In the field of health care, change is inevitable. It may come as an exciting medical breakthrough, such as the Nuss Procedure developed right here at CHKD, or as an alarming new trend, such as antibiotic resistance. It may be the result of the social climate, which brought us new regulations surrounding privacy and confidentiality, or the natural climate, which brought us Hurricane Isabel. Change can make our work easier or more challenging and affect all or only a few of us. But in our world, change is always brewing.

Our ability to adapt to change has always been one of our greatest strengths at CHKD Health System, and over the past several years we have put that skill to the test. We have brought our policies and practices into compliance with hundreds of new regulations governing health care. We have examined what we do and how we do it to ensure that we adhere to the very highest standards of patient care and safety. At the same time, we have assessed the evolving needs of our growing community and designed programs and services to meet them.

Adapting to new requirements while we meet our existing responsibilities has been hard work for all of us. But we are already seeing the rewards.

One of our most rewarding moments this year occurred in May when we dedicated the new CHKD Health Center at Oyster Point. Located in a growing area of the Peninsula’s largest city, our permanent home in Newport News is a symbol of our steadfast commitment to make our services easily accessible to families in their own communities.

The new Health Center already offers primary care, subspecialists and surgeons, on-site diagnostics, a sports medicine gym and physical, occupational and speech therapy. Over the next year, the number of services will continue to grow. We’ll add an aquatic therapy pool and, most exciting of all, our first-ever Ambulatory Surgery Center. This will offer Peninsula families the true “CHKD experience” for outpatient surgeries: a team of professionals dedicated exclusively to the needs of children, from pediatric surgeons and nurses to anesthesiologists and child life specialists.

Another particularly rewarding moment came in January when we received a near-perfect performance report from our Joint Commission survey, an achievement that highlighted our ability to work across dozens of disciplines to meet a common goal. The Joint Commission on Accreditation of Healthcare Organizations is the nation’s predominant standards-setting and accrediting body in health care, and the survey is always very important to us. We were the first hospital in the country to be reviewed with a new process that traced the care, treatment and service experiences of actual patients through our hospital. Thanks go to those who led our extensive preparations and to each and every employee whose daily work helps us maintain a consistent environment of excellence.

Among those dedicated employees are, of course, our nurses. We were extremely proud when two of our nurses were awarded the 2004 Nursing Excellence Award from The Virginian Pilot. And we were not a bit surprised to learn that of the 50 Hampton Roads nurses nominated by families for their care, 13 were associated with CHKD and its Medical Group practices.

Our nurses are not the only members of our family whose dedication resulted in accolades last year. More than 50 surgeons and nurses came from across the country to attend a conference on the Nuss Procedure. Volunteer Hampton Roads honored the Norfolk City Union of The King’s Daughters as volunteer organization of the year. And our public relations and marketing team received national recognition for the high quality of our communications pieces.

Achievements like these make us all feel proud, but they also signify something even more important, something that every part of our health system shares: the respect of our peers in the medical community and the trust of our community and its leaders.

That trust – that relationship – is truly the essence of CHKD Health System. It is what enabled us to raise more than $9 million in philanthropic gifts last year. And it is what inspired our federal and state elected officials to spearhead efforts that lent financial support to our institution.

But above all, that trust is the sacred gift families give us when they show us time and time again that we are the people they want to care for their children.

We will be here for them, changing in all the ways we must to meet their needs.

Jim Dahling
President/Chief Executive Officer
In May, we celebrated one of our most significant milestones in recent history: the dedication of our first permanent home on the Peninsula, the new CHKD Health Center at Oyster Point. The two-story facility is home to Newport News Pediatrics, Children’s Orthopedic and Sports Medicine, Children’s Urology and Pediatric Surgery, as well as more than a dozen Children’s Specialty Group clinics; physical, occupational and speech therapy; a sports medicine gym, and X-ray and laboratory services.

We gained state approval to establish our first-ever Ambulatory Surgery Center, which is now being built at our new Peninsula Health Center. Each year the new two-story surgery center will offer about 1,000 Peninsula families the CHKD outpatient surgery experience.

After months of hospital-wide preparation, we received a near-perfect performance review from our survey by the Joint Commission on Accreditation of Healthcare Organizations.

In addition to overseeing the construction of the Health Center at Oyster Point and renovations of the Health Center at Greenbrier to add a sports medicine gym and accommodate the new home for Chesapeake Pediatrics, our engineering department completed a major roofing project and started several renovation projects at CHKD. One of the most exciting is a new hematology/oncology outpatient clinic and treatment center on the hospital’s second floor made possible by our friends at Farm Fresh.

Children’s Medical Group had a busy year: Newport News Pediatrics, Pediatric Associates and Chesapeake Pediatrics all moved to new homes, and General Booth Pediatrics welcomed two new physicians. While closing one practice last year resulted in fewer overall visits this year, net revenue for our practices was up by more than $400,000.

As part of our ongoing efforts to improve patient safety, we added features to our online error-reporting system that allow our employees to record “near misses” so we can develop systems and processes that prevent potential errors from ever becoming real ones.

The orthopedic surgeons of Children’s Surgical Specialty Group added a new physician to their roster and worked with our physical therapy team to add new training and rehabilitation facilities to our sports medicine program. The new gyms are located at our Health Centers at Oyster Point and Greenbrier. A new surgeon was recruited in urology by year’s end.

In September 2003, the department of pediatrics hosted a conference for physicians from across the state, Pediatrics 2003 in Williamsburg. It was part of the state meeting of the American Academy of Pediatrics with some 150 attendees. And in April, more than 50 physicians from across the country attended the second annual Nuss Procedure Workshop, hosted by CSSG’s Pediatric Surgery. Our CME office, audiovisual department and information services helped make these events huge successes.
More than 9,800 surgeries were performed in our surgery center this year, about 100 more than last year and 1,000 more than FY2002. We received state approval to move the surgical component of our pediatric renal transplant program from Sentara Norfolk General Hospital to CHKD, bringing the entire process – from pre-surgical evaluation through post-op care – under our roof.

To accommodate increased demand for inpatient care, we converted five beds in our short-term procedure unit to step-down PICU beds and renamed that unit the “SP2,” which stands for “Short-term Procedure/Step-down PICU.” We also added four beds to our hematology/oncology unit to bring our total number of beds in service to 157. Our inpatient rehabilitation unit celebrated its fifth anniversary this year with a reunion party attended by some 200 former patients and families.

Our elected officials proved to be true advocates for children this year. Senators John Warner and George Allen and Representatives Jo Ann Davis, Bobby Scott and Ed Schrock helped us secure $1.15 million in federal funding through the Consolidated Appropriations Act of 2004 for the Health Center at Oyster Point and the Child Abuse Program.

Our laboratory was awarded accreditation with distinction from the College of American Pathologists, and its transfusion services department passed a concurrent survey from the American Association of Blood Banks. We added a new outpatient lab site at General Booth Pediatrics.

Ancillary revenues were excellent this year, more than $7 million higher than projected for PT/OT/ST, radiology, lab, pharmacy, sleep lab, pulmonary function testing and cardiology cath lab.

We established a Peninsula Board of Advisors to serve as advocates for CHKD and for the needs of Peninsula families and to assist with fund-raising initiatives.

The Child Abuse Program served 905 children this year, up from 850 last year. The program had a 38-percent increase in the number of forensic interviews performed, indicating greater awareness and demand for the highly specialized services the program provides to the legal and law enforcement communities and the children they protect.

We weathered the storm of hurricane Isabel with only minor damage to our facilities and with little interruption to patient care at any of our practices or off-site services. To ensure adequate staffing at the hospital during the height of the storm, our Discovery Care Center provided on-site care for more than 50 children for members of our essential clinical and support staff.

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On the state level, Delegate Phil Hamilton and Senator Ken Stolle helped ensure General Assembly passage of amendments that provide $1.5 million each year for two years to hospitals like CHKD, where a majority of NICU patients are covered by Medicaid.

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Our **Emergency Center** handled 42,043 visits this year. To help families better understand the ER visit, including everything from wait times to roles of our caregivers, the emergency department asked our marketing team to produce a **customer service video** to play in the waiting room.

Despite economic challenges that hampered fund-raising efforts of many charities, our philanthropic community contributed $9.3 million in much-needed support. The **2004 Telethon** accounted for $2.7 million, and our thriving **Thrift Stores** topped the $2 million mark for the first time. Proceeds from events and programs sponsored by the **Norfolk City Union of The King’s Daughters** accounted for $485,000. We hosted two new major fund-raisers, a mini grand prix and an online auction. We launched **The Children’s Campaign** to raise $32.5 million in endowments and capital funds for the future.

The physicians of **Children’s Specialty Group** made a significant endowment contribution to our Child Abuse Center, one of the 15 new endowments established last year.

In order to help our increasingly diverse patient population communicate with caregivers, our **Care Connection for Children** worked with several departments to establish a comprehensive list of available interpreters in 16 languages, developed packets for registration staff to help non-English-speaking families and translated two of our registration forms into Spanish.

Our **Neonatal/Perinatal/Pediatric Outreach Center** collaborated with our Web team and the area’s leading OB groups to add information on prenatal care and childbirth to the clinical content on our Web site. And we extended the follow-up of critical care patients to include PICU patients as well as NICU.

Several of our **CHKD publications** won national honors for quality and design, including a gold award from the National Healthcare Advertising Awards competition for “Healthy Bear Goes to the Hospital,” an SOL-based publication we produce in conjunction with our annual **Let’s Pretend Children’s Hospital** program. That event, held last spring, brought nearly 1,000 first-grade students from Portsmouth and Virginia Beach on a field trip to CHKD organized by community outreach and our volunteer services department.

We opened the virtual doors to our online public **KDStore** so that patients, families and friends can show their support of CHKD through merchandise that sports our distinctive logo. Altogether, **e-commerce initiatives** brought in a total of $74,000 last year. Our Web team also added online class registration to our public Web site this year and a managed-care portal with security features that protect confidential information on **KDNet**.

Our **weight management** program reached 250 children and parents last year and continued to gain extensive media coverage as the topic of childhood obesity emerged as a national priority.
Our information services department successfully completed the transition of all our CMG practices to the EPIC practice management software system, which brings registration, appointment scheduling and accounting tasks together in a single system. Our surgical practices and radiology department will soon move to the EPIC system as well.

We appointed Dennis M. Ryan senior vice president of finance and chief financial officer. Five members of our strategic leadership team were named vice presidents. They are David Bowers, support services; Martin Casey, ancillary services; Robin Doyle, nursing; Joann Gaylord, physician practice management; and Amy Wendel, marketing and public relations.

More than 600 people donated their time and energy to CHKD through volunteer services, which also oversaw Kids & Co. gift shop’s 15-percent increase in sales.

Our ongoing efforts to retain and recruit nurses to CHKD continue to make progress. This year, we announced a scholarship program for employees enrolled in accredited academic nursing programs. Our summer nurse extern program continues to be an excellent recruitment tool, with our third externship program attracting 18 senior nursing students. In all, 19 summer nurse externs are now CHKD employees.

Our medical management team developed a new process for handling pending denials from third-party payers that prevented half a million dollars in lost revenue.

We added 67 new physicians to our professional staff this year, nine of them are pediatric specialists with Children’s Specialty Group PLLC. And the pediatric residency program had an exceptional recruitment this past year for our 16 new interns.

The Center for Pediatric Research garnered 39 research grants and 27 clinical trials this year. Three new CPR faculty members have been awarded federal research funding from the National Institutes of Health and the Centers for Disease Control and Prevention. CPR faculty authored 45 manuscripts in scientific and medical journals and 28 book chapters.

The Consortium for Infant and Child Health celebrated its 10th anniversary collaborating with organizations and agencies to remedy children’s health problems in our community. In a single week in May, CINCH helped 300 families apply for the state-sponsored children’s health coverage for their children. Allies Against Asthma, a CINCH workgroup, held an asthma fair during the back-to-school season and conducted three summits with residents of public housing.
Children’s Health System’s combined operations (including Children’s Health Foundation) achieved a 3.9 percent operating margin for the year, a significant improvement over the prior year’s operating loss of 4.7 percent.

Several factors contributed to the swift turnaround. Our foundation accounted for 3.6 percent of the improvement, ending the year with an operating income of $3,321,000 and unrealized gains of $2,161,000. This was in contrast to the prior year’s loss of $3,284,000 with unrealized gains of $9,992,000. Overall, CHF earned an average of 12.5 percent on externally-managed funds, which was just slightly under the target of 12.9 percent.

CHKD experienced greater demand throughout the year for inpatient, surgical and outpatient services. Children’s Medical Group substantially decreased its operational losses. Finally, a concerted effort across all areas of CHKD Health System to handle higher volumes without greatly increasing expenditures also had a significant impact on our bottom line.

### Children’s Health System

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**Children’s Hospital of The King’s Daughters**

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**CHKD Operating Statistics**

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<tr>
<th>Fiscal Year (7/1/03 to 6/30/04)</th>
<th>2003</th>
<th>2004</th>
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<tr>
<td>Number of Beds in Service</td>
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<td>Patient Days</td>
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<td>Admissions</td>
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<td>Emergency Visits</td>
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*Unaudited figures*