



ChildrensHospitalLosAngeles

International Leader in Pediatrics

Richard D. Cordova
President and Chief Executive Officer

Winter 2007

Dear Friend,

I'm happy to be writing my first "State of the Hospital" letter about Childrens Hospital Los Angeles. I so enjoy the opportunity to connect with the people who support what we do, and who make it possible for us to stay true to our mission. Pediatric illness and injury can have a devastating impact on the entire family, and we consider those who love and care for their child to be integral members of the health-care team. We have found that children respond better, and recover faster, when their families participate in their care. This approach is essential to our success – our families, working with our physicians, nurses and other caregivers, so that many of our young patients can go home, back to school and enjoy a normal life.

The courageous children we care for motivate us to keep striving for excellence in all we do. But, the health-care and economic landscape is arduous, and we continue to care for a disproportionate share of underserved children. While new technologies and scientific breakthroughs provide great opportunities, they bring new challenges, too. Yet, during the strategic planning process we conducted this past year, we renewed our commitment to the underserved, and our overall mission – "To make a world of difference in the lives of children, adolescents and their families by integrating medical care, education and research to provide the highest quality care and service to our diverse community." We will continue to focus on maintaining and enhancing the areas of quality and service.

We are truly fortunate that people in and around Los Angeles, and well beyond, are committed to *Living Proof: the Campaign for Childrens Hospital Los Angeles*. The campaign has now raised over \$600 million – more than any freestanding children's hospital in the country – in only six years. We exceeded our goal of \$500 million as a direct result of the marvelous leadership of the Childrens Hospital Los Angeles Board of Trustees and our dedicated campaign volunteers, working together with the incredibly generous support of thousands upon thousands of donors in Los Angeles, Southern California and throughout the world.

But, we're not done yet. We have broken ground on our New Hospital Building – a 460,000 square-foot, 317-bed state-of-the-art facility that will be the finest pediatric medical and surgical environment anywhere in the United States. When it is completed in 2009, it will enable us to provide care to thousands more of the sickest, most seriously injured children – the current facility houses more than 11,000 children a year as inpatients. This hospital means the difference between life and death for these children – and it will serve hundreds of thousands of children annually on an outpatient basis as well.

Respect • **Service** • **Excellence** • **Knowledge** • **Teamwork**

4650 Sunset Boulevard, Los Angeles, California 90027 • (323) 660-2450 • www.ChildrensHospitalLA.org

The Board of Trustees has approved an increase in the original \$200 million philanthropic support goal for the new facility to \$250 million, due to the impact of a global rise in the cost of construction materials and labor. The revised cost of the New Hospital Building is now estimated at \$520 million, driven by the international consumption of steel, concrete and drywall, as well as the aftermath of Hurricane Katrina, which have had an enormous impact on our material and labor costs.

We can and will meet this challenge. As of Dec. 31, 2006, we have raised more than \$97 million for the construction of the New Hospital Building, which will serve our children and families for decades to come. Moreover, we continue to engage community leaders who may wish to make a once-in-a-lifetime transformational commitment to the health of our children.

A Year of Remarkable Achievements

New Hospital Building

In February 2006, we completed the interior design review of the New Hospital Building, and we solicited feedback on the design concepts, colors, furniture and equipment from our families, physicians, nurses and other caregivers. Our “mock-up” patient rooms have been instrumental in eliminating potential problems, such as placement of electrical sockets and medical equipment, and these rooms have saved us millions of dollars by avoiding design flaws that would have to be corrected later.

Our construction crews have completed demolition of the Santa Anita Research Building and the adjacent parking structure to provide space for the new facility. Shoring and excavation are complete and we are drilling piles for the foundation. I invite you to take a look at a virtual tour of our New Hospital Building by visiting www.ChildrensHospitalLA.org/BuildingForTheFuture, and clicking on “Building the Dream.” It’s exciting to visualize this facility rising from the ground.

Patient Care

On June 14, 2006, in the second such historic procedure at Childrens Hospital in less than three years, a team of 80 surgeons, anesthesiologists, nurses and other caregivers and specialists separated conjoined twins Regina and Renata Salinas Fierros, who were connected from the lower chest to the pelvis. Regina was discharged from the hospital on July 26, 2006, and Renata on Aug. 3, 2006, one day after the girls’ first birthday. This second successful separation, which received worldwide attention, was led by James E. Stein, MD, FACS, FAAP, who is attending pediatric surgeon at Childrens Hospital Los Angeles and an assistant professor of surgery at the Keck School of Medicine of the University of Southern California.

Childrens Hospital Los Angeles was one of only 22 hospitals in California recognized for outstanding commitment to health-care quality and patient safety by four of the state’s leading health plans – Aetna, Blue Shield of California, CIGNA HealthCare of California and United Healthcare. Childrens Hospital also was one of only nine children’s hospitals in the United States named to the first Leapfrog Top Hospitals list, based on results from the Leapfrog Hospital Quality and Safety Survey, a national rating system that offers a broad assessment of a hospital’s quality and safety.

The Joint Commission on Accreditation of Healthcare Organizations (JCAHO) is the nation’s predominant standards-setting and accrediting body in health care, and it maintains national standards that focus on improving the quality and safety of care. On Jan. 1, 2006, the JCAHO accreditation process changed to focus on hospital and health-care systems critical to the safety and quality of care, treatment and services provided to patients, encouraging hospitals, like ours, to incorporate national standards as

a guide for routine operations. The new JCAHO accreditation process is marked by an unannounced on-site evaluation, and we were one of the first hospitals in the country to be evaluated in this rigorous way. I can report that we continue to enjoy JCAHO accreditation – a result that is especially gratifying because so many of the hospitals that have been through the new accreditation process have received only “conditional” accreditation.

Clinical Research

In January, Edward D. Gomperts, MD, became the new director of clinical research at Childrens Hospital and associate director of The Saban Research Institute of Childrens Hospital Los Angeles. Dr. Gomperts is the principal investigator on a National Institutes of Health (NIH)-funded multi-institutional study on growth and development of children with hemophilia, a field in which he is internationally known for his contributions. Dr. Gomperts also serves as director of the Childrens Clinical Investigation Center. He is a clinical professor of pathology and pediatrics at the Keck School of Medicine.

Education

Eight local high school students were the first to participate in our Summer Research Program for Underrepresented Minority Students, a six-week donor-funded internship for minority students, held at The Saban Research Institute. Each student made a research presentation at the graduation ceremony in August, detailing his or her experiences and research. To encourage participation of students from economically depressed areas of Los Angeles, each participant received a stipend of \$1,350 for the internship, as well as transportation costs and other expenses. The Saban Research Institute is committed to ensuring that African-American and Latino students participate, in response to their underrepresentation within the field of biomedical research nationwide.

Leadership

After serving 17 years on the Childrens Hospital Los Angeles Board of Trustees, five years as co-chair of the Board and seven years as co-chair of the *Living Proof* Campaign, Walter B. Rose has completed his term of service to the hospital. His leadership has been instrumental in the hospital’s success, and he will be missed, but we will continue to seek his expert counsel in the coming years.

John D. “Jack” Pettker has been elected to share Board leadership with co-chair Marion Anderson. Mr. Pettker has served on the Childrens Hospital Los Angeles Board of Trustees since 1999. He was co-chair, with Trustee Paul Schaeffer, of our campaign for the Childrens Center for Cancer and Blood Diseases, which has raised \$79 million – 158 percent of its \$50 million goal. He currently serves on numerous Board and *Living Proof* Campaign committees.

Walter W. “Bill” Noce, Jr., our former president and CEO and current vice chair of the Board of Trustees, is active in governmental relations and public policy issues concerning the hospital and children’s health care in general, continuing as an advocate in Sacramento and Washington, D.C. Mr. Noce recently received the “Award of Merit” from the California Hospital Association for outstanding service and contributions over his career.

There have been three particularly significant additions to the hospital leadership team. Rodney B. Hanners has joined us as senior vice president and chief operating officer. Rod comes from Los Angeles Medical Center, where he was director of hospital operations. We’ve worked together before, and he’s a terrific addition. We have a commitment to aggressively pursue programs and initiatives to measure, document and improve the quality of our care, safety and service excellence at Childrens Hospital Los Angeles, and we

will look to Christy L. Beaudin, PhD, CPHQ, FNAHQ, who was corporate director for quality improvement at PacificCare Behavioral Health, to direct our overall clinical quality and performance improvement program as vice president and chief quality officer, a new position. And, Steven R. Garske, who was chief operating officer for Perot Systems Corporation at St. Joseph's Health System in Anaheim, has already made a positive impact as our new vice president and chief information officer.

Integrated Financial Strategy Builds a Strong Foundation for Future Growth

Given the financial challenges inherent in constructing the New Hospital Building, and our commitment to provide the best care to the sickest, most seriously injured children at reimbursement rates that fall far short of covering the cost of care, Childrens Hospital Los Angeles must depend on an integrated financial strategy. The executive leadership team is working to build a stronger foundation for the future by capitalizing on revenue and reallocating resources to continue the growth of our hospital and its most valuable programs. This is especially important in light of a six percent decrease in the number of staffed pediatric acute care beds and a seven percent decrease in staffed pediatric intensive care beds throughout Los Angeles County over the past five years.

In April, our Board of Trustees approved a strategic-based financial plan with 10 goals: quality and service excellence, improvement of core operations, rebalancing the portfolio, rebalancing the payor mix, market expansion, promoting research, support of education and training, commitment to our people, fund-raising excellence and financial stability. We will build on the hospital's strengths, investing in pediatric surgery, cancer care, cardiovascular services, fetal and neonatal care and transplant programs, as well as establishing a new off-site ambulatory care center, the first of several, to broaden our reach into the community.

As of June 30, 2006, the hospital had total assets of \$1,293,965,000 and \$479,826,000 in unrestricted net assets. It is important to note that while Fiscal Year 2006 showed an operating loss, including depreciation and amortization costs of \$18,111,000 for information technology systems and facilities, the hospital's overall financial condition is sound. We continue to negotiate for increased reimbursements from payers that are adequate to meet the complex medical needs of the most critically ill and injured children.

Looking Ahead

Childrens Hospital Los Angeles remains dedicated to providing the very best care possible for children who need our highly specialized services, and the expertise of our physician-scientists and other medical professionals. Moreover, we remain committed to conducting groundbreaking pediatric research and training the pediatric specialists and nurses of tomorrow. Only with the generous support of donors who share our passion can we ensure that the children and families of Southern California and beyond will continue to receive exceptional health care and lead healthy, active lives.

If you haven't visited us recently, please call us at (323) 671-1742. We'd love to show you this wonderful place of hope and healing.

Warmest regards,



Richard D. Cordova
President and Chief Executive Officer