CHILDREN'S HEALTH CARE

(d.b.a. Children's Hospitals & Clinics of Minnesota)

Quarterly Financial Report

For the Three and Six Months Ended June 30, 2012

(Unaudited)

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Children's Hospitals and Clinics of Minnesota

CHILDREN'S HEALTH CARE

Summary of Consolidated Financial Results

For the Six Months Ended June 30, 2012

(Unaudited)

2012 Year-to-Date Results (as compared to 2011):

- **Total revenue increased $26.9 million, or 9.3%, to $316.9 million**
- **Operating income increased $3.0 million, or 74.7%, to $7.1 million**
- **Operating Earnings before Interest, Depreciation, and Amortization ("Operating EBIDA") increased $4.2 million, or 16.0%, to $30.7 million**
- **Days cash on hand, for the Obligated Group, increased to 252 from 241 at December 31, 2011**
- **Debt to capitalization ratio, for the Obligated Group, improved to 34.5% from 35.9% at December 31, 2011**

Children's consolidated operating income for the six months ended June 30, 2012 was $7.1 million as compared to $4.1 million for the corresponding period of 2011. Operating margin for the six-month period was 2.2% as compared to 1.4% for the corresponding prior year period. Operating EBIDA for the six-month period was $30.7 million with an operating EBIDA margin of 9.7% as compared to $26.5 million and 9.1% for the corresponding prior year period, respectively.

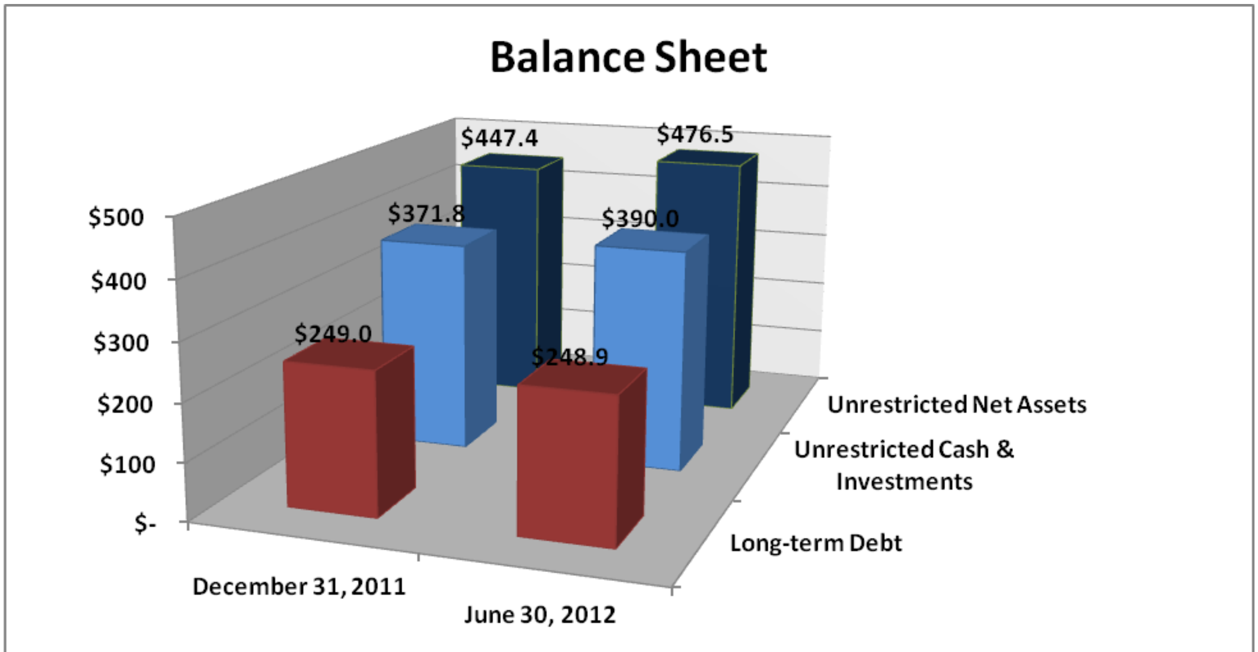
Total revenue increased $26.9 million, or 9.3%, to $316.9 million for the six months ended June 30, 2012 from $290.0 million for the corresponding period of 2011. This increase in total revenue was primarily due to a $26.4 million increase in net patient service revenue. Net patient service revenue was favorable to prior year due to favorable patient utilization, $19.0 million, and higher reimbursement rates, $7.4 million. The higher reimbursement rates reflect rate increases and favorable payer mix. Payer mix related to government reimbursement programs was 40.9% for the six-month period, a decrease from 41.9% for the corresponding prior year period.

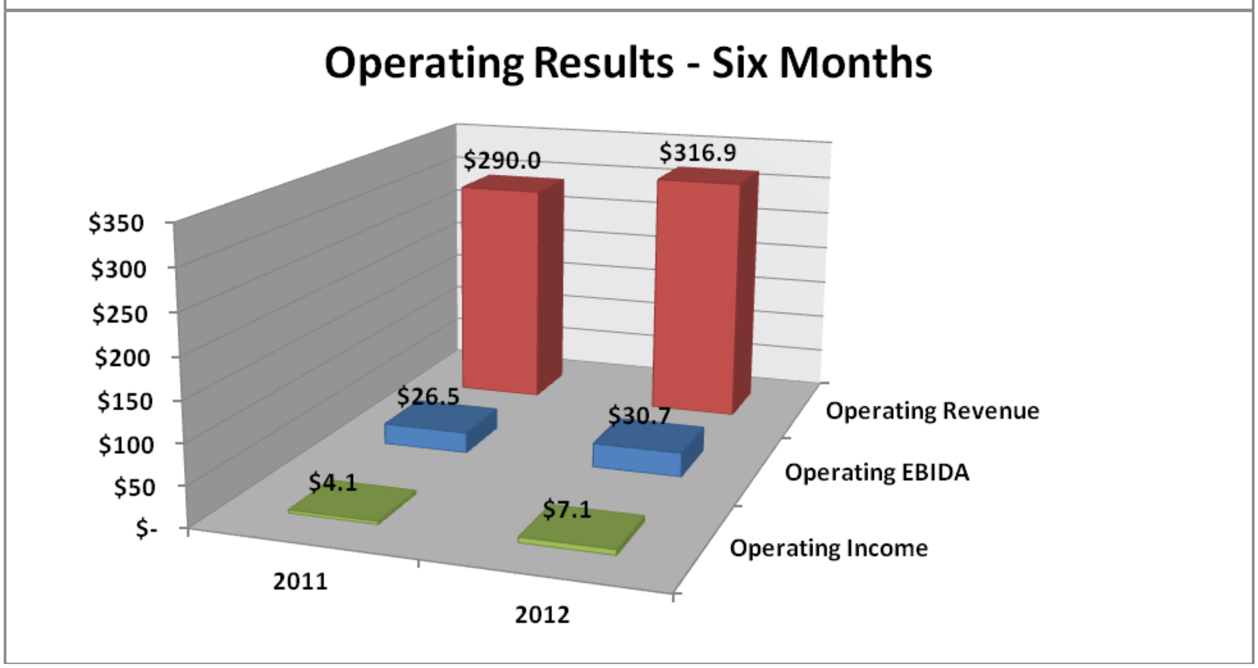
Total operating expenses increased $23.8 million, or 8.3%, for the six months ended June 30, 2012, as compared to the corresponding period of 2011. The increase in total operating expenses was primarily due to the increase in patient utilization, higher wage rates, a professional service agreement with Metropolitan Pediatric Specialists, and costs associated with Children's development of a designated level 1 trauma center. The professional service agreement with Metropolitan Pediatric Specialists, a community based group with three clinics and twenty providers, was effective January 1, 2012. Specific cost categories and the increases included labor costs, $9.4 million, purchased services, $8.5 million, and supplies, $3.6 million. Labor related costs as a percent of total revenue were 57.3% as compared to 59.3% for the corresponding prior year period, reflecting labor efficiencies and an increased utilization of outsourced professional services.

Inpatient utilization, as measured by the average daily census, increased 17.3, or 7.9%, to 237.0 for the six months ended June 30, 2012 from 219.7 for the corresponding period of 2011. Average daily census for neonatology intensive care increased 10.3, or 15.7%, to 75.9 for the six months ended June 30, 2012 from 65.6 for the corresponding period of 2011. Outpatient activity, as measured by clinic and emergency room visits, increased 40,834 visits, or 34.4%, to 159,406 from 118,572 for the corresponding prior year period.

Nonoperating gains for the six months ended June 30, 2012 was a net gain of $20.5 million as compared to a net gain of $15.0 million for the corresponding period of 2011. The net investment gains for the six months ended June 30, 2012 were $21.0 million, with realized gains of $8.5 million and unrealized gains of $12.5 million. These gains were primarily driven by fixed investments from a portfolio that is allocated approximately seventy-five percent fixed income and twenty-five percent equity. The unrealized change in fair value of interest rates swaps was a loss of ($1.6) million for the six-month period, reflecting the continued decline in LIBOR

Within the Obligated Group, Children's liquidity and leverage improved from December 31, 2011 with days cash on hand improving to 252 from 241 and the ratio of debt to capitalization improving to 34.5% from 35.9%.





Recent Developments

Effective mid-June, as a part of the Mother-Baby joint operating agreement with Allina Health Systems, discussed below, Children's began operating the Special Care Nursery, a level II neonatal intensive care unit, located within the Abbott Northwestern Hospital facility. In conjuction, 33 licensed bassinets (and 21 staffed bassinets) were added to the Children's – Minneapolis facility. The Special Care Nursery will be relocated to the Mother-Baby facility in 2013 upon completion of construction.

During the second quarter, Standard & Poor's affirmed Children's long-term rating of A+ with a stable outlook. Children's bond insurer, Assured Guaranty Municipal Corp., is currently rated AA- with a stable outlook by Standard & Poor's and Aa3 with a negative outlook and under review for a possible downgrade by Moody's. Assured Guaranty is the insurer of all of Children's bonds with the exception of the Series 2010A bonds. U.S. Bank National Association, the provider of Children's standby bond purchase agreements for the Series 2004A, Series 2004B, and Series 2007A, is currently rated A+ with a stable outlook by Standard & Poor's and Aa2 with a negative outlook by Moody's.

Subsequent to June 30, 2012, Children's entered into agreements to acquire Pediatric ENT Associates, a three physician specialty clinic, and to affiliate with Partners in Pediatrics, a five clinic group with thirty-six providers, through a professional service agreement. Both entities will be consolidated within Children's Clinic Network ("CCN"), a member of the Obligated Group. Both transactions are expected to be completed in the third quarter of 2012.

Further analysis of financial results is available in Management's Discussion and Analysis of Financial Condition and Results of Operations that follows.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of Children's financial condition and results of operations together with the consolidated financial statements and the related notes. Some of the information contained in this discussion and analysis or set forth elsewhere in this quarterly report, including information with respect to Children's plans and strategy for its organization and expected financial results, includes forward-looking statements that involve risks and uncertainties. These risks and uncertainties could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis. You should read this quarterly report in conjunction with the audited consolidated financial statements for the twelve months ended December 31, 2011.

BUSINESS DESCRIPTION

Children's Health Care, d.b.a. Children's Hospitals and Clinics of Minnesota ("Children's"), is a Minnesota nonprofit corporation that provides a broad range of pediatric health care services for children in the upper midwest. Through its hospitals and numerous ambulatory services programs, Children's offers a continuum of health care services for children, including a full range of pediatric medical and surgical subspecialty services, Levels II through IIIc (sometimes referred to as Level IV) newborn intensive care, pediatric intensive care, and ambulatory and preventive care services.

Children's owns and operates two tertiary acute care facilities, Children's – Minneapolis and Children's – St. Paul, that operate under one provider license from the State of Minnesota. Children's – Minneapolis currently has 231 staffed beds and 262 licensed beds, including 109 bassinets. Children's – St. Paul has 138 staffed beds and 188 licensed beds, including 62 bassinets. Included in the bassinets for Children's – Minneapolis are 33 licensed and 21 staffed Special Care Nursery bassinets added, effective June 18, 2012, as part of the Mother-Baby joint operating agreement as discussed in footnote 1 below.

Children's Health Care Services, Inc. ("Children's – Minnetonka"), a Children's subsidiary, owns and operates an outpatient pediatric facility in the western Minneapolis suburb of Minnetonka, Minnesota, that provides pediatric ambulatory surgical services and other pediatric diagnostic services. The Children's – Minnetonka campus also includes a medical office building.

Children's Clinic Network ("CCN"), a Children's subsidiary, as of January 1, 2012, owns and operates five community based clinics in the Minneapolis – St. Paul metropolitan area that provide general pediatric services.

Obligated Group Members — The members of the Obligated Group under the Master Indenture securing the Bonds are Children's, Children's – Minnetonka, and CCN.

Non-Obligated Group Members — Children's is the sole member of Children's Health Care Foundation, d.b.a. Children's Foundation ("Children's Foundation"), which performs fund-raising functions and endowment management. Children's is also the sole voting member of Children's Health Insurance Network Ltd. ("CHIN"), a Cayman Island domiciled insurance entity. The financial statements of both Children's Foundation and CHIN are consolidated into the financial statements of Children's, but neither Children's Foundation nor CHIN is a member of the Obligated Group.

Children's is the sole corporate and nonvoting member of Children's Health Care Physician Hospital Organization, d.b.a. Children's Physician Network ("CPN"), a taxable, nonprofit corporation. The primary purpose of CPN is to provide the community with an integrated network of pediatric health care providers focused on quality care. Children's has determined that it has the indirect ability to determine the direction of management and policies of CPN, but does not have an economic interest in CPN. Accordingly, transactions with CPN are considered related party and the entity is not consolidated into the financial statements of Children's. CPN is not a member of the Obligated Group.

RESULTS OF OPERATIONS (In thousands)

Results of Operations for the three months ended June 30, 2012 compared to the three months ended June 30, 2011.

Total Revenue — Total revenue increased $16,144, or 11.7%, to $154,706 for the three months ended June 30, 2012 from $138,562 for the three months ended June 30, 2011.

The increase in total revenue was primarily due to an increase in net patient service revenue, a 12.8% increase of $16,752. Net patient service revenue was favorable to prior year primarily due to favorable patient utilization, $13.6 million, and higher reimbursement rates, $3.2 million. The higher reimbursement rates were driven by rate increases and favorable payer mix as detailed in the table below. The increase in net patient service revenue reflected an increase in inpatient revenue, $9.2 million, or 11.6%, and outpatient revenue, $7.5 million, or $14.7%. The increase in inpatient revenue was due primarily to higher neonatology patient volume and, to a lesser degree, increased hematology and oncology utilization. The increase in outpatient revenue was due primarily to a professional service agreement with Metropolitan Pediatric Specialists, and an increase in observation stays and outpatient diagnostic and pharmacy services. The professional service agreement with Metropolitan Pediatric Specialists, a community based group with three clinics and twenty providers, was effective January 1, 2012.

Payer mix for the three months ended June 30, 2012 and 2011, respectively, was as follows.

	Three Months Ended June 30,	
	2012	**2011**
Medicaid and Medicare	41.3%	40.2%
Negotiated Contracts	53.8%	56.3%
Commercial and Others	4.9%	3.5%
	100.0%	100.0%

Operating Expenses — Operating expenses increased $12,908, or 9.2%, to $153,717 for the three months ended June 30, 2012 from $140,809 for the three months ended June 30, 2011.

The increase in operating expenses was primarily due to increases in salaries, wages, and employee benefits, professional fees and purchased services, and supplies. The $4.9 million net increase in salaries, wages, and employee benefits was primarily due to higher patient utilization and wage rate increases, partially reduced by staffing efficiencies and lower employee benefit plan costs. Salaries, wages, and employee benefits as a percent of total revenue decreased to 59.2% for the second quarter of 2012 from 62.6% for the second quarter of 2011. Professional fees and purchased services increased $4.5 million reflecting the Metropolitan Pediatric Specialists professional service agreement and professional service agreements related to Children’s strategy to become a designated level 1 trauma center. The $2.5 million increase in supplies was due to the increase in patient utilization and case mix.

Operating Income — Operating income increased $3,236, or 144.0%, to $989 for the three months ended June 30, 2012 from an operating loss of $2,247 for the three months ended June 30, 2011. Operating margin increased to 0.6% for the three months ended June 30, 2012, from a negative operating margin of (1.6%) for the three months ended June 30, 2011.

The increase in operating income and operating margin was primarily due to favorable patient utilization, higher reimbursement rates, staffing efficiencies, and lower employee benefit costs, as discussed above.

Nonoperating Gains (Losses)— Nonoperating gains (losses) for the three months ended June 30, 2012 was a net loss of $3,383 as compared to a net gain of $4,328 for the three months ended June 30, 2011.

The $7,711 decrease was primarily due to the unfavorable change in interest rate swap valuations, $4,080, and unfavorable investment performance, $3,354. The LIBOR based swap contracts experienced a $7,471 unrealized loss for the three months ended June 30, 2012 as compared to a $3,391 unrealized loss for the corresponding period of 2011. The continued decrease in LIBOR was the primary driver of the change in LIBOR based swap valuations. Children's is currently not subject to collateral posting thresholds or requirements under the terms of its swap agreements. Net investment gains were $3,595 for the three months ended June 30, 2012 as compared to $6,949 for the corresponding period of 2011.

Results of Operations for the six months ended June 30, 2012 compared to the six months ended June 30, 2011.

Total Revenue — Total revenue increased $26,874, or 9.3%, to $316,908 for the six months ended June 30, 2012 from $290,034 for the six months ended June 30, 2011.

The increase in total revenue was primarily due to an increase in net patient service revenue, a 9.5% increase of $26,428. Net patient service revenue was favorable to prior year primarily due to favorable patient utilization, $19.0 million, and higher reimbursement rates, $7.4 million. The higher reimbursement rates were driven by rate increases and favorable payer mix as detailed in the table below. The increase in net patient service revenue reflected an increase in inpatient revenue, $13.6 million, or 7.9%, and outpatient revenue, $12.8 million, or $12.3%. The increase in inpatient revenue was due primarily to higher neonatology patient volume and, to a lesser degree, increased hematology and oncology utilization. The increase in outpatient revenue was due primarily to a professional service agreement with Metropolitan Pediatric Specialists, and an increase in observation stays and outpatient diagnostic and pharmacy services.

Payer mix for the six months ended June 30, 2012 and 2011, respectively, was as follows.

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Medicaid and Medicare	40.9%	41.9%
Negotiated Contracts	54.6%	54.3%
Commercial and Others	4.5%	3.8%
	100.0%	100.0%

Operating Expenses — Operating expenses increased $23,846, or 8.3%, to $309,828 for the six months ended June 30, 2012 from $285,982 for the six months ended June 30, 2011.

The increase in operating expenses was primarily due to increases in salaries, wages, and employee benefits, professional fees and purchased services, and supplies. The $9.4 million net increase in salaries, wages, and employee benefits was primarily due to higher patient utilization and wage rate increases, partially reduced by staffing efficiencies. Salaries, wages, and employee benefits as a percent of total revenue decreased to 57.3% for the first half of 2012 from 59.3% for the first half of 2011. Professional fees and purchased services increased $8.5 million reflecting the Metropolitan Pediatric Specialists professional service agreement and professional service agreements related to Children's strategy to become a designated level 1 trauma center. The $3.6 million increase in supplies was due to the increase in patient utilization, surgical case mix, and the opening of four new operating rooms on the St. Paul campus.

Operating Income — Operating income increased $3,028, or 74.7%, to $7,080 for the six months ended June 30, 2012 from $4,052 for the six months ended June 30, 2011. Operating margin increased to 2.2% for the six months ended June 30, 2012, from 1.4% for the six months ended June 30, 2011.

The increase in operating income and operating margin was primarily due to favorable patient utilization, higher reimbursement rates, and staffing efficiencies, as discussed above.

Nonoperating Gains — Nonoperating gains for the six months ended June 30, 2012 was a net gain of $20,525 as compared to a net gain of $14,974 for the six months ended June 30, 2011.

The $5,551 increase was primarily due to favorable investment performance, $6,729, reduced by the unfavorable change in interest rate swap valuations, $1,157. The LIBOR based swap contracts experienced a $1,616 unrealized loss for the six months ended June 30, 2012 as compared to a $459 unrealized loss for the corresponding period of 2011. The continued decrease in LIBOR was the primary driver of the change in LIBOR based swap valuations. Children's is not currently subject to collateral posting thresholds or requirements under the terms of its swap agreements. Net investment gains were $20,989 for the six months ended June 30, 2012 as compared to $14,260 for the corresponding period of 2011.

SUMMARY OF UTILIZATION

Inpatient utilization, as measured by the average daily census, was favorable to the corresponding prior year period for the quarter, 13.3%, and for the six months, 7.9%. Average occupancy increased from the corresponding prior year period for the quarter from 58% to 64%, and for the six months from 65% to 68%. Outpatient activity, as measured by clinic and emergency room visits, was favorable to the corresponding prior year period for the quarter, 38.8%, and for the six months, 34.4%. The favorable inpatient census for the second quarter and the first half was primarily due to higher neonatal patient volume. The longer average length of stay, 6.8 versus 6.3, also reflected the higher neonatal patient volume. The increase in clinic visits was primarily due to a professional service agreement with a community based general pediatric group that was effective January 1, 2012.

	Three Months Ended June 30,		For the Six Months Ended June 30,		For the Twelve Months Ended December 31,	
	2012	2011	2012	2011	2011	2010
Admissions						
Perinatal Services	616	583	1,213	1,139	2,175	1,874
Intensive Care Services	570	536	1,134	1,122	2,190	1,746
Medical and Surgical Services	1,799	1,839	3,969	4,083	7,844	8,831
Total	2,985	2,958	6,316	6,344	12,209	12,451
Patient Days						
Perinatal Services	9,496	7,613	19,085	16,572	35,333	35,369
Intensive Care Services	3,420	3,565	7,286	7,247	14,068	10,955
Medical and Surgical Services	7,425	6,942	16,759	15,941	30,334	33,445
Total	20,341	18,120	43,130	39,760	79,735	79,769
Average Daily Census	**223.6**	**197.4**	**237.0**	**219.7**	**218.5**	**218.5**
Staffed Beds (including Bassinettes)	369	339	369	339	347	332
Average Length of Stay	6.8	6.1	6.8	6.3	6.5	6.4
Average Occupancy *	64%	58%	68%	65%	63%	66%
Clinic Visits - Hospital Based	30,964	30,255	61,147	61,348	124,183	116,940
Clinic Visits - Community Based	25,415	5,847	53,036	12,297	24,790	13,912
Emergency Room Visits	21,904	20,304	45,223	44,927	88,674	80,094
Inpatient Surgery Cases	896	950	1,762	1,777	3,646	3,699
Outpatient Surgery Cases	4,194	4,422	8,250	8,701	16,807	16,577
Average Adjusted Daily Census	**370.8**	**323.8**	**386.0**	**352.4**	**349.4**	**342.6**

*** Average occupany excludes the 21 Special Care Nursery bassinets added, effective June 18, 2012, as part of the Mother-Baby joint operating agreement.**

FINANCIAL POSITION, CASH FLOWS, AND LIQUIDITY (In thousands)

Working capital increased $11,711 to $92,820 at June 30, 2012 from $81,109 at December 31, 2011. This increase was largely due to higher prepaid insurance and maintenance costs and higher accounts receivable, which reflected the increase in revenue. Unrestricted cash, cash equivalents, and investments increased $18,140 to $389,975 at June 30, 2012 from $371,835 at December 31, 2011. This increase was primarily due to cash provided by operations, $16.2 million, and net unrealized investment gains, $12.5 million, reduced by capital expenditures, $14.9 million. Days cash on hand increased 11 days to 252 days cash on hand at June 30, 2012 from 241 days cash on hand at December 31, 2011, due to the increase in unrestricted cash, cash equivalents, and investments, partially offset by the increase in operating expenses. The debt to capitalization ratio for the Obligated Group was 34.5% at June 30, 2012 as compared to 35.9% at December 31, 2011, reflecting the 2012 increase in unrestricted net assets.

Children's has a series of Standby Bond Purchase Agreements establishing an aggregate liquidity facility of approximately $166.5 million with U.S. Bank National Association for its variable rate bonds (Series 2004A, Series 2004B, and Series 2007A). These liquidity facilities are renewable on June 30, 2013 with an expiration date of June 30, 2014.

MOTHER-BABY FACILITY

Children's continues construction on a new jointly-owned facility in conjunction with the Mother-Baby joint operating agreement with Allina Health System ("Allina"). The facility is being constructed on the Children's – Minneapolis campus at a projected incremental cost of $50 million, of which Children's will contribute $26 million, in addition to a $10 million in-kind contribution of existing ambulatory, parking, and power-plant facilities, and will own sixty-percent of the building. Construction was initiated in the third quarter of 2011, with expected completion in the first quarter of 2013. At June 30, 2012, there was $9.2 million of construction in progress for the Mother-Baby facility, which is included in land, buildings, and equipment - net in the consolidated statements of financial position.

CHILDREN'S FOUNDATION

As of June 30, 2012, the Foundation's $100 million capital campaign had commitments totaling $59.8 million of which $38.5 million has been received. The Foundation's $50 million program campaign had commitments totaling $70 million of which $51.1 million has been received.

MARKET RISKS

Children's invests in various securities, including corporate stocks, corporate bonds, U.S. government obligations, foreign investments, mutual funds, and exchange-traded futures and options contracts. Investment securities, in general, are exposed to various market risks, such as interest rate, credit, liquidity, foreign exchange, and price volatility. Because of these possible risks associated with the equity, bond, and currency markets, it is reasonably possible that changes in the values of various investment positions could occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements. To monitor the risk of the investment portfolio, Children's has investment policies in place and monitors the performance of all investments on a regular basis.

Children's is exposed to interest rate risk with its variable rate debt structure. To manage these risks, Children's has entered into certain fixed payer swap agreements for all of its outstanding variable rate debt. These swap agreements hedge its variable interest rate risk, which are subject to changes in LIBOR rates. Generally, under these swaps, Children's pays a counterparty a fixed rate and receives a variable rate that is a specified percent of 30 day LIBOR rates based upon a notional principal amount. Swap valuations are dependent on the LIBOR swap curve and fluctuate with directional and/or yield curve changes in that market.

LITIGATION AND COMPLIANCE WITH LAWS AND REGULATIONS

Litigation — Children's is periodically a defendant in legal proceedings arising in the ordinary course of business. Although the outcome of these proceedings cannot presently be determined, in the opinion of management, disposition of these proceedings will not have a material adverse effect on the consolidated financial statements of Children's.

Compliance with Laws and Regulations — The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretations, as well as regulatory actions unknown and unasserted at this time. Government activity continues to focus on possible violations of regulations by health care providers, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues. Management believes that Children's compliance procedures lead to substantial compliance with current laws and regulations.

FORWARD-LOOKING STATEMENTS

Any statements that are not based upon historical facts, including the outcome of events that have not yet occurred and our expectations for future performance, are forward-looking statements. The words "potential," "believe," "estimate," "expect," "intend," "may," "could," "should," "will," "plan," "anticipate," and similar words and expressions are intended to identify forward-looking statements. Such statements are based upon the current beliefs and expectations of Children's. Such forward-looking information involves important risks and uncertainties that could significantly affect anticipated results in the future and, accordingly, such results may differ from those expressed in any forward-looking statements made by or on behalf of Children's.

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CHILDREN'S HEALTH CARE

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2012 AND DECEMBER 31, 2011
(In thousands)

	June 30, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 5,405	$ 11,849
Short-term investments	69,988	70,946
Funds held by trustee	6,576	2,913
Patient accounts receivable - less allowance for uncollectible accounts of $8,069 and $6,472 at 2012 and 2011, respectively	68,435	63,295
Prepaid expenses and other current assets	32,939	26,635
Total current assets	183,343	175,638
DONOR-RESTRICTED CASH AND INVESTMENTS	46,035	46,124
UNRESTRICTED INVESTMENTS	314,582	289,040
OTHER ASSETS	55,866	54,331
LAND, BUILDINGS, AND EQUIPMENT - Net	374,738	379,306
TOTAL	$ 974,564	$ 944,439
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 7,325	$ 7,325
Accounts payable and accrued expenses	27,983	28,505
Accrued salaries, wages, and benefits	46,783	49,461
Other current liabilities	8,432	9,238
Total current liabilities	90,523	94,529
FAIR VALUE OF INTEREST RATE SWAPS	44,208	42,592
OTHER LONG-TERM LIABILITIES	42,714	43,350
LONG-TERM DEBT - Excluding current maturities	248,918	248,974
Total liabilities	426,363	429,445
NET ASSETS		
Unrestricted	476,487	447,398
Temporarily restricted	44,197	40,478
Permanently restricted	27,517	27,118
Total net assets	548,201	514,994
TOTAL	$ 974,564	$ 944,439

See notes to consolidated financial statements.

CHILDREN'S HEALTH CARE

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	Three Months Ended June 30, 2012 (unaudited)	Three Months Ended June 30, 2011 (unaudited)	Six Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2011 (unaudited)
REVENUE				
Net patient service revenue	$ 147,757	$ 131,005	$ 303,402	$ 276,974
Provision for uncollectible accounts	(2,064)	(827)	(4,750)	(2,434)
Net patient service revenue less provision for uncollectible accounts	145,693	130,178	298,652	274,540
Foundation transfers for operations	2,727	2,306	5,266	4,243
Other	6,286	6,078	12,990	11,251
Total revenue	154,706	138,562	316,908	290,034
EXPENSES				
Salaries, wages, and employee benefits	91,630	86,686	181,514	172,134
Professional fees and purchased services	20,498	15,953	42,067	33,537
Supplies	15,124	12,584	33,252	29,619
Facilities	3,731	3,019	7,311	6,340
Depreciation and amortization	9,045	8,715	17,982	17,709
Financing costs	3,016	2,340	5,664	4,738
Health services taxes	4,630	4,273	9,144	8,725
Other	6,043	7,239	12,894	13,180
Total expenses	153,717	140,809	309,828	285,982
OPERATING INCOME (LOSS)	989	(2,247)	7,080	4,052
NONOPERATING (LOSSES) GAINS				
Investment income and realized gains	5,692	4,304	8,447	10,803
Income on investments accounted for under the equity method	707	986	1,581	1,604
Net change in unrealized (losses) gains on investments	(2,097)	2,645	12,542	3,457
Change in fair value of interest rate swaps	(7,471)	(3,391)	(1,616)	(459)
Other	(214)	(216)	(429)	(431)
Total nonoperating (losses) gains	(3,383)	4,328	20,525	14,974
(DEFICIENCY) EXCESS OF REVENUE OVER EXPENSES	(2,394)	2,081	27,605	19,026
OTHER CHANGES				
Net assets released from restrictions - capital acquisitions	1,296	608	1,484	3,125
CHANGE IN UNRESTRICTED NET ASSETS	$ (1,098)	$ 2,689	$ 29,089	$ 22,151

See notes to consolidated financial statements.

CHILDREN'S HEALTH CARE

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	Three Months Ended June 30, 2012 (unaudited)	Three Months Ended June 30, 2011 (unaudited)	Six Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2011 (unaudited)
UNRESTRICTED NET ASSETS				
(Deficiency) excess of revenue over expenses	$ (2,394)	$ 2,081	$ 27,605	$ 19,026
Net assets released from restrictions - capital acquisitions	1,296	608	1,484	3,125
(Decrease) increase in unrestricted net assets	(1,098)	2,689	29,089	22,151
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	3,406	3,838	8,702	8,058
Investment (loss) income	(111)	216	110	767
Net change in unrealized (losses) gains on investments	(257)	174	1,657	728
Net assets released from restrictions - operations	(2,727)	(2,306)	(5,266)	(4,243)
Net assets released from restrictions - capital acquisitions	(1,296)	(608)	(1,484)	(3,125)
(Decrease) increase in temporarily restricted net assets	(985)	1,314	3,719	2,185
PERMANENTLY RESTRICTED NET ASSETS				
Contributions	79	155	183	629
Change in value of perpetual trusts held by others and other	(226)	(68)	216	30
(Decrease) increase in permanently restricted net assets	(147)	87	399	659
CHANGE IN NET ASSETS	(2,230)	4,090	33,207	24,995
NET ASSETS - BEGINNING OF PERIOD	550,431	529,241	514,994	508,336
NET ASSETS - END OF PERIOD	$ 548,201	$ 533,331	$ 548,201	$ 533,331

See notes to consolidated financial statements.

CHILDREN'S HEALTH CARE

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	Six Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2011 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 33,207	$ 24,995
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	17,982	17,709
Net change in unrealized gains on investments	(14,128)	(4,186)
Net realized gains on investments	(3,479)	(6,042)
Change in fair value of interest rate swaps	1,616	459
Contributions restricted for long-lived purposes	(3,975)	(2,032)
Income on investments accounted for under equity method	(1,581)	(1,604)
Provision for uncollectibles	4,750	2,434
Other	133	636
Changes in assets and liabilities:		
Patient accounts receivable	(9,890)	(4,155)
Prepaid expenses and other current assets	(6,304)	784
Other assets	550	445
Accounts payable and accrued expenses	1,357	(5,205)
Accrued salaries, wages, and benefits	(2,678)	15,879
Other liabilities	(1,409)	411
Net cash provided by operating activities	16,151	40,528
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, and equipment	(14,922)	(22,602)
Purchase of investments, funds held by trustee, and other assets	(155,371)	(138,182)
Proceeds from sale and maturities of investments and funds held by trustee	144,998	125,198
Net cash used in investing activities	(25,295)	(35,586)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-lived purposes	2,700	1,196
Net cash (used in) provided by financing activities	2,700	1,196
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,444)	6,138
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	11,849	11,551
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 5,405	$ 17,689

See notes to consolidated financial statements.

Children's Hospitals and Clinics of Minnesota

CHILDREN'S HEALTH CARE

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2012 AND 2011
(In thousands)

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Children's Health Care, d/b/a Children's Hospitals and Clinics of Minnesota ("Children's"), is a not-for-profit corporation organized under the laws of the State of Minnesota for the treatment and care of infants, children, and adolescents and the promotion and administration of charitable care, research, and educational activities.

Children's owns and operates two tertiary facilities, Children's — Minneapolis and Children's — St. Paul: two separate and controlled not-for-profit corporations, Children's Health Care Services, Inc., d/b/a Children's — Minnetonka and Children's Health Care Foundation, d/b/a Children's Foundation (the "Foundation"); and two wholly owned subsidiaries, Children's Health Insurance Network, Ltd., which handles professional liability claims, and Children's Clinic Network, which owns and operates community based clinics. The consolidated financial statements include the accounts of Children's and all subsidiaries. The departments of Children's — Minneapolis; Children's — St. Paul; and Corporate, plus the subsidiaries Children's — Minnetonka and Children's Clinic Network, collectively, are the "Obligated Group."

Basis of Presentation — The accompanying unaudited consolidated financial statements for the six months ended June 30, 2012 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Financial information as of December 31, 2011 has been derived from Children's audited consolidated financial statements. Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 presentation. Children's has omitted footnote disclosures that would substantially duplicate the disclosures contained in the audited financial statements. The unaudited consolidated financial statements should be read together with the audited financial statements and footnote disclosures for the year ended December 31, 2011.

In the opinion of management, the interim consolidated financial statements include all adjustments (consisting of normal recurring accruals) necessary for the fair presentation of the results for interim periods presented. These financial statements include some amounts that are based on management's best estimates and judgments. These estimates may be adjusted as more information becomes available, and any adjustment could be significant. The impact of any change in estimates is included in the determination of financial results in the period in which the change in estimate is identified. Significant estimated amounts in the consolidated financial statements include contractual allowances, allowance for uncollectible accounts and pledges, depreciable lives, benefit obligations, accrued salary, bonuses, benefit costs, and interest rate swap valuation. Operating results for the six months ended June 30, 2012 are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2012.

Consolidation — All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. Investments in entities that Children's does not control, but in which Children's has a substantial ownership interest and can exercise significant influence, are accounted for using the equity method. Investments in entities that Children's does not control, does not have a substantial ownership interest, and cannot exercise significant influence are accounted for using the cost method.

Joint Operating Agreement — Children's has a joint operating agreement with Allina Health System ("Allina"), a Minnesota nonprofit corporation, to collaborate on certain obstetric, normal newborn, perinatology, and neonatal service lines. The joint operating agreement is herein referred to as the "Mother-Baby" program and is governed by a joint operating committee with equal membership from Children's and

Allina for a twenty-year term, with extension provisions, that began on January 1, 2011. Under this collaborative arrangement, there is an equalization payment whereby Children's receives 72% of the cash flows related to these service lines and Allina receives 28% of the cash flows related to these service lines. Net equalization costs are reported as other operating expenses and were $0 and $1,082 for the six months ended June 30, 2012 and 2011, respectively. The amount due to Allina was $0 at June 30, 2012 and $375 at December 31, 2011, which is included in accounts payable and accrued expenses in the consolidated statements of financial position.

A new jointly-owned facility is being constructed on the Children's — Minneapolis campus at a projected incremental cost of $50,000, of which Children's will contribute $26,000, in addition to a $10,000 in-kind contribution of existing ambulatory, parking, and power-plant facilities, and will own 60% of the building. Construction was initiated in the third quarter of 2011, with expected completion in the first quarter of 2013. At June 30, 2012 and December 31, 2011, there was $9,208 and $2,466, respectively, of construction in progress for the Mother-Baby facility, which is included in land, buildings, and equipment - net in the consolidated statements of financial position.

Net Patient Service Revenue and Patient Accounts Receivable — Children's has agreements with third-party payers that provide for payments to Children's at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per-diem payments.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services provided, including settlement amounts under reimbursement agreements with third-party payers. Settlements are accrued on an estimated basis in the period the related services are provided and are adjusted in future periods as final settlements are determined.

Patient accounts receivable represent amounts due from federal and state agencies, managed health care plans, commercial insurance companies, employers, and patients. Children's grants credit to patients, most of whom are insured under third-party payer agreements, without collateral or any other security to support amounts due. Children's determines an allowance for doubtful accounts by considering a number of factors, including, but not limited to, the length of time accounts receivable are past due, previous loss history, the existence of a third-party payer, reimbursement trends, and other collection indicators. Accounts are written off when all reasonable internal and external collection efforts have been performed and payments subsequently received on such receivables are credited to the allowance.

Net patient service revenue before provision for uncollectible accounts for the six months ended June 30, 2012 and 2011, respectively, were as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Government payers	$ 41,129	$ 40,849	$ 79,954	$ 84,767
Other third-party payers	100,022	87,492	210,527	184,060
Self-Pay	6,606	2,664	12,921	8,147
Net patient service revenue before provision for uncollectible accounts	$ 147,757	$ 131,005	$ 303,402	$ 276,974

Subsequent Events — Children's has evaluated all events or transactions that occurred after June 30, 2012, through August 14, 2012, the date the consolidated financial statements were issued. Children's is not aware of any material subsequent events that would require recognition or disclosure in the consolidated financial statements.

Recently Issued Accounting Standards — In December 2011, the Financial Accounting Standards Board ("FASB") issued new guidance requiring an entity to enhance disclosures about offsetting (netting) assets and liabilities and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. This new guidance is effective for Children's in 2013; Children's does not believe the adoption of the new guidance will have a material impact on the consolidated financial statements.

Recently Adopted Accounting Standards — In April 2011, the FASB issued new guidance to achieve common fair value measurement and disclosure requirements between GAAP and International Financial Reporting Standards. This new guidance amends current fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. This new guidance was effective for Children's in the quarter ended March 31, 2012. The appropriate disclosures under this guidance have been included in the notes to the consolidated financial statements.

In July 2011, the FASB issued new guidance to provide greater transparency about a health care entity's net patient service revenue and the related allowance for doubtful accounts. Specifically, this new guidance requires certain health care entities to change the presentation of their statement of operations by reclassifying the provision for uncollectible accounts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, those health care entities are required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The amendments also require disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This new guidance was effective for Children's in the quarter ended March 31, 2012. The appropriate disclosures under this guidance have been included in the consolidated financial statements. In accordance with this new guidance, the provision for uncollectible accounts of $2,064 and $827 for the quarter and $4,750 and $2,434 for the six months ended June 30, 2012 and 2011, respectively, was reclassified from an operating expense to a deduction from patient service revenue.

2. FINANCIAL INSTRUMENTS, RISK MANAGEMENT ACTIVITIES, AND FAIR VALUE

Investments — The market value of Children's marketable debt and equity securities, at June 30, 2012 and December 31, 2011, are shown below:

	June 30, 2012	December 31, 2011
Fixed income securities	$ 252,928	$ 241,739
Corporate equities	87,926	80,874
Foreign investments	92,376	72,595
Perpetual trusts held by others	4,263	4,038
Pending trades	(1,158)	8,870
Interest and dividends receivable	846	907
Total	$ 437,181	$ 409,023
Investments are reported as:		
Short-term investments	$ 69,988	$ 70,946
Funds held by trustee - current	6,576	2,913
Donor-restricted cash and investments	46,035	46,124
Unrestricted investments	314,582	289,040
Total	$ 437,181	$ 409,023

Classification of marketable securities as current or noncurrent is dependent on their availability for current operations. Availability for current operations is determined by management intention, investment maturity date, and liquidity.

Children's continues to elect the fair value option for all debt and equity securities. The election of the fair value option results in these securities being recorded at fair value, with unrealized gains and losses being recorded as nonoperating gains (losses).

As of June 30, 2012 and 2011, the following schedule summarizes the investment gains (losses) and its classification in the consolidated statements of operations and changes in net assets:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Investment earnings in unrestricted net assets:				
Interest and dividend income	$ 2,858	$ 2,803	$ 5,615	$ 5,806
Net realized gains on investments	2,931	1,543	2,984	5,177
Net unrealized (losses) gains on investments	(2,097)	2,645	12,542	3,457
Total	3,692	6,991	21,141	14,440
Investment earnings in restricted net assets:				
Interest and dividend income	202	178	370	315
Net realized (losses) gains on investments	(313)	38	(260)	452
Net unrealized (losses) gains on investments	(257)	174	1,657	728
Total	(368)	390	1,767	1,495
Total investment gains	$ 3,324	$ 7,381	$ 22,908	$ 15,935
Reported within:				
Other operating revenue	$ 97	$ 42	$ 152	$ 180
Investment income and realized gains	5,692	4,304	8,447	10,803
Net change in unrealized (losses) gains on investments	(2,097)	2,645	12,542	3,457
Changes in restricted net assets	(368)	390	1,767	1,495
Total investment gains	$ 3,324	$ 7,381	$ 22,908	$ 15,935

Children's periodically invests in futures and option contracts within its investment policies. These derivative positions are not designated as hedges for accounting purposes. The changes in fair market value of these instruments are recorded as investments gains (losses) in the consolidated statements of operations. Children's had no futures or option contracts during the six months ended June 30, 2012 and the year ended December 31, 2011.

Interest Rate Swaps — Children's has four fixed payer interest rate swap agreements outstanding, which hedge the variable interest rate exposure associated with certain of its variable rate long-term debt.

Children's records changes in the fair values of the interest rate swaps as a component of nonoperating gains (losses) in the consolidated statements of operations. Children's has elected to not apply hedge accounting to these swap agreements. The fair values of the interest rate swaps were a liability of $44,208 as of June 30, 2012, and $42,592 as of December 31, 2011. This liability would have to be paid if the swap agreements were terminated. There are no current collateral posting thresholds or requirements under the swap agreements. The change in fair value of the interest rate swaps of ($7,471) and ($3,391) for the quarter and ($1,616) and ($459) for the six months ended June 30, 2012 and 2011, respectively, is recorded in nonoperating gains (losses) in the consolidated statements of operations. Children's recognized financing costs related to these swap agreements in the amounts of $1,480 and $1,421 during the quarter and $2,884 and $2,934 for the six months ended June 30, 2012 and 2011, respectively.

The following table summarizes the current notional amounts and interest rates of the interest rate swaps at June 30, 2012 and December 31, 2011.

Swap Agreement	Fair Value	Current Notional Amount	Rate Paid	Rate Received
As of June 30, 2012:				
2004A	$ (6,812)	$ 22,525	4.127 %	70% LIBOR
2004B	(8,522)	38,725	4.266	70% LIBOR
2007A1	(14,435)	51,500	3.518	67% LIBOR
2007A2	(14,439)	51,500	3.518	67% LIBOR
	$ (44,208)	$ 164,250		
As of December 31, 2011:				
2004A	$ (6,659)	$ 22,525	4.127 %	70% LIBOR
2004B	(8,344)	38,725	4.266	70% LIBOR
2007A1	(13,793)	51,500	3.518	67% LIBOR
2007A2	(13,796)	51,500	3.518	67% LIBOR
	$ (42,592)	$ 164,250		

Children's is exposed to the risk of loss through counterparty credit risk in the event of nonperformance by the counterparty in the interest rate swap agreements.

Fair Value of Financial Instruments — The carrying values of cash and cash equivalents, patient accounts receivable, accounts payable, and other accrued expenses approximate fair value due to their short-term nature. Marketable securities are carried at fair value. All other assets and liabilities that qualify as financial instruments under GAAP are carried at contractual amounts, which approximate fair value.

Children's values its financial assets and liabilities in accordance with the accounting guidance that establishes a three-tier fair value hierarchy. Level 1 provides the most reliable measure of fair value, while Level 3 generally requires significant management judgment. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that could be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. Three levels are defined as follows:

Level 1 — Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

Level 2 — Inputs include directly or indirectly observable inputs other than Level 1 inputs, such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; or other inputs that are considered in fair value determinations of assets or liabilities.

Level 3 — Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities or related observable inputs that can be corroborated at the measurement date.

Financial assets and liabilities measured at fair value on a recurring basis at June 30, 2012 and December 31, 2011, are summarized in the following table by type of inputs applicable to the fair value measurements:

	Fair Value		
	Level 1	Level 2	Total
As of June 30, 2012:			
ASSETS:			
Cash equivalents	$ 5,046	$ -	$ 5,046
Investments:			
Fixed income securities:			
Money market and short-term bond funds	$ 30,941	$ -	$ 30,941
U.S. gov't and U.S. gov't agencies obligations	27,348	-	27,348
Municipal obligations	8,177	-	8,177
Close-end bond funds	57,020	-	57,020
Mortgage-backed securities	8,931	-	8,931
Commercial mortgage-backed securities	-	2,644	2,644
Investment grade corporate bonds	75,907	3,344	79,251
High yield bonds	30,261	8,355	38,616
Total fixed income securities	238,585	14,343	252,928
Corporate equities:			
Large cap	41,996	-	41,996
Mid cap	25,011	-	25,011
Small cap	20,919	-	20,919
Total corporate equities	87,926	-	87,926
Foreign investments:			
Foreign bonds	7,156	62,558	69,714
Foreign equities	22,662	-	22,662
Total foreign investments	29,818	62,558	92,376
Perpetual trusts held by others	4,263	-	4,263
Pending trades	(1,158)	-	(1,158)
Interest and dividends receivable	846	-	846
Total investments	$ 360,280	$ 76,901	$ 437,181
Other assets - deferred compensation *	$ 7,125	$ -	$ 7,125
LIABILITIES:			
Fair value of interest rate swaps liability	$ -	$ 44,208	$ 44,208

* Deferred compensation investments are participant directed and primarily consist of money market funds, 44%, and various equity and fixed income funds, 56%.

	Fair Value		
	Level 1	Level 2	Total
As of December 31, 2011:			
ASSETS:			
Cash equivalents	$ 9,686	$ -	$ 9,686
Investments:			
Fixed income securities:			
Money market and short-term bond funds	$ 44,013	$ -	$ 44,013
U.S. gov't and U.S. gov't agencies obligations	10,065	-	10,065
Municipal obligations	15,034	-	15,034
Close-end bond funds	53,723	15	53,738
Mortgage-backed securities	9,397	-	9,397
Commercial mortgage-backed securities	-	7,088	7,088
Investment grade corporate bonds	71,964	2,587	74,551
High yield bonds	17,535	10,318	27,853
Total fixed income securities	221,731	20,008	241,739
Corporate equities:			
Large cap	38,362	-	38,362
Mid cap	20,395	-	20,395
Small cap	22,117	-	22,117
Total corporate equities	80,874	-	80,874
Foreign investments:			
Foreign bonds	4,688	58,485	63,173
Foreign equities	9,422	-	9,422
Total foreign investments	14,110	58,485	72,595
Perpetual trusts held by others	4,038	-	4,038
Pending trades	8,870	-	8,870
Interest and dividends receivable	907	-	907
Total investments	$ 330,530	$ 78,493	$ 409,023
Other assets - deferred compensation	$ 8,354	$ -	$ 8,354
LIABILITIES:			
Fair value of interest rate swaps liability	$ -	$ 42,592	$ 42,592

* Deferred compensation investments are participant directed and primarily consist of money market funds, 43%, and various equity and fixed income funds, 57%.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Level 2 valuation methodologies are listed below. There have been no changes in the valuation methodologies used at June 30, 2012 and December 31, 2011.

Fixed Income Securities — Level 2 fixed income securities include all commercial mortgage-backed securities and certain investment grade corporate bonds and high yield bonds. These investments are valued based on a compilation of observable market information rather than market quotes.

Foreign Investments — Level 2 foreign investments represent commingled funds. These investments are valued based on net asset values per fund share (the unit of account), derived generally from the quoted prices in active market of the underlying securities.

Interest Rate Swap Agreements — Valued based on observable inputs as of the valuation date, including prices of instruments with similar maturities and characteristics, interest rate yield curves, and measures of interest rate volatility.

For the six months ended June 30, 2012 and the year ended December 31, 2011, Children's held no assets in which significant unobservable inputs (Level 3) were used in determining fair value. Children's made a $623 transfer from Level 2 to Level 1 and a $1,025 transfer from Level 1 to Level 2 as of June 30, 2012 and a $13,606 transfer from Level 1 to Level 2 as of December 31, 2011. These transfers were based on a re-evaluation of the observable inputs used in the fair value calculation and the amounts reported as transfers represent the fair value as of the end of the reporting period.

Long-Term Debt — The estimated fair value of Children's long-term debt, excluding accrued interest, was $265,223 and $262,487 at June 30, 2012 and December 31, 2011, respectively. The fair value measurement was estimated using Level 2 criteria. Children's variable rate debt is remarketed daily by two remarketing agents and consistently trades at par. By observing our own pricing experience and by comparing it to the pricing of similar issues, Children's estimates the fair value of its variable rate debt approximates its carrying value. Children's estimates the fair value of its fixed rate debt based on trading activity on or around June 30, 2012.

3. LONG-TERM DEBT

Long-term debt at June 30, 2012 and December 31, 2011, consisted of the following:

	June 30, 2012	December 31, 2011
Health Care Revenue Bonds, Series 1995B (remarketed), remaining fixed interest rate range from 4.0% to 5.0%, due in installments through August 15, 2025	$ 19,600	$ 19,600
Health Care Revenue Bonds, Series 2004A, interest rate at a variable rate, due through August 15, 2034 (average of 0.198% for 2012; 0.157% for 2011)*	22,525	22,525
Health Care Revenue Bonds, Series 2004A-1 (remarketed), remaining fixed interest rate range from 3.0% to 5.0%, due in installments through August 15, 2034	21,850	21,850
Health Care Revenue Bonds, Series 2004B, interest rate at a variable rate, due through August 15, 2025 (average of 0.159% for 2012; 0.122% for 2011)*	38,725	38,725
Health Care Revenue Bonds, Series 2007A, interest rate at a variable rate, due through August 15, 2037 (average of 0.198% for 2012; 0.157% for 2011)*	103,000	103,000
Health Care Revenue Bonds, Series 2010A, remaining fixed interest rate range from 3.0% to 5.25%, due in installments through August 15, 2035	48,870	48,870
Total long-term debt	254,570	254,570
In addition (less):		
Unamortized bond premium	1,673	1,729
Current maturities of long-term debt	(7,325)	(7,325)
Long-term debt, excluding current maturities	$ 248,918	$ 248,974

* Average interest rate for the first six months of 2012 compared to the annual rate for 2011.

Children's continues to retain the ability to convert the interest rate mode on the Series 2004A, Series 2004B, Series 2007A bonds, subject to certain conditions, to bonds bearing interest at auction rates, fixed rates, or flexible rates.

All the bonds were issued through the conduit organizations of the City of Minneapolis, Minnesota (the "City") and the Housing and Redevelopment Authority of the City of Saint Paul, Minnesota (the "Authority") on behalf of the Obligated Group, pursuant to the Master Trust Indenture. The bonds are secured by a security interest in the unrestricted receivables of the Obligated Group, as defined under the Master Trust Indenture. All bonds, except for the 2010A bonds, are insured by Assured Guaranty Municipal Corp., a division of Assured Guaranty Ltd., which is currently rated AA- with a stable outlook by Standard & Poor's and Aa3 with a negative outlook and on review for possible downgrade by Moody's Investors Service.

The Obligated Group must meet certain financial covenants required by the bond insurer and is limited in the amount of additional variable rate indebtedness that can be incurred under Supplemental Indenture No. 7, dated March 1, 2010, to the Master Trust Indenture. The Obligated Group was in compliance with the financial covenants at June 30, 2012. The Series 1995B bonds, Series 2004A bonds, Series 2004A-1 bonds, Series 2004B bonds, Series 2007A bonds, and the Series 2010A bonds are subject to various optional redemption features by Children's, in whole or in part, at redemption prices equal to 100% of principal, plus accrued interest during various times as described in their respective Bond Trust Indentures.

Currently, interest rates are set daily on all variable rate demand bond series by remarketing agents. Holders of the bonds have the option to tender the bonds for repurchase. The remarketing agent has agreed to remarket the bonds tendered for purchase upon the conditions, in the manner and at the times specified, in the indentures related to such bond series. Children's has a series of Standby Bond Purchase Agreements with U.S. Bank National Association, establishing an aggregate liquidity facility in the amount of $166,545 to provide credit in the event it is required to purchase tendered bonds that are not converted. U.S. Bank National Association is currently rated A+ with a stable outlook by Standard & Poor's and Aa2 with a negative outlook by Moody's. These liquidity facilities utilize a matrix pricing format with re-pricing for a variety of potential Assured Guaranty Municipal Corp. credit rating adjustments down to A/A2 and are renewable on June 30, 2013 with an expiration date of June 30, 2014.

The only remaining balance of defeased debt that is outstanding totals $2,340 at June 30, 2012.

Under the Master Trust Indenture and related agreements for each bond series, the Obligated Group maintains with a trustee a bond interest fund and a bond principal fund, the aggregated balances of which were as follows:

	June 30, 2012	**December 31, 2011**
Bond interest fund	$ 1,944	$ 1,369
Bond principal fund	4,632	1,544
Funds held by trustee	$ 6,576	$ 2,913

The funds are available to meet debt service expenditures.

4. EMPLOYEE BENEFIT PLANS

Children's has noncontract and various union-sponsored pension or retirement plans covering substantially all employees.

Pension Plan — The Children's Health Care RSVP Retirement Plan (the "Plan") provides benefits to eligible noncontract employees based on final average salary and accumulated pension credits, which are based on years of service.

Contributions to the Plan are made in accordance with funding principles as recommended by Children's actuaries and in accordance with Employee Retirement Income Security Act of 1974 requirements as amended by the Pension Protection Act of 2006. Assets of the Plan are invested primarily in common stocks, U.S. government debt securities, corporate debt instruments, municipal debt, fixed income, international equities, and dividend growth mutual funds. Children's uses a December 31 measurement date for its benefit plans.

The Plan was amended effective December 31, 2012 to freeze benefits for plan participants. During 2012, no new employees will be eligible to join the plan and all current employees enrolled in the plan will continue to earn benefits. These plan changes eliminate future benefit accruals after the effective date, which meets the criteria for a curtailment as defined by authoritative accounting guidance. Accordingly, pension plan assets and liabilities were remeasured as of December 31, 2011, resulting in a decrease to the pension benefit obligation of $9,072. In conjunction with the curtailment, participants will receive an annual earnings credit, which resulted in an increase to the accumulated benefit obligation.

To offset these plan changes, Children's defined contribution plan was enhanced. Effective January 1, 2013, Children's will match 100% of contributions made up to 6% of total salaries. New employees will have a five-year vesting period to receive the employer match, vesting an additive 20% per year of employment. The vesting requirement will be waived for all current employees.

Components of net periodic pension cost for the Plan for the three and six months ended June 30, 2012 and 2011, respectively, were as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2012	**2011**	**2012**	**2011**
Service cost	$ 1,025	$ 1,600	$ 2,050	$ 3,200
Interest cost	975	1,100	1,950	2,200
Expected return on plan assets	(975)	(900)	(1,950)	(1,800)
Amortization of prior service cost	-	50	-	100
Amortization of loss	275	500	550	1,000
Net periodic pension cost	$ 1,300	$ 2,350	$ 2,600	$ 4,700

Children's expects to contribute $12,500 to the Plan during 2012.

CHILDREN'S HEALTH CARE

CONSOLIDATING SCHEDULE OF STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JUNE 30, 2012 (Unaudited)
(In thousands)

	Obligated Group Total	Children's Foundation	Children's Health Insurance Network, Ltd	Eliminating Entries	Consolidated Total
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 4,825	$ 266	$ 314	$ -	$ 5,405
Short-term investments	65,254	409	4,325	-	69,988
Funds held by trustee	6,576	-	-	-	6,576
Patient accounts receivable - net	68,435	-	-	-	68,435
Prepaid expenses and other current assets	20,257	12,265	417	-	32,939
Total current assets	165,347	12,940	5,056	-	183,343
INTERCOMPANY ACCOUNTS	1,320	-	-	(1,320)	-
DONOR-RESTRICTED CASH AND INVESTMENTS	-	46,035	-	-	46,035
UNRESTRICTED INVESTMENTS	313,106	-	1,476	-	314,582
BENEFICIAL INTEREST IN NET ASSETS OF THE FOUNDATION	71,657	-	-	(71,657)	-
OTHER ASSETS	42,666	13,450	-	(250)	55,866
LAND, BUILDINGS, AND EQUIPMENT - Net	374,186	552	-	-	374,738
TOTAL	$ 968,282	$ 72,977	$ 6,532	$ (73,227)	$ 974,564
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Current maturities of long-term debt	$ 7,325	$ -	$ -	$ -	$ 7,325
Accounts payable and accrued expenses	27,958	-	25	-	27,983
Accrued salaries, wages, and benefits	46,783	-	-	-	46,783
Other current liabilities	8,149	-	283	-	8,432
Total current liabilities	90,215	-	308	-	90,523
INTERCOMPANY ACCOUNTS	-	1,320	-	(1,320)	-
FAIR VALUE OF INTEREST RATE SWAPS	44,208	-	-	-	44,208
OTHER LONG-TERM LIABILITIES	40,229	-	2,485	-	42,714
LONG-TERM DEBT - Excluding current maturities	248,918	-	-	-	248,918
Total liabilities	423,570	1,320	2,793	(1,320)	426,363
NET ASSETS					
Unrestricted	472,998	(57)	3,739	(193)	476,487
Temporarily restricted	44,197	44,197	-	(44,197)	44,197
Permanently restricted	27,517	27,517	-	(27,517)	27,517
Total net assets	544,712	71,657	3,739	(71,907)	548,201
TOTAL	$ 968,282	$ 72,977	$ 6,532	$ (73,227)	$ 974,564

CHILDREN’S HEALTH CARE

CONSOLIDATING SCHEDULE OF STATEMENT OF OPERATIONS INFORMATION
FOR THE SIX MONTHS ENDED JUNE 30, 2012 (Unaudited)
(In thousands)

	Obligated Group Total	Children's Foundation	Children's Health Insurance Network, Ltd	Eliminating Entries	Consolidated Total
REVENUE					
Net patient service revenue	$ 303,402	$ -	$ -	$ -	$ 303,402
Provision for uncollectible accounts	(4,750)	-	-	-	(4,750)
Net patient service revenue less provision for uncollectible accounts	298,652	-	-	-	298,652
Foundation transfers for operations	5,886	6,750	-	(7,370)	5,266
Other	12,161	3,761	822	(3,754)	12,990
Total revenue	316,699	10,511	822	(11,124)	316,908
EXPENSES					
Salaries, wages, and employee benefits	179,648	1,866	-	-	181,514
Professional fees and purchased services	44,527	435	37	(2,932)	42,067
Supplies	33,140	112	-	-	33,252
Facilities	7,311	-	-	-	7,311
Depreciation and amortization	17,917	65	-	-	17,982
Financing costs	5,664	-	-	-	5,664
Health services taxes	9,144	-	-	-	9,144
Other	12,147	8,383	556	(8,192)	12,894
Total expenses	309,498	10,861	593	(11,124)	309,828
OPERATING INCOME (LOSS)	7,201	(350)	229	-	7,080
NONOPERATING GAINS (LOSSES)					
Investment income and realized gains	8,447	-	-	-	8,447
Income on investments accounted for under the equity method	1,581	-	-	-	1,581
Net change in unrealized gains on investments	12,168	208	166	-	12,542
Change in fair value of interest rate swaps	(1,616)	-	-	-	(1,616)
Other	(429)	-	-	-	(429)
Total nonoperating gains	20,151	208	166	-	20,525
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	27,352	(142)	395	-	27,605
OTHER CHANGES					
Net assets released from restrictions - capital acquisitions	1,484	-	-	-	1,484
Change in beneficial interest in net assets of the Foundation	(142)	-	-	142	-
CHANGE IN UNRESTRICTED NET ASSETS	$ 28,694	$ (142)	$ 395	$ 142	$ 29,089

Table 7

CHILDREN'S HEALTH CARE

Admissions and Patient Days

(All admissions including acute pediatrics, chemical dependency, psychiatry, newborns, and neonates)

						Six Months Ended June 30,	
	2007	2008	2009	2010	2011	2011	2012
Admissions							
Perinatal Services	1,864	2,064	1,859	1,874	2,175	1,139	1,213
Intensive Care Services	1,738	1,879	1,857	1,746	2,190	1,122	1,134
Medical and Surgical Services	10,431	10,228	10,161	8,831	7,844	4,083	3,969
Totals	14,033	14,171	13,877	12,451	12,209	6,344	6,316
Patient Days							
Perinatal Services	38,454	37,810	38,429	35,369	35,333	16,572	19,085
Intensive Care Services	9,970	9,518	9,838	10,955	14,068	7,247	7,286
Medical and Surgical Services	41,028	39,596	39,275	33,445	30,334	15,941	16,759
Totals	89,452	86,924	87,542	79,769	79,735	39,760	43,130
Average Daily Census	245.1	237.5	239.8	218.5	218.5	219.7	237.0

Children's
Hospitals and Clinics
of Minnesota

2525 Chicago Avenue South
Minneapolis, Minnesota 55404

CERTIFICATE RELATING TO
QUARTERLY CONTINUING DISCLOSURE

The undersigned, Susan R. Slocum, Treasurer of Children's Health Care, a Minnesota nonprofit corporation (d/b/a Children's Hospitals and Clinics of Minnesota) (the "Corporation") hereby certifies, pursuant to Section 5 of the Continuing Disclosure Agreement, dated as of August 15, 2005, between the Corporation and U.S. Bank National Association (the "Continuing Disclosure Agreement"), that:

1. Attached hereto is the June 30, 2012 unaudited financial statements of the Obligated Group, subject to year-end adjustments.

2. Attached hereto is updated Table 7 in the form presented in Appendix A to the Official Statement relating to the Series 2004 Bonds, Appendix A to the Official Statement relating to the Series 2007 Bonds, and Appendix A to the Official Statement relating to the Series 2010 Bonds, as of June 30, 2012.

3. Capitalized terms as used herein shall have the meaning given such terms in the Continuing Disclosure Agreement.

CHILDREN'S HEALTH CARE

By Susan Slocum
Susan R. Slocum
Treasurer

Susan.Slocum@Childrensmn.org
952 240-3721