



Children's Hospital of The King's Daughters

Health System

Fiscal Year 2003 brought a change in leadership to Children's Hospital of The King's Daughters Health System. So in his first annual report as president/chief executive officer, Jim Dahling reflects on the challenges encountered, how they were handled and what's in store in the months ahead.

How would you describe last fiscal year overall?

Very challenging with unexpected twists and turns. Most memorable, of course, was the winter "flu scare" that caused a mad dash on our ER and Medical Group practices. Then came the April implementation of HIPAA, smallpox education and bioterrorism drills, the war and its impact on our employees and facilities, a groundbreaking for our new Health Center on the Peninsula, and oh, by the way, record numbers of patients in nearly every service and program we offer!

What were the highs and lows of the year?

Well, many of the highs and the lows actually went hand in hand. The havoc that the flu scare wreaked on our organization was also a shining moment for our staff. In the midst of utter panic, every department in our organization rose to the occasion without exception. And when we were hit with some significant and unexpected expenses – a huge jump in malpractice insurance, further reductions in Medicaid reimbursements and continued declines in the stock market that ate away at our assets – we all pulled together to tighten our belts, to capture every dollar we're rightly owed, to negotiate better payer contracts and to generate more revenue by growing our services.

Any lessons learned from last year?

I guess the biggest lesson is that we have to make sure all employees have all the information they need to help us solve whatever problems we're facing. That means we'll share a lot more information in a lot more detail at all levels – even if the news isn't so good. That's how we got our finances in better shape. We helped all of our managers understand the financial picture for our combined operations so they could work with employees to develop ideas and opportunities to increase revenues and contain costs. The impact was that by the end of the year, our consolidated operating loss was less than both the prior year actual and our expectations for FY03.

What's in store for this year?

We have some pretty big items on the agenda right now. Still at the top of our list is keeping our patients safe, delivering the highest quality of care, improving our financial situation and striving to fully satisfy the needs and expectations of our work force, patients, families and community.

We have some additional priorities to focus on this year as well. We're trying to obtain state approval to add ambulatory surgery to the Health Center we're building in Newport News. While we won't have



Jim Dahling

the state's answer until winter, we'll begin offering many other CHKD signature services there when the Center opens this spring. And in the coming months, we'll revisit our concepts for a Health Center in Virginia Beach.

At the hospital, we'll be renovating spaces to accommodate our outpatient hem/onc program, and we'll add beds to the inpatient hem/onc unit as well. We're also planning to centralize patient pre-registration and check-in for our outpatient medical specialty programs.

Within Children's Medical Group, we'll move Pediatric Associates into a new home in Ghent and establish a satellite for General Booth Pediatrics – close to its existing location – that will also house diagnostics and therapy services.

This year we're looking to enhance our sports medicine program, making it more comprehensive and more accessible, demonstrating the importance of building our programs by developing unique niches within medical and surgical specialties.

On the reimbursement side, we're also tackling some significant issues with our government payers, most notably within the patient population covered through the military's Tricare insurance program.

We've launched a major initiative to raise endowment funds for our childhood cancer, child abuse, general patient care and nursing programs. And legislatively, we're working to secure federal dollars to further support our mission.

And did I mention that we're just weeks away from our once-every-three-years JCAHO survey?

What advice do you have for our employees?

We're expecting a few more years of fairly lean financial times, so I'd like our employees to understand that all of our decisions will be made within this context. We'll work hard to keep employees "in the know," so I'd encourage employees to ask their managers how they can become active in our planning process. Employees should keep putting suggestions and feedback forward. Even as we continue to conserve our resources, we'll need to make investments that get us closer to our organizational goals. Most importantly, I'd advise everyone to take time out to celebrate the remarkable talents and dedication of fellow co-workers as well as achievements within our teams and within our organization throughout our journey together.

Jim Dahling
President/Chief Executive Officer

Jim Dahling became the **new CEO** of CHKD Health System after serving as chief operating officer. He has been at CHKD for 10 years. Former CEO Bob Bonar left CHKD to become president of Children's Hospital of Austin in Texas.



When the federal **Health Insurance Portability and Accountability Act** became effective on April 14, 2003, we were ready with new procedures to safeguard the protected health information of our patients. Planning and implementing the changes required by HIPAA began several years ago and involved every single department with **medical records** and **information services** leading the planning process.



Construction began in the Oyster Point area of Newport News for a new **CHKD Health Center** that will provide a permanent Peninsula home for our medical and surgical specialists, a full range of rehabilitation and diagnostic services and a CHKD Medical Group primary care practice.



CHKD's Child Abuse Program was awarded full membership in the National Children's Alliance this year, a certification that recognizes the quality of services provided to abused and neglected children. Last year, 850 children turned to this program for its special services, an increase of 9 percent.



Patient volumes increased 10 percent within **Children's Medical Group** as several practices relocated and expanded, including Pediatric Specialists, Suffolk Pediatrics, Chesapeake Pediatrics and Coastal Pediatrics. Children's Medical Center of Tidewater closed its practice.



Most practices of our **Children's Surgical Group** experienced increases in patient visits and surgery volumes. Our neurosurgery group began seeing patients in the Virginia Beach satellite.

In our **surgery center**, more than 9,700 surgeries were performed this year, almost 1,000 more than the previous year. We purchased the new V-beam Candela laser to provide the safest, least painful means for removing vascular birthmarks.



We welcomed 57 new physicians to our **Professional Staff** this year, and five specialists joined the **Children's Specialty Group** practicing at CHKD.



Demand for our outpatient **pediatric subspecialty programs** continues to grow. Overall, patient volume increased by 19 percent last year. Patient visits to subspecialty appointments at our **satellite locations** increased 38.6 percent last year, proving the importance of easy access for families.



Our **orthopedic surgeons** and **PT/OT department** laid the groundwork for a comprehensive pediatric **sports medicine program** to meet a growing need in our community.



With patient safety in mind, we introduced a new **online mechanism for error reporting**. Designed by **performance improvement and information services**, the software allows for a timely and improved process for managing and learning from incidents that have the potential for adverse outcomes.



Our **pain management** steering group has worked across clinical disciplines to develop a program that addresses the needs of patients dealing with acute or chronic pain. The group reports success with patient-controlled anesthesia and a new process to identify patients for close supervision by the program coordinator.



In response to a recommendation from the Centers for Disease Control and Prevention, we developed new policies and approaches to **hand hygiene**, including installing new waterless, antiseptic hand-care dispensers in all areas and prohibiting artificial nails and long natural nails for patient-care givers.



Extensive news coverage of a possible connection between sudden childhood deaths and respiratory illnesses sent hundreds of patients rushing to our Emergency Center and Medical Group practices this winter. Our employees handled the **record-setting influx** of sick children and worried parents with an “all-hands-on-deck” spirit of cooperation. After things calmed down, employees were treated to a “**Thanks a latte**” party and given travel coffee mugs acknowledging “extraordinary teamwork under extraordinary circumstances.”

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Our **physicians’ services** team conducted more than 1,000 visits to referral sources, promoting our outpatient and surgical programs. The department instituted grand rounds featuring our specialists at two Peninsula hospitals and increased physician attendance by 27 percent at the 76 CME courses sponsored by our **continuing medical education** program, which this year earned a four-year accreditation by the Medical Society of Virginia.

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The **Nuss Procedure** continued to draw national and international patients and recognition. Dr. Donald Nuss, a pediatric surgeon and vice president of surgical affairs, was featured in July 2002 on the cover of *U.S. News & World Report* and inside in a feature that highlighted his procedure to correct pectus excavatum.

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In May, 45 physicians attended CHKD’s first **Nuss procedure workshop** coordinated by **Pediatric Surgery** and **physician services**. The intensive, two-day course attracted surgeons from Argentina, Japan, the Robert Wood Johnson Medical School, the Universities of Maryland, Virginia and Chicago and the Cleveland Clinic, to name a few.

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CHKD responded to federal recommendations to **vaccinate voluntary “first-responders”** against smallpox by providing extensive education so staff members could make informed choices should the need arise.

Human resources recruiters extended recruitment efforts beyond our region with advertising in newspapers, nursing journals and on the Web. Our **inpatient nurse recruiters** left no stone unturned in their efforts to recruit new nurses. As a result, the number of new nurses increased 12 percent, and we reduced the vacancy rate in the NICU from 20 percent to four percent. Our **nursing preceptor program** proved to be a big draw to new nursing graduates because it offers paid, on-the-job training under the guidance of experienced mentors.

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Our **summer nurse extern program** for senior nursing students proved extremely beneficial in its first full year when nine of the 13 externs from 2002 returned as full-time RNs upon graduation. Eighteen student nurses participated in the second externship session.

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Our **respiratory care** department’s expanded recruitment efforts helped us reach full staffing this year in that area.

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The **Emergency Center** handled a record number of 42,924 visits, with the heaviest volume of patients in our busiest February ever with 5,241 visits.

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Hundreds of letters, e-mails and faxes from CHKD employees, physicians and members of the Norfolk City Union of The King’s Daughters aimed at elected officials on the national level helped us obtain more than \$3 million to fund **graduate medical education** and raised awareness for the need to protect **Medicaid disproportionate funding** for hospitals like CHKD that serve a large number of low-income patients.

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Our **patient financial services, performance improvement, medical management** and **admitting** departments collaborated to reduce lost reimbursements in a number of areas, including the preauthorization and registration processes.



Successful negotiations with two of our largest payers resulted in new multi-year contracts containing double-digit increases in **reimbursement rates** over previous contracts.

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Our **radiology department** installed a new, faster CT scanner. Now fewer children require sedation and more children can be accommodated. Also, we upgraded our MRI equipment for faster images and better image quality.

Our **pharmacy** installed a new electronic system for receiving and processing medication orders from inpatient nursing units that allows for quicker, clearer communication between the units and the pharmacy. Also, every medication order is reviewed by a pharmacist before it is released for use.

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Our **child life department** created a **teen lounge** in an activity room on 8C and helped the emergency department select new toys, distraction devices and TV/VCRs for their exam rooms, purchases made possible by a grant from the Kiwanis organization.

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Our **pediatric social work department** expanded its coverage to include patients from our genetics and dermatology programs.

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Within **volunteer services** more than 600 individuals donated time, resulting in a 19.8 percent increase in volunteer hours. The department worked with the Neonatal Intensive Care Unit to launch a new volunteer **“Cuddlers Program”** to provide stimulation and a comforting touch to premature babies.

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Comprehensive pediatric **audiology services** were added to the services available in Chesapeake at our Health Center this year. **Speech therapy** is now offered at two locations on the Peninsula: Hampton Roads Pediatrics and our Denhigh satellite.

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The **Care Connection for Children**, a state-supported program for children with special health care needs, opened a **Family Resource Center** on the fifth floor of the hospital.

Our **laboratory** volumes increased significantly in both inpatient and outpatient services. Ten additional physician practices committed to using CHKD lab services, with a 23 percent increase in volume. Our lab at the Chesapeake Health Center had a record year as well, increasing revenue by 50 percent.

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Our **engineering department** completed more than 10,000 work requests while overseeing 40 construction projects, among them the building of our new 42,000-square-foot Health Center in Newport News.

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Our **security department** led our participation in several community-wide safety initiatives, including a mass bioterrorism drill, to help prepare our region to respond appropriately in the event of natural or man-made disasters.

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Our **information services** department responded to almost 30,000 **help desk** requests and is continuing to implement the enterprise practice management system for patient scheduling, patient registration and patient billing.

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Calls to **Doctor’s Direct**, our physician-to-physician referral and consult line, increased 32 percent. More than 12,000 parents accessed **Parent Advice Line**, an automated information service.

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In a year that proved very difficult for most charities, our **philanthropic community** contributed \$8.6 million in much-needed support. The 2003 **telethon** accounted for \$2.2 million and the **CHKD Thrift Store** operation, which opened its 20th store on Independence Boulevard in Virginia Beach, accounted for \$1.8 million. Proceeds from events and programs sponsored by the **Norfolk City Union of The King’s Daughters** accounted for more than \$500,000. More than half of the 48 named endowments at CHKD were generated this fiscal year.



CHKD's **marketing department** received national awards for several of its publications. *Kidstuff*, *Connections*, *A Patient's Guide to Surgery*, the *Way to Grow* newsletter and our public Web site all won awards in competitions that drew thousands of entries from hospitals and health care systems all over the country.

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We are also reaching more and more families in their own homes through our **public Web site**, chkd.org. Traffic to the site nearly tripled this year.

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The Web team completed an **upgrade of KDnet**, our corporate Intranet. Among the new features is one called "MyKDnet" that provides personalized access to various tools and pages through a single point of access.

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Our **online KD Store** for employees to purchase CHKD logo merchandise was such a big hit that plans are underway to develop a similar site for the general public.

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More than 18,000 families participated in our **community outreach** classes, lectures and programs. Our **physicians** lent their expertise to hundreds of newspaper stories and columns, newsletter articles and TV news segments that offered parents important information about children's health, growth and development.

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More than 900 Virginia Beach first-graders toured CHKD's **Let's Pretend Children's Hospital**, an event coordinated by **volunteer services** and **community outreach** with lots of help from our clinical staff and volunteers and now held annually.

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Our **Reach Out and Read** program expanded to include all Medical Group practices and distributed 36,457 books at well-child visits.

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Open enrollment for **employee benefits** was easier than ever this year with the implementation of a new electronic enrollment process.

Our **corporate wellness program** offered information and motivation to keep our employees feeling their best, including health assessments and screenings, group exercise opportunities, healthy cooking demonstrations and discount memberships at local health clubs. The employee **rewards and recognition** committee held several successful social events during work hours.

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Our **bioethics committee** held a number of activities designed to help caregivers understand the ethical questions and choices raised by surgical innovations.

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The excellent quality of our **pediatric residency program** once again helped the department of pediatrics attract a record number of applicants – more than 550 – to the program. After a very busy season of recruitment, we successfully matched an exceptional group of recent graduates to fill our 16 first-year pediatric residency openings.

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The clinical trials unit of our **Center for Pediatric Research** participated in 43 research projects in 10 different subspecialties. Many were conducted in collaboration with **Children's Medical Group**, an alliance that brought the latest in patient care to hundreds of children.

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Allies Against Asthma, a program of the CPR's CINCH coalition, produced a training film to teach young asthma patients how to use spacers that improve the flow of medicines into the lungs.

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The **Perinatal Outreach Center** launched a quarterly newsletter for area pediatricians and family practice physicians and held a conference on the prevention and management of low birth-weight infants.

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Our mental health partners at the **Barry Robinson Center** helped us offer several educational programs on behavioral topics for parents, teachers and others who live and work with children.



Although Children's Health System's combined operations (including all divisions except Children's Health Foundation) sustained an operating loss for the year, our numbers were stronger than they were last year and better than we had projected in several key areas. Patient volume increased in almost every area, which increased our net revenue for the hospital and surgical group by 11.4 percent. Unfortunately, the cost of providing care rose at a much faster rate than our reimbursements did, resulting in a 2.1 percent operating loss for the year.

The operational losses for Children's Medical Group improved over last year's losses. The financial picture for the practice group is expected to further improve into the coming year with more practices operating on a new private practice model.

The Children's Health Foundation enjoyed a strong fourth quarter achieving a gain of 9.8 percent on externally managed funds versus a targeted gain of 8.3 percent. For the year, CHF earned a 4.1 percent gain. Contributions of \$2,768,000 were slightly under the budget, but overall, CHF improved over both budgeted and prior year's earnings.

CHKD Operating Statistics

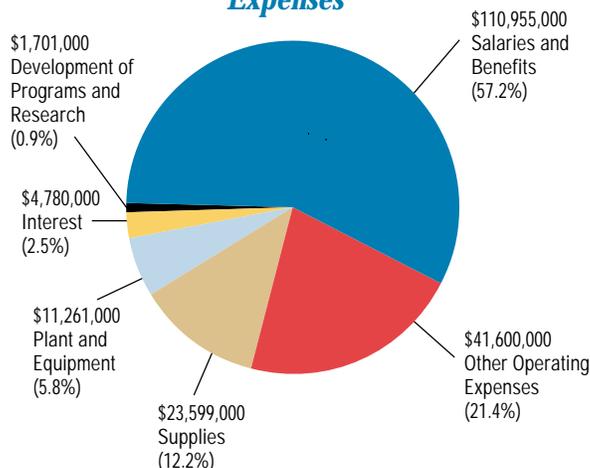
Fiscal Year (7/1/02 to 6/30/03)

	2001	2002	2003
Number of Beds in Service	146	146	146
Patient Days	42,886	43,522	45,013
Admissions	5,741	5,776	5,925
Average Daily Census	117.5	119.2	123.3
Surgeries	8,265	8,756	9,740
Outpatient Clinic Visits	84,284	87,297	99,503
Emergency Visits	37,180	40,389	42,924

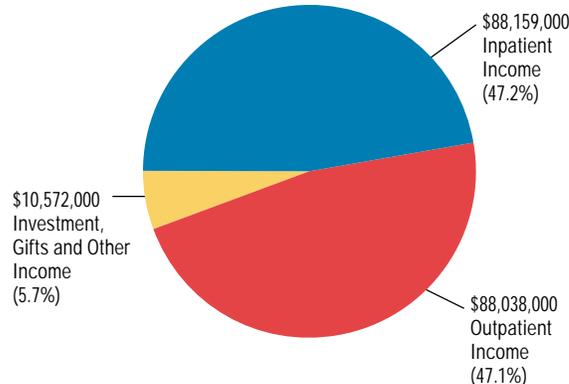


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Expenses*



Revenues*



*Unaudited figures

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