



ChildrensHospitalLosAngeles

International Leader in Pediatrics

**Walter W. Noce, Jr.
President and CEO**

Winter 2004

Dear Friend,

I hope this letter, our second annual hospital “report card,” finds you and your family well this holiday season. This is one of my favorite times of year at Childrens Hospital Los Angeles – a time when donated toys for our patients arrive by the carloads, and physicians, nurses, staff and community supporters participate in our “Elf” Program, providing clothes, food, housing needs and more toys to our underserved families.

We have much to be thankful for in the past year as we have made great advances during turbulent economic times. I am enormously grateful for the support of our Board of Trustees, volunteers, donors, the Associate & Affiliate groups, friends and colleagues. Their collective dedication to Childrens Hospital Los Angeles continues to ensure a healthy and healing environment for thousands of children, youth and families in California, throughout the country and around the world.

We continue to make an unparalleled investment in world-class people, programs, research, technology and facilities, and I am delighted to share with you highlights of our dramatic progress during Fiscal Year 2004, as well as major issues confronting our institution and our plans for the future. For more information on the hospital, I invite you to visit www.ChildrensHospitalLA.org.

Advancing Our Mission

We live our mission every day: “To advance the health and well-being of children and adolescents by integrating medical care, preventive services, medical education and research in response to the needs of our community and in an atmosphere of love, compassion and respect for people.” Clearly, this hospital is a sanctuary for the sickest and most seriously injured children, and it is often their only source of hope.

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The future of our mission is bright.

Our fund raising continues at historic levels. To date, Living Proof: The Campaign for Children's Hospital Los Angeles, our unprecedented \$500 million fund-raising effort, has raised more than \$410 million, including \$110 million raised by 100 percent of our trustees. Our Physicians' Campaign has reached 70 percent participation, and we have initiated an Employee Giving Campaign. Last year, our hospital was ranked #1 in fund raising among 22 leading children's hospitals in North America.

The awareness and image of the hospital have improved dramatically. This year, we have been particularly successful in garnering celebrity and public attention. We are grateful to HBO Chairman and CEO Chris Albrecht for hosting the inaugural HBO All Star Family Sports Jam, as well as to trustees Giselle Fernandez-Farrand and Cheryl Saban, and MGM Chairman and CEO Alex Yemenidjian, for organizing the first "Noche de Niños" gala honoring Jennifer Lopez.

Highlights of Fiscal Year 2004 (July 1, 2003 – June 30, 2004)

Miracles happen every day at our hospital. One such miracle began on September 10, 2003, when James E. Stein, MD, led a team of the best and brightest – more than 60 surgeons, anesthesiologists, physicians, nurses and other caregivers – in a 24-hour landmark surgery to separate nine-month-old identical conjoined twin girls. These beautiful children continue to thrive under our care.

When our 460,000 square-foot New Hospital Building opens in 2008, it will be the finest medical and surgical environment for seriously ill and injured children in the nation. This facility will cost more than \$330 million to construct and equip, exceeding our original projections due to rising global steel, metal and energy prices, as well as increasing labor costs. Proposition 61, The Children's Hospital Bond Act, approved on the November 2 general election ballot, will provide \$750 million to improve and expand California's 13 children's hospitals. This measure will allow our hospital to apply for up to \$74 million to help offset the significant incremental project costs beyond our control, as we and all other California hospitals meet the state's new seismic regulations to be fully operational after a major earthquake. Chris Albrecht and *Entertainment Tonight* host Mary Hart are the leadership co-chairs of the New Hospital Building Campaign Committee and to date, we have raised approximately \$20 million of our \$200 million philanthropic goal for the New Hospital Building.

In the last fiscal year, we opened the five-story underground parking structure and the new Joyce and Stanley Black and Family Healing and Meditation Garden.

There are 89 investigators at work in The Saban Research Institute of Children's Hospital Los Angeles, conducting 230 laboratory studies, clinical trials and community-based research and health services. Their base of knowledge is considered to be among the best in pediatric medicine, and it has enabled us to attract \$33.5 million in funding in Fiscal Year 2004, with more than \$27.8 million from federal sources, including the National Institutes of Health (NIH) and the Centers for Disease Control and Prevention (CDC).

The stated purpose of Proposition 71, the recently approved California Stem Cell Research and Cures Initiative, aligns directly with the goals of many of our pioneering research programs, such as the Gene, Immune and Stem Cell Therapy Program, Developmental Biology Program and Cardiovascular Research Program, among others. Our investigators are performing research to understand the biology of

stem cells and apply this knowledge to the treatment of diseases such as diabetes, leukemia, sickle cell disease, organ defects, muscular dystrophy, cystic fibrosis, and more.

We have announced three exciting new collaborative programs:

- ◆ The NIH Multi-Center Diabetes Study, led by Childrens Hospital Los Angeles, is a clinical trial that will compare different treatments for type 2 diabetes in children and teenagers. This five-year, nationwide study involves Childrens Hospital and 12 other medical centers.
- ◆ The USC-CHLA Institute for Pediatric Clinical Research began with an anonymous gift of \$15 million to establish the most active and productive pediatric clinical trials program in the United States. This collaboration between the University of Southern California and Childrens Hospital Los Angeles will find the best means to diagnose, treat and prevent pediatric disease and to promote child and adolescent health.
- ◆ The Keck Diabetes Prevention Initiative will identify and address the interrelated factors that lead to obesity and diabetes in residents of East and South Los Angeles. The University of Southern California and Childrens Hospital Los Angeles are collaborating with a \$2 million grant from the W.M. Keck Foundation to support a two-year planning process, which will preface an eight-year model prevention, intervention and treatment program.

We continue to attract the finest physician and scientific leadership:

Ivan Vesely, PhD, an expert in tissue engineering (growing human tissue), was recruited from the Cleveland Clinic Foundation and is now the H. Russell Smith Foundation Endowed Chair in Cardiothoracic Research and director of the Cardiovascular Research Program in The Saban Research Institute, and professor of cardiothoracic surgery at the Keck School of Medicine. His laboratory has succeeded in growing collagen tendons that may one day replace diseased heart valves.

Henri R. Ford, MD, will join us in January 2005 as the vice president and chief of the Department of Surgery at Childrens Hospital and vice chair of the Department of Surgery at the Keck School of Medicine. Dr. Ford comes to us from Children's Hospital of Pittsburgh, where he was chief of the Division of Pediatric Surgery, and University of Pittsburgh School of Medicine, where he was professor of Surgery and chief of the Division of Pediatric Surgery. Dr. Ford, who has conducted extensive clinical trials on pediatric trauma outcomes, has been responsible for one of the largest pediatric surgical programs and busiest trauma centers in the nation.

Challenges & Opportunities in Turbulent Times

We operate in difficult and challenging times. In California, hospitals and emergency departments are closing at an alarming pace. The state's budget deficit threatens reimbursement for services by both hospitals and physicians. Urban and children's hospitals, like ours, are particularly at risk because of the large number of uninsured, poor and severely ill children who come to us with critical needs. Medi-Cal payments to hospitals in California are the lowest in the nation. Federal, state and local funding priorities are shifting away from spending for Medicaid recipients, while unfunded government mandates, like the recent seismic legislation and nurse staffing ratios, are escalating our costs.

The good news is these challenges are coupled with remarkable opportunities which we are actively investing in at Childrens Hospital: nanotechnology, genomics, robotics, new drugs, computer-controlled diagnostic imaging and interventions, electronic clinical information systems, and new research and clinical facilities. These advances, while costly, will help us continue to provide state-of-the-art medical care to our patients.

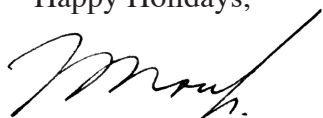
During these turbulent times, the hospital's balance sheet remains strong. In Fiscal Year 2004, our net asset growth increased by \$49 million, and our total assets exceeded \$1 billion. Our \$508 million endowment continues to perform in the top quartile. Various ratings agencies continue to consider Childrens Hospital Los Angeles sound, reflecting, among other things, our national reputation, leading market position and exceptional fund-raising success. We knew we were in for tight financial times when we began our campus rebuild, but it is essential to our future. Though Fiscal Year 2004 ended with an operating loss of \$8.9 million, primarily due to capital depreciation, we remained in the black with \$19.7 million in net income gains. We continue to monitor our revenues and expenses vigilantly during Fiscal Year 2005.

Please Join Us!

At every critical point in our history, remarkable people have helped Childrens Hospital Los Angeles provide the best possible care for the children and families of Los Angeles and beyond. We have that exceptional leadership and support today. For that, you have my heartfelt gratitude. If you haven't visited our campus recently, please call us at 323-669-2308 to set up a tour. We'd love to see you!

Please continue to support the Campaign for Childrens Hospital Los Angeles! You make it possible for us to save children's lives, and what could be more important than that?

Happy Holidays,

A handwritten signature in black ink, appearing to read 'W. Noce, Jr.', with a long, sweeping flourish extending upwards and to the right.

Walter W. Noce, Jr.
President and CEO