

We Stand for Children.

2013 Annual Report



Children's National™

We begin every day with a question:

“What’s right
for children?”

When I became President and CEO two years ago, I asked the Children's National family to believe, to re-imagine, and to think differently. Since then, we've seen a lot of change — changes in the market, changes in the practice of medicine, even in how our country thinks about healthcare.

In the midst of all this uncertainty, there is one thing that does not change: our commitment to those we care for. For 143 years, we have served children in our nation's capital, across the country, and around the world. And in the process, we have grown from a small organization with a big vision to a national and international leader in clinical care, advocacy, research, and education.

With a new leadership team firmly in place, this was the year we began to hit our stride.

We've undertaken critically important work to drive operational excellence and discipline in the organization. We've forged new partnerships and

alliances, and been recognized as an innovative business leader in healthcare. And we ended the year with a strong balance sheet bolstered by increased market share, volumes, and philanthropy.



Kurt D. Newman, MD
President

This report highlights the work we've done to implement new ideas, introduce new business models, strengthen our national voice, and increase our value to payors, partners, and the patients we serve.

Of note: we opened state-of-the-art, multidisciplinary centers for children living with chronic pain and another for diabetes; we welcomed two seasoned pediatric experts as Chief Medical Officers; we hosted an international symposium dedicated to innovation in pediatric surgical device development; and we served as an expert source and a national voice for reporters and policymakers on pressing issues that affect children, including mental health. Finally, we worked to refresh and reintroduce Children's National (and our beloved Dr. Bear) to our home market, and to actively promote the value of our singular focus on the health and well-being of children.

Without question, these are challenging times in healthcare. The climate is uncertain and the landscape is difficult to navigate. But our organization is strong, our path forward is clear, and our focus is resolutely on doing what's best for the children of the region, the nation, and the world. Together, we stand for children.

Kurt D. Newman, M.D.

A National Voice for Children

There is no greater place to advocate on behalf of children than within striking distance of Capitol Hill. But proximity is not enough to establish a national voice for pediatric healthcare. Children's National Health System staff have dedicated their careers to children's medicine and are passionate champions for children. As a result, they are often first at the table when national pediatric healthcare policy is developed.

This year, when the tragic shootings in Newtown, Conn., occurred, experts at Children's National understood that the incident was not merely an instance of senseless violence, but that it pointed to a larger issue: mental

What's right for children? Leveraging our expertise and experience to raise our voice for those who cannot.

health as a child's health concern.

While leaders focused on gun control, President and CEO Kurt Newman, MD, with mental health specialists on staff

at Children's National, elevated the conversation to include children as a central concern. In a *Washington Post* op-ed published on December 27, 2012, and re-used nationally, "The Treatment of Mental Conditions Must Start Early," Dr. Newman argued for early mental

health screening, expanded access to care, and individualized treatment. Shortly thereafter, Paramjit Joshi, MD, appeared on "PBS NewsHour" to discuss the troubling statistics that show few children who need mental health treatment actually receive it.

Improving the health of children also takes us beyond our borders. The Critical Congenital Heart Disease (CCHD) Screening Program has quickly evolved from the regional and national platform to an international stage. This year, with assistance from Baby's First Test, the CCHD team produced videos in six languages, English, Arabic, Chinese, French, Russian, and Spanish, to help expectant and new parents understand CCHD screening.

Finally, Children's National made headlines this year in the *New York Times*, *BBC*, and *CNN* with the debut of first-of-its-kind technology that blends video gaming technology with clinical treatment and physical therapy. Chronic pain affects up to 46 percent of all children, yet many do not receive adequate treatment. As part of the Sheikh Zayed Institute for Pediatric Surgical Innovation, Children's National opened the Pain Medicine Care Complex, one of a few programs in the country dedicated to managing pain for children. The care complex uses multisensory therapy based on the concept of re-educating how the brain perceives pain.



Champion Ally Promoter Ambassador Caregiver Friend Innovator Dreamer

New Models

Children's medicine is not part of what we do, it's all we do. We believe that focus allows us to think more creatively, to be innovative, and to see new opportunities others would never think of. In fact, by putting kids first, we believe new — and potentially better — business models can follow. This was a year where we put the theory to the test.

In February, we announced a joint venture to increase access to pediatric specialty care to kids and families in Northern Virginia. We partnered with Inova Children's

What's right for children? An organization that thinks bigger, thinks differently, and puts children at the center.

Hospital — historically a competitor — to create an organization that brings together specialists from both organizations to better serve the children of the region. *The Washington Post* called the partnership unique, "Among only a

few of its kind in the nation, it is aimed at giving young families living in one of the fastest-growing areas of the country more convenient access to a scarce resource: pediatric specialists."

Innovative thinking also is behind a new model of leadership adopted in 2013. The Affordable Care Act is shifting the healthcare market from an emphasis

Pediatric Specialists of Virginia



on inpatient care toward a broader focus on better outcomes and more preventive, community-based care. These ideas are sometimes referred to as population health. Population health isn't new to Children's National — our roots are in the community, and keeping kids healthy is our mission. But the changing climate prompted CEO Kurt Newman to implement a dual chief medical officer (CMO) model, allowing the institution to focus both on excellence in our specialty and inpatient care and a growing ambulatory and primary care footprint.

As a result, Children's National now has two highly qualified physician leaders who oversee the clinical operations of the enterprise: Denice Cora-Bramble, MD, is the Chief Medical Officer of Ambulatory and Community Health Services, and David Wessel, MD, is the Chief Medical Officer of Hospital and Specialty Services. The dual CMO model demonstrates Children's commitment at the highest level to addressing the changing landscape in the healthcare marketplace and building and sustaining system-wide care for children — from preventative primary care visits to complex subspecialty care.



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More Than a Hospital

At no point in history has pediatrics been so important to the future of medicine. The health of society has its origin in the health of children. Our ability to understand the origins of disease, and anticipate or even prevent them, will allow more kids to have the best chance at a bright future.

We embarked on an ambitious project to define and validate the core ideas that are compelling, believable, and unique about the Children's National brand. We gathered input from consumers, referring physicians, patient families, donors, payors, staff, and board members. The result was a strong brand positioning

What's right for children? A health system designed to meet the needs of children — from primary care to intensive care.

framework that would reinforce the organization's vision and inform and unify our message.

Among the important findings: participants looked to Children's National as the organization with the

highest level of recognized expertise in children. They also saw great value in a comprehensive approach — from primary care to intensive care — to address the needs of kids. Respondents valued the idea of a special



Children's National™

place designed with kids in mind. Finally, Children's National is seen as an advocate for all children — here in Washington, DC, across the nation, and around the world.

For this reason, we made a deliberate decision to move our name from Children's National Medical Center to Children's National Health System to fully represent the breadth and depth of care we provide to children.

We also embarked on an ad campaign to reintroduce ourselves to our home market. And last but certainly not least, we gave Dr. Bear a fresh new face, making him warmer and more timeless.

The "more than a hospital" idea is borne out in the growth of our primary care and ambulatory services, our partnerships with peer institutions in the region, and in the message we consistently deliver: we stand for children.

We're more than a hospital, we're a health system for kids.

From primary care to intensive care, we provide nationally ranked pediatric medicine serving Maryland, Virginia, the District of Columbia, and beyond. Call 888-884-BEAR or visit JustRightForChildren.com.



Children's National[™]
Health System

Just Right



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New Thinking in Medicine

In medicine and medical research, economic and regulatory pressures often mean that innovation occurs primarily in the adult arena. Drug discovery, medical device development, and therapeutic research is typically first targeted and tested for adults and eventually adapted for pediatric patients. At Children's National Health System, we take a leadership role in moving the research focus — and its benefits — toward children first.

With that in mind, Children's National hosted the first Pediatric Surgical Innovation Symposium in June 2013.

What's right for children?
Gathering the best and brightest minds in pediatric medicine to foster innovation that benefits kids.

The event brought together global leaders in pediatric surgical innovation and device development, including researchers, surgeons, policymakers, lawyers, regulatory agencies, and bioethicists. The symposium created dialogue around the balance between safety

and regulation and innovation and rapid development. Following the day-long symposium, the organizers held a closed session to begin the formation of a

collaborative white paper that will outline a consensus on recommended priorities and changes to speed advances in pediatric surgical innovation and device development.

New thinking also is evident in the way that researchers at Children's National are employing existing technology to assist our patients. This year, a team from the Sheikh Zayed Institute for Pediatric Surgical Innovation began using a 3D printer to make exact, full-sized replicas of patients' hearts that can be used by surgeons. The 3D version of the heart can be used to plan and practice procedures, in some cases reducing the time it takes to complete complicated cardiac surgeries. Covered in the *Washington Post* and *Fox National Business News*, Children's use of 3D printing is still new, and researchers are continuing to investigate additional applications of the technology in pediatrics.



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Operational Excellence

Throughout our history, Children's National Health System has witnessed tremendous growth and change in pediatric healthcare. This year is no different. The current healthcare marketplace is in the midst of unprecedented change, and Children's National is committed to staying in front of the curve.

In 2013, leaders at Children's National embarked on a transformative, five-year initiative to examine and improve the effectiveness of how we solve the challenges of the future, and to position us for continued leadership. The effort, called Transformation

What's right for children? Finding new and better ways to address the challenges of pediatric healthcare delivery.

2018, focuses on six areas: strategy, financial strength, integration, innovation, patient experience, and our brand. In each of the six areas we are focused on becoming more integrated, efficient, and highly

reliable in how we deliver care; improving the value and experience we offer to patients and families,



Transformation**2018**

payors and partners; and aligning our strategic and operating priorities with the ultimate goal of developing innovative clinical and research programs seen nowhere else in the world.

Through Transformation 2018, Children's National is finding creative, fresh, and efficient ways to address the future challenges of pediatric healthcare delivery. By developing a unified strategic plan that delivers a more integrated, efficient, and highly reliable health system, we will be poised to serve children and their families for years to come.



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Expertise in Research and Education

Research

In the face of a tightening economic climate, the Children's Research Institute surpassed expectations.

In 2013, Children's Research Institute expanded faculty

What's right for children? Recruiting the best and brightest minds to help lead pediatric medicine.

and staff, increased grant funding and the number of research projects.

Highlights of the past year include:

- Completion of philanthropic efforts to raise funds for a Chair in Nursing Research
- Recruitment of five internationally known researchers and more than 40 faculty and staff members with their associated research projects
- Construction of the Good Manufacturing Practice level stem cell facility that will expand the treatment modalities we offer in our Blood and Marrow Transplantation (BMT) program
- Filing of 30 initial patent applications
- Appearance of Francis S. Collins, MD, Director of the National Institutes of Health, as the keynote speaker for Research Week
- Completion of the Children's Research Institute Summer Research Internship Program for 115 research trainees

Education

In 2013, Children's pediatric residency program grew to include 117 residents. Our program is one of the most competitive in the nation, receiving 2,700 applications for 40 open intern positions. Each year, Children's National has 150 subspecialty fellows in 30 fellowship programs, 117 pediatric residents, 750 rotating residents, and 300 medical students.

The Children's Academy of Pediatric Educators (CAPE) received the "Teaching Program Award," the highest programmatic honor at the Pediatric Academic Society meeting. The prestigious Ray E. Helfer Award for Innovation in Medical Education was awarded to a group of CAPE members for a study submitted this year.

Children's National sponsors 30 nationally recognized fellowship programs. New programs formally approved in 2013 include:

- Pain Medicine
- Neurocritical Care
- Cardiac Intensive Care Medicine
- Cardiac Anesthesia

The Sheikh Zayed Institute for Pediatric Surgical Innovation at Children's National welcomed a diverse group of students from Abu Dhabi, United Arab Emirates into the Student Innovators Summer Program. Student Innovators from Khalifa University and the Higher Colleges of Technology spent two months working with mentors on biomedical innovation theory and practice projects.



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The Children's Experience

In 2013, philanthropy enabled Children's National to dramatically improve the experience of children who need care.

Pain Medicine Care Complex

As part of the Sheikh Zayed Institute for Pediatric Surgical Innovation, made possible by a historic gift from the Government of Abu Dhabi in 2009,

**What's right
for children?
An experience
of care designed
with kids in mind.**

Children's National opened a one-of-a-kind Pain Medicine Care Complex that revolutionizes the way children are treated for pain.

Washington Nationals Diabetes Care Complex

Funded by the Washington Nationals Dream Foundation and many corporate and individual donors, the Washington Nationals Diabetes Care Complex brings all diabetes services into one space to offer the most coordinated care possible.

Interventional Cardiac Magnetic Resonance Suite

With support from several donors and the National Heart, Lung, and Blood Institute, Children's National also opened a new Interventional Cardiac Magnetic Resonance (ICMR) suite that reduces the need for radiation and sedation in diagnosing and treating cardiac conditions.

Dream Clinic

Thanks to many donors, the Dream Clinic will improve clinical care and the experience for children undergoing cancer treatment. The 2013 Heroes Curing Childhood Cancer Gala, chaired by Elizabeth and Lee Blalack, raised \$695,000 to support this important initiative.

Philanthropy

Donors supported Children's National through gifts, in-kind donations, partnerships, and events. The annual Children's Ball raised \$2 million under the leadership of chairs Susanna and Jack Quinn. Children's Miracle Network Hospitals remained a vital fundraising partner, as corporations like Costco Wholesale, Walmart, Food Lion, GIANT Foods, Marriott, and others raised and donated \$5.9 million for the health system.

The Board of Visitors of Children's National contributed more than \$1.6 million for research, care, equipment, and family services. This support was made possible by their annual fundraiser, A Vintage Affair, and the Care for Kids Card. The Child Health Center Board, now the Children's Health Board, raised more than \$250,000 to benefit Children's National through the DC Design House and partnerships with retailers and restaurants.

The Children's Circle of Care, which recognizes donors who make an annual gift of \$10,000 or more, welcomed 218 members in 2013. We are grateful to all our donors and partners who help us meet the needs of every child.



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Fiscal Year 2013 Financial Highlights

Assets as of June 30, 2013 in thousands:

| | |
|--|----------|
| Cash and short-term investments on hand | \$89,267 |
| Amounts owed by insurance companies, government agencies, patients, and other entities..... | 166,782 |
| Inventory on hand to meet the needs of our patients..... | 6,911 |
| Net value of property, plant, and equipment..... | 538,626 |
| Investments to be held longer than one year | 324,103 |
| Proceeds from the sale of bonds to pay for capital expansion, renovation, and equipment..... | 28,413 |
| Funds contributed over the years by our friends in the community to pay for specific projects..... | 138,328 |
| Other assets | 158,667 |

Total assets, the strong financial base that ensures our ability to continue to care for sick children **\$1,451,097**

Liabilities as of June 30, 2013 in thousands:

| | |
|---|-----------|
| Amounts owed to vendors, employees, and other third parties | \$307,479 |
| Amounts borrowed to fund the projects and purchase the equipment needed to serve our patients, payments due within a year | 4,129 |
| Amounts borrowed to fund the projects and purchase the equipment needed to serve our patients, payments due in the future..... | 463,946 |
| The difference between what we own (our assets) and what we owe (our liabilities), representing the community's interest in Children's National | 675,543 |

Our current liabilities, plus the community's interest, equals our total assets **\$1,451,097**

Sources of income for delivering quality healthcare services to our community come from as of June 30, 2013 in thousands:

Services provided for inpatients and outpatients, including physician care, diagnostic and therapeutic procedures, nursing care, and room and board..... **\$1,949,162**

Because government and other insurance carriers do not pay the total charges on the care delivered, we did not collect

(1,067,433)

Because we provide care to the indigent and children with families unable to pay their full bill, we did not collect.....

(46,213)

We received additional income from other sources, including research grants and other programs sponsored by outside support.....

114,505

The use of restricted charitable gifts to support operations..

30,381

Contributions from our friends in the community who understand and support our mission to care for children.....

23,680

Total revenues and support to care for the children who need our special services..... **1,004,082**

From our income we paid for as of June 30, 2013 in thousands:

Salary and benefits for our medical, professional, and support staffs.....

\$632,740

Operating supplies and services

268,441

Depreciation and interest on plant and equipment

73,435

Professional liability protection

17,912

Total expenses required to meet the needs to support our patients and mission..... **992,528**

Excess of revenues from operations to support our mission.....

11,554

Total Philanthropic Support.....

62,700

**Children's National Medical
Center Corporate Entities**

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Children's Hospital Foundation
Children's National Advocacy and Public Policy, Inc.
Children's National Health Network
Children's National Specialists of Northern Virginia, LLC
Children's Pediatricians and Associates
Children's Research Institute
Children's School Services
Safe Kids Worldwide

We would like to thank all of our donors, volunteers,
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give their time in support of our organization
and our mission.

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