



2003 Annual Report

Strategies for Customer Value

**PERSONALIZED
RESPONSIVE SERVICE
... OUR COMMITMENT**

Strategies for Customer Value

We are pleased to report that 2003 was a year with positive, strategically directed growth for Hospital Shared Services (HSS). This growth is the result of continued organizational emphasis on anticipating, understanding and meeting dynamic customer needs with services, programs, and people; elements that continuously add value to customer operations. This emphasis reaffirms the importance of superior customer service in today's marketplace. We differentiate HSS by closely collaborating with our customers to create innovative, responsive programs and services that result in high value for our clients.

To Our Customers, Shareholders, and Friends:



George Schiel
President



Tom Puckett, Chair
Board of Directors

HSS celebrated its 35th anniversary on October 23, 2002. Our organization, originally named the Midtown Hospital Association, was chartered to provide cooperative planning and shared service programs for seven midtown Denver hospitals. In 1975, the Association extended services to other metropolitan Denver hospitals and in 1978, the organization was renamed Hospital Shared Services. By 1982, the volume of shared services had become substantial and Hospital Shared Services changed its organizational structure to a 501(e) tax-exempt cooperative. In 1996, HSS converted to a "for profit" structure, with participating Colorado hospitals becoming shareholders.

HSS began with one shared service program – office equipment maintenance. Today, HSS offers 16 service programs, and is the nation's second largest hospital cooperative services provider. The HSS workforce, which numbered 100 in 1977, has grown to 2,000, earning HSS a listing on *The Denver Post Top 100 Colorado Employers* for the third consecutive year.

HSS employees continue to earn high marks from customers for their dedication and outstanding service. One example of that dedication occurred during the Denver blizzard of March 2003 that paralyzed the metropolitan area. The staff of our Operations Center, which directs HSS courier and security communications 24 hours each day, stayed on duty during the blizzard and for several days following, living at the office, and working together to conduct essential business for customers. HSS Courier Services continued to deliver blood and other critical items to hospitals and labs in and outside Denver when all other courier services had shut down. Many HSS security and staffing personnel continued their shifts to compensate for individuals who could not travel to work.

Momentum from the 35th anniversary year carried HSS strongly into 2003. We continued to grow, both in the number of services provided to existing customers and in the number of new customers acquired in targeted geographic areas in our nine-state western U.S. market.

Total 2003 revenues were \$57.5 million, compared to \$58.2 in 2002. This decline is attributable primarily to the loss of revenue in our California operations, the result of the economic downturn in that state. As the accompanying chart illustrates, however, HSS' five-year growth trend

remains very positive. During 2003, HSS was privileged to host the International Association for Healthcare Security & Safety (IAHSS) Annual Meeting in Colorado. HSS helped form this organization in 1968, which now has more than 30,000 certified security officers. HSS provides IAHSS basic, advanced, safety, and supervisory certification programs for all healthcare security personnel. Phil Neilsen, Vice President of Systems Support for Healthcare Security Services, was the first security officer certified by IAHSS in 1975.

HSS Growth Drivers

The organization's consistent strategic growth is attributable to several factors. One factor is continual adherence to the core values highlighted in this report. An important value is striving to be integrated into each HSS customer's culture and to be an ambassador for each customer. This close integration enables HSS to clearly identify customer needs and respond with specifically targeted services and programs.

A second factor that has driven our consistent growth is the vision of the members of our Board of Directors. We thank these healthcare professionals for their support and guidance in 2003, especially Margo Karsten, President of Poudre Valley Hospital in Fort Collins, Colorado, who provided exceptional leadership during her term as Board Chair. The Board of Directors has guided HSS through growth of more than 40 percent during the past five years. To accomplish this growth, the Board has considered and approved a new accounting system, realigned corporate resources, and provided key strategic input. Our success is clearly related to our Board's involvement.

Finally, we could not be a successful business without our customers. Thank you to our long-term customers, many of whom have been with us from the beginning, and thank you to our new customers who have recently chosen HSS. We look forward to working closely with you for many years to come.

Sincerely,

Handwritten signature of George Schiel in black ink.

George Schiel
President

Handwritten signature of Tom Puckett in black ink.

Tom Puckett, Chair
Board of Directors

2003 Division Highlights

Healthcare Security Services

As a result of this division's initiative to serve markets in the western U.S. that could benefit from its programs, HSS began security services at hospitals in Phoenix, Arizona, and Harlingen, Texas, in 2003. Two new Denver area hospitals also became customers: SkyRidge Medical Center and Parker Adventist Hospital. Although the Healthcare Security Services program in California added several new hospital customers, the overall revenue base from operations in this state dropped, largely due to a pronounced slump in the California economy. We anticipate a revenue rebound in 2004.

The HSS Operations Center is the communications hub for HSS. This division responds to a daily average of 1,200 calls for security assistance and 375 calls for courier deliveries. HSS is completing research to significantly upgrade this key operational component with new communications technology.

FirstWatch Security Services

This division, which provides security services to non-healthcare organizations, has been a consistent growth area for HSS since it started operations in 1985. During 2003, FirstWatch continued to grow in size and reputation. Denver International Airport (DIA) is the largest customer of FirstWatch and has been a customer since opening in 1996. FirstWatch is proud to be one of the factors that enabled DIA to be recognized as one of the safest major airports in the nation.

Staffing and Professional Services

This division continued to work in partnership with Colorado hospitals to address the shortage of healthcare professionals, particularly nurses. In 2003, this division provided approximately 60,000 hours of nursing and mental health workers to meet the needs of hospitals, mental health facilities, and other healthcare organizations.

Medical Equipment Management

HSS provides biomedical engineering services in Colorado, Kansas, New Mexico, and Wyoming. In 2003, this division realized significant growth, particularly in western Colorado and Kansas, as a result of its reputation for responsive service and innovative approaches to maintaining medical equipment.

The sterilizer maintenance program was organized to target markets outside of Denver for growth in 2003. Response was so positive that three new technicians were added, significantly increasing revenues in this program.

The Medical Equipment Management Division developed, and continues to refine, its Omega software to schedule maintenance and maintain service records for participating member hospitals. This software is recognized as one of the most comprehensive of its kind and effectively complements the division's responsive, personal customer service with a sophisticated management tool.

Printing and Forms Management

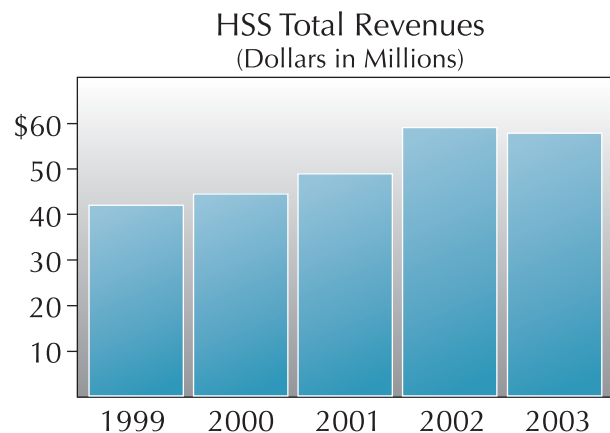
Three years ago, this division made a strategic shift to Forms Management, focusing on Just-In-Time digital printing in order to help participating hospitals realize efficiencies and reduce the number of forms. HSS achieved results far beyond expectations! When the program was initiated, HSS' largest client system printed 5,700 forms. At the end of 2003, through HSS initiatives and hospital forms committees, this number dropped to 2,700 forms, a reduction of over 50%. In addition, the program also reduced printing and inventory costs.

Courier Services

HSS is the only courier company in Colorado, that operates 24 hours a day to meet the needs of the healthcare community. On an average weekday, the division makes 375 stat and time sensitive deliveries throughout the Denver metro and front range areas. Our service area ranges from Fort Collins/Greeley to the north and Alamosa to the south.

Environmental Health and Safety

Member hospitals have come to rely on HSS to ensure the safety of their internal environment. To accomplish this mission, HSS provides a broad array of air monitoring surveys and inspections of biological safety cabinets. Service volumes increased in 2003 and HSS has added an additional technician this year to specialize in safety cabinets.



...growth of over
40% during the last
five years...

Core Values

- Always make things right for our customer
- Be integrated to our customers' culture; be an ambassador for each customer
- Conduct all business with honesty and integrity as individuals and as an organization
- Create innovative approaches to deliver cooperative solutions for customers
- Maintain a reputation for service excellence and program quality
- Value our employees and their contribution to Hospital Shared Services and to our customers

Mission Statement

Hospital Shared Services provides a diverse variety of personalized technical and professional service programs to enhance the value of our customers' business.

Vision

To be the very best at providing value-added and cost effective operational advantages to all our customers.

Hospital Shared Services, Inc. and Subsidiaries Consolidated Balance Sheet

	December 31 <u>2003</u>	December 31 <u>2002</u>
ASSETS		
Cash	\$ 3,434,464	2,057,202
Accounts receivable	7,635,685	8,849,482
Prepaid expenses, inventories, etc.	<u>1,489,698</u>	<u>1,329,976</u>
CURRENT ASSETS	<u>12,559,847</u>	<u>12,236,660</u>
Property & equipment, net of depreciation	1,983,436	2,212,410
Goodwill and investment in affiliate	1,028,409	895,186
Deposits and other non-current assets	<u>559,588</u>	<u>540,163</u>
NON-CURRENT ASSETS	<u>3,571,433</u>	<u>3,647,759</u>
TOTAL ASSETS	<u>\$16,131,280</u>	<u>15,884,419</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Accounts payable	\$ 433,770	480,494
Line of credit	-	100,000
Current maturities of long term debt	355,836	347,067
Deferred revenue	14,691	46,761
Accrued liabilities	<u>3,809,411</u>	<u>4,168,633</u>
TOTAL CURRENT LIABILITIES	4,613,708	5,142,955
Long Term Liabilities	<u>1,001,896</u>	<u>1,034,631</u>
NON-CURRENT LIABILITIES	1,001,896	1,034,631
TOTAL LIABILITIES	5,615,604	6,177,586
MINORITY INTEREST	161,356	104,267
SHAREHOLDERS' EQUITY	<u>10,354,320</u>	<u>9,602,566</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$16,131,280</u>	<u>15,884,419</u>

BOARD OF DIRECTORS

OFFICERS

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Denver

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HealthONE
Denver

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University of Colorado Hospital
Aurora

IMMEDIATE PAST CHAIR

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Poudre Valley Hospital
Fort Collins

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Hospital Shared Services
Denver

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Hospital Shared Services
Denver

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Longmont United Hospital
Longmont

Jeff Hauser
McKee Medical Center
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Wheat Ridge

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Rose Medical Center
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St. Anthony Hospitals
Denver

Kenneth Platou
Montrose Memorial Hospital
Montrose

Rob Ryder
Penrose/St. Francis Health System
Colorado Springs

Stephanie Thomas
Denver Health Medical Center
Denver

Larry H. Wall
Colorado Health & Hospital Assoc.
Englewood

George Welton
Exempla Healthcare System
Denver

HOSPITAL SHARED SERVICES

Healthcare Security

Ph. 303-765-3080
Fax 303-871-7103
admin@healthcaresecurity.com
www.healthcaresecurity.com

- Full-Service Security Programs
- TEAM (Techniques for Effective Aggression Management™) Training
- Security Consulting Services
- Alarms

FirstWatch Security

Ph. 303-871-0606
Fax 303-715-3668
info@fwsecurity.com
www.fwsecurity.com

- Full-Service Security Programs
- Professional Uniformed Officers; armed or unarmed, stationary or patrol officers in marked vehicles
- Alarms
- Patrol and Alarm Response

Staffing and Professional Services

Ph. 303-871-7080
Fax 303-715-9195
staffing@hospitalshared.com

- Nursing Services
- Mental Health Workers
- Allied Health Personnel
- Radiology, Laboratory and Ultrasound Technicians
- Medical Office Personnel

Medical Equipment Management

Ph. 303-778-5445
Fax 303-765-2393
medequip@hospitalshared.com

- Medical Equipment Maintenance, including monitors, clinical laboratory equipment, microscopes, respiratory therapy equipment
- On-Site Management Programs
- Capital Asset Shared Savings Management Programs™

Printing and Forms Management

Ph. 303-455-1420
Fax 303-455-9104
hssprinting@hospitalshared.com

- Forms Management
- Digital, Print-On-Demand Forms
- Graphic Design, Typesetting, Printing, Copies and Bindery
- Stockless and Just-In-Time Forms Inventory
- Colorado Springs and Denver

Courier Services

Ph. 303-722-4444
Fax 303-722-1695
courier@hospitalshared.com

- 24-Hour Dispatch Center
- Scheduled Service
- Same-Day and Demand Service
- STAT Service

Environmental Health and Safety

Ph. 303-282-4250
Fax 303-733-0253
safety@hospitalshared.com

- Industrial Hygiene Services
- Waste Anesthetic Gas Surveys
- Ethylene Oxide Waste Gas Surveys
- Air Monitoring Surveys
- Lead and Cadmium Monitoring
- Nuclear Medicine Departments
- Noise Evaluations
- Biological Safety Cabinet Certification
- Fume Hoods / Clean Benches
- Laminar Flow Surgical Suites
- Pharmacy Particulate Surveys

Sterilizer Maintenance

Ph. 303-742-2075
Fax 303-742-2090
sterilizers@hospitalshared.com

- Preventative Maintenance, Repair and Installation of Sterilizers, Washers, and Operating Room Tables/Lights



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