

July 25, 1996

Arthur L. Desrocher, Chairman  
Board of Selectman  
Town of Nantucket  
Town and County Building  
16 Broad Street  
Nantucket, Massachusetts 02554

Re: Review of the Management and Governance Structure of Our Island Home

Dear Mr. Desrocher:

This letter conveys the results of our review of the management and governance structure of Our Island Home which we conducted according to the scope of work contained in our engagement letter.

#### **Executive summary and recommendations**

Our Island Home is a 45 bed nursing facility owned and operated by the Town of Nantucket. Lanzikos, McDonough & Associates was retained to review the management and governance structure of the facility and to analyze and project its financial condition.

As the only nursing facility on Nantucket, Our Island Home, is well regarded as an important resource to meet the needs of frail older adults. It is important to continue the availability of its services as a matter of public health need and consumer preference. The Town has been providing subsidies over the years to support the costs of the facility.

The section will summarize the major findings and recommendations for the Town to consider in the future operation of the facility.

- **Seek rate relief in the Massachusetts Medicaid program**

Working with the local state senator and representative, legislative action should be sought which continues existing exceptions from cost caps in the Medicaid reimbursement calculation as well as provides additional recognition of the costs of providing care in the unique island circumstances existing on Nantucket. This will be essential to contain the growth in the amount of subsidies which will be required from the Town. Without rate relief, required subsidies could triple to over \$600,000 in 1999.



Lanzikos & Associates

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**REPORT ON THE REVIEW OF THE MANAGEMENT AND GOVERNANCE STRUCTURE  
OF OUR ISLAND HOME**

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- **Provide governance oversight through the Town Administrator**

The Town Administrator should meet monthly with the facility administrator to review the operations of facility. This meeting should follow a prescribed format to ensure that all aspects of the facility are covered. A suggested format is included in the appendix. At least quarterly, the meeting should occur on the premises of the facility. The Town of Nantucket is the owner of the facility and governs the facility through the Board of Selectmen. The most advantageous and efficient way to ensure proper oversight is through the Town Administrator. At least annually, the facility administrator should make a formal and in person report to Board of Selectmen. The report should cover the results of the year past, support the budget request for the forthcoming year, and present the major goals and objectives for the facility.

- **Facility ownership and management assessment**

The facility is owned by the Town of Nantucket. The question was raised whether alternative forms of ownership and/or management would be preferable. There is no immediately obvious advantage to having the facility managed through a management organization from off island. This would add to the cost of the facility and reduce the level of control of the Town over the day to day operations of the facility.

Nursing facilities may be owned by private not for profit organizations and by proprietary interests in addition to municipalities. If the Town was concerned about its responsibility for growing operating deficits in future years, the Town could consider selling the facility to a private not for profit organization or a for profit group. However, there is no assurance that another form of ownership would be more successful in seeking rate relief from the state to ensure the continued availability of the facility to island residents. A separate evaluation process would be necessary to consider the benefits and disadvantages of a change of ownership. In any consideration, careful attention must be paid to the assurances for continued availability of long term care services at affordable rates.

- **Activities programming and use of trust funds** 

The proceeds of several existing trust funds should be more extensively used to support the level of activities and recreational and social programming at the facility. The specific recommendation is that the facility prepare an annual plan as to how it would access and apply the income from the trust funds which are under Town control and were established by donors for use at the facility. The use of these

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funds has been inconsistent during the past years. During the interviews conducted for this assessment, several individuals indicated that it would be desirable to increase recreational program options at the facility. This need could be satisfied, at least in part, through enhanced services supported by the trust funds.

The following part of the report provides detailed of the review process and specific findings.

**Review process: On site visits, interviews, and document review**

Two visits were made to Our Island Home and other locations in Nantucket. One visit was made by Paul Lanzikos, Principal of Lanzikos, McDonough & Associates, on May 24, 1996 and a second one occurred on June 4, 1996 by Paul Lanzikos and Andrew Levine, Esq., of Donoghue, Barrett & McCue. During these visits, the physical plant was toured and various interviews conducted. Telephone interviews were conducted on various days in late May and early June. Eighteen people were interviewed during our review. Review of three years of financial and public documents relating to the operation of the facility was conducted. John Sannella, C.P.A., of Mullen & Company, performed the financial analysis. Paul Lanzikos and Andrew Levine conducted the document review.

**Findings: Physical plant**

The facility is a one story, 45 bed nursing facility owned and operated by the Town of Nantucket. The appearance of the physical environment, furnishings, and equipment inside and outside was consistent with that of a modern facility operated in accordance with state and federal regulations. There was nothing particularly noteworthy about the physical plant, except for the beauty of its location looking over the entrance to Nantucket Harbor and Nantucket Sound. Our observations are consistent with the findings recorded by state nursing home surveyors during the past three years.

**Findings: Review of Department of Public surveys**

We reviewed the Department of Public Health surveys for the years 1993 through 1995 and although there were numerous deficiency citations, none of the citations indicated any serious instances of neglect, abuse or patient jeopardy. The primary areas of concern are: (1) repeat violations pertaining to Notice of Rights and Services; (2) isolated instance of alleged abuse and falls (1995 survey); and (3) improper use of restraints (1995 survey).

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**Findings: Discontinuation of Participation in the Medicare Program**

We noted that the facility withdrew from the Medicare Program effective February 5, 1996. On July 1, 1990, to comply with public policy of Massachusetts' Medicaid Program, Our Island Home had begun participation in the Medicare Program, which is a federal health insurance program providing some reimbursement for nursing home care when certain stringent criteria for post-hospital skilled care are met. Given the unique circumstances of Our Island Home, there has been virtually no demand for Medicare reimbursed care. During the period 1993 through 1995, only 200 patient days out of 47,744 total patient days were reimbursed under the federal Medicare program. This is just 0.4% of the total volume of care provided. Many nursing facilities in Massachusetts today have Medicare utilization rates between 5.0% and 15.0%.

According to the facility administrator, state surveyors recommended that the facility consider withdrawing from the program. Our review of the data and information received during the interviews supports the rationale for withdrawal from the program. However, there was a failure to communicate information about the action before it was taken. Specifically, we believe that an informed discussion should have occurred with the Board of Selectmen, the Town Administrator, and other town officials prior to withdrawal. Most likely, the action would have been found to be appropriate after public discussions, but persons responsible for the governance of the facility and the general public would have had a more complete and timely understanding of the action.

**Findings: Review of three years financial performance including operating budgets and audited financial data**

A financial trend analysis was performed based on the three most recently completed fiscal years, incorporating available current year data. We prepared projected statements of income and expenses and summaries of significant assumptions and accounting policies of Our Island Home for the next four years in accordance with standards established by the American Institute of Certified Public Accountants. The results of this analysis are contained in the attachment to this correspondence. The highlights of the assessment are:

Facility revenues have held steady; revenues were \$2,000,824 in 1993, \$1,910,393 in 1994, and \$2,002,121 in 1995. Facility operating expenses have fluctuated with a significant increase recorded in 1995; expenses were \$2,074,564 in 1993, \$1,874,393 in 1994, and \$2,514,349 in 1995. It is important to note that the major difference between 1994 and 1995 is due to a non-

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cash write-off of \$195,000 of accumulated bad debts. Fixed costs have increased slowly; they were \$80,160 in 1993, \$83,353 in 1994, and \$84,615 in 1995.

Operating deficits have varied; the amounts were (\$153,900) in 1993, (\$47,353) in 1994 and (\$596,843) in 1995. The difference between 1994 and 1995 appears to be for two reasons. Write-offs of accumulated bad debts were recorded in the amount \$195,065. Secondly, the reimbursement year for the nursing home is different than the fiscal year for the Town. It is possible that some expenses which occurred for 1994 may actually show up in the 1995 facility accounting. The non-cash items, comprised of disallowances (\$195,065) and depreciation (\$79,765), amount to \$274,830 in 1995. The cash deficit for 1995 is (\$295,013).

Projections for 1996 through 1999 show revenues with modest growth from \$2,057,640 in 1996 to \$2,128,757 in 1999. This assumes that Medicaid reimbursement continues to include administrative rate relief in the payments to Our Island Home and that private rates increase 2.5% annually.

Operating costs will increase and will range from \$2,564,888 in 1996 to \$2,762,104 in 1999. Fixed costs will remain steady.

Operating deficits are projected to range from (\$591,743) in 1996 to (\$718,206) in 1999.

Strategies to bring the deficit down are limited. The strategy with the greatest prospect of making a difference is to obtain additional rate relief through Medicaid payments. This can be accomplished through legislative action. The basis to support the request is the unique cost structure present on the island and the public health necessity of maintaining the operation of the nursing facility.

Alternative approaches to reducing the deficit will not make a significant impact or may not even be achievable. Private rates can not be realistically increased more aggressively. Most of the operating costs at the facility involve personnel or variable expenses such as food and supplies. These expense items are much higher than experienced at facilities on the mainland. However, most of the difference can be traced to the cost of doing business on the island. Relief for these additional costs should be sought from the Medicaid program.

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**Findings: Review of staffing patterns**

We analyzed staffing patterns and the wage and benefits structure for key staffing categories and compared the staffing, salary and benefits structure to the recent Association of Massachusetts Homes and Services for the Aged salary survey. Staffing levels for comparable sized facilities were compared.

Nursing staffing patterns appeared to appropriate for the size of the facility and the nature of the patient population. Our Island Home is about one third the size of the typical nursing facility operating in Massachusetts. Economies of scale, especially regarding direct patient care staffing, are difficult to realize in facilities this small. Pay scales for nursing assistants are significantly higher than experienced on the mainland, but appear to be justified by the unique employment conditions found on the island. The facility does not utilize temporary nursing service agencies and must rely entirely upon its own staffing resources to meet patient care needs.

**Findings: Review of purchasing patterns for major line items**

While detailed analysis of purchasing patterns were beyond the scope of this report, no obvious problem areas were identified in a general review of the budget.

**Findings: Review of management resources**

Our Island Home operates with a full time licensed administrator and a Director of Nursing who also holds the title of Assistant Administrator. Nursing facilities that consist of only one unit do not require a full time administrator, although a nursing unit may not consist of more than 41 beds. In this circumstance, there are 45 beds. It may be possible, depending on past survey performance and the unit configuration, to argue successfully for a waiver of the full time administrator requirement. However, given the unique situation and needs of Our Island Home, including the fact that it is the only nursing facility on the island, a full time administrator appears to be justifiable. The need for an assistant administrator is not as evident. While the position of director of nursing is essential for a nursing facility, combining non-clinical responsibilities within this role may not be necessary or desirable. Many, if not most, nursing facilities under 150 beds in Massachusetts do not have a position of Assistant Administrator.

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During the interviews, we learned that the present Director of Nurses is retiring. Her replacement is presently being recruited. This would be an opportune time to review the need and appropriateness for the continuation of the title and responsibilities of Assistant Administrator,

**Findings: Review of admitting and discharge patterns**

We obtained and reviewed information about the admission activity and current census at Our Island Home. The facility typically operates at full capacity. We found no remarkable issues. We noted that in 1994, there were 18 admissions, 11 of whom were privately paying patients and 7 who were covered by the Medicaid program. In 1995, there were 24 admissions, 16 who were privately paying and 8 who were covered by Medicaid. Virtually all individuals have been admitted after a stay at Nantucket Cottage Hospital or directly from their own home or the home of a family member. Several individuals had been residents of The Homestead or were participants in the social day care program operated by Nantucket Cottage Hospital.

Representatives of a variety of local organizations who provide health, housing, and community services on Nantucket generally commented favorably about the level of communication that occurs, especially with the Director of Nurses. Meetings occur monthly with representative of elder service programs on the island and the Director of Nurses.

**Findings: Perceptions of Our Island Home by persons familiar with elder service needs on Nantucket**

Interviews were conducted with various persons familiar with Our Island Home and the operation of skilled nursing facilities. A listing of these individuals and their affiliations is appended to this letter.

With only few exceptions, as noted below, most persons interviewed expressed positive comments about Our Island Home. These comments may be summarized as follows:

- Homelike atmosphere
- Good basic nursing care
- Staff who relate personally to the patients
- Pleasant location
- Good food

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- Islanders do not have to leave Nantucket for long term care
- Reasonable costs to individual patients
- Admits persons who are Medicaid eligible

Some concerns by raised by two or more individuals include:

- Limited activities and recreational programming
- Need for more social service support
- Issues about possible patient abuse at various times in the past (note: this issue has been examined by state inspectors. We noted that certain actions were taken to address the issues previously. We found no evidence that this is a current unresolved issue.)
- Lingering perception in the minds of some persons that "this is the poor house"
- Continuity of leadership upon the retirement of the Director of Nurses
- Perception that the budget was not being closely monitored and that costs were out of control
- Whether full advantage was being taking with the proceeds of trust funds under the Town's control available for patient care

One individual raised some concerns about the advisability of ongoing control and responsibility of the facility on the Town's part. These concerns were based in part on impressions about quality of care and fiscal controls. A suggestion was made that the governance of the facility may be more appropriately transferred to a third party such as Nantucket Cottage Hospital or an off island organization involved in long term care. However, of those interviewed who offered an opinion regarding the advisability of continued town involvement with the nursing facility, virtually all felt that municipal sponsorship was an appropriate activity and that the current obligation of the town of about \$200,000 annually was a reasonable expenditure. Several though did express concern about the future funding prospects given changes in the larger health care reimbursement environment, especially with managed care.

**Findings: Governance and management oversight of the facility**

We find that the present administrator appears to have appropriate experience and credentials to serve in this capacity. We note that the frequency and types of communication between the

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administrator and representatives of the Town have been varied. Generally, most communication occurs during the submission of the annual budget and when specific financial or operational problems have arisen during the year. The administrator has appeared infrequently before the Board of Selectmen. While we do not have comparative data, we conjecture that his involvement with the Board is much less frequent than that of the heads of other municipal departments with comparable budget levels and programmatic importance. During the past few years, there does appear to be more frequent meetings between the facility administrator and the Town Administrator. There is also an ongoing relationship with the Finance Director regarding fiscal affairs, particularly as they have an impact on the Town's budget. However, the communication between the administrator and town officials does not appear to occur routinely with prepared agenda items, goals, objectives, and priorities which are regularly discussed and measured.

**Recommendations:**

- A formal process for management accountability between the facility administrator and the Town should be established and maintained through the Office of the Town Administrator. Management review meetings should occur monthly following a prescribed agenda and measured against goals and objectives which are periodically set. Performance standards should be established and applied specifically for the position of nursing home administrator. At least quarterly, the management review meeting should occur on the premises of Our Island Home. An annual report should be made in person to the Board of Selectmen covering the past operations of the facility and proposing goals, objectives, and priorities to be pursued in the future. A suggested format for monthly meetings is appended to this report.
- The use of available trust funds should be carefully considered and acted upon with the goal of increasing the availability of recreational programs for all facility residents and especially for services to persons with cognitive impairments.
- The role and responsibilities of the new Director of Nursing should be reviewed to minimize any unnecessary involvement in non-clinical matters.

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- There is no apparent benefit to be realized from the retention of management firm to operate the facility. The additional costs and complexity of this type of arrangement are out of proportion to the needs of the facility. However, given the trend to ever more restrictive public reimbursement, especially for municipally operated facilities, the Town may wish to evaluate its long-term position relative to ownership. This evaluation must take into account the unique position of Our Island Home as the only licensed long term care facility on the island. It is not immediately obvious that other forms of ownership and governance, including for profit and not-for-profit organizations, could ensure continued availability of this health resource. We believe that the single most important aspect to ensure the future of Our Island Home is to secure rate relief from the state's Medicaid program.
  
- Current communication between representatives of Our Island Home and persons involved with delivery of health care and housing services to older adults on the island should continue and increase. Attention should be given to considering the role of Our Island Home in the development and operation of the proposed assisted living residence. The trends in eldercare have been to increased cooperation among and between different types of providers ranging from hospitals to nursing facilities to community care to housing. This type of cooperation should be encouraged and furthered among the existing providers on Nantucket.
  
- Revenues and expenses should be monitored on a monthly basis. A problem arises from the facts that the facility operates on a different year than the Town and that some of the facilities costs are accounted for in general accounts for the Town and then allocated back at the end of the year. Therefore, a typical format of annual and monthly budget analysis has not been readily available. Efforts should be made to isolate appropriate costs and report them on a monthly and/or quarterly basis. At the monthly meeting between the facility administrator and the Town Administrator, variances from the budget could be identified and addressed in a timely fashion.



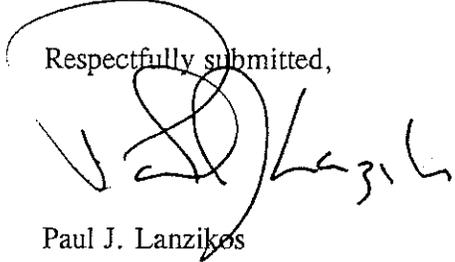
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We are prepared to address any questions or provide additional comment about our findings and recommendations. We appreciate the opportunity to be of service to the Town of Nantucket.

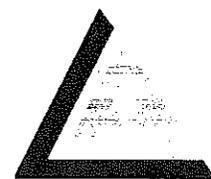
Respectfully submitted,

  
Paul J. Lanzikos

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Persons interviewed during review of  
the governance and management structure  
of Our Island Home

<u>Person</u>	<u>Position</u>	<u>Organization</u>
Cheryl Bartlett	Director, Clinical Services	Nantucket Cottage Hospital
Dr. Christian Briggs	Medical Director	Our Island Home
Anne diCurcio	Adminstrator	The Homestead
Jean Egan, R.N.	Director	Elder Services Office
Michael Ferrill	Treasurer/Collector	Town of Nantucket
Libby Gibson	Town Administrator	Town of Nantucket
David Harrington	Director of Social Services	Cape Cod Hospital
Riley Hayford	Maintenance Supervisor	Our Island Home
Suzanne Kennedy	Former Town Adminstrator	Town of Nantucket
Pamela Killen	Selectman	Town of Nantucket
John Marshall	Administrator	Our Island Home
Eleanor MacVicar	Director of Nurses	Our Island Home
Hugh MacVicar	Director of Food Services	Our Island Home
Peter McCabe	Director of Social Services	Nantucket Cottage Hospital
Bruce Miller	Director of Finance	Town of Nantucket
Mary Ann Ryan	Ombudsman	Elder Services of Cape and Islands
Nancy Sevens	Former Selectman	Town of Nantucket
Ellen Young	Director	Social Day Care Program



Town of Nantucket  
Our Island Home

Recommended content and format for Monthly Management Review Meetings

1. Census
  - a) Admissions/discharges
  - b) Average daily census
  - c) Beginning and ending census
  - d) Mix by payor
  
2. Financial
  - a) Budget variance review
  - b) Accounts receivable
  
3. Personnel
  - a) Hires
  - b) Terminations
  - c) Overtime use
  - d) Workers compensation and injury reports
  
4. External relations
  - a) Facility visits by regulatory agency representatives
  - b) Correspondence with state agencies
  - c) Abuse reports
  - d) Complaints
  
5. Quality of care
  - a) Acquired skin ulcers
  - b) Patient falls
  - c) Number of persons in restraints (during course of day to restrict movement)
  - d) Incidence reports - need copies of them (by category)

*e) activities plan (supposed to be posted monthly)*
  
6. Progress on goals and objectives
  
7. Other
  - a) Status of special projects
  - b) Meetings off island

**OUR ISLAND HOME**

**Forecasted Schedules of Income and Expense**

**Four Years Ended December 31, 1999**



**Certified Public Accountants and Consultants**



Certified Public Accountants and Consultants

Board of Selectman  
Our Island Home

We have compiled the accompanying forecasted schedules of income and expense of Our Island Home for the four years ended December 31, 1999, in accordance with standards established by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of a forecast information that is the representation of management and does not include evaluation of the support for the assumptions underlying the forecast. We have not examined the forecast and, accordingly, do not express an opinion or any other form of assurance on the accompanying statement or assumptions. Furthermore, there will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

A handwritten signature in cursive script that reads 'Mullen &amp; Company'.

June 14, 1996

**Our Island Home**  
**FORECASTED SCHEDULES OF INCOME & EXPENSE**

(See Accompanying Accountants' Compilation Report)

	1996	1997	1998	1999
<b>REVENUES:</b>				
Private	924,906	948,029	971,729	996,023
Medicare	0	0	0	0
Medicaid	1,132,734	1,132,734	1,132,734	1,132,734
Prior Year Retroactive Revenues	0	0	0	0
	<u>2,057,640</u>	<u>2,080,763</u>	<u>2,104,463</u>	<u>2,128,757</u>
<b>EXPENSES:</b>				
Admin & General	218,109	223,562	229,151	234,880
Director of Nurses	55,881	57,278	58,710	60,178
Nursing	1,170,730	1,199,998	1,229,998	1,260,748
Variable	1,106,934	1,134,607	1,162,973	1,192,047
Vehicle	8,030	8,231	8,437	8,647
Disallowances	5,204	5,334	5,467	5,604
Ancillaries	0	0	0	0
Operating Costs	<u>2,564,888</u>	<u>2,629,010</u>	<u>2,694,735</u>	<u>2,762,104</u>
Gross Margin	<u>(507,248)</u>	<u>(548,248)</u>	<u>(590,272)</u>	<u>(633,347)</u>
Depreciation	79,765	79,765	79,765	79,765
Interest	0	0	0	0
Other Fixed Costs	4,730	4,848	4,969	5,094
Fixed Costs	<u>84,495</u>	<u>84,613</u>	<u>84,734</u>	<u>84,859</u>
Total Costs	<u>2,649,383</u>	<u>2,713,623</u>	<u>2,779,470</u>	<u>2,846,963</u>
Surplus (Deficit)	<u>(591,743)</u>	<u>(632,861)</u>	<u>(675,007)</u>	<u>(718,206)</u>

**OUR ISLAND HOME  
SUMMARY OF SIGNIFICANT ASSUMPTIONS  
AND ACCOUNT POLICIES**

1. **INTRODUCTION**

Our Island Home is a 45 bed nursing home located at East Creek Road, Nantucket, MA 02554. The Home provides skilled nursing services to persons as stated in 105 CMR: Department of Public Health Regulations 150.003(D).

This financial forecast presents, to the best of management's knowledge and belief, the Home's expected operations and cash flows of the nursing home funds for the forecast period. Accordingly, the forecast reflects its judgement as of June 14, 1996, the date of this forecast, of the expected conditions and its expected course of action. The assumptions disclosed herein are those that management believes are significant to the forecast. There will usually be differences between the forecasted and actual results, because events and circumstances frequently do not occur as expected, and those differences may be material.

2. **BASIS OF ACCOUNTING**

The forecast was prepared utilizing the accrual method of accounting, which is used by Our Island Home.

3. **REVENUES**

Patient revenue forecasts are derived by multiplying the number of forecasted patient days by the average daily room rates. The patient census days used in the forecast are based on actual census days for the period January 1, 1996 through April 30, 1996. This results in a 41.2% private and 58.8% Medicaid patient mix and an occupancy level of 97.4% of licensed beds.

A majority of the patients are Medicaid recipients. The Commonwealth of Massachusetts reimburses nursing facilities for Medicaid patients in accordance with the regulations and rate formulas of the Massachusetts Rate Setting Commission. The constant minutes concept is the basis for the reimbursement which is a prospective system. This system involves facility specific per diem rates for each of ten case-mix levels. Case-mix is determined by an evaluation of management minutes for each patient. Rate Limitations for this forecast are based on the assumption that the facility will maintain the same average case-mix that actually existed during April 1996 throughout the forecast period.

3. **REVENUES - continued**

For 1994, 1995 and 1996 the Home filed an administrative relief petition which held the rates at the same level as in 1993. For purposes of this forecast, the Medicaid rates were computed on the basis that this administrative relief will be available throughout the forecast period.

The private rates assume an inflation factor of 2.5% per year. Following is a summary of average rates:

	<u>Private</u>	<u>Medicaid</u>
1996	\$139.00	\$119.15
1997	142.48	119.15
1998	146.04	119.15
1999	146.69	119.15

4. **OPERATING EXPENSES**

For 1996 operating expenses are based upon actual costs for the period January 1, 1996 through April 30, 1996 and budgeted operations for remainder of the period. For years after 1996 the expenses assume an inflation of 2.5% per year over this base year.

5. **DEPRECIATION EXPENSE**

Depreciation expense is based on an estimated amount using the straight line method over the useful lives determined by the Massachusetts Rate Setting Commission. Reimbursement of fixed costs is limited to the allowable basis as determined by regulations of the Massachusetts Rate Setting Commission.

**OUR ISLAND HOME**  
**Schedules of Income and Expense**  
**Three Years Ended December 31, 1995**



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Certified Public Accountants and Consultants



Certified Public Accountants and Consultants

Board of Selectman  
Our Island Home

We have compiled the accompanying schedules of income and expense of Our Island Home for the years ended December 31, 1993, 1994 and 1995, in accordance with Statement on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of schedules of income and expense information that is the representation of management. We have not audited or reviewed the accompanying schedules of income and expense and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures and the statement of cash flow required by generally accepted accounting principles. If the omitted disclosures and statement were included with the financial statements, they might influence the user's conclusions about the Corporation's financial position, results of operations and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

A handwritten signature in cursive script that reads 'Mullen &amp; Company'.

June 14, 1996

**Our Island Home**  
**SCHEDULES OF INCOME & EXPENSE**

(See Accompanying Accountants' Compilation Report)

	1993	1994	1995
<b>REVENUES:</b>			
Private	640,378	740,535	884,735
Medicare	9,811	11,722	0
Medicaid	1,180,235	1,144,858	1,117,386
Prior Year Retroactive Revenues	170,400	13,278	0
	<u>2,000,824</u>	<u>1,910,393</u>	<u>2,002,121</u>
<b>EXPENSES:</b>			
Admin & General	193,848	199,444	211,795
Director of Nurses	52,232	43,415	53,803
Nursing	829,367	703,700	964,883
Variable	989,754	916,914	1,082,128
Vehicle	788	7,305	6,675
Disallowances	8,575	3,615	195,065
Ancillaries	0	0	0
Operating Costs	<u>2,074,564</u>	<u>1,874,393</u>	<u>2,514,349</u>
Gross Margin	<u>(73,740)</u>	<u>36,000</u>	<u>(512,228)</u>
Depreciation	75,875	78,778	79,765
Interest	0	0	0
Other Fixed Costs	4,285	4,575	4,850
Fixed Costs	<u>80,160</u>	<u>83,353</u>	<u>84,615</u>
Total Costs	<u>2,154,724</u>	<u>1,957,746</u>	<u>2,598,964</u>
Surplus (Deficit)	<u>(153,900)</u>	<u>(47,353)</u>	<u>(596,843)</u>