Report of Independent Auditors and
Consolidated Financial Statements with
Supplementary Information

Children's Hospital & Research Center at Oakland

December 31, 2012 and 2011

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Children's Hospital & Research Center at Oakland

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Children's Hospital & Research Center at Oakland (a California non-profit corporation), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Children's Hospital & Research Center at Oakland as of December 31, 2012 and 2011, and the results of their operations, and changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects in relation to the consolidated financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The schedule of expenses for County of Alameda Grant is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The schedule of expenses for County of Alameda Grant has not been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013 on our consideration of the Children's Hospital & Research Center at Oakland's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Children's Hospital & Research Center at Oakland's internal control over financial reporting and compliance.

Moss Adams LLP

San Francisco, California
May 30, 2013

CONSOLIDATED FINANCIAL STATEMENTS

CHILDREN'S HOSPITAL & RESEARCH CENTER AT OAKLAND
CONSOLIDATED BALANCE SHEETS
December 31, 2012 and 2011

		2012		2011
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	$	44,103,500	$	70,658,100
Marketable securities		20,539,200		21,121,400
Patient accounts receivable, net of allowance for doubtful accounts of $4,866,000 for 2012 and $6,131,000 for 2011		54,667,300		50,746,800
Grants and contract receivables		11,422,100		8,382,100
Other receivables		29,951,100		23,496,000
Supplies		4,453,100		3,861,300
Prepaid expenses		8,304,600		4,568,400
Total current assets		173,440,900		182,834,100
ASSETS LIMITED AS TO USE, HELD BY TRUSTEE		4,779,800		4,779,800
TRUSTS RECEIVABLE		18,043,600		17,001,900
PROPERTY AND EQUIPMENT, net		222,289,600		184,174,900
INVESTMENTS		180,285,200		165,780,600
OTHER ASSETS		8,223,200		6,912,900
Total assets	$	607,062,300	$	561,484,200
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable and accrued expenses	$	33,468,500	$	24,166,500
Accrued payroll and payroll related liabilities		30,088,200		29,905,500
Current portion of long-term debt		2,791,300		1,552,600
Deferred revenue		10,247,800		9,929,600
Estimated third-party payor settlements		1,289,100		4,777,600
Total current liabilities		77,884,900		70,331,800
ACCRUED PROFESSIONAL LIABILITY		6,095,200		4,416,900
ACCRUED WORKERS' COMPENSATION LIABILITY		10,760,000		10,263,000
LONG-TERM OBLIGATIONS		63,234,400		63,436,200
LIABILITY FOR PENSION BENEFITS		143,313,500		114,918,900
OTHER LONG-TERM LIABILITIES		5,984,200		3,030,000
Total liabilities		307,272,200		266,396,800
COMMITMENTS AND CONTINGENCIES (Note 9)				
NET ASSETS				
Unrestricted		216,292,600		219,646,700
Temporarily restricted		53,328,600		46,936,500
Permanently restricted		30,168,900		28,504,200
Total net assets		299,790,100		295,087,400
Total liabilities and net assets	$	607,062,300	$	561,484,200

See accompanying notes.

	2012	2011
UNRESTRICTED REVENUE, GAINS, AND OTHER SUPPORT		
Patient service revenue (net of contractual allowances and discounts)	$ 405,545,600	$ 434,622,900
Less: Provision for bad debts related to patient service revenue	(6,118,800)	(9,033,200)
Net patient service revenue	399,426,800	425,589,700
Premium revenue	2,383,400	3,183,200
Other operating revenues	20,707,400	21,179,900
Investment income - Foundation	5,830,000	9,872,900
Net assets released from restrictions used for operations	58,088,300	57,365,200
Total unrestricted revenues, gains, and other support	486,435,900	517,190,900
EXPENSES		
Salaries and wages	181,682,800	178,142,300
Employee benefits	71,223,300	65,105,300
Research and specific purpose grant expenses	58,630,100	59,308,300
Professional fees	40,784,500	44,915,300
Supplies	39,907,400	39,880,700
Purchased services	20,934,600	20,750,800
Depreciation and amortization	20,859,400	20,172,200
Insurance and other direct expense	37,376,100	40,868,400
Impairment of long-lived assets	-	776,800
Interest, net	3,322,400	3,392,100
Other	604,900	396,000
Total expenses	475,325,500	473,708,200
Operating income	11,110,400	43,482,700
NONOPERATING GAINS		
Investment income - Hospital	378,000	65,000
Other	-	175,000
Total nonoperating gains	378,000	240,000
EXCESS OF REVENUE, GAINS, AND OTHER SUPPORT OVER EXPENSES	11,488,400	43,722,700
Change in net unrealized gains (losses) on investments	6,422,900	(9,625,800)
Change in pension liability (Note 6)	(29,030,400)	(46,705,800)
State and county grants for capital additions	6,350,900	3,049,900
Net assets released from restrictions for capital additions	1,414,100	891,800
Change in unrestricted net assets	$ (3,354,100)	$ (8,667,200)

See accompanying notes.

	2012	2011
EXCESS OF REVENUE, GAINS, AND		
OTHER SUPPORT OVER EXPENSES	$ 11,488,400	$ 43,722,700
Change in net unrealized gains (losses) on investments	6,422,900	(9,625,800)
Change in pension liability (Note 6)	(29,030,400)	(46,705,800)
State and county grants for capital additions	6,350,900	3,049,900
Net assets released from restrictions for capital additions	1,414,100	891,800
Decrease in unrestricted net assets	(3,354,100)	(8,667,200)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	10,566,700	9,824,500
Grants	51,992,700	52,674,900
Change in unrealized gains and (losses) on investments	1,494,800	(2,021,700)
Investment income	1,304,300	2,026,300
Changes in split interest gift agreements	536,000	(269,400)
Net assets released from restrictions for operations	(58,088,300)	(57,365,200)
Net assets released from restrictions for capital additions	(1,414,100)	(891,800)
Transfers from temporarily restricted		
to permanently restricted net assets	-	(1,500,000)
Increase in temporarily restricted net assets	6,392,100	2,477,600
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Contributions	1,027,900	503,500
Net assets released from restrictions used for operations	-	-
Transfers from temporarily restricted		
to permanently restricted net assets	25,500	1,500,000
Investment income	15,100	-
Changes in split interest gift agreements		(196,400)
Change in unrealized gains and (losses) on investments	30,800	13,500
Increase in permanently restricted net assets	1,664,700	1,820,600
Increase (decrease) in net assets	4,702,700	(4,369,000)
NET ASSETS, beginning of year	295,087,400	299,456,400
NET ASSETS, end of year	$ 299,790,100	$ 295,087,400

See accompanying notes.

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 4,702,700	$ (4,369,000)
Adjustments to reconcile the increase in net assets to net cash provided by operating activities		
Depreciation and amortization	20,859,400	20,172,200
Provision for bad debts	6,118,800	9,033,200
Loss on disposal of fixed assets	19,700	-
Net unrealized (gains) losses on investments	(7,948,500)	11,634,000
Donor restricted contributions	(1,027,900)	(503,500)
Impairment loss on long-lived assets	-	776,800
Changes in operating assets and liabilities		
Patient accounts receivable, net	(10,039,300)	(5,524,100)
Grants and contract receivables	(3,040,000)	1,884,800
Other receivables	(7,496,800)	18,132,500
Supplies	(591,800)	237,100
Prepaid expenses	(3,736,200)	18,801,000
Other assets	(1,310,300)	(5,707,200)
Accounts payable and accrued expenses	9,302,000	3,142,800
Accrued payroll and payroll related liabilities	182,700	1,708,000
Deferred revenue	318,200	(45,349,900)
Estimated third-party payor settlements	(3,488,500)	3,065,700
Accrued professional liability	1,678,300	1,282,600
Accrued workers' compensation liability	497,000	4,619,800
Liability for pension benefits	28,394,600	36,165,600
Other long-term liabilities	2,954,200	(493,400)
Net cash from operating activities	36,348,300	68,709,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant, and equipment	(55,401,200)	(14,880,200)
Purchases of investments	(437,304,600)	(423,360,000)
Sales of investments	431,330,700	389,702,200
Net cash from investing activities	(61,375,100)	(48,538,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
Donor restricted contributions	1,027,900	503,500
Payments on long-term obligations	(2,555,700)	(942,500)
Net cash from financing activities	(1,527,800)	(439,000)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(26,554,600)	19,732,000
CASH AND CASH EQUIVALENTS, beginning of year	70,193,200	50,461,200
CASH AND CASH EQUIVALENTS, end of year	$ 44,103,500	$ 70,193,200
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 3,277,400	$ 3,329,500
Noncash acquisition of property and equipment	$ 3,592,600	$ -

See accompanying notes.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of organization – Children's Hospital & Research Center at Oakland (the "Hospital"), provides a full range of pediatric acute and critical care medical services to both inpatients and outpatients. It is a nonprofit corporation organized and operated in accordance with Internal Revenue Code Section 501(c)(3) and similar provisions of the California Revenue and Taxation Code, and is generally not subject to federal or state taxes on income.

The consolidated financial statements also include the accounts of Children's Hospital Oakland Research Institute ("CHORI"), operating as a department of the Hospital. In addition, the following controlled corporations are included in these consolidated financial statements, which are collectively, in the remainder of these financial statements, referred to as "Children's":

- Children's Hospital and Research Center Foundation ("CHRCF") is a California nonprofit public benefit corporation organized to solicit support exclusively for the Hospital. The Hospital is the sole member of CHRCF. With control of the foundation residing with the Hospital, CHRCF is required to be consolidated into the Hospital.

- Children's Hospital Oakland Family House, a tax-exempt corporation. It provides temporary housing for patients and families at the Hospital who have traveled considerable distances.

- BayChildren's Physicians ("BCP") is a California medical practice foundation of which the Hospital is the sole member. BCP is a nonprofit corporation organized and operated in accordance with Internal Revenue Code Section 501(c)(3) and the California Revenue and Taxation Code and is generally not subject to federal or state taxes on income. BCP entered into a Professional Services Agreement with Pediatric Multispecialty Medical Group, Inc., dba BayChildren's Medical Group, a multispecialty medical group ("BCMG"). Under the Professional Services Agreement, BCMG, through its employed or subcontracted physicians, agrees to provide care to BCP's patients, including on-call coverage, care to Medi-Cal beneficiaries, and uncompensated care in accordance with BCP's policies. BCMG also agrees to perform research and education and otherwise cooperate with BCP in administering the group's medical practice. In turn, BCP provides the infrastructure to support BCMG's medical practice, including, without limitation, all facilities, equipment, supplies, administrative and management services, non-physician personnel, medical records systems, accounting and bookkeeping services, insurance, and consultants. BCP also negotiates and enters into all third-party payor contracts on BCMG's behalf. All revenues of BCMG's practice are billed by BCP, and all expenses are initially processed by BCP. These amounts are then passed along to BCMG.

Children's Hospital Branches, Inc. (Note 7) is a separate nonprofit corporation currently operating for the benefit of the Hospital. Their financial statements are not included with Children's consolidated financial statements, as Children's neither controls the organization nor manages its operations. Thus, under existing accounting guidance, consolidation of this organization is not permitted.

Principles of consolidation – All significant inter-company transactions and balances have been eliminated in consolidation.

Basis of presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Children's and changes therein are classified and reported as follows:

Unrestricted net assets: Net assets that are not subject to donor-imposed stipulations. Investment earnings are recorded as unrestricted net assets for certain temporarily restricted funds in accordance with donor stipulations.

Temporarily restricted net assets: Net assets that are subject to donor-imposed stipulations that may or will be met either by actions of Children's and/or through the passage of time. When a restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of changes in net assets as net assets released from restrictions. The related investment income, expense, realized and unrealized gains and losses of endowment funds are maintained in temporarily restricted net assets until released. This balance includes investment income earned on temporarily restricted funds held in trust, which is restricted for payment of distributions to trust beneficiaries under the trust agreements.

Temporarily restricted net assets are available for the following purposes at December 31, 2012 and 2011:

	2012	2011
Split interest gifts, including charitable remainder trusts	$ 18,044,300	$ 17,094,000
Health care programs, capital, and research	32,574,800	26,008,100
Net pledge receivables	2,709,500	3,834,400
	$ 53,328,600	$ 46,936,500

Permanently restricted net assets: Net assets subject to donor imposed stipulations that they be maintained by Children's in perpetuity. For permanently restricted endowments, the related investment income, expenses, and realized and unrealized gains or losses are included in temporarily restricted net assets in accordance with the Uniform Prudent Management of Institutional Funds Act (the "UPMIFA") adopted by Children's in 2009.

The Board of Directors has interpreted the California Prudent Management of Institutional Funds Act (CPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Children's classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Board of Directors in a manner consistent with the standard prudence prescribed by CPMIFA. In accordance with CPMIFA, Children's considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund

b. The purposes of CHRCF, the Hospital, Children's, and the donor-restricted endowment fund

c. General economic conditions

d. The possible effect of inflation and deflation

e. The expected total return from income and the appreciation of investments

f. Other resources of Children's

g. The investment policies of Children's

Permanently restricted net assets at December 31, 2012 and 2011, are restricted to:

	2012	2011
Investments to be held in perpetuity, the income from which is expendable to support:		
Research	$ 10,841,500	$ 10,707,500
Health care programs	7,972,900	7,268,500
Split interest gifts, including charitable remainder trusts	6,375,700	5,710,600
Other	4,978,800	4,817,600
	$ 30,168,900	$ 28,504,200

Cash and cash equivalents – Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

Patient accounts receivable, amounts payable to third-party payors, and net patient service revenue – Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Children's analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts on a consolidated basis. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients with third-party insurance coverage, Children's analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectable deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (those without third party insurance coverage), and receivables representing deductibles and copayments required from patients by their insurance plans, Children's records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or discounted rates if negotiated) and the amounts historically collected after all reasonable collections have been exhausted is the estimated uncollectable rate. This rate is applied to existing accounts to record an estimate for uncollectable accounts.

Children's allowance for doubtful accounts for self-pay patients and third-party payors was 8.2% and 10.8% of accounts receivable at December 31, 2012 and 2011. In addition, Children's write-offs, net of collection recoveries, were $5,065,000 and $5,983,000 for the years ended December 31, 2012 and 2011, respectively. Children's has not changed its charity care or uninsured discount policies during the years ended December 31, 2012 and 2011. Children's does not maintain a material allowance for doubtful accounts from third-party payors, nor did it have significant write-offs from third-party payors.

Investments – All investments in debt securities and short-term and long-term equity investments are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included within the excess of revenues over expenses unless that income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses. The Hospital classifies investment income in nonoperating gains (losses) whereas CHRCF classifies it as operating revenue because management of investments is integral to CHRCF's operations. Children's policy is to recognize transfers in and transfers out of Levels 1, 2, and 3 (as defined in Note 3) as of the end of the reporting period.

Life income trusts – At December 31, 2012 and 2011, CHRCF was remainderman for 210 and 212 life income trusts and charitable gift annuities (the "Trusts"), respectively. CHRCF was trustee for 12 and 15 of the Trusts, in 2012 and 2011, respectively, and the assets of these Trusts are included in marketable securities and land, and in either temporarily restricted or permanently restricted net assets in the consolidated balance sheets, depending on the donor restriction on the assets upon termination of the Trust.

CHRCF, as trustee, is obligated to make annual payments to certain beneficiaries pursuant to irrevocable charitable remainder trust agreements and charitable gift annuity contracts. These trust agreements / contracts have various payment requirements, which include either fixed yearly payments or payments calculated at a required fixed percentage on the annual fair value of the trust's / contract's assets. A liability has been established for future payments under the outstanding unitrust and annuity contracts. The liability is calculated using the most recent Internal Revenue Service mortality tables, with an interest rate assumption of 6% per annum. Upon the death of the final beneficiary, CHRCF's interest in the trust / contract becomes the unrestricted property of the CHRCF unless the trust / contract documents dictated that the assets be held permanently.

The remaining trusts for which CHRCF is not the trustee are recorded at the net present value of CHRCF's interest in the underlying trust assets, of which CHRCF will be either the full or partial beneficiary, and are included in trusts receivable and temporarily or permanently restricted net assets in the consolidated balance sheets.

Assets limited as to use, held by trustee – Assets limited as to use primarily include assets held by trustees under bond indenture agreements. Amounts required to meet current liabilities of Children's and those limited use assets expected to be expended in the next twelve months are classified as current assets.

Supplies – Supplies are stated at cost, which is determined on the first-in, first-out method of accounting.

Property and equipment – Property and equipment acquisitions are recorded at cost. Depreciation is recorded over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Leasehold improvements are amortized over the shorter of the life of the lease or the useful life of the improvements.

Gifts of long-lived assets, such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Costs for maintenance and repairs are charged to expense as incurred. Estimated useful lives are as follow:

Land improvements	5 - 20 years
Buildings	10 - 35 years
Equipment	2 - 10 years

Children's periodically evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on projected undiscounted cash flows generated by the underlying tangible assets. When events or changes in circumstances indicate that the carrying value may not be recoverable, the excess of the carrying value over the fair value is recorded as an impairment. Impairment write-downs of $0 and $776,800 were recorded in operating expenses for December 31, 2012 and 2011, respectively.

Deferred debt issuance costs – Costs associated with the issuance of debt are being amortized over the term of the related borrowing.

Deferred revenue – Amounts classified as deferred revenue represent amounts received in advance of Children's incurrence of certain qualifying expenditures under contracted cost reimbursement arrangements with various third parties.

Accrued professional liability – Children's insures for professional liability claims under a claims-made policy, and this liability is recorded net of insurance claims receivable. Under the policy, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed, or replaced with equivalent insurance, claims related to occurrences during their terms but reported subsequent to their termination may be uninsured. In 2011, Children's adopted the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries* ("ASU 2010-24"). ASU 2010-24 clarifies that a health care entity should not net insurance recoveries against a related claim liability. The full deductible is recorded as a liability and the insurance claims receivable are recorded in an asset account.

Generally accepted accounting pricnicples in the United States of America require that a health care facility disclose estimated costs of malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses reasonably estimated. Children's has used an actuarial estimate of uninsured loss to recognize an estimated liability to cover Children's potential exposure to incurred but unreported claims. The claim reserve is based on the best data available to Children's; however, the estimate is subject to a significant degree of inherent variability. Such an estimate is continually monitored and reviewed; and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of professional liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements is adequate to cover such claims. Management is aware of no potential professional liability claims whose settlement, if any, would have a material adverse effect on Children's consolidated financial position.

Accrued workers' compensation liability – Children's has a large dollar deductible for its workers' compensation policy. Although claims in excess of the deductible are insured, Children's is effectively self-insured because of the large deductible. The accrual for these costs includes the unpaid portion of claims that have been reported and estimates of amounts incurred for claims that have been incurred but not reported. Children's has used an actuarial estimate of uninsured losses to recognize the estimated liability up to the deductible amount. The claim reserve is based on the best data available to Children's; however, the estimate is subject to a significant degree of inherent variability. Such an estimate is continually monitored and reviewed; and as the reserve is adjusted, the difference is reflected in current operations.

Children's used a confidence level of workers' compensation liability funding at 75%. While the ultimate amount of workers' compensation liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements is adequate to cover such claims. Management is aware of no potential workers' compensation liability whose settlement, if any, would have a material adverse effect on Children's consolidated financial position.

Health benefits – Children's offers its benefited employees a choice of health insurance plans, including a preferred provider organization ("PPO") plan. Children's is self-insured for health claims under the PPO plan. The accrual for these costs includes the unpaid portion of claims that have been reported and estimates of amounts incurred for claims that have been incurred but not reported. Management recognized an estimated liability based upon Children's historical claims experience and purchased stop loss coverage limits. The claim reserve is based on the best data available to Children's; however, the estimate is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed; and as the reserve is adjusted, the difference is reflected in current operations. Accrued health benefits are included in accrued payroll and payroll related liabilities.

While the ultimate amount of employee health liability claims is dependent upon future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is aware of no potential employee health liability whose settlement, if any, would have a material adverse effect on Children's consolidated financial position.

Excess of revenues over expenses – The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Grants and contributions – Children's receives grants from federal agencies and other third parties. Government grants are reimbursed based on actual expenses incurred or units of services provided. Revenue from these grants is recognized either when expenses are incurred or when services are provided. Revenue recognition depends on the grant award agreements.

Contributions received may be designated by the donor for restricted purposes or may be without restriction as to their use. Contribution revenue is reported when cash is received, unconditional promises are made, or ownership of other assets is transferred to the organization. Contributions restricted by donors as to use or time period are recorded as temporarily restricted net assets until used in the manner designated or upon expiration of the time period. When there are no legally imposed restrictions on contributions or on income earned from restricted contributions, they are recorded as other unrestricted revenue when received.

Patient service revenue – Children's has agreements with third-party payors that provide for payments to Children's at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Premium revenue – Children's has agreements with the Alameda Alliance for Health (the "Alliance"), to provide medical services to subscribing participants. Under these arrangements, Children's receives monthly capitation payments based on the number of each HMO's participants, and recognizes as revenue during the period regardless of services actually performed by Children's. An estimate is made for claims incurred but not yet reported at the end of each period, based on Children's actual historical claims experience.

Charity care – Children's provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates for that service. Children's accepts all patients, regardless of their ability to pay. As Children's does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The cost of charity care is measured by use of the Medicare cost to charge ratio, less any collections received on those cases. Costs incurred in providing these services in 2012 and 2011 were approximately $23,690,000 and $17,561,500, respectively, for 24,692 and 19,451 patients, respectively, and are included in Children's operating expenses.

Concentration of credit risk – Financial instruments potentially subjecting Children's to concentrations of credit risk consist primarily of bank demand deposits in excess of Federal Deposit Insurance Corporation (the "FDIC") limits.

Children's grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. Children's manages its collection risk by regularly reviewing its accounts and contracts and by providing appropriate allowances. The mix of net receivables from patients and third-party payors is as follows:

	Years Ended December 31,	
	2012	2011
Managed care payors	58%	65%
Medi-Cal	7%	8%
California Children's Services	14%	11%
Medi-Cal managed care	18%	13%
Self-pay and other	3%	3%
	100%	100%

Income taxes – Children's is organized as a not-for-profit entity under the general nonprofit corporation laws of the State of California. Exemptions from federal income taxation under Internal Revenue Code Section 501(c)(3) and California franchise taxation have been obtained. Certain activities and subsidiaries may be subject to income taxes; however, such activities are not significant to the consolidated financial statements. Accordingly, no provision for income taxes has been provided in the accompanying consolidated financial statements.

Use of estimates – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

For Children's, these estimates and assumptions primarily relate to the collectability of accounts receivable, valuation of fixed assets, including depreciable lives assigned, valuation of derivative instruments, determination of any other-than-temporary impairments of marketable securities, and the assumptions utilized in valuation of self-insured reserves and retirement plan obligations. Actual results could differ from those estimates and such differences could be material.

New accounting pronouncements – Children's has adopted the accounting guidance in FASB ASU No. 2011-04, *Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*, which requires that the fair value hierarchy be disclosed for items that are not measured at fair value in the balance sheet, but for which fair value is required to be disclosed (see Note 11).

In July 2011, the FASB issued ASU No. 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities* ("ASU 2011-07"), which requires health care entities that recognize significant amounts of patient service revenue at the time the services are rendered even though they do not assess the patient's ability to pay, to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue (net of contractual allowances and discounts) on their consolidated statements of operations. Children's adopted ASU 2011-07 on January 1, 2012. All periods presented have been reclassified in accordance with the provision of ASU 2011-07.

Reclassifications – Certain 2011 amounts have been reclassified to conform to the 2012 presentation.

NOTE 2 –PATIENT SERVICE REVENUE

Children's has arrangements with third-party payors that provide for payments to Children's at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medi-Cal – Children's renders services to patients under a contractual arrangement with the Medi-Cal program, which includes patients that qualify for California Children's Services. Under the contractual arrangement, inpatient services are reimbursed on a per-diem basis, while outpatient services are reimbursed based on a schedule of maximum allowances. The net revenue from the Medi-Cal program was $88,193,000 and $88,670,100 for the years ended December 31, 2012 and 2011, respectively.

Children's contracts with the various Medi-Cal managed care plans in the State. The local initiative Medi-Cal plan is administered by the Alliance, while the mainstream plans are administered by commercial payors. These plans operate as state-licensed health maintenance organizations that provide health care services on a prepaid basis to enrolled Medi-Cal members residing in the county. Eligible members select the plan in which they wish to participate.

Children's has established contractual arrangements with these plans. During 2011, Children's entered into a new fee for service arrangement with the Alliance. Amounts included in revenues under each of these arrangements were as follows:

	2012	2011
Alliance - Capitation	$ 2,383,400	$ 3,183,200
All other Medi-Cal Managed Care plans	$ 48,028,000	$ 45,849,300

In addition to the reimbursement program discussed above, Children's received additional reimbursement from the State of California under the following programs:

Children's is a recipient of Medi-Cal funds under the various State of California programs, in particular The Private Hospital funds and disproportionate share funds (aka "DSH"). During 2012 and 2011, Children's recorded $23,868,900 and $25,552,900, respectively, in revenues related to funding from these programs. California Medical Assistance Commission negotiates the award amounts based on requests from eligible hospitals and the total pool of funding that is available for distribution at the time of the negotiations. This legislative funding is subject to retroactive reductions and potential future elimination.

For the years ended December 31, 2012 and 2011, Children's recorded $7,122,700 and $7,016,200, respectively, in revenues related to funding for Graduate Medical Education.

Children's also received Measure A and trauma funding from Alameda County, which is leveraged with state matching funds, for total funding of $7,065,000 and $7,158,000 for the years ended December 31, 2012 and 2011, respectively.

Laws and regulations governing the Medi-Cal and Medicare programs are complex and subject to interpretation. As a result, there is, at least, a reasonable possibility that recorded estimates will change by a material amount in the near term. Children's believes that it is in compliance with all applicable laws and regulations and is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. While no such significant regulatory inquiries, other than discussed above, have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

Other – Children's also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Children's under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Hospital fee – In November 2009, the California Hospital Fee Program (the "Program") was signed into California state law and, based on an opinion from Children's legal counsel, became effective in 2011 after approval from the Centers for Medicare and Medicaid Services ("CMS"). The Program provides supplemental Medi-Cal payments to certain California hospitals. The Program is funded by a quality assurance fee ("Fee") paid by participating hospitals and by matching federal funds. Hospitals receive supplemental payments from either the California Department of Health Care Services ("DHCS"), managed care plans, or a combination of both. The first part of the Program provided payments relating to the period beginning April 1, 2009 through December 31, 2010 (the "2010 Program"). There was an additional program relating to the first six months of 2011 (the "2011 Program"). During 2012, a program was signed into law that covers the time period of July 2011 through December 2013 (the "2012 Program"). Only the portion of the program relating to Fee for Service Medi-Cal was approved by CMS in June 2012. The funding related to Managed Medi-Cal will not be recorded until 2013 when the anticipated approval is received.

The 2010 Program was signed into law in early 2011. Accordingly, revenues of $64,501,800 and expenses of $19,151,400, respectively, were recorded in 2011 relating to the 2010 Program. The 2011 Program was signed into law during 2011, and revenues of $27,134,000 and expenses of $5,978,300, respectively, relating to this program were recorded in 2011.

The 2012 Program Fee for Service funding for the period of July 2011 to December 2012 was received in 2012, resulting in program revenues and expenses of $57,545,000 and $21,466,000, respectively, being recorded in 2012. There are prepaid fees related to the Managed Medi-Cal portion of the program of $4,023,000 reflected on the consolidated balance sheet as of December 31, 2012.

NOTE 3 – INVESTMENTS AND ASSETS LIMITED AS TO USE

Assets limited as to use – Assets limited as to use at December 31, 2012 and 2011, are $4,779,800 and $4,779,800, respectively. Investments are all in U.S. Treasury obligations, and are stated at fair value.

Other investments – Other investments, stated at fair value, at December 31, 2012 and 2011, include:

	2012	2011
Marketable equity securities	$ 83,728,200	$ 84,193,300
Corporate debt securities, asset-backed securities, and U.S. Treasury and Agencies securities	106,880,900	90,201,100
Money markets and other investments	2,163,600	4,495,800
Assets held in trusts	8,051,700	8,011,800
	$ 200,824,400	$ 186,902,000

Assets limited as to use and other investments as of December 31, 2012 and 2011, consist of the following:

	2012		
	Cost	Fair Value	Unrealized Gain
Marketable equity securities	$ 82,194,200	$ 83,728,200	$ 1,534,000
Corporate debt securities, asset-backed securities, and U.S. Treasury and Agencies securities	105,814,500	106,880,900	1,066,400
Money markets and other investments	2,163,600	2,163,600	-
Assets held in trusts	7,180,300	8,051,700	871,400
	$ 197,352,600	$ 200,824,400	$ 3,471,800

	2011		
	Cost	Fair Value	Unrealized (Loss) / Gain
Marketable equity securities	$ 90,201,500	$ 84,193,300	$ (6,008,200)
Corporate debt securities, asset-backed securities, and U.S. Treasury and Agencies securities	89,544,400	90,201,100	656,700
Money markets and other investments	4,495,800	4,495,800	-
Assets held in trusts	7,737,300	8,011,800	274,500
	$ 191,979,000	$ 186,902,000	$ (5,077,000)

The cost below fair value of certain marketable equity securities is not significant as of December 31, 2012 and 2011. All of these securities have been determined by management not to be other-than-temporarily impaired. These investments have not met Children's criteria for recognition of other-than-temporary impairment as Children's has the ability and intent to hold these investments.

Investment income, and realized and unrealized gains (losses) consists of the following for the year ended December 31, 2012 and 2011:

	2012	2011
Interest and dividends	$ 4,430,300	$ 4,211,500
Realized gains on sales of securities	3,153,800	7,911,300
	$ 7,584,100	$ 12,122,800
Net unrealized gains (losses) on investments	$ 7,948,500	$ (11,634,000)

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Management, under the supervision of the Board of Directors, determines the fair value measurement policies and procedures. These policies and procedures are reassessed annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted, as necessary based on current market conditions and other third party information. In determining the reasonableness of the methodology, management evaluates a variety of factors including a review of existing agreements, economic conditions, and industry and market developments. Certain unobservable inputs are assessed through review of contract terms (for example: duration or payout data) while others are substantiated utilizing available market data (discount rates and mortality tables).

Asset limited as to use, held by trustee – As quoted market prices are available in an active market, these investments are classified within Level 1 of the valuation hierarchy.

Marketable securities and investments – Where quoted market prices for the marketable securities and investments are available in an active market, the securities are classified within Level 1 of the valuation hierarchy. Level 1 marketable securities and investments include highly liquid government and corporate bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities include most fixed income investments traded in a limited market.

Trust receivable – As quoted market prices are not available for the underlying assets for the trust receivable, the fair values are estimated by using pricing models, quoted prices of assets with similar characteristics or discounted cash flows. Trusts receivables include all charitable remainder trusts in which CHRCF is not the trustee (untrusted trusts) and are classified within Level 3 of the valuation hierarchy. These trusts are recorded at the present value of the assets to be received in the future using a discount rate of 4% to 6%.

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the ASC Topic 820 fair value hierarchy in which the fair value measurements fall at December 31, 2012 and 2011:

	Fair Value at December 31, 2012			
Description	**Fair Value Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets limited as to use, held by trustee				
U.S. Treasury obligations	$ 4,779,800	$ 4,779,800	$ -	$ -
Marketable securities and investments				
Cash equivalents	2,329,300	180,400	2,148,900	-
Equities				
Index fund	82,461,200	32,461,200	50,000,000	-
Domestic mutual fund	941,300	791,300	150,000	-
International mutual fund	299,100	299,100	-	-
Real estate	809,700	809,700	-	-
Other	1,818,000	1,767,700	50,300	-
Corporate bonds	78,397,300	1,118,300	77,279,000	-
Government issue	29,496,000	984,400	28,511,600	-
Marketable securities and investments total	196,551,900	38,412,100	158,139,800	-
Trusts receivable	18,043,600	-	-	18,043,600
Beneficial interest in trust	4,272,500	-	-	4,272,500
Total	$ 223,647,800	$ 43,191,900	$ 158,139,800	$ 22,316,100

	Fair Value at December 31, 2011			
Description	**Fair Value Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets limited as to use, held by trustee				
U.S. Treasury obligations	$ 4,779,800	$ 4,779,800	$ -	$ -
Marketable securities and investments				
Cash equivalents	4,689,600	206,300	4,483,300	-
Equities				
Index fund	83,107,900	25,232,700	57,875,200	-
Domestic mutual fund	701,300	701,300	-	-
International mutual fund	251,600	251,600	-	-
Real estate	551,500	551,500	-	-
Other	1,805,100	1,648,800	156,300	-
Corporate bonds	75,459,300	1,112,600	74,346,700	-
Government issue	16,244,800	1,207,600	15,037,200	-
Marketable securities and investments total	182,811,100	30,912,400	151,898,700	-
Trust receivable	17,001,900	-	-	17,001,900
Beneficial interest in trust	4,090,900	-	-	4,090,900
Total	$ 208,683,700	$ 35,692,200	$ 151,898,700	$ 21,092,800

The following table provides a reconciliation of assets measured at fair value using significant unobservable inputs (Level 3) on a recurring basis during the period ended December 31:

	2012	2011
Beginning balance	$ 21,092,800	$ 21,175,700
New trusts receivable	274,400	-
Trust maturities	(251,900)	(429,900)
Change in value due to change in actuarial life expectancy	(123,500)	3,669,100
Change in value due to decrease in estimated fair value of underlying trust assets	1,324,300	(3,322,100)
Ending balance	$ 22,316,100	$ 21,092,800

CHRCF initially records an interest in untrusted charitable remainder trusts, based on asset value on investment statements, or with real estate as its underlying assets by obtaining an appraisal upon receipt and using the life expectancy of the income beneficiaries to calculate the net present value of the asset. All unrealized gains and losses included are attributable to assets held at the reporting period and are included in changes in split interest gift agreements on the consolidated statement of operations. Valuation is reviewed annually by management by updating the life expectancy of the income beneficiary, and using confirmations of investments and estimates including real estate valuation web sources to establish the current fair value of the real estate.

	Quantitative Information about Level 3 Fair Value Measurements		
	Valuation Techniques	Unobservable Input	Range: (Weighted Average)
Trust receivable	Discounted cash flow	Discount rates	4% to 6%
		Life expectancies	1 to 50 years

A decrease in the discount rate and a shorter life expectancy will increase the fair value of the trust receivable, just as an increase in the discount rate and a longer life expectancy will decrease the fair value of the trust receivable.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following at December 31, 2012 and 2011:

	2012	2011
Land improvements	$ 2,056,100	$ 2,056,100
Buildings	255,484,200	250,217,200
Equipment	137,900,500	125,416,800
	395,440,800	377,690,100
Less accumulated depreciation and amortization	(234,102,800)	(216,602,500)
	161,338,000	161,087,600
Construction-in-progress	47,141,800	9,922,200
Land	13,809,800	13,165,100
Property and equipment, net	$ 222,289,600	$ 184,174,900

NOTE 5 – LONG-TERM OBLIGATIONS

Long-term obligations consist of the following at December 31, 2012 and 2011:

	2012	2011
ABAG Finance Authority for Nonprofit Corporations Hospital Revenue Certificates of Participation, $60,100,000 fixed rate bonds series 2007; principal payable in annual installments ranging from $1,175,000 in 2011 to $31,065,000 in 2037; interest at state coupon rates ranging from 4.00% to 5.25%, payable semiannually.	$ 56,710,000	$ 57,885,000
Walnut Creek Property Loan, $7,700,000 fixed rate real property loan assumed after property acquisition; principal and interest payable in monthly installments at $44,204, interest rate at 5.6% per annum, principal due in 2014.	6,700,900	6,844,700
Other long-term obligations	2,614,800	259,100
Long-term obligations	66,025,700	64,988,800
Less: Current portion	(2,791,300)	(1,552,600)
Long-term obligations, long term portion	$ 63,234,400	$ 63,436,200

The Series 2007 Certificates of Participation were issued during 2007 by the ABAG Finance Authority for Nonprofit Corporations. Children's agrees to make installment payments that, in aggregate, will be sufficient to pay all interest and principal on the Certificates of Participation as they become due. Under the terms of the loan and reimbursement agreements, Children's is subject to certain limitations on its ability to incur additional debt, to pledge assets as collateral, and to acquire or dispose of certain assets. Children's must also maintain certain financial ratios, including debt service coverage ratio and days cash on hand.

In April 2009, Children's assumed a fixed rate real property loan for 2401 Shadelands Avenue in Walnut Creek in the amount of $7,700,000 for acquisition of the property for Children's Specialty Care Center Walnut Creek. Principal and interest is payable in monthly installments of $44,204, with an interest rate at 5.6% per annum. The principal is due in 2014.

In July 2011, Children's entered into a capital lease agreement with Roche Diagnostics for a sequencing instrument. The three year term ends in July 2014, with a one dollar purchase option to buy the equipment at that time.

In August 2012, Children's entered into a capital lease agreement with Microsoft Licensing, GP, for server equipment and software licenses. The three year term ends in July 2015.

Aggregate principal maturities on long-term debt based on scheduled maturities, excluding debt discount, are as follows:

Year Ending December 31,	
2013	$ 2,791,300
2014	9,019,400
2015	1,335,000
2016	1,395,000
2017	1,455,000
Thereafter	50,030,000
	$ 66,025,700

NOTE 6 – EMPLOYEE RETIREMENT PLANS

Children's has a noncontributory defined benefit pension plan ("Plan") that covers substantially all employees who are not covered by separate union-sponsored plans.

Benefits are based on years of service and the employee's compensation during the last five years of employment. Children's annual funding policy is to contribute no less than the minimum actuarially determined amount. Based on available cash and the funding status of the Plan, management may decide to make additional discretionary contributions to the Plan. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future.

The broad-based investment goals of the Plan are to: 1) at a minimum, preserve the inflation-adjusted value of the Pension assets after administrative cost and benefit payments; 2) prudently invest assets in a high-quality, diversified manner; 3) achieve the optimal return possible within the specified risk parameters; 4) achieve the actuarial earnings assumptions; and 5) adhere to the established guidelines.

The Plan's assets are invested in cash, common stocks, corporate and government bonds, common collective funds, and mutual funds.

Children's uses a December 31 measurement date for its Plan. Changes in the benefit obligation and Plan assets for Children's noncontributory defined benefit retirement plan are as follows:

	December 31,	
	2012	**2011**
Actuarial present value of benefit obligations		
Benefit obligation at beginning of year	$ 311,009,300	$ 249,609,600
Service cost	18,029,300	14,461,300
Interest cost	15,881,500	14,811,400
Amedments	554,300	487,400
Actuarial loss	41,420,100	36,541,700
Benefits paid	(5,566,600)	(4,902,100)
Benefit obligation at end of year	381,327,900	311,009,300
Change in Plan assets		
Fair value of Plan assets at beginning of year	196,090,400	170,856,300
Actual return on Plan assets	21,490,500	(63,800)
Employer contributions	26,000,000	30,200,000
Benefits paid	(5,566,500)	(4,902,100)
Fair value of Plan assets at end of year	238,014,400	196,090,400
Funded status of the Plan	$ (143,313,500)	$ (114,918,900)

Amounts recognized in unrestricted net assets consist of:

	December 31,	
	2012	**2011**
Net actuarial loss	$ 131,578,100	$ 103,027,500
Prior service cost	3,539,900	3,085,100
Total recognized in unrestricted net assets	$ 135,118,000	$ 106,112,600

The components of the Children's net periodic benefit cost and amounts recognized in net assets associated with its noncontributory defined benefit retirement plan are as follows:

	Years Ended December 31,	
	2012	**2011**
Service cost	$ 18,029,300	$ 14,461,300
Interest cost	15,881,500	14,811,400
Expected return on Plan assets	(15,070,300)	(12,985,000)
Net loss recognition	6,008,900	2,595,800
Amortization of prior service cost	539,700	499,000
Net periodic benefit cost	$ 25,389,100	$ 19,382,500

The components of other changes in plan assets and benefit obligations recognized in net assets associated with its noncontributory defined benefit retirement plan are as follows:

	Years Ended December 31,	
	2012	**2011**
Amounts amortized during the year		
Prior service cost	$ (539,700)	$ (499,000)
(Gain)/loss	(6,008,900)	(2,595,800)
Amounts amortized during the year		
Prior service cost	554,200	487,400
(Gain)/loss	35,024,800	49,313,200
Total recognized in unrestricted net assets	$ 29,030,400	$ 46,705,800
Total recognized in net periodic pension cost and unrestricted net assets	$ 54,419,500	$ 66,088,300

The estimated (gain)/loss, prior service cost, and transition obligation that will be amortized from net assets into net periodic pension cost over the next calendar year are $9,002,400, $587,800 and $0, respectively.

Weighted-average assumptions used in the accounting for net periodic pension costs and benefit obligations were:

	Years Ended December 31,	
	2012	**2011**
Net periodic benefit costs		
Discount rate	5.17%	6.00%
Expected long-term rate of return on plan assets	7.25%	7.25%
Rate of compensation increase	3.50%	3.50%
Benefit obligations and funded status		
Discount rate	4.46%	5.17%
Rate of compensation increase	3.50%	3.50%

The long-term rate of return reflects the average rate of earnings expected on the funds invested to provide for benefits in the future. In estimating this rate, appropriate consideration was given to the returns currently being earned by Plan assets and the rates of return expected to be available for reinvestment. The present and expected asset mix was taken into account. The long-term rate is expected to be less volatile than the actual rate of return on assets, since the expected rate not only considers current returns, but also reinvestment rates in the future. This rate will generally be the same each year, unless the asset mix and/or asset returns are expected to significantly change in the future. Plan assets are invested as follows:

	Percent of Total Fund	
	2012	**2011**
Equity securities	61%	47%
Debt securities	36%	42%
Other	3%	11%
	100%	100%

Within the equity securities asset class, the investment policy provides for investments in a broad range of publicly traded securities including common collective funds, mutual funds, and both domestic and international stocks. The changes within the classes from 2011 to 2012 are a result of the effect of investment returns in each class on the portfolio, and not the result of a change in investment allocation strategy.

ASC Topic 820, *Fair Value Measurements and Disclosures*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. See Note 3 for a detailed discussion of the ASC Topic 820 valuation hierarchy. Plan assets are summarized according to the ASC Topic 820 hierarchy as follows:

	Fair Value at December 31, 2012			
	Fair Value Total	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest-bearing cash	$ 6,705,400	$ 6,705,400	$ -	$ -
U.S. government securities	8,931,900	8,384,000	547,900	-
Corporate debt instruments	77,463,200	-	77,463,200	-
Common stock	36,377,300	36,377,300	-	-
Common collective funds	85,796,800	-	85,796,800	-
Mutual funds	22,739,800	22,739,800	-	-
Total	$ 238,014,400	$ 74,206,500	$ 163,807,900	$ -

	Fair Value at December 31, 2011			
	Fair Value Total	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest-bearing cash	$ 20,756,900	$ 20,756,900	$ -	$ -
U.S. government securities	13,373,100	-	13,373,100	-
Corporate debt instruments	69,844,500	-	69,844,500	-
Common stock	24,345,100	24,345,100	-	-
Common collective funds	67,136,900	-	67,136,900	-
Mutual funds	633,900	633,900	-	-
Total	$ 196,090,400	$ 45,735,900	$ 150,354,500	$ -

Children's expects to make cash contributions of approximately $22,000,000 to its pension plan in 2013. Expected benefit payments for the Plan are as follows:

Year Ending December 31,	
2013	$ 8,951,900
2014	10,293,100
2015	11,745,900
2016	13,423,100
2017	15,381,400
2018-2022	102,992,800

Multiemployer pension plan – Some of Children's employees under collective bargaining agreements participate in a multiemployer pension plan managed by the Stationary Engineers Local 39 Pension Trust Fund ("Local 39"). As of December 31, 2012 and 2011, there were 32 and 29 employees, respectively, for whom Children's made contributions to the plan. Plan provisions include pension but exclude postretirement benefits. The risks of participating in these multiemployer plans differ from those of single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
- If a participating employer stops contributing to the plan, then the unfunded obligations of the plan may be borne by the remaining participating employers.
- If Children's chooses to stop participating in the multiemployer plan, then it may be required to pay that plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Children's participation in this plan for the annual period ended December 31, 2012, is outlined in the table below. The EIN/Plan Number column provides the EIN and the three-digit plan number. The most recent Pension Protection Act zone status available in 2012 is for the plan's year end at December 31, 2011. The FIP/RP Status Pending/Implemented column indicates plans for which a financial improvement plan (FIP) or rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date of the collective bargaining agreement to which the plan is subject.

Pension Fund	EIN/Plan Number	Pension Protection Act Zone Status		FIP/RP Status Pending/ Implemented	Children's Hospital & Research Center at Oakland Contributions		Surcharge Imposed	Collective Bargaining Agreement Expiration Date
		2012	2011		2012	2011		
I.U.O.E Stationary Engineers Local 39 Trust Funds	94-6118939 / 001	Green	Yellow	Implemented	$ 388,200	$ 379,500	No	April 2014

During 2012, Children's was notified that the Local 39 plan was funded at 82.5% for the plan year ended December 31, 2011.

NOTE 7 – RELATED ORGANIZATIONS

Children's receives support from Children's Hospital Branches, Inc. (the "Branches"). The accounts of the Branches are not consolidated with those of Children's, as described in Note 1. Summarized financial information of the Branches is not presented as it is not significant.

NOTE 8 – OPERATING LEASES

Children's has entered into operating lease arrangements for the lease of office space, facilities, vehicles, and equipment. The total amount of rental expense incurred during 2012 and 2011, under these operating leases was $4,005,700 and $3,867,800. Children's future minimum lease payments under non-cancelable operating leases with initial terms of one year or more consist of the following:

Year Ending December 31,		
2013	$	3,831,500
2014		2,409,200
2015		1,995,400
2016		1,766,900
2017		634,200
Thereafter		61,800
	$	10,699,000

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Children's receives grant funds for various programs. These funds may be subject to program compliance audits by the grantor and possible disallowance of expenditures. Children's does not expect the amount of disallowance of expenditures, if any, to have a material adverse impact on Children's consolidated financial position.

Children's is aware of certain asserted and unasserted legal claims. While the outcome cannot be determined at this time, it is management's opinion that the liability, if any, from these actions will not have a material adverse effect on Children's consolidated financial position.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services, and Medicare and Medi-Cal fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties, as well as significant repayment for previously billed patient services. While the Children's is subject to similar regulatory reviews, there are no reviews currently underway and management believes that the outcome of any potential regulatory review will not have a material adverse effect on Children's consolidated financial position.

Management believes that Children's is in compliance with government law and regulations related to fraud and abuse and other applicable areas. While no material regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time.

Children's is directly liable under an irrevocable letter of credit with a bank, totaling $7,240,000 and $7,200,000 at December 31, 2012 and 2011, respectively, which is required as security for the workers' compensation large dollar deductible arrangement as described in Note 1. No amounts were drawn on the letter of credit as of December 31, 2012 and 2011.

As of December 31, 2012 and 2011, Children's had no balance outstanding under its revolving credit facility of $25,000,000 and $10,000,000, respectively. The interest rate on the credit facility is at a rate of 1.41% and 2.33% as of December 31, 2012 and 2011, respectively, and is expected to mature on August 31, 2013.

As of December 31, 2012 and 2011, approximately 50.3% and 51%, respectively, of Children's employees are represented by collective bargaining units.

Children's current seismic compliance plan is to retrofit some of the buildings that comprise the main hospital campus. Each building structure, referred to as a wing, vary in seismic compliance. The current seismic compliance plan is to remove the B/C wing from General Acute Care (GAC) service by structurally isolating the wing, relocating the interior utilities around the wing, internally relocating GAC services from the B/C wing, and modifying egress pathways. The A/B wing of the hospital houses administrative departments and will not be retrofitted.

The passage of Senate Bill 90 affords hospitals the opportunity to apply for extensions of seismic deadlines to 2020. OSHPD can then either grant a two-year administrative extension for further review, or up to a seven-year extension to complete the project.

Children's submitted applications on March 30, 2012, for seismic safety extensions for both the A/B and B/C wings under the provisions of H&S Code 130060 (Senate Bill 90), which allows for extensions of up to seven years to 2020. Children's requested an extension to December 31, 2018. An administrative extension of two years (until January 1, 2015) was granted by OSHPD on February 26, 2013, and a full review of the extension request is ongoing.

Health care reform – In March 2010, President Obama signed the Health Care Reform legislation into law. The new law may result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Children's is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law's complexity and current lack of implementing regulations or interpretive guidance. However, Children's expects that provisions of the Health Care Reform legislation may have a material effect on its business.

NOTE 10 – FUNCTIONAL CLASSIFICATION OF OPERATING EXPENSES

The Children's operating expenses reflected by functional classification are as follows for the years ended December 31:

	2012	2011
Health care services	$ 258,700,400	$ 270,248,500
General and administrative	149,498,400	136,779,500
Research and special purpose grant expenses	58,630,100	59,308,300
Fundraising	8,497,300	7,371,900
	$ 475,326,200	$ 473,708,200

NOTE 11 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, other assets, accrued liabilities, and estimated third-party payor settlements approximate fair value and are classified as Level 1. The fair value of assets limited as to use, marketable securities, investments, and trusts receivable are disclosed in Note 3. The fair value of the Series 2007 Certificates of Participation is based on quoted market prices in an active market (Level 1) and is estimated at $59,730,200 and $58,114,800 as of December 31, 2012 and 2011, respectively. The fair value of the remaining long-term obligations are estimated using discounted cash flow analyses based on Children's current incremental borrowing rates for similar debt instruments (Level 3) and is estimated at $9,300,000 and $7,100,000 as of December 31, 2012 and 2011, respectively.

NOTE 12 – ENDOWMENT

Spending policy and how the investment objectives relate to spending policy – The spending policy for CHRCF's endowment assets is a payout of 4.0% of the average market value of the prior 12 quarters. The average market value is calculated using the market value of the securities at the quarter end dates of March 31st, June 30th, September 30th, and December 31st. The endowment payout has been historically made annually to the Hospital.

Aggregate amount of deficiencies for donor restricted endowments – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires CHRCF to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles in the United States, deficiencies of this nature that are reported in unrestricted net assets were $0 and $76,300 as of December 31, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market fluctuations.

Children's is required to provide information about net assets which are defined as endowment, which includes endowment which is permanently restricted by donors (permanently restricted net assets) and endowment which has been board designated. The changes in endowment net assets for the years ended December 31, 2012 and 2011 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2010	$ 126,173,900	$ 9,744,700	$ 18,701,700	$ 154,620,300
Investment return				
Investment income	3,088,700	729,700	-	3,818,400
Realized and unrealized gains (losses)	(3,213,700)	(758,100)	13,500	(3,958,300)
Total investment return (loss)	(125,000)	(28,400)	13,500	(139,900)
Contributions and reclassifications	1,009,700	119,500	3,304,200	4,433,400
Appropriation of endowment assets for expenditures	(297,500)	(1,128,000)	-	(1,425,500)
Endowment net assets, December 31, 2011	$ 126,761,100	$ 8,707,800	$ 22,019,400	$ 157,488,300
Investment return				
Investment income	$ 3,019,700	$ 655,000	$ -	$ 3,674,700
Realized and unrealized gains	8,681,100	2,071,900	45,900	10,798,900
Total investment return	11,700,800	2,726,900	45,900	14,473,600
Contributions and reclassifications	(373,300)	51,200	1,728,000	1,405,900
Appropriation of endowment assets for expenditures	(321,000)	(1,126,500)	-	(1,447,500)
Endowment net assets, December 31, 2012	$ 137,767,600	$ 10,359,400	$ 23,793,300	$ 171,920,300

Endowment net asset composition by type of fund as of December 31, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 10,359,600	$ 23,793,100	$ 34,152,700
Board designated special purpose funds	8,129,300	-	-	8,129,300
Board designated general endowment	129,638,300	-	-	129,638,300
	$ 137,767,600	$ 10,359,600	$ 23,793,100	$ 171,920,300

Endowment net asset composition by type of fund as of December 31, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 8,707,800	$ 22,019,300	$ 30,727,100
Board designated special purpose funds	7,743,300	-	-	7,743,300
Board designated general endowment	119,017,900	-	-	119,017,900
	$ 126,761,200	$ 8,707,800	$ 22,019,300	$ 157,488,300

NOTE 13 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the consolidated balance sheet date but before consolidated financial statements are available to be issued. Children's recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the consolidated balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. Children's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the consolidated balance sheet but arose after the consolidated balance sheet date and before consolidated financial statements are issued.

Children's is in discussions with another entity regarding a potential affiliation. A non binding letter of intent has been signed.

Children's has evaluated subsequent events through May 30, 2013, which is the date the consolidated financial statements are issued.

SINGLE AUDIT

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Grant Number / Agency or Pass Through Number	Federal CFDA Number (*)	Federal Expenditures
Research and Development Cluster			
U.S. Department of Health and Human Services			
National Institutes of Health	Note 4	Note 4	$ 18,021,043
Food and Drug Administration	Note 5	Note 5	210,726
Centers for Disease Control and Prevention	Note 6	Note 6	306,468
U.S. Department of Agriculture	Note 7	Note 7	391,656
U.S. Department of Defense	Note 8	Note 8	635,643
U.S. Department of Justice	2010-DN-BX-K141	16.560	277,379
Subtotal Direct Programs			19,842,915
Pass-Through Programs From:			
American Institutes for Research	HHSN-268-2005-74264C/N02-HL-054264	93.UNKNOWN	1,709
Bay Area Tumor Institute	U10 CA 45461	93.399	108,654
BioElectroMed Corp	5 R44CA123924-03	93.395	17,977
Blood Systems, Inc. dba Blood Systems Research Institute	HHSN268201100007I	93.UNKNOWN	38,314
Buck Institute for Research on Aging	R21 AG042053	93.866	4,724
California Pacific Medical Center Research Institute	1 R01 EY019900-03	93.867	311,248
Case-Western Reserve University	1 R03 HD058587-01A2	93.865	6,173
Children's Hospital Boston	Note 9	Note 9	3,271
Cincinnati Children's Hospital Medical Center	5 U01 AI067150-05	93.855	165,762
EpitoGenesis, Inc	1 R41AI096706-01A1	93.855	66,746
Group Health Cooperative	HHSN272200800004C	93.UNKNOWN	336,005
Lawrence Berkeley National Laboratory	1 R01 HL091495-04	93.837	77,347
Los Angeles Biomedical Research Institute at Harbor - UCLA Medicine	5 R01 FD003450-02	93.103	9,682
Lypro Bioscience	R44 AI066444-04	93.855	242,929
National Childhood Cancer Foundation	U01 HL 69254-09	93.839	19,759
NetBio Inc	1 R43 AI096768-01	93.855	26,861
Network Biosystems	1 R43 AI084206-01	93.855	80,047
New England Research Institute	Note 10	Note 10	108,021
North Carolina State University	1 R01CA16108-01A1	93.393	26,269
Oklahoma Medical Research Foundation	5 P01 AI083194-04	93.855	168,813
Oregon Health and Science University	U54 AI 081680	93.855	92,678
SRI International	1 R21 1ES020124-01	93.UNKNOWN	130,519
The Board of Trustees of the Leland Stanford Junior University	Note 11	Note 11	306,844
The Children's Hospital of Philadelphia	5 R01 HL098087-02	93.838	2,169
The Medical College of Wisconsin	5 R01 HL095410-04	93.838	14,733
The Regents of the University of California, Davis	Note 12	Note 12	1,158,854
The Regents of the University of California, San Francisco	Note 13	Note 13	1,272,521
The Regents of the University of Minnesota	2 P01 CA111412-08	93.395	313,829
University of Pennsylvania	5 U01 HL086622-04	93.838	6,761
University of Florida Board of Trustees	2010-ST-061-AG0001-02	97.061	26,000
University of Massachusetts, Worcester	7 R01 NS050557-05	93.853	13,399
University of Pittsburgh	5R34 HL108761-02	93.837	9,150
University of South Florida	HHSN26720070014C	93.847	115,400
University of Utah	5 U01 HD049934-09	93.865	2,140
Subtotal Pass-Through Programs			5,285,308
Total Research and Development Cluster			$ 25,128,223

See notes to schedule of expenditures of federal awards.

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Grant Number / Agency or Pass Through Number	Federal CFDA Number (*)	Federal Expenditures
Other Federal Programs			
U.S. Department of Health and Human Services			
Health Resources and Services Administration	Note 14	Note 14	$ 7,599,866
Pass-Through Funding			
Alameda County	Note 15	Note 15	1,293,805
Children's Hospital of Orange County	Note 16	Note 16	54,433
City of Oakland	Oakland City Council Resolution 82433	93.600	112,240
Consumer Product Safety Commission	CPSC-N-12-0133	87.UNKNOWN	5,380
CureSearch - National Childhood Cancer Foundation	5 U10 CA98543-07	93.395	11,326
Public Health Foundation Enterprises, Inc.	Note 17	Note 17	118,439
State of California - CalEMA	AT10071500	16.575	242,315
WestEd	H181A070037	84.181	42,798
Subtotal Pass-Through Programs			1,880,736
Total Other Federal Programs			9,480,602
Total Federal Grant Expenditures			$ 34,608,825

(*) CFDA numbers that are not available are notated by "UNKNOWN."

See notes to schedule of expenditures of federal awards.

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of Children's Hospital & Research Center at Oakland under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of Children's Hospital & Research Center at Oakland, it is not intended to and does not present the consolidated financial position, changes in net assets, or cash flows of Children's Hospital & Research Center at Oakland.

Federal expenditures of $34,608,825 are included in Children's Hospital & Research Center at Oakland consolidated financial statements as "research and specific purpose grant expenses."

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-profit Organizations,* wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 3 – SUBRECIPIENTS

Certain funds are passed through to subrecipient organizations by Children's Hospital & Research Center at Oakland. Expenditures incurred by the subrecipients and reimbursed by Children's Hospital & Research Center at Oakland are included in the schedule of expenditures of federal awards. Children's Hospital & Research Center at Oakland is also the subrecipient of federal funds, which are reported as expenditures and listed separately as federal pass-through funds. Of the federal expenditures presented in the schedule of expenditures of federal awards, Children's Hospital & Research Center at Oakland provided federal awards to subrecipients as follows:

Federal CFDA Number	Program Title	Amount Provided to Subrecipients
10.310	Agriculture and Food Research Initiative (AFRI)	$ 139,970
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth	984,621
93.172	Human Genome Research	782,153
93.283	Centers for Disease Control and Prevention_Investigations and Technical Assistance	14,766
93.701	ARRA - Trans-NIH Recovery Act Research Support	1,470,407
93.837	Cardiovascular Diseases Research	1,701,404
93.838	Lung Diseases Research	14,247
93.839	Blood Diseases and Resources Research	600
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	59,194
93.855	Allergy, Immunology, and Transplantation Research	335,801
97.061	Centers for Homeland Security	8,500

NOTE 4 – NATIONAL INSTITUTES OF HEALTH

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	93.172	5 U01 HG004080-05	$ 1,479,204
	93.213	5 R21 AT004493-03	10,528
	93.213	5 R21 AT005336-02 Revised	50,309
	93.393	1R01CA163611-01	96,811
	93.393	5 R01 CA142879-03	372,600
	93.396	3 R01 CA129438-05S1	171,862
	93.398	5 K22 CA163969-02	163,226
	93.701	ARRA - 5 R01 DK020251-33 & 3 R01 DK020251-33S1	18,819
	93.701	ARRA - 1 R56 DK084357-01A1	36,499
	93.701	ARRA - 5 RC1 AG036203-02	66,014
	93.701	ARRA - 5 R01 HL092330-02	86,034
	93.701	ARRA - 3 U01 AI067068-05S1	108,811
	93.701	ARRA - 5 R01 DK057778-07	136,175
	93.701	ARRA - 3 U01 HG004080-04S1	1,455,058
	93.837	3 R01 HL106003-02SI	3,379
	93.837	1 K18 HL102257-01	47,314
	93.837	5 R01 HL077708-05	83,383
	93.837	1 R01HL113059-01	127,346
	93.837	5 R25 HL096365-04	168,976
	93.837	2R01HL092330-03A1	238,453
	93.837	5 T32 HL098057-04	255,911
	93.837	5 R01 HL084474-05	307,216
	93.837	5 R37 HL064159-13	441,898
	93.837	5 R01 HL104133-03	595,906
	93.837	5 R01 HL106003-02	1,421,376
	93.837	5 U19HL069757-12	2,947,601
	93.838	5 R01 HL086323-04	34,431
	93.839	5 U10 HL083704-05	26,555
	93.846	IR03AR062769-01	52,522
	93.846	5 K01 AR053496-05	70,662
	93.846	1 R21 AR057931-02	82,882
	93.847	5 T32 DK078514-10	93,365
	93.847	5 R01 DK085124-03	373,324
	93.847	5R01DK090478-03	485,505
	93.847	2 R56 DK061722-09	554,924
	93.855	5 R21 AI090345-02	4,391
	93.855	5 U01 AI067068-08	13,128
	93.855	5 U01 AI067068-08 Revised	29,945
	93.855	1R56A1099372-01	63,293
	93.855	5 R01 AIO25008-23	77,350
	93.855	5 R01 AI061354-05 Revised	129,055
	93.855	1 R01 AI099125-01	146,230
	93.855	1 R56 AI078419-01A1	165,121
	93.855	1 R01AI098843-01	231,688
	93.855	5 R21 AI088481-02	250,044
	93.855	5 R01 AI070955-04	422,096
	93.855	5 R01 AI082263-03	432,344
	93.855	5 U01 AI067068-08	496,441
	93.855	5 R01 AI046464-11	619,850
	93.855	5 U01 AI067068-08	1,223,705
	93.859	5 R01 GM066954-07	361,974
	93.865	5 R01 HD053036-07	342,614
	93.866	7 R01 AG040182	346,895
			$ 18,021,043

NOTE 5 – FOOD AND DRUG ADMINISTRATION

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	93.103	5 R01 FD003531-03	$ 205,949
	93.103	1R01 FD004103-01	4,777
			$ 210,726

NOTE 6 – CENTERS FOR DISEASE CONTROL AND PREVENTION

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	93.185	1 U01IP000463-01	$ 73,251
	93.283	5 U01 DD000310-05	172,928
	93.283	5 U01 DD000743-02	60,289
			$ 306,468

NOTE 7 – U.S. DEPARTMENT OF AGRICULTURE

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	10.310	2009-65109-05760	$ 267,209
	10.310	2010-65200-20491	124,447
			$ 391,656

NOTE 8 – U.S. DEPARTMENT OF DEFENSE

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	12.420	W81XWH-11-1-0523	$ 507,128
	12.420	W81XWH-10-1-0682	128,515
			$ 635,643

NOTE 9 – CHILDREN'S HOSPITAL BOSTON

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	93.837	5 R34 HL108758-02	$ 64
	93.855	5 R01 AI080411-03	3,207
			$ 3,271

NOTE 10 – NEW ENGLAND RESEARCH INSTITUTE

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	93.839	5 U01 HL065238	$ 49,344
	93.839	U10HL083721	45,501
	93.839	U01 HL065238	8,000
	93.839	U01 HL083721	3,824
	93.839	5 U01 HL065238	658
	93.839	U01 HL065238-08	589
	93.839	5 U01 HL065238	105
			$ 108,021

NOTE 11 – THE BOARD OF TRUSTEES OF THE LELAND STANFORD JUNIOR UNIVERSITY

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	93.113	5 R01 ES017060-05	$ 76,060
	93.283	5 U01 DD000489-04	82,701
	93.837	5 R01 HL101388	23,904
	93.855	1 U19 AI090019-03	124,179
			$ 306,844

NOTE 12 – THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, DAVIS

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	10.310	2011-67009-30030	$ 629,214
	93.172	1 U54 HG006364-02	390,528
	93.389	1 U42 RR033193-02	139,112
			$ 1,158,854

NOTE 13 – THE REGENTS OF THE UNIVERSITY OF CALIFORNIA, SAN FRANCISCO

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Research and Development Cluster	93.350	8UL1TR000004-07	$ 2,924
	93.389	2 UL1 RR024131-06	10,800
	93.389	5 UL1 RR024131-07	810,626
	93.837	U10HL098115	128,279
	93.837	1 U10 HL098107-02	40,537
	93.838	5 U01 HL094338-03	209,524
	93.838	5 U01 HL101798-02	53,652
	93.853	U01 NS053998	16,179
			$ 1,272,521

NOTE 14 – HEALTH RESOURCES AND SERVICES ADMINISTRATION

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Other	93.110	1 H30MC24045-01-01	$ 3,731,080
	93.110	6 H87 MC24053-01-02	106,997
	93.110	6 H87 MC00279-09 01	91,008
	93.153	2 H12 HA00072-15-00	1,253,159
	93.153	6 H12HA00072-15-00	94,939
	93.153	1H12HA24777-01-00	59,522
	93.153	1H12HA24777-01-00	126
	93.224	5 H80 CS00052-12-00	1,189,910
	93.365	5 U1EMC16492-04-00	446,561
	93.510	6 T89HP20742-01-01	525,719
	93.703	ARRA - C81CS13420-01-02	100,845
			$ 7,599,866

NOTE 15 – ALAMEDA COUNTY

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Other	93.645	Master Contract 900159 Procurement # 7011	$ 14,434
	93.658	Master Contract 900159 Procurement # 5897	243,163
	93.658	Master Contract 900159 Procurement # 6820	11,251
	93.778	State Plan Amendment #95-006 - Public Health	963,505
	93.914	PHG08HA60200	61,452
			$ 1,293,805

NOTE 16 – CHILDREN'S HOSPITAL OF ORANGE COUNTY

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Other	93.110	1 H30MC24045-01-01	$ 27,630
	93.110	7 H30 MC21656-01	21,380
	93.184	1U27DD000862-01	5,423
			$ 54,433

NOTE 17 – PUBLIC HEALTH FOUNDATION ENTERPRISES, INC

Federal CFDA and agency or pass-through numbers are as follows:

	Federal CFDA Number	Grant Number / Agency or Pass-Through Number	Federal Expenditure
Other	93.283	1U5ODD000568-01	$ 82,755
	93.712	ARRA - 3U50CI923677-05S4/ PHFE Project#2367.001.001	35,684
			$ 118,439

NOTE 18 – STATE OF CALIFORNIA - CALEMA

The following information is provided as requested under the State of California, Office of Emergency Services' Recipient Handbook, §8215. Expenditure amounts per State of California Report of Expenditures and Request for Funds amounts were obtained from monthly reports submitted to the Office of Emergency Services.

	Federal CFDA Number	Hospital Match	Federal Funds
Grant numbers: AT11071500; AT12081500			
Grant periods: 10/01/11 to 09/30/13			
Audit period: 01/01/12 to 12/31/12			
Amount per State of California Report of Expenditures and Request for Funds			
Child Abuse Treatment Program			
Personal services		$ 58,691	$ 218,102
Operating expenses		346	18,046
Equipment		-	-
		$ 59,037	236,148
Amount per Schedule of Expenditures of Federal Awards	16.575		242,315
Difference			$ (6,167)
Revenue received from State of California			$ 186,109

The difference is due to timing differences between actual expenditure of funds and State reporting thereto.

Program Name	BERT	CVC	McClymonds	Castlemont	CPC	CARE ECMH	Behavioral Disorder	Family Partner	EPSDT	Total
Contract Number	RU# 81783	RU# 81781, 81786,81787	RU# 81784	RU# 81785	RU# 81788	RU# 01CH1	RU# 01CG1	RU# 01CH1	ADMIN	
Exhibit Number	B-1	B-1	B-1	B-1	B-1	B-1	B-1	B-1	B-1	
Contract Period	07/01/11 to 6/30/12	07/01/11 to 6/30/12	07/01/11 to 6/30/12	07/01/11 to 6/30/12	07/01/11 to 6/30/12	07/01/11 to 6/30/12	07/01/11 to 6/30/12	07/01/11 to 6/30/12	07/01/11 to 6/30/12	
Contract Amount	$ 161,441	$ 4,006,342	$ 169,576	$ 936,831	$ 2,454,807	$ 3,019,752	$ 1,042,038	$ -	$ -	$ 11,790,787
Direct Expenses for the 12 month period January 2012 to December 2012										
Personnel	$ 278,993	$ 2,048,914	$ 114,488	$ 565,891	$ 1,583,940	$ 1,733,447	$ 573,093	$ 24,998	$ 133,342	$ 7,057,106
Fringe benefits	115,501	787,304	46,118	225,158	585,117	682,502	221,249	10,918	45,528	2,719,395
Contractual services	-	-	-	-	-	-	-			-
Rent, utilities, maintenance	253	110,967	3,486	4,847	10,445	158,615	50,259	-		338,872
Telephone, postage	47	1,030	975	5,104	397	6,565	1,691	-		15,809
Supplies and incentives	108	8,596	890	2,581	14,744	9,075	5,216	-		41,210
Travel	-	68,720	-	211	496	52,503	366	309		122,605
Minor equipment	-	453	-	-	3,087	270	-			3,810
Shared Direct Expenses	7,217	49,695	2,971	18,224	40,009	82,320	14,659	(36,225)	(178,870)	-
Total Direct Expenses	$ 402,119	$ 3,075,679	$ 168,928	$ 822,016	$ 2,238,235	$ 2,725,297	$ 866,533	$ -	$ -	$ 10,298,807

MOSS-ADAMS LLP
Certified Public Accountants | Business Consultants

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Children's Hospital & Research Center at Oakland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Children's Hospital & Research Center at Oakland, which comprise the consolidated balance sheets as of December 31, 2012, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated May 30, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Children's Hospital & Research Center at Oakland's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Children's Hospital & Research Center at Oakland's internal control. Accordingly, we do not express an opinion on the effectiveness of Children's Hospital & Research Center at Oakland's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Children's Hospital & Research Center at Oakland's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
May 30, 2013

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR PROGRAM, AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Children's Hospital & Research Center at Oakland

Report on Compliance for Each Major Federal Program

We have audited Children's Hospital & Research Center at Oakland's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Children's Hospital & Research Center at Oakland's major federal programs for the year ended December 31, 2012. Children's Hospital & Research Center's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Children's Hospital & Research Center at Oakland's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Children's Hospital & Research Center at Oakland's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Children's Hospital & Research Center at Oakland's compliance.

Opinion on Each Major Federal Program

In our opinion, Children's Hospital & Research Center at Oakland complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of Children's Hospital & Research Center at Oakland is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Children's Hospital & Research Center at Oakland's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Children's Hospital & Research Center at Oakland's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Moss Adams LLP

San Francisco, California
May 30, 2013

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?	☐	yes	☒	no
• Significant deficiency(ies) identified?	☐	yes	☒	none reported
Noncompliance material to consolidated financial statements noted?	☐	yes	☒	no

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?	☐	yes	☒	no
• Significant deficiency(ies) identified?	☐	yes	☒	none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	☐	yes	☒	no

Identification of major programs

CFDA Number(s)	Name of Federal Program or Cluster
Various	*Research and Development Cluster*
93.110	*Maternal and Child Health Federal Consolidated Programs*

Dollar threshold used to distinguish between Type A and Type B programs: $ 1,038,265

Auditee qualified as low-risk auditee?	☒	yes	☐	no

SECTION II – FINANCIAL STATEMENT FINDINGS

None noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS

None noted.