Explanation
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. The organizations bylaws and conflict of interest policies are not available to the public.

Return Reference	Explanation
Form 990, Part XI, Line 9	Changes in pension liability \$1,289,654, Changes in value of charitable remainder trusts \$5,948

SCHEDULE R  
(Form 990)

Department of the Treasury  
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" on Form 990, Part IV, line 33, 34, 35b, 36, or 37.  
▶ Attach to Form 990. ▶ See separate instructions.  
▶ Information about Schedule R (Form 990) and its instructions is at [www.irs.gov/form990](http://www.irs.gov/form990).

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization  
SANTA YNEZ VALLEY COTTAGE HOSPITAL

Employer identification number  
95-2224265

Part I Identification of Disregarded Entities

Complete if the organization answered "Yes" on 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

Part II Identification of Related Tax-Exempt Organizations

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?	
						Yes	No
(1) Cottage Health System  PO Box 689  Santa Barbara, CA 931020689 77-0431902	Parent organization for 3 hospitals and medical professional building	CA	501 (C) (3)	11b-II	N/A		No
(2) Santa Barbara Cottage Hospital  PO Box 689  Santa Barbara, CA 931020689 95-1644629	Hospital	CA	501 (C) (3)	3	Cottage Health System	Yes	
(3) Goleta Valley Cottage Hospital  PO Box 689  Santa Barbara, CA 931020689 95-2413596	Hospital	CA	501 (C) (3)	3	Cottage Health System	Yes	
(4) Santa Barbara Cottage Hospital Foundation  PO Box 689  Santa Barbara, CA 93102 95-3802238	Fundraising	CA	501 (C) (3)	7	Santa Barbara Cottage Hospital		No
(5) Goleta Valley Professional Buildings Inc  PO Box 689  Santa Barbara, CA 931020689 77-0004202	Medical prof bldg	CA	501 (C) (3)	11b-II	Cottage Health System	Yes	

Part III

Identification of Related Organizations Taxable as a Partnership

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income(related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of- year assets	(h) Disproporionate 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	
(1) Rio Bravo Energia I Investments Holdings LP  89 Nexus Way Camana Bay Grand Cayman, KY 1-9007 CJ 99-9999999	Investment	CA	SB Cottage Hosp Fndtn		0	0			0			0 %

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust

Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of- year assets	(h) Percentage ownership	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
(1) Villa Riviera Real Estate Company Inc  PO Box 689 Santa Barbara, CA 93102 27-2996284	Workforce Housing Developer	CA	SBCHF	C					No

Part V

Transactions With Related Organizations

Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35b, or 36.

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

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

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.

[illegible]



Part VII

Supplemental Information

Provide additional information for responses to questions on Schedule R (see instructions)

Return Reference	Explanation
------------------	-------------

Additional Data

Software ID: 13000241

Software Version: v1.00

EIN: 95-2224265

Name: SANTA YNEZ VALLEY COTTAGE HOSPITAL

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
Cottage Health System	m	1,130,173	accrual
Cottage Health System	p	88,755	accrual
Santa Barbara Cottage Hospital	m	774,852	accrual
Santa Barbara Cottage Hospital	o	365,129	accrual
Santa Barbara Cottage Hospital	p	3,580,320	accrual
Santa Barbara Cottage Hospital	q	165,050	accrual
Santa Barbara Cottage Hospital	s	74,545	accrual

CONSOLIDATED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

Cottage Health System  
Years Ended December 31, 2013 and 2012  
With Report of Independent Auditors

Exhibit 99.1



Building a better  
working world

Cottage Health System

Consolidated Financial Statements  
and Supplementary Information

Years Ended December 31, 2013 and 2012

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## Report of Independent Auditors

The 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, 2013 and 2012, 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, 2013 and 2012, 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 is 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, 2014

# Cottage Health System

## Consolidated Balance Sheets

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 30,754,032	\$ 35,721,427
Short-term investments	20,583,607	20,942,754
Patient accounts receivable (less allowance for doubtful accounts of \$29,592,000 in 2013 and \$28,089,000 in 2012)	104,629,209	101,820,541
Other receivables	12,424,587	15,137,602
Inventories	13,005,305	13,808,733
Prepaid expenses and other current assets	11,996,498	13,427,473
Total current assets	193,393,238	200,858,530
Investments	444,273,166	281,317,140
Assets limited as to use		
By Board	25,581,976	27,227,462
Self-insurance trusts	6,455,608	8,131,945
Total assets limited as to use	32,037,584	35,359,407
Property, plant, and equipment, net	766,642,044	757,956,511
Other assets	27,739,484	31,547,852
Interest in net assets and amounts due from the Foundations	306,061,097	261,574,670
Total assets	<u>\$1,770,146,613</u>	<u>\$1,568,614,110</u>

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Liabilities and net assets</b>		
Current liabilities		
Accounts payable	\$ 52,627,242	\$ 44,060,549
Accrued expenses and other liabilities	36,671,238	26,967,014
Current portion of accrued self-insurance claims	9,758,206	6,617,194
Current maturities of long-term debt	6,030,000	5,785,000
Total current liabilities	105,086,686	83,429,757
Other liabilities		
Accrued self-insurance claims, less current portion	26,214,290	24,745,100
Long-term debt, less current maturities	327,141,849	334,015,881
Pension and benefit liabilities	10,584,406	60,207,318
Swap liabilities	22,680,840	40,440,327
Other liabilities	6,835,606	5,693,932
Total liabilities	498,543,677	548,532,315
Net assets		
Unrestricted	1,151,653,511	916,025,657
Temporarily restricted	98,852,674	84,614,499
Permanently restricted	21,096,751	19,441,639
Total net assets	1,271,602,936	1,020,081,795
Total liabilities and net assets	<u>\$1,770,146,613</u>	<u>\$1,568,614,110</u>

*See accompanying notes.*



# Cottage Health System

## Consolidated Statements of Income

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Unrestricted revenues, gains, and other support		
Patient service revenue (net of contractual allowances and discounts)	\$ 668,803,548	\$ 625,824,780
Provisions for doubtful accounts	(20,332,431)	(20,904,726)
Net patient service revenue	648,471,117	604,920,054
Hospital Medi-Cal supplemental fee	43,060,063	15,723,513
Other operating revenue	3,960,261	12,067,991
Net assets released from restrictions	1,229,117	683,672
Total unrestricted revenues, gains, and other support	696,720,558	633,395,230
Expenses		
Salaries and benefits	321,949,716	305,740,455
Supplies and services	191,288,225	187,035,074
Hospital quality assurance fee	29,709,747	22,698,548
Professional fees	28,144,957	34,773,901
Insurance	6,703,424	3,504,833
Depreciation and amortization	46,760,653	42,181,008
Interest	15,384,778	16,627,281
Total expenses	639,941,500	612,561,100
Operating income	56,779,058	20,834,130
Other income (expenses)		
Investment income	69,117,981	30,351,216
Change in fair value of interest rate swaps	11,981,816	1,630,130
Change in unrestricted net assets of the Foundations	34,085,385	(138,185)
Total other income, net	115,185,182	31,843,161
Excess of revenues over expenses	171,964,240	52,677,291
Change in pension liability	63,663,614	3,633,681
Increase in unrestricted net assets	\$ 235,627,854	\$ 56,310,972

*See accompanying notes.*

# Cottage Health System

## Consolidated Statements of Changes in Net Assets

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 171,964,240	\$ 52,677,291
Change in pension liability	63,663,614	3,633,681
Increase in unrestricted net assets	235,627,854	56,310,972
<b>Temporarily restricted net assets</b>		
Contributions	527,437	1,143,169
Investment gains (losses)	2,741,338	1,264,516
Net assets released from restrictions	(1,229,117)	(683,672)
Changes in value of contribution from charitable remainder trusts	5,948	5,454
Change in net assets of the Foundations	12,192,569	3,563,811
Increase in temporarily restricted net assets	14,238,175	5,293,278
<b>Permanently restricted net assets</b>		
Change in net assets of the Foundations	1,655,112	329,035
Increase in permanently restricted net assets	1,655,112	329,035
Increase in net assets	251,521,141	61,933,285
Net assets at beginning of year	1,020,081,795	958,148,510
Net assets at end of year	<u>\$ 1,271,602,936</u>	<u>\$ 1,020,081,795</u>

*See accompanying notes.*

# Cottage Health System

## Consolidated Statements of Cash Flows

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Increase in net assets	<b>\$ 251,521,141</b>	\$ 61,933,285
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	<b>46,760,653</b>	42,181,008
Provision for doubtful accounts	<b>20,332,431</b>	20,904,726
Amortization of premium on bonds payable	<b>(844,032)</b>	(909,274)
Change in investments designated as trading, including net unrealized gains/losses	<b>(159,275,055)</b>	6,522,342
Change in fair value of interest rate swaps	<b>(11,981,816)</b>	(1,630,130)
Change in pension liability	<b>(63,663,614)</b>	(3,633,681)
Change in interest in net assets and amounts due from the Foundations	<b>(44,486,427)</b>	(3,742,877)
Changes in operating assets and liabilities		
Patient accounts receivable	<b>(23,141,099)</b>	(21,234,683)
Inventories, other receivables, prepaid expenses, and other current assets	<b>4,947,418</b>	(15,189,005)
Accounts payable	<b>8,566,693</b>	(8,104,752)
Accrued expenses and other liabilities	<b>9,704,224</b>	(9,284,648)
Accrued self-insurance claims	<b>4,610,202</b>	1,225,016
Pension and benefit liabilities	<b>14,040,702</b>	12,663,898
Net cash provided by operating activities	<b>57,091,421</b>	81,701,225
<b>Investing activities</b>		
Purchases of property, plant, and equipment	<b>(55,462,174)</b>	(57,728,277)
Proceeds from sale of property, plant, and equipment	<b>15,988</b>	140,687
Change in other assets and liabilities	<b>(827,630)</b>	3,480,361
Net cash used in investing activities	<b>(56,273,816)</b>	(54,107,229)
<b>Financing activities</b>		
Principal payments on debt	<b>(5,785,000)</b>	(5,610,000)
Net cash used in financing activities	<b>(5,785,000)</b>	(5,610,000)

# Cottage Health System

## Consolidated Statements of Cash Flows (continued)

	<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
Net (decrease) increase in cash and cash equivalents	<b>\$ (4,967,395)</b>	\$ 21,983,996
Cash and cash equivalents at beginning of year	<b>35,721,427</b>	13,737,431
Cash and cash equivalents at end of year	<b><u>\$ 30,754,032</u></b>	<b><u>\$ 35,721,427</u></b>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid	<b><u>\$ 16,731,175</u></b>	<b><u>\$ 16,908,871</u></b>

### Supplemental schedule of noncash financing activities

The System capitalized construction in progress for approximately \$4,336,000 and \$5,370,000 at December 31, 2013 and 2012, 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, 2013

### 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 450-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 corporation for medical office buildings which 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

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### **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 for 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 Foundation*

The System accounts for the Santa Barbara Cottage Foundation under the provisions of Financial Accounting Standards Board (FASB) Accounting Standard Codification (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 accompanying

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

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

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

#### *Goleta Valley Cottage Foundation*

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 accompanying consolidated balance sheets

#### *Santa Ynez Cottage Foundation*

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 accompanying consolidated balance sheets

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 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)

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
<b>Santa Barbara Cottage Foundation</b>		
Total assets	<b>\$ 274,110,000</b>	\$ 240,484,000
Net assets	<b>268,136,000</b>	229,672,000
Increase in net assets	<b>38,463,000</b>	2,438,000
<b>Rehabilitation Foundation</b>		
Total assets	<b>15,302,000</b>	11,612,000
Net assets	<b>15,355,000</b>	11,605,000
Increase in net assets	<b>3,750,000</b>	1,724,000
<b>Goleta Valley Cottage Foundation</b>		
Total assets	<b>12,132,000</b>	11,027,000
Net assets	<b>12,170,000</b>	11,027,000
Increase (decrease) in net assets	<b>1,143,000</b>	(14,000)
<b>Santa Ynez Cottage Foundation</b>		
Total assets	<b>10,403,000</b>	9,270,000
Net assets	<b>10,400,000</b>	9,270,000
Increase (decrease) in net assets	<b>1,130,000</b>	(406,000)

#### 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.



## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

##### Community Benefit and Charity Care (Unaudited)

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:

	<u>2013</u>	<u>2012</u>
Costs to provide charity care	\$ 12,510,000	\$ 17,001,000
Uncompensated costs to Medicare and Medicaid services	117,599,000	113,091,000
Expenses incurred to provide community benefits	14,718,000	13,977,000
	<u>\$ 144,827,000</u>	<u>\$ 144,069,000</u>

##### 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

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

services are provided, net of third-party contractual allowances for Medicare, Medicaid, 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. In 2013, the Hospitals recorded a change in estimate of \$8,500,000 in 2012 accounts receivable, benefiting net patient service revenue and excess of revenues over expenses in 2013.

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

	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Government	<b>\$ 207,480</b>	\$ 189,305
Contracted	<b>429,182</b>	407,536
Self-pay and others	<b>32,141</b>	28,984
Patient service revenue (net of contractual allowances and discounts)	<b>668,803</b>	625,825
Provision for doubtful accounts	<b>(20,332)</b>	(20,905)
Net patient service revenue	<b><u>\$ 648,471</u></b>	<u>\$ 604,920</u>

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 2013 and 2012, 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 \$3,313,000 and \$4,721,000, respectively. In the opinion of management, adequate provision has been made for adjustments, if any, that might result from subsequent reviews.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

The Hospitals are reimbursed for services provided to patients under certain programs administered by governmental agencies. The Medicare program accounted for approximately 21% and 21% of the System's net patient service revenue in 2013 and 2012, respectively. The Medicaid programs accounted for approximately 8% of the System's net patient service revenue in 2013 and 2012.

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.

#### **Provision for Uncollectible Accounts**

Patient service revenue, net of contractual allowances and discounts, is reduced by the provision for bad debts, and accounts receivable is reduced by an allowance for uncollectible accounts. The System establishes an allowance for uncollectible accounts based on many factors, including payer mix, age of receivables, historical cash collection experience, and other relevant information. A significant portion of the System's uninsured patients will be unable or unwilling to pay for services provided and a significant portion of the System's insured patients will be unable or unwilling to pay for co-payments and deductibles. Thus, the System records a significant provision for bad debts related to these insured and uninsured patients in the period the services are provided. The System writes down the expected reimbursement after reasonable collection efforts have been exhausted.

#### **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

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

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.

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. 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. In May 2013, CMS approved the managed care portion of the program, but only up to June 30, 2013.

Accordingly, during the years ended December 31, 2013 and 2012, the System recorded \$43.0 million and \$15.7 million in Supplemental Payments and \$29.7 million and \$22.7 million in QA Fees as Hospital Fee Program revenues and expenses, respectively, in the accompanying consolidated statements of income.

#### **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 2012 for eligible providers that adopt 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 years ended December 31, 2013 and 2012, the System recognized \$706,800 and \$1,178,000, respectively, of Medicaid meaningful-use revenues and \$0 and \$3,156,000, respectively, of Medicare meaningful-use revenues. Such revenues are included in other operating revenues in the accompanying consolidated statements of income. The System accounts for EHR incentive payments under the grant accounting method.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### **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 69% and 65% at December 31, 2013 and 2012, 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 accompanying 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, 2013 and 2012.

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 gain or loss from the alternative investments is included in investment income in the accompanying consolidated statements of income. As of December 31, 2013 and 2012, these alternative investments comprised approximately 31% and 35%, respectively, of the Custodial Account's total investments, including assets limited as to use.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

##### **Derivatives and Hedging Activities**

The System follows FASB ASC 815, *Derivatives 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, 2013 and 2012, the System's derivative instruments did not qualify for hedge accounting and were limited to interest rate swap agreements with a current notional amount totaling \$227.2 million and \$232.2 million, respectively (see Note 6). The System entered into interest rate swap agreements to manage its interest rate risk.

##### **Inventories**

Inventories are recorded at cost (using 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.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 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.

#### Real Estate

Santa Barbara Cottage Hospital transferred five buildings with a net book value of \$18.6 million to the Goleta Valley Professional Buildings, Inc. during 2013. The transfer includes buildings which support certain hospital programs as well as leases medical office space to physicians. The transfer did not impact the consolidated financial statements at December 31, 2013, but did reduce the assets of the obligated Group by an amount permitted by the Master Trust Indenture. See Note 6 for discussion of Obligated Group and Master Trust Indenture.

#### 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, 2013.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

##### **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.

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 accompanying 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 accompanying 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 accompanying 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 \$2,960,000 and \$2,299,000 at December 31, 2013 and 2012, respectively.



## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

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 2013 and 2012. Total accruals at December 31, 2013 and 2012, were \$21,836,000 and \$20,284,000, respectively. The System's self-insurance obligations are guaranteed by the state of California through an alternative security program in the amount of \$20,085,000 and \$15,907,000 at December 31, 2013 and 2012, respectively.

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 2013 and 2012. Total liabilities were \$11,176,200 and \$8,952,000 at December 31, 2013 and 2012, 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 Accounting Standards Update 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 \$9,105,000 and \$7,521,000 at December 31, 2013 and 2012, 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.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

##### **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.

##### **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 \$47,980,000 and for Series 2010 is \$280,230,000, while the fair value is \$47,936,000 and \$284,795,000 as of December 31, 2013, 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 (IRC) and are exempt from income taxation under (IRC) Section 501(a) 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.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

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. 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).

#### **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 \$5,193,000 and \$4,222,000, respectively, at December 31, 2013, and \$4,370,000 and \$3,311,000, respectively, at December 31, 2012, and are included in other assets and other liabilities 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

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

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.

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.

# Cottage Health System

## Notes to Consolidated Financial Statements (continued)

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

Financial assets and liabilities carried at fair value as of December 31, 2013, are classified in the table below in one of the three categories described above

	Level 1	Level 2	Total	Valuation Technique (a, b, c)
<b>Assets</b>				
Investment in Custodial Accounts	\$ —	\$ 468,594,927	\$ 468,594,927	a
Cash and short-term investments	6,735,288	—	6,735,288	a
Fixed-income securities				
Government bonds	—	2,008,173	2,008,173	a
Corporate bonds	—	19,151,816	19,151,816	a
Other	—	404,154	404,154	a
Interest rate swaps	—	1,502,590	1,502,590	c
<b>Total assets</b>	<b>\$ 6,735,288</b>	<b>\$ 491,661,660</b>	<b>\$ 498,396,948</b>	
<b>Liabilities</b>				
Interest rate swaps	\$ —	\$ (22,680,840)	\$ (22,680,840)	c
	<b>\$ —</b>	<b>\$ (22,680,840)</b>	<b>\$ (22,680,840)</b>	

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)
<b>Assets</b>				
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
<b>Total assets</b>	<b>\$ 5,970,196</b>	<b>\$ 338,929,366</b>	<b>\$ 344,899,562</b>	
<b>Liabilities</b>				
Interest rate swaps	\$ —	\$ (40,440,327)	\$ (40,440,327)	c
	<b>\$ —</b>	<b>\$ (40,440,327)</b>	<b>\$ (40,440,327)</b>	

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

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. The investments in the Custodial Account have been designated in its entirety in Level 2, after considering the lowest level input that is significant to the entire measurement.

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 London Interbank Offered Rate (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.

#### **Subsequent Events**

The System has evaluated subsequent events occurring between the end of the most recent fiscal year and April 30, 2014, the date the consolidated financial statements were available for issuance.

#### **Reclassifications**

Certain reclassifications were made to the 2012 consolidated financial statement presentation to conform to the 2013 presentation.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 2. Property, Plant, and Equipment

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

	<b>2013</b>	<b>2012</b>
Buildings and improvements	<b>\$ 721,415,777</b>	\$ 699,204,288
Equipment	<b>210,857,906</b>	200,048,253
	<b>932,273,683</b>	899,252,541
Less accumulated depreciation	<b>(327,409,595)</b>	(282,252,325)
	<b>604,864,088</b>	617,000,216
Construction-in-progress	<b>140,498,724</b>	119,677,063
Land	<b>21,279,232</b>	21,279,232
Property, plant, and equipment, net	<b><u>\$ 766,642,044</u></b>	<b><u>\$ 757,956,511</u></b>

#### 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.

##### Supplemental Executive 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 accompanying consolidated balance sheets.

In addition to providing pension benefits, the System provides certain health care benefits (OPEBs) 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.

# Cottage Health System

## Notes to Consolidated Financial Statements (continued)

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

The following tables sets forth the changes in projected 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

	<b>Pension Benefits December 31</b>		<b>Other Benefits December 31</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Change in projected benefit obligation				
Benefit obligation at beginning of year	\$ 262,621,721	\$ 217,258,959	\$ 3,686,592	\$ 3,684,202
Service cost	16,167,722	13,663,369	237,892	213,280
Interest cost	12,360,501	10,649,082	136,813	171,039
Plan participant's contributions	8,563,240	8,568,895	57,147	44,238
Actuarial (gains) losses	(15,645,205)	18,416,597	(452,485)	(352,820)
Benefits paid	(6,428,106)	(5,935,181)	(240,102)	(73,397)
Plan amendments	—	—	—	—
Projected benefit obligation at end of year	\$ 277,639,873	\$ 262,621,721	\$ 3,425,857	\$ 3,686,542
	<b>Pension Benefits December 31</b>		<b>Other Benefits December 31</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 206,100,946	\$ 169,766,061	\$ —	\$ —
Actual return on plan assets	46,245,243	19,201,171	—	—
Employer contribution	16,000,000	14,500,000	182,955	29,159
Plan participant contributions	8,563,240	8,568,895	57,147	44,238
Benefits paid	(6,428,106)	(5,935,181)	(240,102)	(73,397)
Fair value of plan assets at end of year	\$ 270,481,323	\$ 206,100,946	\$ —	\$ —
Pension and benefit liabilities	\$ (7,158,550)	\$ (56,520,775)	\$ (3,425,857)	\$ (3,686,542)



# Cottage Health System

## Notes to Consolidated Financial Statements (continued)

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

Pension assets carried at fair value as of December 31, 2013, are classified in the table below in one of the three categories described in Note 1

	Assets* at Fair Value as of December 31, 2013				Valuation Technique (a, b, c)
	Level 1	Level 2	Level 3	Total	
Cash and cash equivalents	\$ 11,827,552	\$ —	\$ —	\$ 11,827,552	a
Marketable equity securities					
Domestic equities	139,124,633	—	—	139,124,633	a
Foreign equities	5,569,648	—	—	5,569,648	a
Fixed-income securities					
Government bonds	—	28,590,233	—	28,590,233	a
Corporate bonds	—	4,641,883	—	4,641,882	a
Mutual funds	21,310,126	—	—	21,310,125	a
Private equities	—	—	49,785,580	49,785,580	c
Total asset at fair value	\$ 177,831,959	\$ 33,232,114	\$ 49,785,580	\$ 260,849,653	

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

	Assets* at Fair Value as of December 31, 2012				Valuation Technique (a, b, c)
	Level 1	Level 2	Level 3	Total	
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	

\*Excludes loans to participants of \$9,631,670 and \$8,086,677 as of December 31, 2013 and 2012, respectively, as they are designated as notes receivable from participants

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 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 \$49,785,850 and \$38,260,000 as of December 31, 2013 and 2012, respectively. Alternative investments held within a company's pension plan assets are subject to the fair value measurement guidelines of FASB ASC 820. The alternative investment fair value was measured using net asset value at December 31, 2013 and 2012, respectively.

The following is the change in Level 3 assets held in the pension plan for the years ended December 31, 2013 and 2012:

	<b>Private Equities</b>
Balance at December 31, 2011	\$ 26,079,820
Realized/unrealized gains	4,112,778
Purchases, sales and settlement, net	8,067,244
Balance at December 31, 2012	38,259,842
Realized/unrealized gains	5,298,562
Purchases, sales and settlement, net	6,227,446
Balance at December 31, 2013	<u><u>\$ 49,785,850</u></u>
Unrealized gains pertaining to assets held at end of the year	<u><u>\$ 15,502,751</u></u>

Changes in plan assets and benefit obligations recognized as a change in unrestricted net assets during 2013 and 2012 include:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>Year Ended December 31</b>		<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Unrecognized actuarial gain (loss)	\$ 47,557,216	\$ (13,868,726)	\$ 452,485	\$ 352,821
Amortization of unrecognized prior service costs	275,174	310,433	122,922	122,922
Amortization of prior actuarial loss	15,255,815	16,716,231	—	—
Amortization of amendment loss	—	—	—	—
	<u><u>\$ 63,088,205</u></u>	<u><u>\$ 3,157,938</u></u>	<u><u>\$ 575,407</u></u>	<u><u>\$ 475,743</u></u>

# Cottage Health System

## Notes to Consolidated Financial Statements (continued)

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

Included in unrestricted net assets at December 31, 2013 and 2012, are the following amounts that have not been recognized in net periodic pension cost

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>December 31</b>		<b>December 31</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Unrecognized prior service costs	\$ (204,528)	\$ (479,702)	\$ (508,953)	\$ (631,875)
Unrecognized actuarial gain (loss)	8,523,025	(54,290,009)	797,018	344,533

The accumulated benefit obligation for the defined benefit pension plan was \$269,468,832 and \$255,187,593 at December 31, 2013 and 2012, respectively

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 \$168,799 and \$7,232,270, respectively, during 2014

The following table documents benefit cost for the Plan and the Other Post Employment Benefits (OPEBs) for the years ended December 31, 2013 and 2012

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>Year Ended December 31</b>		<b>Year Ended December 31</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Components of net periodic benefit cost				
Service cost	\$ 16,167,722	\$ 13,663,369	\$ 237,892	\$ 213,280
Interest cost	12,360,501	10,649,082	136,813	171,039
Expected return on plan assets	(14,333,233)	(14,653,300)	—	—
Amortization of prior service cost	275,174	310,433	122,922	122,922
Recognized net actuarial loss	15,255,815	16,716,231	—	—
Net periodic benefit cost	\$ 29,725,979	\$ 26,685,815	\$ 497,627	\$ 507,241

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

The following are the assumptions used to calculate the accrued benefit costs as of December 31, 2013 and 2012, and the benefit cost for the years ended December 31, 2013 and 2012

	Pension Benefits		Other Benefits	
	Year Ended December 31		Year Ended December 31	
	2013	2012	2013	2012
Weighted-average assumptions used to determine benefit obligations at December 31				
Discount rate	5.00%	4.25% to 4.50%	4.70%	3.80%
Expected long-term rate of return on plan assets	6.50%	8.00%	N/A	N/A
Rate of compensation increase	5.00%	5.00%	N/A	N/A
Weighted-average assumptions used to determine net periodic benefit cost for year ended at December 31				
Discount rate	5.00%	4.25% to 4.50%	4.70	3.80%
Expected long-term return on plan assets	6.50%	8.00%	N/A	N/A
Rate of compensation increase	5.00%	5.00%	N/A	N/A

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

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

The following are additional assumptions used to calculate the OPEB accrued benefit costs and benefits costs

	<b>December 31</b>	
	<b>2013</b>	<b>2012</b>
Assumed health care cost trend rates at December 31		
Health care cost trend rate assumed for next year	<b>7.0%</b>	7.5%
Rate to which the cost trend rate is assumed to increase (the ultimate trend rate)	<b>5.0%</b>	5.0%
Year that the rate reaches the ultimate trend rate	<b>2018</b>	2018

Assumed health care cost trend rates could have a significant effect on the amounts reported for the health care plans. However, a one-percentage-point change in assumed health care cost trend rates would not have a significant effect on either the cost or benefit obligation of the OPEBs.

#### Plan Assets

The composition of plan assets at December 31, 2013 and 2012, is as follows:

	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Asset category				
Equity securities	<b>56%</b>	50%	—%	—%
Fixed-income securities	<b>13</b>	13	—	—
Mutual funds	<b>8</b>	9	—	—
Alternative investments (including private equities)	<b>19</b>	19	—	—
Other	<b>4</b>	9	—	—
	<b>100%</b>	100%	—%	—%

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

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 Benefit Plan

##### *Contributions*

The System expects to contribute \$8.5 million to its pension plans and \$155,687 to its other post-retirement benefit plan in 2014.

##### *Estimated Future Benefit Payments*

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

	<b>Pension Benefits</b>	<b>Other Benefits</b>
2014	\$ 17,733,525	\$ 155,687
2015	19,228,905	167,743
2016	16,883,736	194,315
2017	19,141,907	203,523
2018	20,615,593	244,228
Years 2019–2022	120,226,630	1,392,399

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

##### 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 \$311,000 and \$280,000 for 2013 and 2012, respectively.

#### 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
<b>2013</b>				
Cash and cash equivalents	\$ —	\$ 45	\$ 6,735,243	\$ 6,735,288
Investment in Custodial Account	468,594,926	—	—	468,594,926
Fixed-income securities	—	6,455,563	14,704,426	21,159,989
Other	—	—	404,154	404,154
	<u>\$ 468,594,926</u>	<u>\$ 6,455,608</u>	<u>\$ 21,843,823</u>	<u>\$ 496,894,357</u>
Short-term investments	\$ —	\$ —	\$ 20,583,607	\$ 20,583,607
Investments	443,417,104	—	856,062	444,273,166
Assets limited as to use				
By Board	25,177,822	—	404,154	25,581,976
By Self-insurance trusts	—	6,455,608	—	6,455,608
	<u>\$ 468,594,926</u>	<u>\$ 6,455,608</u>	<u>\$ 21,843,823</u>	<u>\$ 496,894,357</u>

# Cottage Health System

## Notes to Consolidated Financial Statements (continued)

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

	Affiliates' Custodial Account	Self-Insurance Trusts	Other Managed Accounts	Total
<b>2012</b>				
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
	<u>\$ 307,524,539</u>	<u>\$ 8,131,945</u>	<u>\$ 21,962,817</u>	<u>\$ 337,619,301</u>
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
	<u>\$ 307,524,539</u>	<u>\$ 8,131,945</u>	<u>\$ 21,962,817</u>	<u>\$ 337,619,301</u>

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

	<b>2013</b>	<b>2012</b>
Interest and dividends	<b>\$ 8,787,749</b>	\$ 7,119,960
Net realized gains	<b>13,539,668</b>	2,729,584
Net unrealized gains	<b>46,790,564</b>	20,501,672
Total investment income	<u><b>\$ 69,117,981</b></u>	<u>\$ 30,351,216</u>

Net unrealized gains (losses) at December 30, 2013 and 2012, were \$56,124,000 and \$8,478,000, respectively

Substantially all of the 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.



## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

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

The Custodial Account asset allocation at December 31 is as follows

	2013	2012
Cash and cash equivalents	5%	10%
Marketable equity securities	46	39
Fixed-income securities	10	12
Mutual funds	8	4
Alternative investments	31	35
	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.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 5. Transactions With Related Parties (continued)

During 2013 and 2012, the System and Santa Barbara Cottage provided facilities and administrative services to the Santa Barbara Cottage Foundation for consideration of \$953,257 and \$1,098,524, respectively. At December 31, 2013 and 2012, amounts due from the Santa Barbara Cottage Foundation totaled \$141,021 and \$1,124,906, 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 \$414,840 and \$767,548 in contributions from Santa Ynez Cottage Foundation for capital assets in 2013 and 2012, respectively.

#### 6. Long-Term Debt

Long-term debt at December 31 consists of the following:

	<u>2013</u>	<u>2012</u>
CSCDA Fixed-Rate Revenue Bonds, Series 2010 payable in annual installments through 2040, with interest rates ranging from 2.0% to 5.0%	<b>\$ 280,230,000</b>	\$ 284,610,000
CHFFA Fixed-Rate Demand Revenue Bonds, Series 2003B payable in annual installments through 2033, with interest rates ranging from 3.7% to 5.25%	<b>47,980,000</b>	49,385,000
Unamortized Premium on Bonds	<b>4,962,000</b>	5,806,000
	<b>333,172,000</b>	339,801,000
Less current maturities	<b>(6,030,000)</b>	(5,785,000)
Long-term debt, net of current maturities	<b><u>\$ 327,142,000</u></b>	<b><u>\$ 334,016,000</u></b>

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.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 6. Long-Term Debt (continued)

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, 2013 and 2012, the Obligated Group complied with these covenants. In 2013 and 2012, interest costs incurred were \$16,103,000 and \$16,229,000, respectively, of which \$4,838,000 and \$3,743,000, 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, 2013 and 2012, 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, 2013, are as follows:

2014	\$ 6,030,000
2015	6,270,000
2016	6,570,000
2017	6,880,000
2018	7,230,000
Thereafter	295,230,000
	<u>\$ 328,210,000</u>

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### **6. Long-Term Debt (continued)**

##### **Interest Rate Swaps**

The System has three interest rate swap contracts (the Swaps) with a combined current notional amount of \$157,650,000 and termination date 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 current notional value of the interest rate swap is \$69,500,000.

A benefit of \$11,982,000 and \$1,630,000 for 2013 and 2012, respectively, has been recorded as a component of other income in the accompanying consolidated statements of income related to the interest rate swaps. The fair value of three of the Swaps totaled \$22,681,000 and \$40,440,000 as of December 31, 2013 and 2012, respectively. The fair value of the fourth swap is recorded in other assets and totaled \$1,502,000 and \$7,280,000 in 2013 and 2012, respectively. Payments to the Swap Counterparty of \$4,098,000 and \$4,140,000 were recorded as interest expense for the years ended December 31, 2013 and 2012, respectively.

Each of the interest rate swap agreements has collateral posting thresholds when the mark-to-market in total exceeds \$40 million. The System has a cash collateral balance with the Swap Counterparty of \$0 at December 31, 2013 and 2012, respectively.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 7. Temporarily and Permanently Restricted Net Assets

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

	<b>2013</b>	<b>2012</b>
Purchase of equipment and construction	\$ 77,810,886	\$ 70,744,223
Patient care services and hospital operations	37,636,343	29,404,999
Research	1,440,420	1,206,985
Health education	1,224,306	1,158,546
Nursing and medical education	1,834,276	1,538,191
Employee assistance	3,194	3,194
	<b>\$ 119,949,425</b>	<b>\$ 104,056,138</b>

Temporarily restricted net assets at December 31, 2013 and 2012, include \$87,443,000 and \$75,336,000, respectively, of donor-restricted resources held by the affiliates on behalf of the Hospitals. Permanently restricted net assets of \$21,097,000 and \$19,442,000 were held by the System at December 31, 2013 and 2012, respectively. These resources are restricted to investments to be held in perpetuity, the income from which is expendable to support health care services and research.

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

#### Endowment

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

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### **7. Temporarily and Permanently Restricted Net Assets (continued)**

##### **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, 2013 and 2012.

##### **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.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 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, 2013, consists of the following

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	<u>\$ 9,389,627</u>	<u>\$ 5,594,256</u>	<u>\$ 14,983,883</u>
Total funds	<u>\$ 9,389,627</u>	<u>\$ 5,594,256</u>	<u>\$ 14,983,883</u>

The endowment net asset composition by type of fund as of December 31, 2012, consists of the following

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	<u>\$ 6,947,605</u>	<u>\$ 5,594,256</u>	<u>\$ 12,541,861</u>
Total funds	<u>\$ 6,947,605</u>	<u>\$ 5,594,256</u>	<u>\$ 12,541,861</u>

# Cottage Health System

## Notes to Consolidated Financial Statements (continued)

### 7. Temporarily and Permanently Restricted Net Assets (continued)

The changes in endowment net assets for the year ended December 31, 2013, are as follows

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
Endowment net assets, beginning of year	\$ 6,947,605	\$ 5,594,256	\$ 12,541,861
Investment return			
Investment income	360,130	—	360,130
Net appreciation (realized and unrealized)	2,381,208	—	2,381,208
Total investment return	2,741,338	—	2,741,338
Appropriation	(299,316)	—	(299,316)
Endowment net assets, end of year	<u>\$ 9,389,627</u>	<u>\$ 5,594,256</u>	<u>\$ 14,983,883</u>

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

	<b>Temporarily Restricted</b>	<b>Permanently Restricted</b>	<b>Total</b>
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	<u>\$ 6,947,605</u>	<u>\$ 5,594,256</u>	<u>\$ 12,541,861</u>



## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 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

	<b>Operating Leases</b>	
	<b>Land and Building</b>	<b>Equipment</b>
2014	\$ 3,467,167	\$ 661,633
2015	3,060,104	633,854
2016	2,847,453	314,272
2017	2,665,908	—
2018	2,426,898	—
Thereafter	6,749,209	—
Total minimum lease payments	<u>\$ 21,216,739</u>	<u>\$ 1,609,759</u>

Rent and lease expense under the operating leases totals approximately \$6,050,000 and \$6,580,000 for the years ended December 31, 2013 and 2012, 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 \$814 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 June 2015.

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### **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 late 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 2014. The total project cost is estimated at \$15 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 \$1,326,000 and \$1,190,000 has been recorded in the December 31, 2013 and 2012, consolidated balance sheets.

#### **Legal Proceedings**

A lawsuit was filed by a single person (on behalf of a proposed class) in early 2014 alleging release of confidential medical information and seeking to establish the lawsuit as a class action. Plaintiffs seek statutory nominal damages of \$1,000 for the plaintiff and each member of the putative class plus attorney’s fees and damages. The System does not believe there is merit to the lawsuit.

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

## Cottage Health System

### Notes to Consolidated Financial Statements (continued)

#### 9. Functional Expenses

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

	<b>2013</b>	<b>2012</b>
Health care services	<b>\$ 537,299,879</b>	\$ 425,216,584
General and administrative	<b>102,641,621</b>	187,344,516
	<b><u>\$ 639,941,500</u></b>	<b><u>\$ 612,561,100</u></b>

## Supplementary Information

# Cottage Health System

## Consolidating Balance Sheet

December 31, 2013

	Obligated Group			Total		Pacific			Foundations'		Elimination		Total Consolidated
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group	Cottage Health System	Professional Building	Diagnostic Laboratories	Net Assets	Entries	Entries		
<b>Assets</b>													
Current assets													
Cash and cash equivalents	\$ 16,880,129	\$ 5,761,426	\$ 1,182,892	\$ -	\$ 23,824,447	\$ 4,489,506	\$ 1,834,352	\$ 605,727	\$ -	\$ -	\$ -	\$ -	\$ 30,754,032
Short-term investments	19,108,814	-	1,474,793	-	20,583,607	-	-	-	-	-	-	-	20,583,607
Patient accounts receivable, net	87,100,313	11,380,470	2,214,163	-	100,694,946	-	-	3,934,263	-	-	-	-	104,629,209
(Other) receivables	11,601,067	153,125	655,400	-	12,409,592	63,256	29,139	1,114	-	-	(78,514)	-	12,424,587
Due from affiliates	13,390,365	-	12,629	(5,652,956)	7,750,038	1,192,306	983,914	-	-	-	(9,926,258)	-	-
Inventories	11,679,058	459,721	116,555	-	12,255,334	-	-	749,971	-	-	-	-	13,005,305
Prepaid expenses and other current assets	6,790,361	415,291	143,283	-	7,348,935	4,273,120	9,195	365,248	-	-	-	-	11,996,498
Total current assets	166,550,107	18,170,033	5,799,715	(5,652,956)	184,866,899	10,018,188	2,856,600	5,656,323	-	(10,004,772)	-	-	193,393,238
Investments	432,160,239	3,401,735	7,975,044	-	443,537,018	736,148	-	-	-	-	-	-	444,273,166
Assets limited as to use, less current portion													
By Board	17,431,563	-	-	-	17,431,563	8,150,413	-	-	-	-	-	-	25,581,976
Self-insurance trusts	6,455,608	-	-	-	6,455,608	-	-	-	-	-	-	-	6,455,608
Total assets limited as to use	23,887,171	-	-	-	23,887,171	8,150,413	-	-	-	-	-	-	32,037,584
Property, plant, and equipment, net	615,060,890	97,302,301	13,140,199	-	725,503,390	8,252,607	22,254,663	10,631,384	-	-	-	-	766,642,044
Other assets	39,309,900	206,150	239,760	-	39,755,810	300,000	-	7,208,632	-	(19,524,958)	-	-	27,739,484
Interest in net assets and amounts due from the Foundations	-	-	-	-	-	-	-	-	306,061,097	-	-	-	306,061,097
Total assets	\$ 1,276,968,307	\$ 119,080,219	\$ 27,154,718	\$ (5,652,956)	\$ 1,417,550,288	\$ 27,457,356	\$ 25,111,263	\$ 23,496,339	\$ 306,061,097	\$ (29,529,730)	\$ -	\$ -	\$ 1,770,146,613

# Cottage Health System

## Consolidating Balance Sheet (continued)

December 31, 2013

	Obligated Group			Total		Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Foundations' Net Assets	Elimination Entries	Total Consolidated
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group						
<b>Liabilities and net assets</b>											
Current liabilities											
Accounts payable	\$ 40,309,720	\$ 7,892,409	\$ 663,642	\$ -	\$ 48,865,771	\$ 2,281,619	\$ -	\$ 1,479,852	\$ -	\$ -	\$ 52,627,242
Accrued expenses and other liabilities	27,629,029	3,202,336	871,494	-	31,702,859	3,542,364	39,505	1,386,510	-	-	36,671,238
Current portion of accrued self-insurance claims	8,071,656	1,011,600	249,500	-	9,332,756	189,550	-	235,900	-	-	9,758,206
Due to affiliates	-	5,862,062	1,000,842	(5,652,956)	1,209,948	7,462,719	12,601	1,094,703	-	(9,779,971)	-
Current maturities of long-term debt and capital lease obligations	6,030,000	-	-	-	6,030,000	-	-	-	-	-	6,030,000
Total current liabilities	82,040,405	17,968,407	2,785,478	(5,652,956)	97,141,334	13,476,252	52,106	4,196,965	-	(9,779,971)	105,086,686
Accrued self-insurance claims less current portion	22,909,303	2,003,437	624,377	-	25,537,117	-	-	677,173	-	-	26,214,290
Long-term debt and capital lease obligations	311,059,095	-	-	16,082,754	327,141,849	-	4,275,774	11,785,547	-	(16,061,321)	327,141,849
Pension and benefit liabilities	(1,586,272)	-	-	-	(1,586,272)	12,170,678	-	-	-	-	10,584,406
Swap liabilities	22,680,840	-	-	-	22,680,840	-	-	-	-	-	22,680,840
Others	5,069,068	16,324,222	329,409	(16,082,754)	5,639,945	829,362	-	366,299	-	-	6,835,606
Total liabilities	442,172,439	36,296,066	3,739,264	(5,652,956)	476,554,813	26,476,292	4,327,880	17,025,984	-	(25,841,292)	498,543,677
Net assets											
Member's capital	-	-	-	-	-	-	-	6,470,355	-	(6,470,355)	-
Unrestricted	818,412,260	82,760,153	22,904,344	-	924,076,757	981,064	20,783,383	-	203,030,390	2,781,917	1,151,653,511
Temporarily restricted	10,789,352	24,000	511,110	-	11,324,462	-	-	-	87,528,212	-	98,852,674
Permanently restricted	5,594,256	-	-	-	5,594,256	-	-	-	15,502,495	-	21,096,751
Total net assets	834,795,868	82,784,153	23,415,454	-	940,995,475	981,064	20,783,383	6,470,355	306,061,097	(3,688,438)	1,271,602,936
Total liabilities and net assets	\$ 1,276,968,307	\$ 119,080,219	\$ 27,154,718	\$ (5,652,956)	\$ 1,417,550,288	\$ 27,457,356	\$ 25,111,263	\$ 23,496,339	\$ 306,061,097	\$ (29,529,730)	\$ 1,770,146,613

# Cottage Health System

## Consolidating Balance Sheet

December 31, 2012

	Obligated Group			Total		Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Foundations' Net Assets	Elimination Entries	Total Consolidated
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Obligated Group	Elimination Entries						
<b>Assets</b>											
Current assets											
Cash and cash equivalents	\$ 18 791 058	\$ 2 293 003	\$ 6 460 108	\$ -	\$ -	\$ 5 256 397	\$ 1 731 573	\$ 1 189 288	\$ -	\$ -	\$ 35 721 427
Short-term investments	19 024 820	-	1 917 934	20 942 754	-	-	-	-	-	-	20 942 754
Patient accounts receivable net	85 204 882	10 336 242	1 759 889	97 301 013	-	-	-	4 519 528	-	-	101 820 541
(Other receivables)	15 026 002	1 120 266	665 146	16 811 414	-	301 620	19 996	-	-	(1 995 428)	15 137 602
Due from affiliates	8 189 427	2 475	9 243	809 207	(7 391 938)	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	11 051 609	185 750 454	(7 391 938)	10 282 434	1 902 460	6 863 797	-	(3 940 615)	200 838 530
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	-	-	-	7 740 173	-	(21 493 835)	31 547 852
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	\$ 23 845 353	\$ 1 284 084 427	\$ (7 391 938)	\$ 17 818 439	\$ 6 038 287	\$ 24 532 737	\$ 261 574 670	\$ (25 434 450)	\$1 568 614 110

# Cottage Health System

## Consolidating Balance Sheet (continued)

December 31, 2012

	Obligated Group			Total		Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Foundations' Net Assets	Elimination Entries	Total Consolidated
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group						
<b>Liabilities and net assets</b>											
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	5 035	-	-	-	-	6 617 194
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	15 499 736	2 445 992	(7 391 938)	75 877 154	6 987 561	105 991	3 117 394	-	(2 658 343)	83 429 757
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	317 933 127	-	-	16 082 754	334 015 881	-	4 058 706	13 785 547	-	(17 844 253)	334 015 881
Pension and benefit liabilities	39 324 062	4 896 766	857 520	-	45 078 348	15 128 970	-	-	-	-	60 207 318
Swap liabilities	40 440 327	-	-	-	40 440 327	-	-	-	-	-	40 440 327
Others	4 342 076	16 156 550	59 911	(16 082 754)	4 475 783	606 264	-	611 885	-	-	5 693 932
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 Statement of Operations

Year Ended December 31, 2013

Consolidated Balance Sheet											
Obligated Group					Total		Equity				
Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group	Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Interest in the Foundations' Activity	Elimination Entries	Total Consolidated	
\$ 546,999,348	\$ 74,719,711	\$ 14,896,603	\$ -	\$ 636,615,662	\$ -	\$ -	\$ 32,187,886	\$ -	\$ -	\$ 668,803,548	
(16,750,245)	(1,888,081)	(582,540)	-	(19,220,866)	-	-	(1,111,565)	-	-	(20,332,431)	
530,249,103	72,831,630	14,314,063	-	617,394,796	-	-	31,076,321	-	-	648,471,117	
41,775,455	1,213,173	71,435	-	43,060,063	-	-	-	-	-	43,060,063	
1,658,784	310,623	260,766	-	2,230,173	2,764,747	1,615,686	12,995,335	(2,617,339)	(13,028,341)	3,960,261	
299,316	200,822	728,979	-	1,229,117	-	-	-	-	-	1,229,117	
573,982,658	74,556,248	15,375,243	-	663,914,149	2,764,747	1,615,686	44,071,656	(2,617,339)	(13,028,341)	696,720,558	
256,407,518	35,693,457	8,704,487	-	300,805,462	1,381,891	-	19,762,363	-	-	321,949,716	
157,478,688	22,187,392	3,095,441	-	182,761,521	1,161,155	406,305	20,165,761	(178,176)	(13,028,341)	191,288,225	
28,185,679	1,524,068	-	-	29,709,747	-	-	-	-	-	29,709,747	
23,406,041	2,082,691	538,394	-	26,027,126	59,779	116,180	1,941,872	-	-	28,144,957	
5,545,726	814,886	153,912	-	6,514,524	76,905	-	111,995	-	-	6,703,424	
41,511,165	1,554,212	996,995	-	44,062,372	79,330	716,011	1,902,940	-	-	46,760,653	
15,363,176	14	-	-	15,363,190	-	71,583	374,037	(49,995)	(374,037)	15,384,778	
527,897,993	63,856,720	13,489,229	-	605,243,942	2,759,060	1,310,079	44,258,968	(228,171)	(13,402,378)	639,941,500	
46,084,665	10,699,528	1,886,014	-	58,670,207	5,687	305,607	(187,312)	(2,389,168)	374,037	56,779,058	
66,956,727	752,352	896,332	-	68,605,411	699,174	121	1,367	-	(188,092)	69,117,981	
11,981,816	-	-	-	11,981,816	-	-	-	-	-	11,981,816	
-	-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	-	-	-	
125,023,208	11,451,880	2,782,346	-	139,257,434	704,861	305,728	(185,945)	30,638,746	1,243,416	171,964,240	
(18,604,065)	-	-	\$ -	(18,604,065)	-	18,604,065	-	-	-	-	
50,830,912	6,381,696	1,289,654	-	58,502,262	5,161,352	-	-	-	-	63,663,614	
\$ 157,250,055	\$ 17,833,576	\$ 4,072,000	\$ -	\$ 179,155,631	\$ 5,866,213	\$ 18,909,793	\$ (185,945)	\$ 30,638,746	\$ 1,243,416	\$ 235,627,854	

Unrestricted revenues, gains and other support  
 Patient service revenue (net of contractual allowances and discounts)  
 Provisions for doubtful accounts  
 Net patient service revenue  
 Hospital Medical-Care supplemental fee (other operating revenue)  
 Net assets released from restrictions  
 Total unrestricted revenues, gains and other support

Expenses  
 Salaries and benefits  
 Supplies and services  
 Hospital quality assurance fee  
 Professional fees  
 Insurance  
 Depreciation and amortization  
 Interest  
 Total expenses  
 Operating income (loss)  
 Investment income  
 Changes in fair value of interest rate swaps  
 Loss on extinguishment of debt  
 Change in unrestricted net assets of the Foundations  
 Excess (deficiency) of revenues over expenses  
 Net assets transferred to / received from affiliate  
 Change in pension liability  
 Increase (decrease) in unrestricted net assets

# Cottage Health System

## Consolidating Statement of Operations

Year Ended December 31, 2012

	Obligated Group				Total		Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Equity Interest in the Foundations' Activity	Elimination Entries	Total Consolidated
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group							
\$ 510 809 267	\$ 70 374 821	\$ 14 888 262	\$ -	\$ -	\$ 596 072 350	\$ -	\$ -	\$ 29 752 430	\$ -	\$ -	\$ -	\$ 625 824 780
(16 435 822)	(2 191 604)	(577 300)	-	-	(19 204 726)	-	-	(1 700 000)	-	-	-	(20 904 726)
494 373 445	68 183 217	14 310 962	-	-	576 867 624	-	-	28 052 430	-	-	-	604 920 054
14 909 448	765 281	48 284	-	-	15 723 513	-	-	-	-	-	-	15 723 513
7 676 556	3 064 124	991 069	-	-	11 731 749	455 132	685 378	13 544 370	(767 548)	(13 581 090)	-	12 067 991
403 544	275 178	4 950	-	-	683 672	-	-	-	-	-	-	683 672
517 362 993	72 288 300	15 355 265	-	-	605 006 558	455 132	685 378	41 596 800	(767 548)	(13 581 090)	-	633 395 230
246 793 335	33 119 349	8 028 947	-	-	287 941 631	194 856	-	17 603 968	-	-	-	305 740 455
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
21 847 024	851 524	-	-	-	22 698 548	-	-	-	-	-	-	22 698 548
28 781 285	1 827 870	619 550	-	-	31 228 705	1 091 388	31 943	2 421 865	-	-	-	34 773 901
2 332 864	614 166	417 921	-	-	3 364 951	-	-	139 882	-	-	-	3 504 833
34 760 702	1 636 022	878 427	-	-	37 275 151	2 816 126	-	2 089 731	-	-	-	42 181 008
16 626 899	382	-	-	-	16 627 281	-	50 132	546 453	(50 132)	(546 453)	-	16 627 281
511 240 437	59 124 066	13 870 304	-	-	584 234 807	447 012	386 123	41 829 917	(209 216)	(14 127 543)	-	612 561 100
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
29 850 622	778 059	35 028	-	-	30 663 709	-	843	5 625	-	(318 961)	-	30 351 216
1 630 130	-	-	-	-	1 630 130	-	-	-	-	-	-	1 630 130
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-
37 603 308	13 942 293	1 519 989	-	-	53 065 590	8 120	300 098	(227 492)	(149 969)	(546 548)	(319 056)	52 677 291
2 951 420	(853 088)	588 907	-	-	2 687 239	946 442	-	-	-	-	-	3 633 681
\$ 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

Unrestricted revenues, gains and other support  
 Patient service revenue (net of contractual allowances and discounts)  
 Provisions for doubtful accounts  
 Net patient service revenue  
 Hospital Medical-Care supplemental fee  
 (other operating revenue)  
 Net assets released from restrictions  
 Total unrestricted revenues, gains and other support

Expenses  
 Salaries and benefits  
 Supplies and services  
 Hospital quality assurance fee  
 Professional fees  
 Insurance  
 Depreciation and amortization  
 Interest  
 Total expenses  
 Operating income (loss)

Investment income  
 Changes in fair value of interest rate swaps  
 Loss on extinguishment of debt  
 Provision for unrelated business income tax  
 Change in unrestricted net assets of the Foundations  
 Excess (deficiency) of revenues over expenses

Change in pension liability  
 Increase (decrease) in unrestricted net assets

# Cottage Health System

## Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2013

	Obligated Group				Total Obligated Group	Cottage Health System	Professional Building	Pacific Diagnostic Laboratories	Equity Interest in the Foundations' Activity	Elimination Entries	Total Consolidated
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries							
Unrestricted net assets											
Excess (deficiency) of revenues over expenses	\$ 125,023,208 (18,604,065)	\$ 11,451,880	\$ 2,782,346	\$ —	\$ 139,257,434 (18,604,065)	\$ 704,861	\$ 305,728	\$ (185,945)	\$ 30,638,746	\$ 1,243,416	\$ 171,964,240
Net assets transferred to/received to affiliate	—	—	—	—	(18,604,065)	—	18,604,065	—	—	—	—
Change in pension liability	50,830,912	6,381,696	1,289,654	—	58,502,262	5,161,352	—	—	—	—	63,663,614
Increase (decrease) in unrestricted net assets	157,250,055	17,833,576	4,072,000	—	179,155,631	5,866,213	18,909,793	(185,945)	30,638,746	1,243,416	235,627,854
Temporarily restricted net assets											
Contributions	137,437	90,000	300,000	—	527,437	—	—	—	—	—	527,437
Investment gains	2,741,338	—	—	—	2,741,338	—	—	—	—	—	2,741,338
Net assets released from restrictions	(299,316)	(200,822)	(728,979)	—	(1,229,117)	—	—	—	—	—	(1,229,117)
Changes in value of contributions from charitable remainder trusts	—	—	5,948	—	5,948	—	—	—	—	—	5,948
Change in net assets of the Foundations	—	—	—	—	—	—	—	—	12,192,569	—	12,192,569
Increase (decrease) in temporarily restricted net assets	2,579,459	(110,822)	(423,031)	—	2,045,606	—	—	—	12,192,569	—	14,238,175
Permanently restricted net assets											
Changes in net assets of the Foundations	—	—	—	—	—	—	—	—	1,655,112	—	1,655,112
Increase in permanently restricted net assets	—	—	—	—	—	—	—	—	1,655,112	—	1,655,112
Increase (decrease) in net assets	159,829,514	17,722,754	3,648,969	—	181,201,237	5,866,213	18,909,793	(185,945)	44,486,427	1,243,416	251,521,141
Net assets at beginning 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
Net assets at end of year	\$ 834,795,868	\$ 82,784,153	\$ 23,415,454	\$ —	\$ 940,995,475	\$ 981,064	\$ 20,783,383	\$ 6,470,355	\$ 306,061,097	\$ (3,688,438)	\$ 1,271,602,936

# Cottage Health System

## Consolidating Statement of Changes in Net Assets

Year Ended December 31, 2012

	Obligated Group			Total		Cottage Health System		Professional Building	Pacific Diagnostic Laboratories	Equity Interest in the Foundations' Activity	Elimination Entries	Total Consolidated
	Santa Barbara Cottage	Goleta Valley Cottage	Santa Ynez Cottage	Elimination Entries	Obligated Group	Cottage Health System						
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	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 Foundations	-	-	-	-	-	-	-	-	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

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