

We place the welfare, health and safety of children first.

T rue to our mission, in the year just concluded, Children's Hospital of The King's Daughters reached out to more children than ever before, establishing our presence and services in new communities and expanding our family to embrace new practices, pediatricians and surgeons. However, Fiscal Year 2000 was not without its challenges. We saw declining revenues – and operating margins – across the board. Yet we know that despite the difficulties in today's health care financing environment, we must invest in our children and in our communities to maintain our role as *the* pediatric resource for our great and growing region.

As an example, last winter we opened a new CHKD Health Center in Chesapeake and expanded our satellite offices on the Peninsula, in Virginia Beach and on the Beach-Norfolk border. Bringing CHKD into the community has everything to do with the emerging role of the consumer in health care. We're listening to busy parents telling us they want CHKD for their children, but it's just too hard to cross the bridge or navigate the tunnels or traffic to get here. So in strategic areas such as the Peninsula and central Virginia Beach, we have acquired land and are exploring the development of Health Centers and outpatient surgical centers. As we develop these services, we are building and strengthening physician partnerships and looking for gaps that CHKD should fill in primary care, subspecialty and surgery programs, because we believe that no one cares for children like our doctors, nurses and therapists.

As you know, we recognize that what makes us truly special extends beyond the clinical staff. Consider the way our registration folks place an ID band on the patient's teddy bear, and our support staff stop what they're doing to help a worried parent, or how our practice personnel make first-time parents feel like pros. The CHKD experience is like no other.

In fact, last year we launched a major analysis of the CHKD brand in the marketplace, conducting extensive consumer research, internal interviews and communications audits to ensure that we understand how we are perceived so we can fully capitalize on our strengths, overcome our weaknesses and deliver on our promises.

Fiscal Year 2000 was a busy and challenging one as we evolved with the changing needs of the children we serve. We stand ready to receive sick and injured children at all times, but sometimes the need is greater than at other times. So, we worked hard to anticipate the peak times when our hospital beds would be in greatest demand so we could "staff up" in readiness. No matter what we do, we work as

a team, and nothing illustrates that better than the teamwork that's helped us throughout our current preparation for a major accreditation survey later this year.

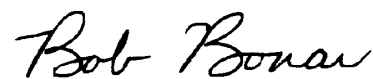
As our physicians helped us develop pathways to coordinate the care of children, they also explored medical frontiers through research and clinical practice to develop new and better ways to treat sick children. And we're proud to say that our professional staff boasts many nationally and internationally recognized pediatric experts.

We sought and found better ways to partner with community resources, developing innovative programs and services that help schools, localities and families improve children's physical and mental health. And through the generosity of friends in the community, our Advocacy Center received a major gift, allowing it to carry out plans to provide a permanent home specifically designed to serve children traumatized by abuse and neglect. With the help of our wonderful King's Daughters, we successfully lobbied on Capitol Hill to win fair federal compensation for our medical education programs which train future pediatricians.

In affirmation of CHKD's incredible value to the community, our friends and supporters gave us our most successful fund-raising year in CHKD's history. We feel truly blessed that so many have helped us maintain such a high level of service to the community and its children.

As we anticipate trends and market forces that could affect us in the future and shape our programs and services to fit tomorrow's needs, we have renewed our commitment to our strategic imperatives. We expect them to help us stay on course, to steer us away from threats and toward opportunities for growth. In fact, as well as in theory, our strategic plan will help Children's Hospital build on past successes, create new avenues for growth and ensure future success.

To achieve the goals we set for CHKD's Health System, we constantly assess, evaluate and make changes when they are in the best interest of the children we serve. And we annually look back over the year so we can share with you a clear picture of what we accomplished in just one year. As you review our annual report for FY 2000, please share in our pride for a successful year. Without you, it would not be possible.



Robert I. Bonar Jr.

President/Chief Executive Officer

Service Expansion. Making ambulatory services available and convenient to families in the surrounding communities is important to us. So the past year has been one of expansion for CHKD's outpatient clinical and diagnostic services. We opened a new CHKD Health Center in the Greenbrier section of Chesapeake, offering one-stop health care where children can receive primary care, surgical assessments, lab work, X-rays, and speech, physical and occupational therapies, all under one roof. Moms-to-be can even access lactation consultations there. This Health Center model is being studied carefully, with plans on the drawing board to replicate the concept in Newport News and Virginia Beach in the next couple of years. In the meantime, we doubled the space in our Denbigh satellite office and now offer therapeutic and diagnostic services there, while our radiology and phlebotomy services were extended to our off-site locations.

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A Growing Family. Our family of pediatricians continues to grow. We established Suffolk Pediatrics, our newest practice, this past summer, allowing us to serve an even greater geographic area. By the end of the fiscal year, Children's Medical Group consisted of 73 physicians serving children in 13 primary care practices at 20 locations in Greater Hampton Roads and northeastern North Carolina. The year also brought some significant financial challenges for our CMG practices, so a new CMG business plan is being developed to provide a road map for the coming years. Our CHKD Surgical Group added pediatric surgery at the start of the year, and together with orthopedics, sports medicine and urology juggled more than 25,000 outpatient visits, many of those patients taking advantage of the closer-to-home satellite offices. By year's end, we recruited two new surgeons to our Surgical Group.

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Always Ready To Serve. It's important that we stand ready to care for all patients who need us. So early in the year, our nursing division tackled the problem of unpredictable fluctuations in demand for beds. Monitored beds from the Progressive Care Unit were relocated to other nursing units, freeing that space for patients undergoing special procedures, outpatient infusion therapy or short-term observation. We brought on a patient advocate to help families of inpatients address their questions and concerns. Extensive recruitment initiatives, including two highly successful open house events, helped us meet the staffing challenges presented by a nationwide nursing shortage and a very competitive local market. And the nationwide shortage of pharmacists kept us in a recruitment mode year-round.

Responding To Change. Even as we adapted to census changes, we continued finding ways to serve our patients better. Our respiratory care team began providing nitric oxide therapy in our NICU and on our transports; we opened an additional operating room to relieve scheduling problems; and we added staff in our Pediatric Intensive Care Unit and two additional beds to help us accommodate the larger number of critically ill patients. We expanded hours in our hospital-based hemodialysis unit to serve the increasing number of young people who need this life-sustaining service. And, to provide mental health services for children and their families, we established the Family Guidance Center – operated by our affiliate The Barry Robinson Center – at CHKD's Neuro-Developmental Center.

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In An Emergency. The number of patient visits to our Emergency Center remained similar to the year before – 34,000. In that busy area, we focused on finding ways to help families by recruiting a patient advocate to guide families and provide a helping hand through the worries and anxieties of a trip to the ER. Also, to ensure our ability to handle the sensitive process of examining the young victims of sexual assault, the Emergency Center established a sexual assault nurse examiner program.

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Focused On Pathways. The year was a busy one for our medical management team. Their efforts focused on developing and improving clinical pathways, which paid off with the establishment of several new ones – for newly diagnosed diabetes, post-operative care for pectus excavatum repair, tracheostomy management and several others. Because we think it is extremely important to make children as comfortable as possible, we formalized pain management guidelines to be used throughout the hospital and established the position of pain program coordinator to oversee our efforts.

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Information At Its Best. Our information services team is keenly aware of their responsibility to keep our entire organization on the cutting edge of communication technology. After leading us through a smooth Y2K transition, their division implemented numerous new clinical, administrative, financial and medical records systems while supporting more than 30 major applications on six different operating system platforms. To electronically eliminate the miles that separate our widespread pediatric practices, Health Centers and satellite offices, we successfully brought 26 off-site locations into our CHKD Health System communications network.

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Preparing For A Survey. We have been working hard to make sure we are ready for the December 2000 survey by the Joint Commission on Accreditation of Healthcare Organizations. A multi-disciplinary task force and subcommittees are preparing the organi-

zation for this important evaluation by conducting a self-assessment, extensive staff training and even a mock survey. We take great pride in our hospital's accreditation and are especially proud this past year of our radiology/imaging services passing an unannounced U.S. Nuclear Regulatory Commission inspection with flying colors and gaining accreditation of our peripheral vascular laboratory. Also our pathology lab and transfusion services both successfully completed accreditation inspections.



Making Things Easier. Recognizing that we could provide a much-needed service to families, we set out to establish a new outpatient retail pharmacy in our lobby, a service that our friends at Farm Fresh will operate for families going home after an inpatient stay or outpatient visit as well as for the convenience of staff. Another welcome change came in the form of our new KD Café. Our food service operations for visitors and staff were significantly improved when we renovated and expanded the first-floor eatery.



Education And Research. We continue to invest in medical education and research that enhances the quality of care, reputation and value of our organization. Our pediatric residency training curriculum consistently attracts some of the best and brightest graduating medical students from around the country, in large part due to the high quality of our pediatric faculty members. In FY 2000, the faculty gained accreditation for the pediatric emergency medicine fellowship program, broadcast Grand Rounds lectures to the Eastern Shore and other distant Virginia locations and hosted the Virginia Pediatric Society's annual meeting. The faculty was successful in attracting local, federal and industry funding for such vital research as pathogen transmission in NICUs and daycare centers, new therapies for children with HIV, childhood cancers and hemophilia, treatments for complex seizures and migraine headaches, and asthma management. The department also created a clinical trials unit to establish the safety, efficacy and proper administration of drugs not previously tested for use in children and new drugs that show promise for a variety of pediatric health problems.



Continuing Research. Our Center for Pediatric Research continues to break new ground in many areas, including breast milk studies, drug-resistant bacteria, astrovirus infection in children and attention deficit-hyperactivity syndrome in school-aged children. Unique basic research is helping identify the basic biology and examine the potential uses of ultra-short, high-voltage shocks to cells, which may lead to a host of applications including cancer research and infection control. The success of the Center's web-based data collection system for newborn hearing screening led to an additional contract from Virginia to develop an Internet-based sys-

tem to record and track the results of screenings of newborns for genetic anomalies, developmental disabilities and birth defects. And Welligent, our Web-based student health tracking system developed a year earlier, was selected by the Palm Beach, Florida, school district to manage the health information for 150,000 students in 140 schools. In collaboration with CHKD physicians, ImmuWeb, an immunization tracking system, was added to our health informatics product line, with the official roll-out scheduled for early next year. These cutting-edge technologies are vital to the early identification and effective management of potentially life-long health care issues in children. Likewise, the Consortium for Infant and Child Health published a comprehensive report on the status of child health indicators and conditions affecting children in Hampton Roads.



A Transport Anniversary. The CHKD transport team marked a major milestone this year and celebrated both its 25th anniversary and the arrival of two new long-awaited, state-of-the-art mobile special care units. The generosity of The King's Daughters and Farm Fresh, along with generous friends in the community, helped us acquire these much-needed vehicles.



Prime Communications. Our CHKD Communication Center fielded more than 166,000 incoming calls, the majority to our Doctor's Direct physician-to-physician consult line and transport team activation service. The Health Line handled a 53 percent increase in registrations for *Way to Grow* educational programs, provided information about free or low-cost children's health insurance and helped callers find physicians for their children. The Nurse Line, which provides after-hours advice to parents, handled 64,559 calls for 103 subscribing physicians. And families turned to our automated 24-hour information line – Parent Advice Line – some 6,868 times for answers to their child health questions. The number of physicians participating in this valuable program jumped from nine to 68 in the year just ended.



Employees Make Us Proud. Our employee committees continued to meet through the year to discuss issues and brainstorm ideas to make our working environment better for everyone. Their efforts led to approval for important modifications to paid annual leave and sick leave policies, as well as new benefits – including auto and legal insurance – and to the establishment of an employee-of-the-month program based on "Gotcha" recognition. Photos of our employees of the month are displayed for a full year in the hospital and articles are written about them in *Weekly Update* and *Connections*, our employee publications. Our parking committee continued to wrestle with the limitations of medical center parking. Parking relief for employees and visitors will come next year with the opening of a 900-space

garage being built on the site of the former Public Health building. To help our employees understand our Code of Conduct and the importance of honesty and integrity, we provided a new educational video and a hotline for employees to bring issues to our attention. We also tackled sensitivity issues among employees by providing training seminars.



Hurray For Our Helpers! Our invaluable volunteers – adults and juniors alike – continue to serve with selfless dedication, donating 25,393 hours throughout the hospital, with 285 new volunteers signing on this year. And our gift shop sales topped \$505,000, continuing as a popular service for patients, families, visitors and hospital staff.



Studying Our Customers. Consumer research last spring helped us study how we are perceived in the community. The results were a resounding affirmation that CHKD is not only the most recognized name in the community for children's care but parents prefer our services over all others. This knowledge paves the way for even more focused branding and marketing initiatives in the coming years. Thoroughly understanding our "customers" is also critical to helping Children's Hospital and our pediatric practices reach our greatest potential for helping children. So we have integrated our inpatient, outpatient, emergency center, Call Center and physician practice data into one database. This step will help us learn how families use our services over time and across the spectrum – from primary to tertiary care – thus showing us how to enhance our offerings and create new programs to meet their changing needs. This is the cornerstone of our marketing philosophy.



Entering The Web World. An important tactic in marketing our depth and breadth of services to the community will be played out on the Internet. So we formed a Web governance council and infrastructure, including dedicated staffing and resources and adopted an e-health plan that is consistent with our overall organizational mission. In the coming months, our evolving Web site will provide opportunities to promote, enhance and create services that complement the care we already provide to children.



Helping Families Through Outreach. Community outreach continues to be vital to our mission. During the year, nearly 900 parents and professionals attended 22 *Way to Grow* classes, many of them held at the offices of our CHKD Medical Group practices. We expanded our weekly newspaper column from *The Virginian-Pilot* on the southside to the *Daily Press* on the Peninsula. And our *Way to Grow* newsletter now reaches families in some 80,000 households with parenting and health information. Drawing from our family of

professionals to share their expertise, we presented educational symposia on child abuse and neglect, emergency medicine, bioethics and chronic diseases, reaching hundreds of regional health care providers and other professionals.



Help For Uninsured Children. CHKD was the first hospital in Virginia to create an outreach program for the state's Children's Medical Security Insurance Plan. Our CMSIP task force has conducted grassroots training programs for churches, schools and other civic groups. By the end of FY 2000, CHKD had applications for more than 1,500 children to receive comprehensive health insurance coverage through the state's program. And our uncompensated care write-offs have decreased by more than \$100,000, with CHKD-affiliated physicians providing primary care to 71 percent of the children enrolled through our efforts. In support of our leadership in this area, we received a Virginia Health Care Foundation grant to conduct job-site CMSIP enrollments for employees who need free or low-cost insurance for their children.



Increasing Referrals. It's important for us to keep in touch with physicians whose patients can be served by CHKD. In the past year, our physician services representatives initiated more than 850 physician contacts, mostly through periodic personal visits to referring physicians. We learn as much as we share during these visits; for example, in response to physicians' requests for pediatric academic updates, we are establishing an accredited continuing medical education program. So far, a CME committee has been formed, a policy manual written and a pre-application for accreditation submitted for review by the Medical Society of Virginia.



Progress At CAC. Our Children's Advocacy Center made significant progress during its first full year as part of CHKD, integrating the five disciplines associated with child abuse – medical, mental health, child protective services, law enforcement and prosecution. The Center works jointly with agencies across many jurisdictions to aid children traumatized by physical and/or sexual abuse. With the help from a \$1 million gift from Josh and Betty Darden, the Center is now undergoing a major renovation to meet its new needs and service goals.



So Much Help From Our Friends. Fiscal Year 2000 was an incredibly rewarding year in terms of fund-raising and contributions to Children's Hospital. With \$8.8 million in total contributions, it was the most successful year in the organization's history. The community's generosity and enthusiastic support for the hospital generated a record \$1.83 million on our annual Telethon, \$1.01 million in Annual Giving Campaign donations from employees,

physicians and friends, and \$3.5 million from bequests and trusts. In fact, CHKD now has 14 named endowment funds, five of which were established this fiscal year.



Teaching The Teachers. Our Discovery Care Centers established new teacher education standards and incentives and offered the first in a series of staff development in-services using the expertise of CHKD professionals. At the Ghent Center, where many classes maintain a waiting list, we began planning a major building renovation and expansion.



Ensuring Our Fair Share. After an intense lobbying effort in which CHKD and its physician partners played an active and important part, children's hospitals throughout the country won a hard-fought legislative victory to increase funding for graduate medical education costs. Although the first year's level of compensation – approximately \$450,000 for CHKD – is only about 20 percent of true costs, it is a good start. CHKD is also actively supporting efforts in Congress to restore the more than \$10 billion in Medicaid disproportionate share payments to children's hospitals and other public hospitals that provide health care for the Medicaid or uninsured population. CHKD devotes 43 percent of its care to this group, so the restoration of adequate funding is of major importance to our organization.



Our Tried-And-True Supporters. Our founding organization, the Norfolk City Union of The King's Daughters, once again played a vital role in supporting CHKD and our mission to promote wellness for children. The NCUKD board of directors focused efforts on new member recruitment/retention and educational opportunities for

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members. King's Daughters also were enlisted in grassroots advocacy programs to promote important children's health issues at local and state government levels. The 1999 Holly Events led NCUKD fund-raising efforts in support of the hospital, with more than \$175,000 raised. And a new project, Fantasy Shopping Night hosted by MacArthur Center, was also a huge success. Individual Circle projects yielded \$119,000 for the Children's Advocacy Center. CHKD Thrift Stores, a project of the NCUKD, expanded, with the addition this year of two new stores, one in Smithfield and one at Woods Corner in Virginia Beach. This year's total Thrift Store sales resulted in proceeds of more than \$1.17 million to the hospital. And with the help of local merchants, King's Daughters raised nearly \$107,000 in coin canister collections. In well-deserved recognition for all their efforts, the NCUKD received a 2000 Hampton Roads Volunteer Achievement Award.

Conclusion

It has been a busy and challenging year – a year of change. But it also has been a highly successful one, energized through the hard work and intense dedication of our employees and by our loyal, caring and giving supporters in the community. We've managed unpredictable service volumes, invested in strategies for growth and expansion, supported educational and research programs, and fine-tuned community partnerships that help us ensure the success of our common vision and strategic imperatives. Communication and teamwork helped us to manage the challenges and changes, just as children give us our common focus.



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

In FY2000, CHKD Health System experienced the continued downward trend in total inpatient days and average lengths of stay and the upward trend in outpatient services. While total inpatient admissions increased from the previous year, the actual number of patient days was below projections. On the other hand, outpatient clinic and emergency room visits favorably exceeded our expectations, and surgeries continued to be strong, up more than 10 percent from projections.

After staffing up to avoid delays in admitting patients, the winter months (third quarter) saw less patient volume than anticipated, thereby increasing expenses over expected revenues. During this same time, our Medical Group physicians also experienced fewer office visits. On the positive side, the fourth quarter saw both hospital inpatient and physician office volumes return to expected levels, and we ended the year in a healthy financial position.

The offshoot of these conditions is that, while the total volume of our services – inpatient, outpatient, emergency visits and surgeries – showed a 6 percent increase from last year, overall net revenue was \$1.417 million less than budgeted. This means our system-wide effort to efficiently manage our resources while balancing between needs and services must continue to be coupled with our efforts to make room for improvements and to enjoin our community partners to support us in our mission.

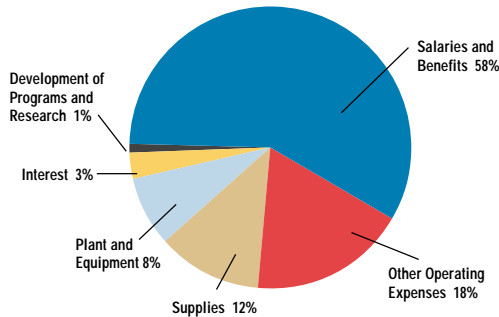
Where Our Money Came From:

\$204,476,000	Charges for inpatient and outpatient services, including diagnostic and therapeutic procedures, nursing care and board
-\$68,336,000	Minus the portion of our charges that was not reimbursed by CHAMPUS, Virginia Medicaid and private insurance companies; along with bills that families of our patients could not pay
\$136,140,000	Our total operating income
\$8,448,000	Interest and dividends on funds that we invested
<u>\$5,545,000</u>	Contributions from our friends in the community who support our mission to care for the children
\$150,133,000	Total revenue available to care for the children who need our special services, to develop new programs and ensure that we will be able to continue our work in the future

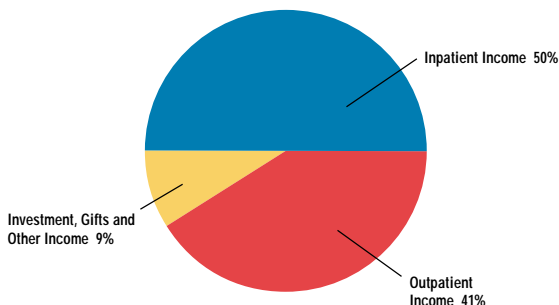
Where Our Money Went:

\$87,732,000	Salaries, wages, benefits paid to our employees
\$18,059,000	Supplies
\$27,407,000	Additional operating expenses
\$11,821,000	Property, plant and equipment additions
\$3,596,000	Interest on debt
<u>\$1,518,000</u>	Grants for programs and research
\$150,133,000	Total expenses

Expenses



Revenues



Operating Statistics

Fiscal Year (7/1/99 to 6/30/00)	1998	1999	2000
Number of Beds in Service	146	146	146
Patient Days	42,263	42,610	41,581
Admissions	5,479	5,519	5,633
Average Stay (days)*	4.6	4.7	4.6
Average Daily Census	115.8	116.7	113.6
Surgical Patients	6,949	7,497	7,505
Outpatient Visits	76,515	78,428	79,247
Emergency Visits	29,363	33,379	34,519

*Does not include Transitional Care and Neonatal Intensive Care Units