

What does it take to be one of the Top 20 Children's Hospitals in the country? You can imagine our pride when Children's Hospital of The King's Daughters received that distinction this past fiscal year. CHKD was named to an exclusive list of the nation's "best" children's hospitals, selected from among 178 pediatric facilities by *Child* magazine last February. This came right on the heels of us earning high marks after the Joint Commission on Accreditation of Healthcare Organizations surveyed our hospital just before Thanksgiving. As a result of the survey, the JCAHO renewed our accreditation, a designation we value greatly because of what it tells our public about the high quality of care we provide and the good work we do every day.

It's a wonderful thing to be praised for the splendid day-to-day job we do for the children, especially as we celebrated our 40th anniversary this year. Of course, we know what it takes to be a top children's hospital: the right people and programs and a steadfast commitment to outstanding care for the region's children. As we review our fiscal year's progress and challenges in this report, we renew our commitment to the mission that keeps us focused.

CHKD Health System had a stand-out year, indeed. Investing in new technologies helped us stay on the cutting edge of health care, and refining established systems kept us in tune with the times. Developing relationships with others in the health care community helped us make the best use of resources already available. Expanding in growth areas helped us ensure that we will be prepared for the future. Participating in research has kept us in the forefront of health care for children.

We faced challenges, such as dwindling funds for graduate medical education, decreasing public funds for low-income patients and a scarcity of health care professionals. But many of our services and programs hit new highs this year, serving more children, reaching more families and raising more donation dollars than in years past. In some of our very successful outpatient programs we expanded hours, opened new locations and updated equipment to meet the demand for this type of care. In our hospital, more surgical procedures, more patient admissions, more emergency center visits and more diagnostic tests kept our staff busier than ever. And thanks to the generosity of our employees, medical staff and community, our fund raising hit a new all-time high of more than \$10 million for the year. We greatly appreciate those who so willingly and generously support Children's Hospital – the founding King's Daughters and their organization of Circles, our boards and advisors, our dedicated employees and physicians, our stalwart volunteers and our beloved donors.

As you review our report for the fiscal year 2001, we hope you see your mark on our work and share in our pride as a top 20 children's hospital that's committed to greatness.


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Expanding Services. Children's Hospital of The King's Daughters is making a big impact on the families who live many miles from our Norfolk home. This past year we established a Peninsula presence for our Orthopedics and Sports Medicine practice in the offices of Hampton Roads Pediatrics. The arrangement was so successful that we increased the office hours for the surgeons there to meet the demand. We also initiated physical, occupational and speech therapy services at our Health Center in Kempsville and expanded therapy services at our Denbigh satellite location to better serve Peninsula patients. Our hemodialysis unit kept up with an increasing volume of dialysis patients by expanding the therapy schedule from three to six days a week as needed. And in the first full year of offering diagnostic services (lab and X-ray) at our Chesapeake, Denbigh, Kempsville and Virginia Beach locations, our volumes increased. We also gained the distinction of becoming the first peripheral vascular laboratory in a freestanding children's hospital to be accredited in all areas tested.



Improving How We Do Things. Performance improvement has become a way of life for every department of Children's Hospital. We revised the organization's performance improvement plan, and many departments adopted more efficient ways of operating, using the best ideas put forth by employees. For instance, as a result of performance improvement suggestions, our patient financial services department found a way to reduce late charges on bills and registration errors. In our EEG department, we added more outpatient appointments to reduce the wait time from three weeks to one. We also found that by establishing our own courier service, we could close the miles between our locations to allow for more timely and efficient communications and deliveries. In our medical records department, our inpatient data was greatly improved with the installation of a new ChartStat system that provides quicker access to five years of inpatient data and two years of outpatient data. And we increased the number of physician offices to which we provide transcription services.



Protecting Patient Privacy. As part of the Health Insurance Portability and Accountability Act of 1996, the federal government enacted new regulations regarding patient privacy and access to medical records. Organizations have until April 2003 to comply with the new regulations, but we are already at work to meet this important goal. This year we formed a privacy and security committee to oversee our compliance efforts. Its members are currently reviewing our existing policies and procedures regarding the health information we submit to outside entities. Over the next two years, we will revise or add policies where needed to assure that our organization fully upholds the new standards.

Building a New Home. With the renovation and expansion this year of the home of our Child Abuse Program at 935 Redgate Avenue, we are now providing a comprehensive assessment and evaluation program for suspected abuse and neglect victims. Major gifts turned the facility into a friendly setting that softens the interviewing process for traumatized children. With a forensic pediatrician recruited to serve as medical director of the program, services were integrated with the hospital to provide medical evaluation and follow-up for all children suspected of being abused or neglected.



Responding to Emergencies. The volume of patients in our Emergency Center this year increased from 33,886 to 37,180. Looking to the future, we developed a pediatric emergency nursing internship program and were able to recruit four new ER nurses from the first group of interns. And our transport team, which brings critically ill babies and children to CHKD from all over the region, logged more than 82,000 miles transporting 1,320 patients in our two new ambulances.



Excelling in Medical Education. Providing medical education and research that benefits children has always been a priority at CHKD. Our close association with Eastern Virginia Medical School continues to help us have top-notch pediatric specialists available to care for our children, with several pediatric sub-specialists – including infectious diseases, allergy/immunology, emergency medicine, medical genetics and pediatric forensic medicine – joining the department of pediatrics headquartered at CHKD. The residency training program based at Children's Hospital is stronger than ever, filling all 15 first-year openings from the first 18 ranked candidates. Because we maintain 51 physicians-in-training on our staff, we worked hard last year to convince Congress to appropriate funds for graduate medical education at children's hospitals across the nation. CHKD leadership, King's Daughters and friends actively educated our elected officials about the importance of this appropriation, resulting in about \$2 million of GME funding for CHKD this year.



Contributing to Research. Because many faculty members participate in important research, this year we established a new clinical research review committee. We improved how we promote research activities by creating a program called CORE (Clinical Outcomes, Research and Epidemiology) to support clinicians in their research. A new clinical trials unit provides research nurse support for investigators focusing on industry-sponsored trials of formulas, vaccines, antiviral agents and treatments for asthma and diabetes. Some of the clinical research studies currently being undertaken by faculty include a project to decide if lowering the body temperature can help prevent brain injury in asphyxiated newborns, an evaluation of new

therapies for HIV infection in children, and a study to develop a non-invasive method for detecting intravenous infiltrations in newborns. Our asthma specialists secured a major grant to establish the Allies Against Asthma coalition to reduce asthma symptoms, improve quality of care and foster asthma education throughout the community. And our pediatric emergency specialists published an important study in the American Academy of Pediatrics journal, *Pediatrics*, revealing that fever, one of the top 10 diagnoses seen in the emergency setting, is more likely to be treated appropriately – without unnecessary and invasive tests – in a pediatric emergency room.

The Center for Pediatric Research continued to maintain its remarkable record of research productivity and grant funding this year with such projects as the human milk study, now in its twenty-third year, and research into the potential application of ultra-short, high-energy electrical impulses in stimulating programmed cell death. The latter study could have implications for applications ranging from cancer to body-sculpting. The Center also continues its nationally recognized studies on the incidence of attention deficit/hyperactivity syndrome in school-aged children and its community-based health promotion, disease prevention programs.



Helping Physicians Keep Up-to-date. Last winter we gained approval by the Medical Society of Virginia to award continuing medical education credits to physicians. This year, we provided 19 one-hour courses and several conferences in various locations throughout the region, helping our professionals keep up with their skills and their accreditation.



Our Surgical Group Is Growing. CHKD Surgical Group added Children's Neurosurgery to our family of surgical specialists – which already included orthopedics, pediatric surgery and urology. Our surgeons expanded their availability at our satellite offices to make it easier for patients to get pre- and post-surgical care closer to home. With a busier than ever OR schedule that saw a 760-case increase over last year – thanks in large part to our Surgical Group doctors – our OR staff stepped up to accommodate the increase by opening an eighth operating room. And on the research front, our pediatric surgeons began a multi-site study to compare the efficacy of the Nuss Procedure – a surgery they invented to correct pectus excavatum – versus the traditional pectus surgery.



Streamlining Our Work. As we expand geographically, it becomes increasingly important for our information services department to bring us technology that helps improve customer service, efficiency and internal communications. To that end, EPIC, a computer system that integrates patient registration, scheduling and physician billing into a single streamlined system, was launched this

year at CHKD Medical Group's Pediatric Diagnostic Center. Over the next two years, EPIC will be installed to replace six different computer systems currently used throughout CHKD Medical and Surgical Group practices and outpatient clinics.



e-health@CHKD. With locations throughout southeastern Virginia and northeastern North Carolina, we need a way for employees to keep in touch and to feel part of the CHKD family. So, no matter where they are, CHKD is just a click away via KDnet, a private Web site created just for our employees. KDnet offers a wealth of important information, including phone and staff directories, policy manuals, event listings, business forms and reference tools. On our public Web site, we continued a major overhaul in anticipation of a relaunch this year. And our current online physician directory received a Silver Award for outstanding achievement from Child Health Corporation of America. By the end of the year, a virtual encyclopedia of children's health and wellness information comprising about 4,000 Web pages was nearly completed.



Standing Up for Our Physicians. Our managed care team successfully negotiated rate increases with two of our largest commercial payers this year. One of those payers had steadfastly refused to increase their reimbursement rates to our physicians for the past five years, which created a significant financial challenge for Children's Medical Group. We established a new contract compliance team that tracks claims for proper coding before they go out and proper reimbursement after they are processed. This new system proved to be quite successful, collecting approximately \$3 million this year from payers who had processed claims improperly.



CHKD Medical Group on Our Front Lines. CHKD Medical Group continues to be the first place area families turn to find quality primary care for their children. Forty physicians renewed their contracts with the group this year, keeping our membership steady at 74 pediatricians in 13 practices, offering services in 19 different locations. After several challenging years, the group significantly improved its financial performance by seeing more patients at each practice, adding night and weekend office hours in several locations, reducing the number of no-show appointments and adopting new office policies that improved reimbursement rates. CHKD Medical Group continues to be a vital member of the CHKD family, collaborating with other departments to pilot a new computer system, hosting parent education seminars and bringing free books to children to foster a love of reading and to nurture the parent-child bond.

Changing Times. Sometimes services become so underutilized that changes must be made. That happened this past year when use of our home health division fell significantly, primarily because other resources were serving the needs of our patients. So we closed our Home Health program and transferred many of the employees to other departments in the hospital. Similarly, although our Discovery Care Center at Military Circle achieved another prestigious three-year accreditation, the Center was unable to overcome its low enrollment and physical limitations. So the decision was made to close that Center.



On the Horizon. We see the need for expansion in programs such as outpatient surgery, so we spent a great deal of planning time this year on efforts to bring those services to Virginia Beach and the Peninsula. We initiated a certificate of public need request to build a Beach site and were in negotiations with an adult provider to bring pediatric surgery to the Peninsula. Regardless of the outcomes of these specific initiatives, we will work diligently to make sure our expertise is accessible and convenient throughout greater Hampton Roads.



Raising Hopes and Funds. Once again, our community proved the depth of its commitment to children through heartfelt – and record breaking – support. Contributions to CHKD totaled \$10.4 million in FY01. That figure includes \$2.06 million raised during the CHKD Telethon, \$1.3 million donated by employees, physicians and friends during our Annual Giving Campaign and \$1.4 million from bequests and trusts. It also represents the endless creativity and determination of our fund-raising team, which continues to find new and innovative ways to ensure that CHKD will be here for future generations of children. For instance, the department's new charitable gift annuity program increased in value 459 percent in its first full year.



For Our Good Name's Sake. If a good name is better than riches, CHKD is very wealthy indeed, according to a study of how the community perceives us. That information was the first and ultimately most important step of a comprehensive analysis we started last year to determine how we could best unify all of our various programs, practices and services under the CHKD brand. The new branding strategy, built around our traditional blocks logo, was completed this year. Implementation is underway and will continue in stages throughout our system over the next two years. In a parallel process, our founding organization, the Norfolk City Union of The King's Daughters, also adapted its logo to reflect its tie to CHKD.

Building on Our Name. Maintaining positive public relations is one way we build the value of our brand. This year, our doctors, nurses and staff participated in more than 400 local and national media stories relating to children's health and well-being. But we don't rely solely on the media to get parents the important information they need concerning children's health. We also produce our own CHKD publications, several of which won national awards of excellence this year, including our quarterly *Way to Grow* newsletter on children's health and *KidStuff* magazine. *CHKD Illustrated*, our 2000 calendar, won two prestigious national awards for health care marketing, including a "Best of Show."



Sharing Our Knowledge. Community outreach continues to be an area of amazing growth and collaboration for us. Our pediatric experts shared their knowledge with parents and other professionals through 34 classes, 11 conferences and dozens of community events, as well as through our high profile newspaper column and radio and TV announcements. We educated families on home safety through a partnership with the Tidewater Builder's Association. We established a program to lend car seats to children with special needs, gave away bike helmets and trained youngsters to be safe baby sitters. We taught parents effective techniques for discipline, potty training, taking care of newborns and performing CPR and first aid. With more and more children fighting problems with their weight, we established a multi-disciplinary weight management program that fills up as quickly as we can schedule sessions. Called "A Healthier You," the program offers an evaluation and planning clinic plus ongoing classes for these youngsters. Our Birth & Beyond program, which teaches prepared childbirth plus newborn care to first-time parents, has been a huge success. And we were extremely proud to become a site for the Reach Out and Read program, thanks to a major gift from a local philanthropic family. Now offered in six of our Medical Group practices, the program uses well-child visits to explain the importance of reading and builds a personal library for our youngest patients with the gift of a book at each checkup.



Helping Hands. Where would we be without our wonderful volunteers? Throughout the year, more than 500 individuals stepped up to give us the help we need in our hospital and in our off-campus sites. And during the summer, dozens of junior volunteers spent quality time giving us their best and learning some career skills at the same time. Nearly 28,000 volunteer hours represent an increase of about 9 percent from the previous year. Our gift shop is one of the areas that depends greatly on these volunteers. They helped us realize more than \$470,000 in sales in our Kids & Co. Gift Shop, where all the profits benefit CHKD.

Employees Key to Our Success. CHKD Health System has always known that our success depends on – and is shared by – our employees. Their passion for excellence is our single greatest asset, one we strive to nurture and develop in various ways. This year we repeated a survey of our employees that helps us assess motivation, job satisfaction, commitment and the organizational culture. The results were very encouraging. Not only did our organization show improvement in every area of measurement over previous surveys (conducted in 1995 and 1998), we also scored higher than most health care organizations in this country. As in the past, we will be using the results of the survey to identify areas for improvement.

CHKD, like other hospitals across the country today, is facing a shortage of nurses, pharmacists and other health professionals. So we're focusing significant resources on recruitment of new employees as well as retention of existing staff. To help us recruit employees, we're making greater use of the Internet and national professional journals, hosting open house events, and attending high school and nursing school job fairs. Our retention efforts include ongoing compensation analyses, benefits reviews, spirit-building picnics and ice cream socials and a "Gotcha" program that recognizes and rewards employee service excellence. We even installed thank-you boxes throughout the hospital so families could let us know when they wanted to send a special thanks to a certain employee.



Answering the Calls. One measure of the community's reliance on CHKD is simply how often our phone rings. And our phone is usually ringing. CHKD's Communications Center answered more than 200,000 calls this year. Calls to Children's Health Line, which provides information and helps parents select a doctor or register for CHKD classes or lectures, increased 43 percent. Health Line hours were extended from 5 p.m. to 8 p.m. to make it easier for parents to reach us in the evening. Calls to Doctors Direct, our physician-to-physician consult line, increased 69 percent. Parent Advice Line, an automated service that offers parents a comprehensive menu of child health information, gained 10 new pediatrician subscribers this year and increased its number of calls by 86 percent.



Child Care at Discovery. At the Ghent Discovery Care Center, we started a major renovation to update the facility and accommodate more children, especially in the younger classrooms. And as a result of a comprehensive parent satisfaction survey, the Center was able to close on a weekday to allow teachers to attend a conference where CHKD's PT/OT and speech experts taught the staff to recognize and capitalize on developmental milestones.

Our Dedicated King's Daughters. Our founding organization, the Norfolk City Union of The King's Daughters, focused efforts on organizational and volunteer development, fund raising through individual Circle projects and major projects, and child advocacy. The organization held a successful membership drive and, through a long-range task force, evaluated the major projects that have served as the backbone of its annual fund-raising events for Children's Hospital. The very successful major projects held at holiday time (Holly Homes Tour, Holly Festival of Trees, Holly Ball and Fantasy Shopping Night) raised well over \$167,000, designated for the purchase of incubators for CHKD's Neonatal Intensive Care Unit. A variety of projects held by the individual King's Daughters Circles helped raise more than \$115,700 and, with the help of local merchants and our Thrift Stores, the King's Daughters' canister collection project raised more than \$116,800.

Because The King's Daughters take their role as advocates seriously, they held special training sessions to prepare members for their advocacy efforts during the 2001 Virginia legislative sessions. And they successfully activated their grassroots network to urge Congress to pass an appropriations bill to fund graduate medical education at CHKD and other children's hospitals.

In the spring, The King's Daughters' Thrift Store opened at its 18th location – near Rosemont Road on Virginia Beach Boulevard – and realized amazing sales of \$186,908 in the first 10 weeks of operation. Then, in July, a 19th store opened, this one in Kitty Hawk, N.C. Altogether, sales increased by 23 percent and yielded \$1,445,715 for CHKD.



Conclusion:

Throughout this busy and challenging fiscal year at Children's Hospital of The King's Daughters, we've applied our best strategies for weathering the storms of health care and have achieved our stated goals while staying on track for the future. We are keeping the promise we've made to the children who count on us. And we have received acclaim and reward for doing so. Because our people and programs are outstanding and because our commitment is sound and true, we are proud to report on another successful year.



Children's Hospital of The King's Daughters is accredited by the Joint Commission on Accreditation for Healthcare Organizations and is licensed by the Commonwealth of Virginia. This Report is published by the Marketing and Public Relations Department of CHKD, 601 Children's Lane, Norfolk, Virginia 23507

Children's Hospital ended the fiscal year with a strong fourth quarter and operating margin of 4.1 percent, compared to a budget of 2.8 percent. Increased use of CHKD services was seen at all levels. Admissions increased from the previous year by 108, representing 1,305 more patient days in 2001. And outpatient services continued the upward trend. Outpatient clinic visits ended the year up 5,037 patient visits from the previous year, and emergency visits increased 2,661 to a total of 37,180. Surgeries were up 760 cases from the previous year to 8,265.

Even with the increased volumes, we fell short of our targeted net revenue because of reimbursement from our payers for our services. Many of the contracts that were slated to renew earlier in the fiscal year actually were implemented in the third quarter. Though it represents a negative for the year, it will be a positive for next fiscal year.

With a watchful eye on expenses, we ended the year with favorable variances in almost all expense categories. This was the overriding factor in exceeding our targeted net operating income for the year.

Also on the positive side was the strong showing of our Children's Medical Group practices, with visits up 9.5 percent from the previous year. CMG net patient revenue increased by 21 percent while operating expenses were held to a 4 percent increase.

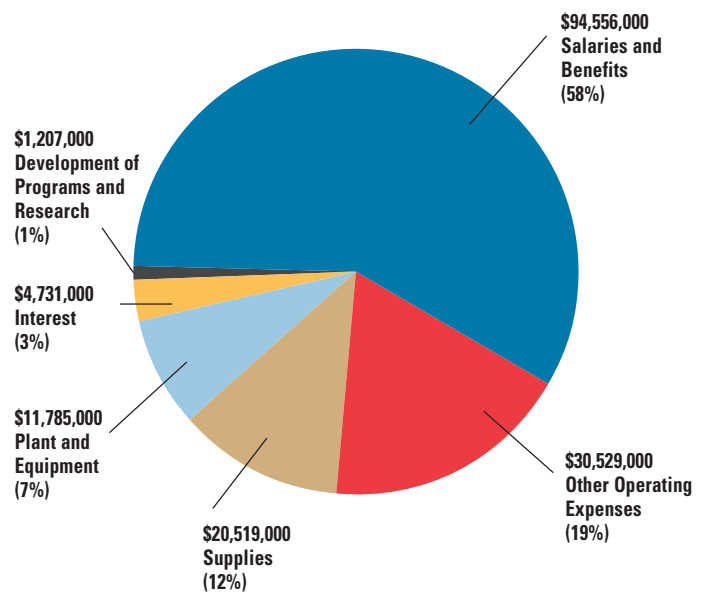
With the national economy in a downward spiral all year, the Children's Health Foundation experienced a stressful year. But contributions from our friends helped CHKD achieve a banner year in total contributions.

Because we are blessed with a supportive community, excellent board members and managers and a dedicated family of employees and physicians, we are pleased to report that 2001 was an excellent financial year for the CHKD Health System.

Operating Statistics			
<i>Fiscal Year (7/1/00 to 6/30/01)</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>
Number of Beds in Service	146	146	146
Patient Days	42,610	41,581	42,886
Admissions	5,519	5,633	5,741
Average Stay (days)*	4.7	4.6	4.5
Average Daily Census	116.7	113.6	117.5
Surgical Patients	7,497	7,505	8,265
Outpatient Visits	78,428	79,247	84,284
Emergency Visits	33,379	34,519	37,180

*Does not include Transitional Care and Neonatal Intensive Care Units

Expenses



Revenues

