CHILDREN'S HEALTH CARE

(d.b.a. Children's Minnesota)

Quarterly Financial Report

For the Six Months Ended June 30, 2017

(Unaudited)

Children's™
MINNESOTA

CHILDREN'S HEALTH CARE

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For the Six Months Ended June 30, 2017
(Unaudited)

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CHILDREN'S HEALTH CARE

Summary of Consolidated Financial Results

For the Six Months Ended June 30, 2017

(Unaudited)

(All dollars are in thousands unless otherwise noted)

2017 Year-to-Date Results (as compared to 2016):

- **Total revenue decreased ($1.4) million, or (0.3%), to $447.8 million**
- **Operating income decreased ($21.1) million, from $33.3 million to $12.2 million**
- **Operating Earnings before Interest, Depreciation, and Amortization ("Operating EBIDA") decreased ($19.3) million, or (32.6%), to $40.0 million**
- **Days cash on hand increased to 274 from 265 at December 31, 2016**
- **Debt to capitalization ratio improved to 18.5% from 19.6% at December 31, 2016**

Children's Health Care (Children's) consolidated operating income for the six months ended June 30, 2017 was $12.2 million as compared to $33.3 million for the corresponding prior year period. Operating margin decreased to 2.7% for the six-month period ended June 30, 2017 from 7.4% in the corresponding prior year period. Operating EBIDA for the six-month period ended June 30, 2017 was $40.0 million with an operating EBIDA margin of 8.9% as compared to $59.4 million and 13.2% for the prior year, respectively.

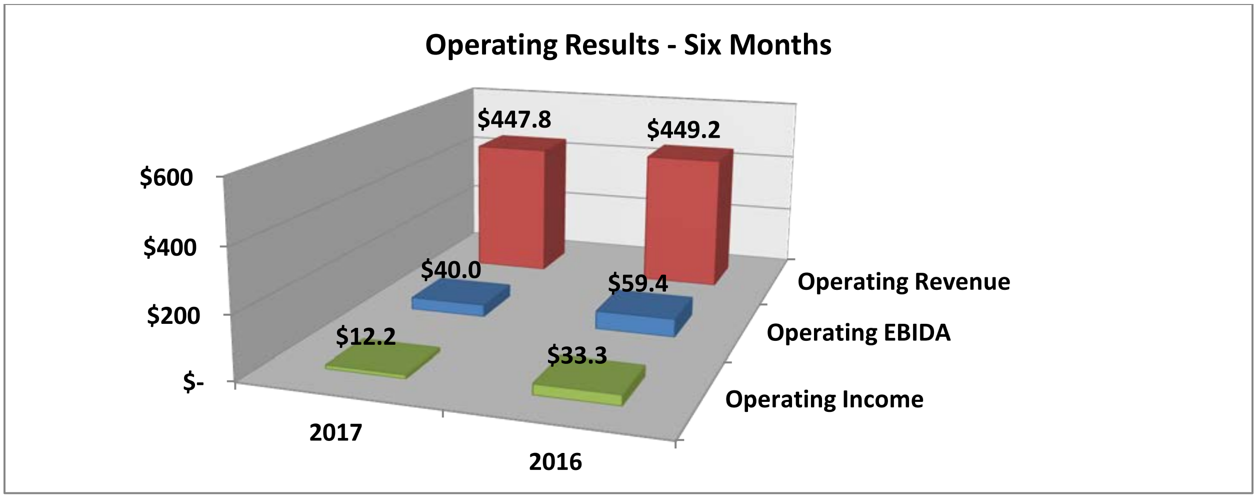
Total revenue decreased ($1.4) million, or (0.3%), to $447.8 million for the six months ended June 30, 2017 from $449.2 million for the corresponding prior year period. This decrease in total revenue was primarily due to a ($4.5) million decrease in net patient service revenue less provision for uncollectible accounts. Net patient service revenue less provision for uncollectible accounts was unfavorable to prior year primarily due to a decrease in average length of stay correlating with lower acuity combined with unfavorable payor mix, offset by an increase in primary and specialty care clinic visits.

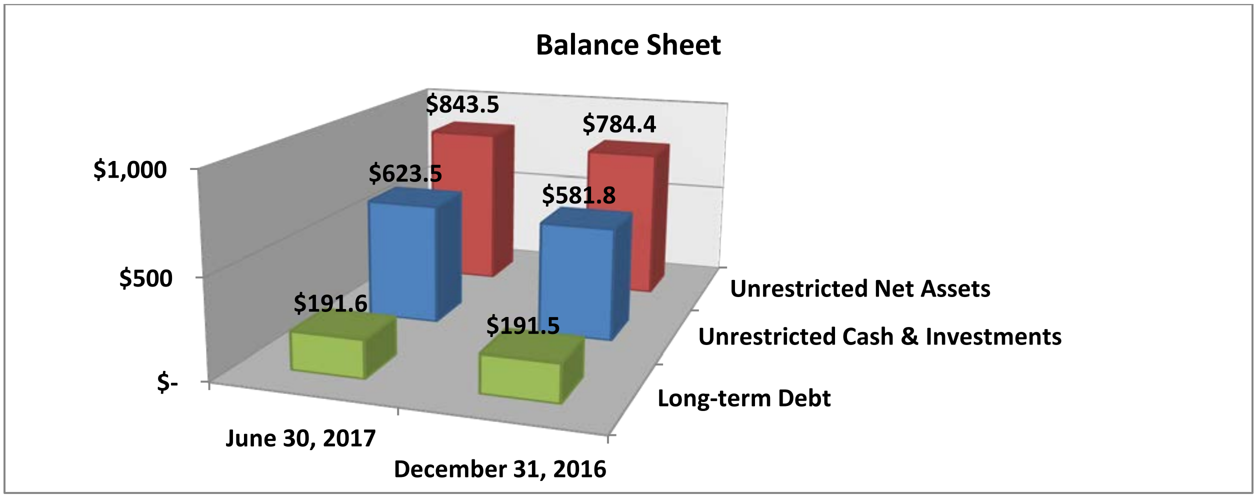
Total operating expenses increased $19.8 million, or 4.7%, to $435.7 million for the six months ended June 30, 2017, from $415.9 million for the corresponding prior year period. The increase in total operating expenses was primarily due to increased salaries, wages and employee benefits reflecting a slight increase in FTE's, combined with annual pay rate increases, $9.0 million, and increased professional fees and purchased services related to an increase in consulting services, $5.7 million. Labor related costs as a percent of total revenue increased to 56.4% as compared to 54.2% for the corresponding prior year period.

Non-operating gains/(losses) for the six months ended June 30, 2017 was a net gain of $45.1 million as compared to a net gain of $9.4 million for the corresponding prior year period. Net investment gains for the six months ended June 30, 2017 were $42.8 million, with realized gains of $14.5 million and unrealized gains of $28.3 million. Net investments gains were driven primarily by appreciation in the US equity markets compared to the prior year. The unrealized change in fair value of interest rate swaps was a gain of $0.8 million for the six-month period ended June 30, 2017, reflecting higher interest rates over the period.

Working capital increased $48.9 million to $87.9 million at June 30, 2017, from $39.0 million at December 31, 2016. This increase was primarily related to an increase in net patient accounts receivable and an increase in prepaid expenses and other current assets, combined with a decrease in net current liabilities. Unrestricted cash, cash equivalents and investments increased $41.7 million to $623.5 million at June 30, 2017 from $581.8 million at December 31, 2016.

Days cash on hand increased 9 days to 274 at June 30, 2017 from 265 at December 31, 2016. The increase was primarily due to the increase in unrestricted cash and investments related mainly to the appreciation in US equity markets for the six month period ended June 30, 2017. The debt to capitalization ratio improved from 19.6% at December 31, 2016 to 18.5% at June 30, 2017.





2017 Developments

In February of 2017, Children's and the Children's Heart Clinic (CHC) entered into a comprehensive and long-term professional service agreement. Under this agreement the clinicians of the CHC will remain a separate legal organization, and Children's will assume responsibility for the clinical operations, infrastructure, and staff of the clinic.

In March of 2017, the Centers for Medicare and Medicaid Services issued a final rule clarifying how third-party payments are treated when calculating the hospital-specific limitation on Medicaid disproportionate share (DSH) payments. According to CMS, the rule clarifies current policy that uncompensated care costs for Medicaid-eligible individuals include only those that remain after accounting for payments received by or on behalf of Medicaid-eligible individuals. Children's is a plaintiff in a lawsuit challenging the implementation and legality of the rule.

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

The audited consolidated financial statements for the twelve months ended December 31, 2016 were issued and released on April 11, 2017.

Children's Health Care holds a bond rating of AA- with a stable outlook from S&P Global Ratings and AA with a stable outlook from Fitch Ratings. The complete S&P Global Ratings report is available at www.spglobal.com and the complete Fitch Ratings report is available at www.fitchratings.com.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED 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, 2016.

BUSINESS DESCRIPTION

Children's Health Care, d.b.a. Children's 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 273 staffed beds and 285 licensed beds, including 132 bassinets. Children's – St. Paul has 157 staffed beds and 188 licensed beds, including 62 bassinets. Of the total 430 staffed beds, 138 are medical and surgical beds, 18 are intermediate care beds, and 274 are Levels II through IIIc nursery and intensive care beds.

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, owns and operates ten community based clinics in the Minneapolis – St. Paul metropolitan area that provide general pediatric services.

Children's Health Care Foundation, d.b.a. Children's Foundation (Children's Foundation), performs fund-raising functions and endowment management.

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

Non-Obligated Group Members — Children's is the sole voting member of Children's Health Insurance Network Ltd. (CHIN), a Cayman Island domiciled insurance entity. The financial statements of CHIN are consolidated into the financial statements of Children's, but CHIN is not a member of the Obligated Group.

Children's is the sole corporate and nonvoting member of Children's Health Network (CHN), a clinically integrated network created by Children's in 2013 to be a leading advocate for providing the highest quality of care for children and their families. As of December 31, 2015, transactions with CHN were considered related party, and CHN was not consolidated into the financial statements of Children's. In February of 2016, the voting structure of CHN's board of directors was changed whereas under generally accepted accounting principles consolidation into Children's financial statements is required. Accordingly, the financial statements of CHN are now consolidated into the financial statements of Children's. CHN is not a member of the Obligated Group.

RESULTS OF OPERATIONS (In thousands)

Results of Operations for the three months ended June 30, 2017 compared to the three months ended June 30, 2016.

Total Revenue — Total revenue increased $7.7 million, or 3.6%, to $224.8 million for the three months ended June 30, 2017 from $217.1 million for the three months ended June 30, 2016.

The increase in total revenue was primarily due to an increase in net patient service revenue less provision for uncollectible accounts, $5.6 million and 2.7%. Net patient service revenue less provision for uncollectible accounts was favorable to prior year primarily due to slightly higher patient utilization offset by unfavorable payor mix. The higher overall patient utilization was driven by favorable volume in Special Care Nursery (SCN), Cardio-Vascular Critical Care (CVCC), and surgeries, offset by lower utilization in Neo-Natal Intensive Care (NICU) and emergency department visits. Favorable reimbursement rates reflected small rate increases. The acquisition of the Children's Heart Clinic also contributed to favorable volumes.

Payer mix for the three months ended June 30, 2017 and 2016, respectively, was as follows.

	Three Months Ended June 30,	
	2017	2016
Medicaid and Medicare	46.3%	43.3%
Negotiated Contracts	52.1%	54.6%
Commercial and Others	1.6%	2.1%
	100.0%	100.0%

Operating Expenses — Operating expenses increased $12.1 million, or 5.8%, to $220.5 million for the three months ended June 30, 2017 from $208.4 million for the three months ended June 30, 2016.

The increase in total operating expenses was primarily due to increased salaries, wages and employee benefits related to annual pay raise increases, $4.6 million, increased professional fees due to an increase in consulting services utilized, $2.3 million, and an increase in other expenses, $3.3 million. The increase in other expenses related to increased expenses for the Mother Baby Program, a joint operating agreement with Allina Health to collaborate on certain obstetric, normal newborn, perinatology, and neonatal service lines. Labor related costs as a percent of total revenue increased slightly to 56.3% as compared to 56.2% for the prior year.

Operating Income — Operating income decreased ($4.3) million, or (50.3%), to an operating income of $4.3 million for the three months ended June 30, 2017 from $8.6 million for the three months ended June 30, 2016. Operating margin decreased to 1.9% for the three months ended June 30, 2017 from 4.0% for the three months ended June 30, 2016. The decrease in operating income was primarily due to an increase in operating expenses for the three months ended June 30, 2017 as compared to the corresponding prior year period, as discussed above.

Nonoperating Gains/(Losses) — Nonoperating gains/(losses) for the three months ended June 30, 2017 was a net gain of $18.6 million as compared to a net gain of $9.2 million for the three months ended June 30, 2016.

Net investment gains for the three months ended June 30, 2017 were $18.4 million, with realized gains of $8.1 million and unrealized gains of $10.3 million. Net investment gains were positive in the second quarter due to improved equity markets compared to the corresponding prior year period. The unrealized change in fair value of interest rate swaps was a loss of ($0.4) million for the three-month period ended June 30, 2017, reflecting slightly lower LIBOR rates.

RESULTS OF OPERATIONS (In thousands)

Results of Operations for the six months ended June 30, 2017 compared to the six months ended June 30, 2016.

Total Revenue — Total revenue decreased ($1.4) million, or (0.3%), to $447.8 million for the six months ended June 30, 2017 from $449.2 million for the six months ended June 30, 2016.

The decrease in total revenue was primarily due to a ($4.5) million decrease in net patient service revenue less provision for uncollectible accounts. Net patient service revenue less provision for uncollectible accounts was unfavorable to prior year primarily due to a decrease in average length of stay correlating with lower acuity combined with unfavorable payor mix, offset by an increase in primary and specialty care clinic visits.

Payer mix for the six months ended June 30, 2017 and 2015, respectively, was as follows.

	Six Months Ended June 30,	
	2017	**2016**
Medicaid and Medicare	46.5%	43.3%
Negotiated Contracts	51.8%	54.6%
Commercial and Others	1.7%	2.1%
	100.0%	100.0%

Operating Expenses — Operating expenses increased $19.8 million, or 4.7%, to $435.7 million for the six months ended June 30, 2017 from $415.9 million for the six months ended June 30, 2016.

The increase in total operating expenses was primarily due to increased salaries, wages and employee benefits reflecting a slight increase in FTE's, combined with annual pay rate increases, $9.0 million, and increased professional fees and purchased services related to an increase in consulting services, $5.7 million. Labor related costs as a percent of total revenue increased to 56.4% as compared to 54.2% for the corresponding prior year period.

Operating Income — Operating income decreased ($21.1) million, or (63.5%), to $12.2 million for the six months ended June 30, 2017 from $33.3 million for the six months ended June 30, 2016. Operating margin decreased to 2.7% for the six months ended June 30, 2017 from 7.4% for the six months ended June 30, 2016. The decrease in operating income was primarily due to a decrease in total revenue combined with an increase in operating expenses for the six months ended June 30, 2017 as compared to the corresponding prior year period, as discussed above.

Nonoperating Gains/(Losses) — Nonoperating gains/(losses) for the six months ended June 30, 2017 was a net gain of $45.1 million as compared to a net gain of $9.4 million for the six months ended June 30, 2016.

Net investment gains for the six months ended June 30, 2017 were $42.8 million, with realized gains of $14.5 million and unrealized gains of $28.3 million. Net investments gains were driven primarily by appreciation in the US equity markets compared to the prior year. The unrealized change in fair value of interest rate swaps was a gain of $0.8 million for the six-month period ended June 30, 2017, reflecting higher interest rates over the period.

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

Working capital increased $48.9 million to $87.9 million at June 30, 2017, from $39.0 million at December 31, 2016. This increase was primarily related to an increase in net patient accounts receivable and an increase in prepaid expenses and other current assets, combined with a decrease in net current liabilities. Unrestricted cash, cash equivalents and investments increased $41.7 million to $623.5 million at June 30, 2017 from $581.8 million at December 31, 2016. Days cash on hand increased 9 days to 274 at June 30, 2017 from 265 at December 31, 2016. The increase was primarily due to the increase in unrestricted cash and investments related mainly to the appreciation in US equity markets for the six month period ended June 30, 2017. The debt to capitalization ratio improved from 19.6% at December 31, 2016 to 18.5% at June 30, 2017.

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 $142.0 million to provide credit in the event it is required to purchase tendered variable-rate bonds that are not remarketed. Bonds that are not remarketed for a continuous six month period would be subject to the term out provisions under the Standby Bond Purchase Agreements upon their expiration, where bonds would be repaid over a 60-month term. U.S. Bank National Association's short-term deposit rating is A-1+ by Standard & Poor's and P-1 by Moody's Investors Service. These liquidity facilities were renewed on June 30, 2017, currently are set to expire June 30, 2019 and can be renewed annually in June for additional two-year periods.

MARKET RISKS

Children's invests in various securities, including equities, corporate bonds, municipal bonds, high yield bonds, U.S. government obligations, mortgage and asset-backed securities, limited partnerships, master limited partnerships, foreign investments, foreign currency contracts, 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, 2017 AND DECEMBER 31, 2016
(In thousands)

	June 30, 2017 (unaudited)	December 31, 2016 (audited)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 18,234	$ 13,077
Short-term investments	14,719	4,458
Board-designated short-term investments	48	189
Funds held by trustee	7,418	2,990
Patient accounts receivable - less allowance for uncollectible accounts of $9,685 and $10,330 at 2017 and 2016, respectively	114,002	105,255
Prepaid expenses and other current assets	47,263	38,214
Total current assets	201,684	164,183
DONOR-RESTRICTED CASH AND INVESTMENTS *	55,157	50,102
BOARD-DESIGNATED INVESTMENTS	111,661	103,004
UNRESTRICTED INVESTMENTS *	478,799	461,066
OTHER ASSETS	80,276	79,566
LAND, BUILDINGS, AND EQUIPMENT - Net	362,684	378,963
TOTAL	$ 1,290,261	$ 1,236,884
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 8,602	$ 8,602
Accounts payable and accrued expenses	40,512	36,793
Accrued salaries, wages, and benefits	54,734	64,050
Other current liabilities	9,951	15,702
Total current liabilities	113,799	125,147
FAIR VALUE OF INTEREST RATE SWAPS	27,965	28,728
OTHER LONG-TERM LIABILITIES	41,589	37,427
LONG-TERM DEBT - Excluding current maturities	191,599	191,525
Total liabilities	374,952	382,827
NET ASSETS		
Unrestricted	843,498	784,398
Temporarily restricted	40,979	39,238
Permanently restricted	30,832	30,421
Total net assets	915,309	854,057
TOTAL	$ 1,290,261	$ 1,236,884

* Unrestricted investments and donor-restricted cash and investments are included as one financial statement caption, long-term investments, within the audited financial statements as of December 31, 2016

CHILDREN'S HEALTH CARE

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

(In thousands)

	Three Months Ended June 30, 2017 (unaudited)	Three Months Ended June 30, 2016 (unaudited)	Six Months Ended June 30, 2017 (unaudited)	Six Months Ended June 30, 2016 (unaudited)
REVENUE				
Net patient service revenue	$ 215,259	$ 210,362	$ 430,372	$ 437,226
Provision for uncollectible accounts	(2,956)	(3,666)	(4,936)	(7,242)
Net patient service revenue less provision for uncollectible accounts	212,303	206,696	425,436	429,984
Net assets released from restrictions for operations	3,212	2,175	5,198	3,792
Other	9,245	8,175	17,180	15,463
Total revenue	224,760	217,046	447,814	449,239
EXPENSES				
Salaries, wages, and employee benefits	126,563	121,980	252,560	243,535
Professional fees and purchased services	32,140	29,826	60,929	55,266
Supplies	21,613	22,204	44,085	44,893
Facilities	4,459	3,510	8,814	7,655
Depreciation and amortization	12,318	10,914	23,184	21,389
Financing costs	2,319	2,350	4,693	4,704
Health services taxes	6,515	6,411	13,090	13,121
Other	14,547	11,235	28,291	25,379
Total expenses	220,474	208,430	435,646	415,942
OPERATING INCOME	4,286	8,616	12,168	33,297
NONOPERATING GAINS (LOSSES)				
Investment income and realized gains	8,054	99	14,544	2,576
Income on investments accounted for under the equity method	580	1,411	1,458	2,095
Net unrealized gains on investments	10,323	10,266	28,314	12,683
Change in fair value of interest rate swaps	(377)	(2,560)	763	(7,974)
Total nonoperating gains	18,580	9,216	45,079	9,380
EXCESS OF REVENUE OVER EXPENSES	$ 22,866	$ 17,832	$ 57,247	$ 42,677

CHILDREN'S HEALTH CARE

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS (CONTINUED)
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017 (unaudited)	2016 (unaudited)	2017 (unaudited)	2016 (unaudited)
UNRESTRICTED NET ASSETS				
Excess of revenue over expenses	$ 22,866	$ 17,832	$ 57,247	$ 42,677
Net assets released from restrictions - capital acquisitions	1,294	722	1,853	2,868
Consolidation of Children's Health Network	-	-	-	3,515
Increase in unrestricted net assets	24,160	18,554	59,100	49,060
TEMPORARILY RESTRICTED NET ASSETS				
Contributions	4,487	3,205	5,671	4,779
Investment income	607	218	1,029	630
Net unrealized gains on investments	775	604	2,092	717
Net assets released from restrictions - operations	(3,212)	(2,175)	(5,198)	(3,792)
Net assets released from restrictions - capital acquisitions	(1,294)	(722)	(1,853)	(2,868)
Increase (decrease) in temporarily restricted net assets	1,363	1,130	1,741	(534)
PERMANENTLY RESTRICTED NET ASSETS				
Contributions	58	(23)	159	224
Investment income	(57)	-	(95)	-
Change in value of perpetual trusts held by others and other	129	80	347	141
Increase in permanently restricted net assets	130	57	411	365
INCREASE IN NET ASSETS	25,653	19,741	61,252	48,891
NET ASSETS - BEGINNING OF PERIOD	889,656	793,031	854,057	763,881
NET ASSETS - END OF PERIOD	$ 915,309	$ 812,772	$ 915,309	$ 812,772

CHILDREN'S HEALTH CARE

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(In thousands)

	Six Months Ended June 30, 2017 (unaudited)	Six Months Ended June 30, 2016 (unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	$ 61,252	$ 48,891
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	23,184	21,389
Net unrealized gains on investments	(30,407)	(13,400)
Net realized (gains) losses on investments	(11,133)	377
Change in fair value of interest rate swaps	(763)	7,974
Contributions restricted for long-lived purposes	(582)	(1,535)
Income on investments accounted for under equity method	(1,458)	(2,095)
Provision for uncollectibles	4,936	7,242
Other	(56)	(75)
Changes in assets and liabilities:		
Patient accounts receivable	(13,683)	(13,919)
Prepaid expenses and other current assets	(9,684)	(4,590)
Other assets	(777)	(15,147)
Accounts payable and accrued expenses	7,404	(5,771)
Accrued salaries, wages, and benefits	(9,316)	(4,084)
Other liabilities	(1,452)	12,856
Net cash provided by operating activities	17,465	38,113
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of land, buildings, and equipment	(10,229)	(43,385)
Proceeds from the sale of equipment	47	102
Purchase of investments, funds held by trustee, and other assets	(120,415)	(307,593)
Distributions received from joint ventures	881	2,835
Proceeds from sale and maturities of investments and funds held by trustee	116,191	307,527
Net cash used in investing activities	(13,525)	(40,514)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions restricted for long-lived purposes	1,217	1,517
Net cash provided by financing activities	1,217	1,517
NET INCEASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,157	(884)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	13,077	16,364
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 18,234	$ 15,480

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — Children's Health Care, d/b/a Children's 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, that operate under one provider license from the State of Minnesota: 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. ("CHIN"), which handles professional liability claims, and Children's Clinic Network, which owns and operates community based clinics. Children's is also the sole corporate and nonvoting member of Children's Health Network (CHN), a clinically integrated network created by Children's in 2013 to be a leading advocate for providing the highest quality of care for children and their families. The consolidated financial statements include the accounts of Children's and all subsidiaries. The "Obligated Group" consists of, collectively, Children's – Minneapolis; Children's – St. Paul; and the subsidiaries, Children's – Minnetonka, Children's Clinic Network, and Children's Foundation.

Basis of Presentation — The accompanying unaudited consolidated financial statements for the six months ended June 30, 2017 have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Financial information as of June 30, 2017 has been derived from Children's audited consolidated financial statements. Children's has omitted certain footnote disclosures that would substantially duplicate the disclosures contained in the audited consolidated financial statements. The unaudited consolidated financial statements as of June 30, 2017 should be read together with the audited consolidated financial statements and footnote disclosures for the year ended December 31, 2017.

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 consolidated 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, joint operating agreement equalization costs, and interest rate swap valuation.

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.

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 less provision for uncollectible accounts for the three months and six months ended June 30, 2017 and 2016, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Government payers	$ 67,254	$ 62,458	$ 132,340	$ 121,253
Other third-party payers, including commercial	143,052	141,267	286,352	302,245
Self-Pay	4,953	6,637	11,680	13,728
Net patient service revenue	$ 215,259	$ 210,362	$ 430,372	$ 437,226
Provision for uncollectible accounts	(2,956)	(3,666)	(4,936)	(7,242)
Net Patient service revenue less provision for uncollectible accounts	$ 212,303	$ 206,696	$ 425,436	$ 429,984

Children's allowance for uncollectible accounts was $9,685 as of June 30, 2017, and $10,330 as of December 31, 2016. The $645 decrease in the allowance for uncollectible accounts was due primarily to a decrease in aged self-pay accounts receivable. Children's has not materially changed its charity care or uninsured discount policies during the six months ended June 30, 2017.

Subsequent Events — Children's has evaluated all events or transactions that occurred after June 30, 2017, through August 14, 2017, the date the consolidated financial statements were released. 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 May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09). ASU 2014-09 provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Among other provisions and in addition to expanded disclosure about the nature, amount, timing and uncertainty of revenue, as well as certain additional quantitative and qualitative disclosures, ASU 2014-09 changes the health care industry specific presentation guidance under ASU No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. The provisions of ASU 2014-09 are effective for annual periods beginning after December 15, 2018. Early adoption is not permitted. Children's is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

In February of 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02). ASU 2016-02 will expand qualitative and quantitative disclosure requirements around leasing transactions while also requiring lessees to recognize most leases on-balance sheet. The provisions of ASU 2016-02 are effective for annual periods beginning after December 31, 2018. Children's is currently evaluating the impact on its consolidated financial statements from the adoption of this guidance.

Recently Adopted Accounting Standards — In April of 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The provisions of ASU 2015-03 became effective in 2016. The adoption of this new guidance did not have a material impact on the consolidated financial statements.

In April of 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05). ASU 2015-05 clarifies when a cloud computing arrangement should be treated similar to an acquisition of a software license or as a service contract. The provisions of ASU 2015-05 became effective in 2016. The adoption of this new guidance did not have a material impact on the consolidated financial statements.

In May of 2015, the FASB issued ASU No. 2015-07, *Disclosures for Investments in Certain Entities that Calculated Net Asset value per Share (or Its Equivalent)* (ASU 2015-07). ASU 2015-07 eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. The provisions of ASU 2015-07 are effective for annual periods beginning after December 15, 2016. However, as early adoption is permitted Children's chose to adopt the new guidance in 2016. The adoption of the new guidance did not have a material impact on the consolidated financial statements.

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

Investments — The market value of Children's marketable debt and equity investments, at June 30, 2017 and December 31, 2016, are shown below:

	June 30, 2017	December 31, 2016
Fixed income securities	$ 175,104	$ 158,617
Corporate equities	134,204	142,933
Synthetic equity strategy	-	16,851
Foreign investments	139,536	120,236
Investments measured at net asset value	214,350	178,703
Perpetual trusts held by others	4,210	4,008
Interest and dividends receivable	398	461
Total	$ 667,802	$ 621,809
Investments are reported as:		
Short-term investments	$ 14,719	$ 4,458
Board-designated short-term investments	48	189
Funds held by trustee - current	7,418	2,990
Donor-restricted cash and investments	55,157	50,102
Unrestricted investments	478,799	461,066
Board-designated investments	111,661	103,004
Total	$ 667,802	$ 621,809

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.

As of June 30, 2017 and 2016, 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,	
	2017	2016	2016	2015
Investment earnings in unrestricted net assets:				
Interest and dividend income	$ 3,157	$ 1,666	$ 6,616	$ 5,241
Net realized gains (losses) on investments	4,911	(1,568)	7,949	(2,691)
Net unrealized gains on investments	10,323	10,266	28,314	12,683
Total	18,391	10,364	42,879	15,233
Investment earnings in temporarily restricted net assets:				
Interest and dividend income	250	246	507	516
Net realized gains (losses) on investments	357	(28)	522	114
Net unrealized gains on investments	775	604	2,092	717
Total	1,382	822	3,121	1,347
Total investment gains	$ 19,773	$ 11,186	$ 46,000	$ 16,580
Reported within:				
Other operating revenue	$ 14	$ -	$ 21	$ (25)
Investment income and realized gains	8,054	98	14,544	2,575
Net unrealized gains on investments	10,323	10,266	28,314	12,683
Changes in temporarily restricted net assets	1,382	822	3,121	1,347
Total investment gains	$ 19,773	$ 11,186	$ 46,000	$ 16,580

Children’s periodically has investment strategies that use derivative instruments like swaps, swaptions, futures and options contracts which are 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 and changes in net assets. Children’s did not directly hold long or short derivative positions as of June 30, 2017.

Interest Rate Swaps — Children’s has entered into four fixed payer interest rate swap agreements with Piper Jaffrey Financial Products Inc. and Assured Guaranty Municipal Corp., which hedge the variable interest rate exposure associated with certain of its variable rate 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 and changes in net assets. 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 $27,965 and $27,728 as of June 30, 2017, and December 31, 2016, respectively. This liability would have to be paid if the swap agreements were terminated. Swap payments are guaranteed through contracts with Assured Guaranty Municipal Corp. Consequently, there are currently no collateral posting requirements. The change in fair value of the interest rate swaps was ($377) and ($2,560) for the quarter and $763 and ($7,974) for the six months ended June 30, 2017 and 2016, respectively. Children’s recognized interest costs related to these swap agreements in the amounts of $2,148 and $2,448 for the six months ended June 30, 2017 and 2016, respectively.

The notional amounts and interest rates of the interest rate swaps at June 30, 2017 and December 31, 2016, are as follows:

Swap Agreement	Fair Value	Current Notional Amount	Rate Paid	Rate received
As of June 30, 2017:				
2004A	$ (4,246)	$ 19,325	4.127 %	0.614 %
2004B	(3,381)	27,500	4.266	0.606
2007A1	(10,168)	46,625	3.518	0.595
2007A2	(10,170)	46,625	3.518	0.560
	$ (27,965)	$ 140,075		
As of December 31, 2016:				
2004A	$ (4,384)	$ 19,325	4.127 %	0.296 %
2004B	(3,730)	27,500	4.266	0.312
2007A1	(10,305)	46,625	3.518	0.296
2007A2	(10,309)	46,625	3.518	0.296
	$ (28,728)	$ 140,075		

Children's has 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, 2017 and December 31, 2016, are summarized in the following table by type of inputs applicable to the fair value measurements:

	Fair Value			
	Level 1	Level 2	Level 3	Total
As of June 30, 2017:				
Investments:				
Fixed-income securities:				
Money market and short-term bond funds	$ 41,295	—	—	41,295
U.S. gov't and U.S. gov't agencies obligations	—	997	—	997
Municipal bond funds	—	19	—	19
Closed-end bond funds	—	48,106	—	48,106
Mortgage-backed securities	—	7	—	7
Investment grade corporate bonds	76,081	8,599	—	84,680
Total fixed-income securities	117,376	57,728	—	175,104
Corporate equities:				
Large cap	32,345	—	60	32,405
Mid cap	24,858	—	—	24,858
Small cap	29,485	—	—	29,485
Closed-end equity funds	23,686	—	—	23,686
Master limited partnerships (MLPs)	23,770	—	—	23,770
Total corporate equities	134,144	—	60	134,204
Foreign investments:				
Foreign bonds	—	6,494	—	6,494
Foreign equities	—	133,042	—	133,042
Total foreign investments	—	139,536	—	139,536
Total investments measured at net asset value				214,350
Perpetual trusts held by others	—	4,210	—	4,210
Interest and dividends receivable	398	—	—	398
Total investments	$ 251,918	201,474	60	667,802
Fair value of interest rate swaps liability	$ —	27,965	—	27,965

	Fair Value			
	Level 1	Level 2	Level 3	Total
As of December 31, 2016:				
Investments:				
Fixed-income securities:				
Money market and short-term bond funds	$ 23,479	—	—	23,479
U.S. gov't and U.S. gov't agencies obligations	—	996	—	996
Municipal bond fund	13	—	—	13
Closed-end bond funds	—	57,542	—	57,542
Mortgage-backed securities	—	9	—	9
Investment grade corporate bonds	68,456	8,122	—	76,578
Total fixed-income securities	91,948	66,669	—	158,617
Corporate equities:				
Large cap	31,764	—	60	31,824
Mid cap	25,121	—	—	25,121
Small cap	44,136	—	—	44,136
Closed-end equity funds	17,605	—	—	17,605
Master limited partnerships (MLPs)	24,247	—	—	24,247
Total corporate equities	142,873	—	60	142,933
Synthetic equity strategy:				
Corporate equities: large-cap	8,505	—	—	8,505
Fixed income: U.S. gov't agencies	—	8,263		8,263
Fixed income: money market and short term bond funds	122	—	—	122
Fixed income: swaps/options/futures contracts	—	(39)	—	(39)
Total synthetic equity strategy	8,627	8,224	—	16,851
Foreign investments:				
Foreign bonds	7,143	—	—	7,143
Foreign equities	113,093	—	—	113,093
Total foreign investments	120,236	—	—	120,236
Total investments measured at net asset value				178,703
Perpetual trusts held by others	—	4,008	—	4,008
Interest and dividends receivable	461	—	—	461
Total investments	$ 364,145	78,901	60	621,809
Fair value of interest rate swaps liability	$ —	28,728	—	28,728

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 and Level 3 valuation methodologies are listed below.

For certain investments, Children's utilizes net asset value as a practical expedient to fair value. Below is a summary of investments accounted for at net asset value as of June 30, 2017:

		Net asset value	Redemption frequency	Redemption notice	Unfunded commitments
Corporate equities:					
Equity commingled fund (a)	$	54,978	Monthly	10 days	N/A
Limited partnerships (b)		73,069	None	None	73,019
Foreign investments:					
Glocal fixed income			Daily	10 days	N/A
commingled fund (a)		81,191			
Limited partnerships (b)		5,112	None	None	6,381
	$	214,350			

(a) Commingled fund investments – this category includes investments in portfolios that may not be sold to investors other than "accredited investors" within the meaning of Regulation D under the Securities Act of 1933 (Securities Act), unless sold pursuant to another available exemption from the Securities Act. The price of these fund's shares is based on the portfolio's net asset value. The net asset value is determined by dividing the total value of the portfolio's investments and other assets, less any liabilities, by the total number of shares outstanding. For purposes of calculating net asset value, portfolio securities and other assets for which market quotes are readily available are valued at market value. Market value is generally determined on the basis of official closing prices or the last reported sales prices, or if no sales are reported, based on quotes obtained from quotation reporting systems, established market makers, or pricing services.

(b) Limited Partnership Investments – this category includes investments in private equity funds, generally through limited partnerships, that invest in private companies, private debt, intellectual property, structures products, and special situations. The fair value of these investments has been estimated using the percentage share of ownership interest in partner's capital. Distributions from each fund are received when the underlying investments in the funds create distributable cash flow and when underlying investments are liquidated. These investments cannot be redeemed. It is estimated that the underlying assets of these funds will be liquidated over the next one to fifteen years

Children's made no level transfers during 2017 or 2016.

3. LONG-TERM DEBT

Long-term debt at June 30, 2017 and December 31, 2016, consisted of the following:

	June 30, 2017	December 31, 2016
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	$ 14,000	$ 14,000
Health Care Revenue Bonds, Series 2004A, interest rate at a variable rate, due through August 15, 2034 (average of 0.681% for 2017; 0.191% for 2016)	19,325	19,325
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	18,300	18,300
Health Care Revenue Bonds, Series 2004B, interest rate at a variable rate, due through August 15, 2025 (average of 0.671% for 2017; 0.178% for 2016)	27,500	27,500
Health Care Revenue Bonds, Series 2007A, interest rate at a variable rate, due through August 15, 2037 (average of 0.681% for 2017; 0.191% for 2016)	93,250	93,250
Health Care Revenue Bonds, Series 2010A, remaining fixed interest rate range from 4.0% to 5.25%, due in installments through August 15, 2035	30,710	30,710
Total long-term debt	203,085	203,085
In addition (less):		
Unamortized bond premium	903	953
Unamortized bond issuance costs **	(3,539)	(3,663)
Current maturities of long-term debt	(8,850)	(8,850)
Long-term debt, excluding current maturities	$ 191,599	$ 191,525

* Average interest rate for first six months of 2017 compared to the annual rate for 2016.

** Due to adoption of ASU 2015-03 in Q1 of 2016, bond issuance costs are now recorded as a reduction of long-term debt

Children's continues to retain the ability to convert the interest rate mode on the Series 2004A, Series 2004B, and 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/or 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 S&P Global Ratings and A2 with a stable outlook 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 financial covenants include debt service coverage ratios, liquidity ratios, and capitalization ratios. The Obligated Group was in compliance with the financial covenants at December 31, 2016. All of the bonds are subject to optional redemption features by Children's, in whole or in part, at redemption price equal to 100% of the 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 $142,032 to provide credit in the event it is required to purchase tendered variable-rate bonds that are not remarketed. Bonds that are not remarketed for six months would be subject to the term out provisions under the Standby Bond Purchase Agreements, where bonds would be repaid over a 60-month term. U.S. Bank National Association's short-term deposit rating is A-1+ by S&P Global Ratings and P-1 by Moody's Investors Service. These liquidity facilities currently expire on June 30, 2019, and can be renewed annually in June for additional two-year periods.

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 as of June 30, 2017 and December 31, 2016, were as follows:

	June 30, 2017	December 31, 2016
Bond interest fund	$ 1,828	$ 1,127
Bond principal fund	5,590	1,863
Funds held by trustee	$ 7,418	$ 2,990

The funds are available to meet debt service.

Aggregate annual maturities of long-term debt for each of the five years as of June 30, 2017, and thereafter, are as follows:

Years Ending December 31	
2017	8,850
2018	9,195
2019	9,545
2020	9,905
2021	10,310
Thereafter	155,280
Total	$ 203,085

4. EMPLOYEE BENEFIT PLANS

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

Pension Plan – The Children's Health Care RSVP Retirement 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, options on the S&P 500 index, U.S. government debt securities, corporate debt instruments, fixed income, international equities, and 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 were eligible to join the plan and all current employees enrolled in the plan continued to earn benefits. These plan changes eliminated future benefit accruals as designed under the plan after the effective date, which met the criteria for a curtailment as defined by authoritative accounting guidance. In conjunction with the curtailment, beginning January 1, 2013, participants will receive an annual earnings credit at the lesser of 4% or the average U.S. Treasury 30-year interest rate in the month of November prior to the plan's year-end with a minimum credit at 2.75%, which has resulted in an increase to the accumulated benefit obligation.

The estimated net actuarial loss for the plan that will be amortized from unrestricted net assets into net periodic benefit cost during 2017 is $166 and there is no prior-service cost as a result of the curtailment noted above.

Multiemployer Plans — Children's contributes to various union-sponsored multiemployer pension plans under the terms of collective bargaining agreements. These contributions are determined in accordance with the provisions of negotiated labor contracts and generally are based on salary and the number of hours worked.

In January 2017, Children's contributed $13,020 to the Twin City Hospitals — Minnesota Nurses Association Pension Plan, which is Children's proportionate share of the minimum 2017 contribution requirement according to the collective bargaining agreement.

Defined Contribution Plan — Children's has a defined contribution plan, covering substantially all employees. In conjunction with the RSVP plan amendment effective December 31, 2012, to freeze benefits for plan participants (see curtailment impact discussed above), Children's enhanced the defined contribution plan. Prior to January 1, 2013, Children's matched 50% of contributions made up to 6% of total salaries. Effective January 1, 2013, Children's matches 100% of contributions made up to 6% of total salaries. Also effective January 1, 2013, employees have a five-year vesting period to receive the employer match, vesting an additive 20% per year of employment. The vesting requirement was waived for all employees hired before January 1, 2012. The amount expensed to the consolidated statements of operations and changes in net assets was $7,660 and $6,885 for the six months ended June 30, 2017 and 2016, respectively.

Effective January 1, 2015, the defined contribution plan incorporated an annual re-enrollment feature of at least a 4% contribution for non-contract employees not currently participating and for non-contract employees actively participating below the 4% contribution level. Additionally, an auto-escalation feature will increase participant contributions by 1% annually up to 6%.

CHILDREN'S HEALTH CARE

CONSOLIDATING SCHEDULE OF STATEMENT OF FINANCIAL POSITION INFORMATION
AS OF JUNE 30, 2017 (Unaudited)
(In thousands)

	Obligated Group Total	Non-Obligated Group Total	Eliminating Entries	Consolidated Total
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$ 15,597	$ 2,637	$ -	$ 18,234
Short-term investments	14,719	-	-	14,719
Board-designated short-term investments	48	-	-	48
Funds held by trustee	7,418	-	-	7,418
Patient accounts receivable - net	114,002	-	-	114,002
Prepaid expenses and other current assets	51,924	261	(4,922)	47,263
Total current assets	203,708	2,898	(4,922)	201,684
INVESTMENTS				
Donor-restricted cash and investments	55,157	-	-	55,157
Unrestriced investments	470,200	8,599	-	478,799
Board-designated investments	111,661			111,661
Total investments	637,018	8,599	-	645,617
OTHER ASSETS	80,526	-	(250)	80,276
LAND, BUILDINGS, AND EQUIPMENT - Net	362,677	7	-	362,684
TOTAL	$ 1,283,929	$ 11,504	$ (5,172)	$ 1,290,261
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current maturities of long-term debt	$ 8,602	$ -	$ -	$ 8,602
Accounts payable and accrued expenses	40,529	4,905	(4,922)	40,512
Accrued salaries, wages, and benefits	54,734	-	-	54,734
Other current liabilities	9,070	881	-	9,951
Total current liabilities	112,935	5,786	(4,922)	113,799
INTERCOMPANY ACCOUNTS	2,683	(2,683)	-	-
FAIR VALUE OF INTEREST RATE SWAPS	27,965	-	-	27,965
OTHER LONG-TERM LIABILITIES	38,184	3,405	-	41,589
LONG-TERM DEBT - Excluding current maturities	191,599	-	-	191,599
Total liabilities	373,366	6,508	(4,922)	374,952
NET ASSETS				
Unrestricted	838,752	4,996	(250)	843,498
Temporarily restricted	40,979	-	-	40,979
Permanently restricted	30,832	-	-	30,832
Total net assets	910,563	4,996	(250)	915,309
TOTAL	$ 1,283,929	$ 11,504	$ (5,172)	$ 1,290,261

CHILDREN'S HEALTH CARE

CONSOLIDATING SCHEDULE OF STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION FOR THE SIX MONTHS ENDED JUNE 30, 2017 (Unaudited)
(In thousands)

	Obligated Group Total	Non-Obligated Group Total	Eliminating Entries	Consolidated Total
REVENUE				
Net patient service revenue	$ 430,172	$ -	$ 200	$ 430,372
Provision for uncollectible accounts	(4,936)	-	-	(4,936)
Net patient service revenue less provision for uncollectible accounts	425,236	-	200	425,436
Net assets released from restrictions for operations	5,198	-	-	5,198
Other	16,402	3,540	(2,762)	17,180
Total revenue	446,836	3,540	(2,562)	447,814
EXPENSES				
Salaries, wages, and employee benefits	250,475	2,085	-	252,560
Professional fees and purchased services	61,777	103	(951)	60,929
Supplies	44,064	21	-	44,085
Facilities	8,737	77	-	8,814
Depreciation and amortization	23,180	4	-	23,184
Financing costs	4,707	-	(14)	4,693
Health services taxes	13,078	12	-	13,090
Other	28,181	1,721	(1,611)	28,291
Total expenses	434,199	4,023	(2,576)	435,646
OPERATING INCOME (LOSS)	12,637	(483)	14	12,168
NONOPERATING GAINS (LOSSES)				
Investment income and realized gains	14,544	14	(14)	14,544
Income on investments accounted for under the equity method	1,458	-	-	1,458
Net unrealized gains on investments	27,837	477	-	28,314
Change in fair value of interest rate swaps	763	-	-	763
Total nonoperating gains	44,602	491	(14)	45,079
EXCESS OF REVENUE OVER EXPENSES	$ 57,239	$ 8	$ -	$ 57,247

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

	For the Year Ended December 31,					Six Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
Admissions							
Perinatal Services	2,612	2,836	2,891	3,276	3,431	1,676	1,723
Intensive Care Services	2,237	2,156	2,600	2,032	2,036	987	1,147
Medical and Surgical Services	7,736	8,032	9,010	9,380	9,168	4,686	5,037
Totals	12,585	13,024	14,501	14,688	14,635	7,349	7,907
Patient Days							
Perinatal Services	41,590	47,507	50,347	46,715	52,668	26,729	25,997
Intensive Care Services	14,125	15,875	17,272	17,713	17,053	8,432	9,269
Medical and Surgical Services	31,310	32,477	34,758	36,385	36,442	18,588	17,720
Totals	87,025	95,859	102,377	100,813	106,163	53,749	52,986
Average Daily Census	237.8	262.6	280.5	276.2	290.1	295.3	292.7

Discharges and Patient Days
(All discharges including acute pediatrics, chemical dependency, psychiatry, newborns, and neonates)

	For the Year Ended December 31,					Six Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
Discharges							
Perinatal Services	2,641	2,855	2,847	3,292	3,382	1,659	1,751
Intensive Care Services	1,587	1,538	1,995	1,234	1,274	595	650
Medical and Surgical Services	8,355	8,652	9,602	10,162	9,973	5,144	5,554
Totals	12,583	13,045	14,444	14,688	14,629	7,398	7,955
Patient Days							
Perinatal Services	41,590	47,507	50,347	46,715	52,668	26,729	25,997
Intensive Care Services	14,125	15,875	17,272	17,713	17,053	8,432	9,269
Medical and Surgical Services	31,310	32,477	34,758	36,385	36,442	18,588	17,720
Totals	87,025	95,859	102,377	100,813	106,163	53,749	52,986
Average Daily Census	237.8	262.6	280.5	276.2	290.1	295.3	292.7

CERTIFICATE RELATING TO
QUARTERLY CONTINUING DISCLOSURE

2nd Quarter 2017

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 each of the Continuing Disclosure Agreements, dated as of August 15, 2004, between the Corporation and U.S. Bank National Association (the "Trustee"), the Continuing Disclosure Agreement, dated as of November 1, 2007, between the Corporation and the Trustee and the Continuing Disclosure Agreement, dated as of March 25, 2010, between the Corporation and the Trustee (collectively, the "Continuing Disclosure Agreements"), that:

1. Attached hereto are the unaudited June 30, 2017 Financial Statements of the Obligated Group and Consolidated Entity, subject to year-end adjustments.

2. Attached hereto is (i) Table 7, "Discharges and Patient Days", as of June 30, 2017, in the form presented in Appendix A to the Official Statement, dated November 1, 2007 relating to the Series 2007 Bonds and in Appendix A to the Official Statement, dated March 15, 2010, relating to the Series 2010A Bonds, and (ii) Table 7, "Admissions and Patient Days", as of June 30, 2017, in the form presented in Appendix A to the Official Statement, dated August 13, 2004 relating to the Series 1995B Bonds and the Series 2004 Bonds.

3. Unrestricted Cash and Investments of Obligated Group: $612,225,000
Days Cash on Hand (calculated as per MTI definition): 283.5 days
Days Cash on Hand (calculated per standard definition): 261.9 days

4. Capitalized terms as used herein shall have the meaning given such terms in the Continuing Disclosure Agreements.

CHILDREN'S HEALTH CARE

By Susan Slocum ______________________ Dated: August 14, 2017

Susan R. Slocum

Treasurer and Investment Officer

Susan.Slocum@Childrensmn.org

(952) 240-3721