



ChildrensHospitalLosAngeles

International Leader in Pediatrics

Walter W. Noce, Jr.
Vice Chair, Board of Trustees

Spring 2006

Dear Friend,

Spring marks a time for new growth and fresh beginnings. Here at Childrens Hospital Los Angeles we welcome change as part of our commitment to innovation. This excitement of change is reflected in the happy voices of children going home, and it also is mirrored in our continuing commitment to invest in world-class people, programs and facilities.

As we look back on Fiscal Year 2005, it is important to acknowledge the accomplishments that have changed the lives of seriously ill and injured children for the better. These children remind us of the hospital's mission and our constant efforts to find new ways to advance their health and well-being. I hope this annual "report card" finds you and your family well. It is my pleasure to share some of the highlights made possible by your support, and to thank you, our Board of Trustees, volunteers, donors, the Associates and Affiliates, friends, faculty and employees, for caring so deeply.

A Year of Achievements (Fiscal Year 2005)

We began construction on our New Hospital Building, which will be one of the finest medical and surgical environments in the nation for children and adolescents. We also have achieved a number of research breakthroughs, a few of which you will read about below.

In January 2005, Henri R. Ford, MD, was named vice president and chief of the Department of Surgery at Childrens Hospital, and vice chair for clinical affairs in the Department of Surgery at the Keck School of Medicine of the University of Southern California (USC). Dr. Ford was previously a professor and chief of the Division of Pediatric Surgery and surgeon-in-chief at Children's Hospital of Pittsburgh and the University of Pittsburgh School of Medicine. Dr. Ford has demonstrated truly exceptional leadership in pediatric surgery and is recognized for his definitive studies on pediatric trauma in the United States.

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

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In March, *Diabesity: The Obesity-Diabetes Epidemic That Threatens America - And What We Must Do to Stop It* (Bantam Dell/Random House) was published. Written by Francine R. Kaufman, MD, this highly regarded book takes us to the front lines of the fight against diabetes, one of the most common chronic diseases of childhood. A past-president of the American Diabetes Association, Dr. Kaufman is the director of the Center for Endocrinology, Diabetes and Metabolism at Childrens Hospital and professor of pediatrics at the Keck School of Medicine. Most recently, she was elected as a member of the prestigious Institute of Medicine (IOM) of the National Academy of Sciences.

In April, we welcomed Richard (“Rich”) D. Cordova as president and chief operating officer. Rich previously served as president of the Southern California Region of Kaiser Foundation Health Plan and Hospitals, overseeing 11 hospitals with a licensed capacity of 2,300 beds, and a health plan for more than three million members, including 45,000 Kaiser Permanente employees. Rich brings a considerable amount of health-care management experience to help achieve our goal to excel as a leader in pediatric medical care.

I am delighted to announce that on April 1, 2006, Rich assumed my role as chief executive officer. Rich was also elected a trustee. I am now vice chair of the Childrens Hospital Board of Trustees. I will focus on our trustee and volunteer leadership in completing fund raising for the New Hospital Building and other key priorities. I also will remain active in the hospital’s governmental relations and public policy interests.

On June 9, we broke ground on the New Hospital Building, opening the door to a transformational future in pediatric medicine. More than 300 donors, volunteers, staff, dignitaries and guests gathered on the rooftop of the visitor parking structure, which has since been razed to make room for the leading-edge inpatient facility. The guiding principle behind the New Hospital Building is family-centered care – a treatment approach that is grounded in the belief that families are essential members of the health-care team. The New Hospital Building, scheduled to open in 2009, will provide a comforting, home-like environment for patients and their families.

Research: Healing Children Tomorrow

The Saban Research Institute at Childrens Hospital Los Angeles is the largest and most productive pediatric research center in the western United States, and ranks among the top five research facilities in the nation in National Institutes of Health (NIH) funding. In the last year, 100 investigators worked on 251 laboratory studies, clinical trials, and community-based research and health service projects. The Institute received \$36.6 million in extramural funding for biomedical research in Fiscal Year 2005, including more than \$32.7 million from federal sources – the NIH, the Centers for Disease Control and Prevention and the U.S. Department of Defense.

Richard B. Simerly, PhD, a senior scientist at the Oregon National Primate Research Center and Oregon Health & Science University in Beaverton, Oregon, joined us as director of the Neuroscience Program at The Saban Research Institute and professor of pediatrics and biology at the Keck School of Medicine. The Neuroscience Program, a new initiative, will provide a focus on basic science in developmental neurobiology, feeding a wide range of research projects within the Childrens Brain Center. His research examines the brain’s plasticity, or ability to grow, change and adapt. If scientists can better understand brain plasticity during child development, they may one day be able to repair brain damage at any time of life.

Childrens Hospital and researchers from USC are collaborating with scientists at the California Institute of Technology to use a “Trojan Horse” approach to transport gene-silencing nanoparticles that effectively shut down the genetic machinery causing cancer. This novel delivery system inhibits tumor growth in mice that have metastatic Ewing’s sarcoma, a rare and often deadly bone cancer that occurs in children and young adults.

A team of investigators at the USC-Childrens Hospital Los Angeles Institute for Pediatric Clinical Research has developed a new oral formulation of an anti-cancer drug called fenretinide – the first drug formulation specifically designed for pediatric cancer patients. Previously, the drug’s large capsules were difficult for children to swallow and a challenge for small bodies to absorb. The new powder formulation tastes like raw cookie dough and can be mixed with food or beverages, making it easy for children to take. More importantly, the new fenretinide powder appears to be better absorbed than the capsules, and researchers hope that this will increase its effectiveness.

Philanthropy from Within

I am touched by the tireless dedication of our Board of Trustees, physicians and employees to Childrens Hospital and others in need. When Hurricane Katrina impacted thousands of people in New Orleans and other areas of the Gulf Coast, over \$14,000 was donated by our Childrens Hospital staff to victims of the hurricane.

Our annual Employee Giving Campaign was remarkably successful, with employees contributing more than \$2.5 million to *Living Proof: The Campaign for Childrens Hospital Los Angeles* over the last five years. Further, 100 percent of our medical staff gave to the Physicians’ Campaign. This resulted in more than \$2.2 million raised for the New Hospital Building, the Graduate Medical Education Fund, and various hospital departments.

The *Living Proof* campaign has exceeded our expectations in the past five years – the response from the community has been tremendous. To date, we have raised significant funds toward our campaign for medical care, research and education. I am pleased to acknowledge 100 percent participation by our trustees, who have given nearly \$140 million. We are grateful for their generous support, but our work is not done – we still need to raise \$200 million in private philanthropy for the construction of our New Hospital Building, as well as ongoing support for patient care and research.

Challenges and Opportunities

The health-care environment continues to be challenging with hospitals and emergency departments closing, and the state’s budget deficit threatening reimbursement for services provided by both hospitals and physicians. The State Refinancing Waiver Proposal, developed to address the financial crisis facing health-care “safety net” programs, presents additional threats to Medi-Cal and Disproportionate Share Hospital funding for hospitals treating large numbers of poor, uninsured or underinsured patients. Childrens Hospital is the largest pediatric Medi-Cal provider in California, and the leading provider of inpatient and outpatient care for children covered by California Children’s Services. This puts the hospital particularly at risk because we serve such a large number of severely ill young patients with complex medical needs. In addition, Medi-Cal payments to physicians and hospitals in California are the lowest in the nation.

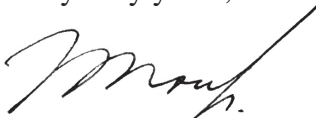
Childrens Hospital and the University Childrens Medical Group (UCMG) have explored creative ways to ensure continued access to primary care services for our patients, as well as strengthen and extend these services to other children in the area. In September 2005, Childrens Hospital and UCMG formed an agreement with AltaMed Health Services Corporation to operate the hospital's General Pediatrics and Adolescent Medicine clinics. This agreement combines the experience and resources of three organizations to provide superb preventive and primary medical care to our vulnerable outpatients. Clinic patients will continue to receive the very best care, likely provided by the same caregivers, without disruption.

Skyrocketing construction prices, especially the cost of steel and drywall, have increased the budget for the New Hospital Building. The cost of construction and equipment will therefore exceed the original estimate of \$336 million. This added expense presents a great challenge, and global market factors threaten to continue to escalate our costs. Fortunately, the passage of Proposition 61 will bring us significant financial assistance. At a time when federal funding priorities shift away from domestic spending, we must meet an unfunded seismic upgrade mandate.

As of June 30, 2005, the hospital had total assets of \$1,178,454,000 and \$467,540,000 in unrestricted net assets. It is important to note that while Fiscal Year 2005 showed a significant operating loss, including depreciation and amortization costs of \$33,680,000 (for information technology systems and facilities), the hospital's overall financial condition is sound. Management will continue to assert with public and private payers the need for payments that are adequate to meet the complex medical needs of the severely ill and injured children cared for at Childrens Hospital Los Angeles.

Your support is so important to us. It enables us to improve and save the lives of children, and provide hope of a better future to countless families. If you haven't visited Childrens Hospital Los Angeles recently, please call us at (323) 671-1733 to arrange a visit. You will be amazed at the miracles taking place here.

Very truly yours,

A handwritten signature in black ink, appearing to read 'W. Noce, Jr.', written in a cursive style.

Walter W. Noce, Jr.
Vice Chair, Board of Trustees