SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2002-05-14** | Period of Report: **2002-03-31**
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FILER

MERIDIAN HEALTHCARE GROWTH & INCOME FUND LTD PARTNERSHIP

CIK:**826682**| IRS No.: **521549486** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-17596** | Film No.: **02645463**
SIC: **8050** Nursing & personal care facilities

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3017274083

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

(Mark One)
{ X } QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2002

{ } TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

For Quarter Ended March 31, 2002 Commission file number 000-17596

Meridian Healthcare Growth and Income Fund Limited Partnership
(Exact Name of Registrant as Specified in its Charter)

Delaware	52-1549486
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

225 East Redwood Street, Baltimore, Maryland	21202
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (410) 727-4083

N/A
(Former Name, Former Address, and Former Fiscal Year, if Changed Since Last Report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

MERIDIAN HEALTHCARE GROWTH AND INCOME FUND LIMITED PARTNERSHIP

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MERIDIAN HEALTHCARE GROWTH AND INCOME FUND LIMITED PARTNERSHIP

Cautionary Statement Regarding Forward Looking Statements

Statements made in this report, and in our other public filings, which are not historical facts contain "forward-looking" statements (as defined in the Private Securities Litigation Reform Act of 1995) that involve risks and uncertainties and are subject to change at any time. These forward-looking statements may include, but are not limited to:

- certain statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations," such as our ability to meet our liquidity needs, scheduled debt and interest payments and expected future capital expenditure requirements; and

- certain statements in the Notes to Condensed Consolidated Financial Statements (Unaudited).

The forward-looking statements involve known and unknown risks, uncertainties and other factors that are, in some cases, beyond our control. You are cautioned that these statements are not guarantees of future performance and that actual results and trends in the future may differ materially.

Factors that could cause actual results to differ materially include, but are not limited to the following:

- changes in the reimbursement rates or methods of payment from Medicare and Medicaid, or the implementation of other measures to reduce the reimbursement for our services;

- the expiration of enactments providing for additional governmental funding;

- efforts of third party payors to control costs;

- the impact of federal and state regulations;

- changes in payor mix and payment methodologies;
- further consolidation of managed care organizations and other third party payors;
- competition in our business;
- an increase in insurance costs and potential liability for losses not covered by, or in excess of, our insurance;
- competition for qualified staff in the healthcare industry;
- our ability to control operating costs, and generate sufficient cash flow to meet operational and financial requirements; and
- an economic downturn or changes in the laws affecting our business in those markets in which we operate.

These risks are described in more detail in our Annual Report on Form 10-K.

MERIDIAN HEALTHCARE GROWTH AND INCOME FUND LIMITED PARTNERSHIP
Condensed Consolidated Balance Sheets
(Dollars in thousands)

<TABLE>
<CAPTION>

	March 31, 2002 (Unaudited)	December 31, 2001
Assets		
Current Assets		
<S>	<C>	<C>
Cash and cash equivalents	$ 1,256	$ 2,066
Accounts receivable, net	8,778	9,140
Estimated third-party payor settlements	782	561
Prepaid expenses and other current assets	695	548
Total current assets	11,511	12,315
Property and equipment, net of accumulated depreciation	31,832	31,927
Other assets		
Goodwill, net	4,237	4,237
Loan acquisition costs, net	278	298
	4,515	4,535
Total assets	$ 47,858	$ 48,777
Liabilities and Partners' Capital		
Current liabilities		
Current portion of long-term debt	$ 480	$ 435
Accrued compensation and related costs	237	475
Accounts payable and other accrued expenses	3,889	4,605
Estimated third party payor settlements	2,021	1,898
Total current liabilities	6,627	7,413
Deferred management fee payable	990	978

Loan payable to the Development General Partner	1,253	1,240
Long-term debt	22,747	22,913
	24,990	25,131
Partners' capital		
General partners	(153)	(153)
Assignee limited partners; 1,540,040 units issued and outstanding	16,394	16,386
Total partners' capital	16,241	16,233
Total liabilities and partners' capital	$ 47,858	$ 48,777

</TABLE>

See accompanying notes to condensed consolidated financial statements.

MERIDIAN HEALTHCARE GROWTH AND INCOME FUND LIMITED PARTNERSHIP
Condensed Consolidated Statements of Earnings
(Unaudited)
(Dollars in thousands except per unit amounts)

<TABLE>
<CAPTION>

	Three Months Ended	
	March 31, 2002	March 31, 2001
Revenues		
<S>	<C>	<C>
Medicaid and Medicare patients	$ 12,534	$ 11,619
Private patients	2,511	2,584
Investment and other income	25	48
	15,070	14,251
Expenses		
Operating, including $2,504 and $2,311 to related parties	12,053	11,719
Management and administration fees to related parties	829	786
General and administrative	261	234
Depreciation and amortization	501	559
Interest expense	592	602
	14,236	13,900
Net earnings	$ 834	$ 351

Net earnings per unit of assignee
limited partnership interest
(computed based on 1,540,040

units)	$ 0.54	$ 0.23

</TABLE>

See accompanying notes to condensed consolidated financial statements

MERIDIAN HEALTHCARE GROWTH AND INCOME FUND LIMITED PARTNERSHIP
Condensed Consolidated Statements of Partners' Capital
For the Three Months Ended March 31, 2002 and 2001
(Unaudited)
(Dollars in thousands)

<TABLE>
<CAPTION>

	General Partners	Assignee Limited Partners	Total
<S>	<C>	<C>	<C>
Balance at December 31, 2001	$ (153)	$ 16,386	16,233
Net earnings	8	826	834
Distributions to partners	(8)	(818)	(826)
Balance at March 31, 2002	$ (153)	$ 16,394	16,241
Balance at December 31, 2000	$ (142)	$ 17,490	17,348
Net earnings	4	347	351
Distributions to partners	(8)	(818)	(826)
Balance at March 31, 2001	$ (146)	$ 17,019	16,873

</TABLE>

See accompanying notes to condensed consolidated financial statements

MERIDIAN HEALTHCARE GROWTH AND INCOME FUND LIMTIED PARTNERSHIP
Condensed Consolidated Statements of Cash Flows
For the Three Months Ended March 31,
(Unaudited)
(Dollars in thousands)

<TABLE>
<CAPTION>

	2002	2001

Cash flows from operating activities		
<S>	<C>	<C>
Net earnings	$ 834	$ 351
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	501	559
Minority interest in net earnings of operating partnerships	11	3
Increase in loan payable to Development General Partner	13	14
Increase in deferred management fee payable	12	11
Change in other assets and liabilities		
Accounts receivable	351	471
Estimated third-party payor settlements	(98)	(87)
Prepaid expenses and other current assets	(147)	99
Accrued compensation and related costs	(238)	(923)
Accounts payable and other accrued expenses	(716)	(89)
Net cash provided by operating activities	523	409
Cash flows from investing activities- additions to property and equipment	(386)	(288)
Cash flows from financing activities		
Repayment of long-term debt	(121)	(111)
Distributions to partners	(826)	(826)
Net cash used in financing activities	(947)	(937)
Net decrease in cash and cash equivalents	(810)	(816)
Cash and cash equivalents		
Beginning of period	2,066	1,108
End of period	$ 1,256	$ 292

</TABLE>

See accompanying notes to condensed consolidated financial statements.

MERIDIAN HEALTHCARE GROWTH AND INCOME FUND LIMITED PARTNERSHIP

Notes to Condensed Consolidated Financial Statements
March 31, 2002
(Unaudited)

NOTE 1 - THE FUND AND BASIS OF PREPARATION

Meridian Healthcare Growth and Income Fund Limited Partnership (the Fund) was organized under the laws of the State of Delaware and will continue to operate through December 31, 2037, unless terminated sooner under the provisions of the Partnership Agreement. The Fund's Administrative General Partner is Brown Healthcare, Inc. and the Fund's Development General Partner is Meridian Healthcare Investments, Inc. Brown Healthcare Holding Co., Inc. is the Fund's

Assignor Limited Partner. Meridian Healthcare Investments, Inc. is a subsidiary of Genesis Health Ventures, Inc. (Genesis).

The Fund owns 98.99% limited partnership interests in each of the seven operating partnerships. The Fund, through its seven operating partnerships, derives substantially all of its revenue from extended healthcare provided to nursing center residents including room and board, nursing care, drugs and other medical services.

The accompanying condensed consolidated financial statements of Meridian Healthcare Growth and Income Fund Limited Partnership (the "Fund") do not include all of the information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The unaudited interim condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The unaudited interim financial information contained in the consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the 2001 Annual Report.

NOTE 2 - RELATED PARTY TRANSACTIONS

The Fund is obligated to pay Brown-Healthcare, Inc. (Administrative General Partner) an annual administration fee of the greater of $75,000 per year or 1/2 of 1% of the Fund's annual revenues. The nursing centers owned by the operating partnerships are managed by Meridian Healthcare, Inc., an affiliate of Meridian Healthcare Investments, Inc. (Development General Partner), under the terms of existing management agreements which provide for management fees equal to 5% of the annual revenues of each nursing center. Certain of the operating partnerships also purchase drugs and medical supplies and other services from affiliates of the Development General Partner. Such purchases are in turn billed to patients or third party payors at prices which on average approximate the nursing center's cost.

Transactions with these related parties for the three months ended March 31, 2002 and 2001 are as follows:

	2002	2001
Management and administration fees	$ 829,000	$ 786,000
Drug and medical supplies purchases	915,000	1,083,000
Nursing and rehabilitation services	1,589,000	1,228,000
Interest expense on borrowings	21,000	21,000

The Development General Partner loaned the Fund $597,000, as required by the Cash Flow Deficit Guaranty Agreement, to support the operating deficits generated by the Mooresville, Salisbury and Woodlands nursing centers during each center's first two years of operations subsequent to the Fund's acquisition of partnership interests. Loans outstanding under an arrangement, including accumulated interest from inception of the loan at 9% per annum, were $1,253,000 at March 31, 2002 and $1,240,000 at December 31, 2001. The Fund is obligated to repay these loans when certain specified financial criteria are met, the most significant of which is the payment of a preferred return to the assignee limited partners as defined in the Fund's partnership agreement.

NOTE 3 - DEBT

The Fund closed its mortgage loan refinancing with a new bank for loans totaling

$24,000,000 on June 12, 2000. The renewal terms became effective on June 12, 2000 and provide for a term of five years at an interest rate of 9.75%. Monthly payments of $229,886 are based on a 20-year amortization schedule with a balloon payment due at the end of the 5-year term.

The Fund established a $4,000,000 revolving credit facility with the same lender. Borrowings under the credit facility will bear interest at a floating rate, which shall equal the announced commercial prime rate. The bank shall renew the credit facility each year for a one-year extention. There were no borrowings under the revolving credit facility at March 31, 2002 or 2001.

NOTE 4 - CERTAIN SIGNIFICANT RISKS AND UNCERTAINTIES

The Fund receives revenues from Medicare, Medicaid, private insurance, and self-pay residents. The healthcare industry is experiencing the effects of the federal and state governments' trend toward cost containment, as government and other third party payors seek to impose lower reimbursement and utilization rates and negotiate reduced payment schedules with providers. These cost containment measures, combined with the increasing influence of managed care payors and competition for patients, have resulted in reduced rates of reimbursement for services provided by the Fund.

The Fund's previous filing referenced the need for Congressional and administrative decisions addressing the per diem payment rates for Medicare skilled nursing services. On April 23, 2002, the Centers for Medicare and Medicaid Services ("CMS") issued a press statement announcing that the agency would not proceed with changes in the skilled nursing facility case-mix classification system. This decision has the positive effect of continuing favorable rate add-ons for beneficiaries requiring rehabilitation and medically complex services valued at approximately $30 per day. In its announcement, CMS made it clear that case mix refinements would be postponed for a full year and that the annual market adjustment for the fiscal year 2003 skilled nursing facility prospective payment rates would be promulgated as a notice in late July, 2002.

With regard to Congressional consideration, a package of Medicare Amendments, including provider relief provisions, is expected to be enacted before Congress adjourns. The mark-up of major Medicare legislation is imminent in key committees of the House of Representatives. Consideration in the Senate is not expected until late Summer, early Fall. Reviews of draft documents and discussions with key legislators and staffs affirm an awareness of the impact of the "Medicare SNF Cliff" and a desire to stabilize the fiscal condition of the sector. It is premature to forecast the outcome of Congressional action. The expiring statutory provisions impact rates approximately $34 per day.

The Fund's previous estimates of the impact of the "Medicare SNF Cliff" was approximately 18% of the per diem rate; the revised estimate factoring in the administrative decision still exposes the facility sector to a negative 10% reduction. For the Fund, this could have an adverse revenue impact in excess of $1.6 million.

It is not possible to fully quantify the effect of recent legislation, the interpretation or administration of such legislation or any other governmental initiatives on the Fund's business. Accordingly, there can be no assurance that the impact of these changes or any future healthcare legislation will not adversely affect the Fund's business. There can be no assurance that payments under governmental and private third party payor programs will be timely, will remain at levels comparable to present levels or will, in the future, be sufficient to cover the costs allocable to patients eligible for reimbursement pursuant to such programs. The Fund's financial condition and results of operations may be affected by the reimbursement process, which in the Fund's industry is complex and can involve lengthy delays between the time that revenue is recognized and the time that reimbursement amounts are settled.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

The Fund closed its mortgage loan refinancing with a new bank for loans totaling $24,000,000 on June 12, 2000. The renewal terms became effective on June 12, 2000 and provide for a term of five years at an interest rate of 9.75%. Monthly payments are based on a 20-year amortization schedule with a balloon payment due at the end of the 5-year term.

The Fund also replaced its $4,000,000 revolving credit facility with the same lender. There are no borrowings under this credit facility at this time.

The Fund's working capital (excluding the current portion of long-term debt) increased $27,000 to $5,364,000 at March 31, 2002 as compared to $5,337,000 at December 31, 2001. The Fund has sufficient liquid assets and other available credit resources to satisfy its operating expenditures and anticipated routine capital improvements at each of the seven nursing home facilities.

Cash flow from operating activities was $523,000 for the three-month period ended March 31, 2002 as compared to $409,000 for the same period of 2001.

Cash used in investing activities for the three-month period ended March 31, 2002 was $386,000 and included improvements to the Fund's seven operating facilities. Similar improvements made during the first three months of 2001 were $288,000.

The Fund believes that the short-term liquidity needs will be met through expected cash flow from operations and available working capital from the existing revolving credit facility.

Between 1988 and 1989 the Development General Partner loaned the Fund $597,000 to support operating deficits generated by the Mooresville, Salisbury and Woodlands nursing centers during each centers' first two years of operation. Loans outstanding under this arrangement, including interest at 9% per annum, were $1,253,000 at March 31, 2002.

On May 15, 2002 the Fund will make its first quarter 2002 distribution to partners of $826,410. This distribution will be funded by first quarter operations and reserves of approximately $33,000. Review of the 2002 budget suggests operations from the seven nursing centers will be sufficient to fund a similar distribution throughout the year.

The major challenge to the Fund in the foreseeable future is to control operating expenses, to maintain a quality mix of patients and to increase the overall census at each of the facilities.

Revenue Sources

The Fund receives revenues from Medicare, Medicaid, private insurance, and self-pay residents. The healthcare industry is experiencing the effects of the federal and state governments' trend toward cost containment, as government and other third party payors seek to impose lower reimbursement and utilization rates and negotiate reduced payment schedules with providers. These cost containment measures, combined with the increasing influence of managed care payors and competition for patients, have resulted in reduced rates of reimbursement for services provided by the Fund.

The Fund's previous filing referenced the need for Congressional and administrative decisions addressing the per diem payment rates for Medicare skilled nursing services. On April 23, 2002, the Centers for Medicare and Medicaid Services ("CMS") issued a press statement announcing that the agency would not proceed with changes in the skilled nursing facility case-mix classification system. This decision has the positive effect of continuing favorable rate add-ons for beneficiaries requiring rehabilitation and medically complex services valued at approximately $30 per day. In its announcement, CMS made it clear that case mix refinements would be postponed for a full year and that the annual

MERIDIAN HEALTHCARE GROWTH AND INCOME FUND LIMITED PARTNERSHIP

Management's Discussion and Analysis of Financial
Condition and Results of Operations

Revenue Sources (continued)

market adjustment for the fiscal year 2003 skilled nursing facility prospective payment rates would be promulgated as a notice in late July, 2002.

With regard to Congressional consideration, a package of Medicare Amendments, including provider relief provisions, is expected to be enacted before Congress adjourns. The mark-up of major Medicare legislation is imminent in key committees of the House of Representatives. Consideration in the Senate is not expected until late Summer, early Fall. Reviews of draft documents and discussions with key legislators and staffs affirm an awareness of the impact of the "Medicare SNF Cliff" and a desire to stabilize the fiscal condition of the sector. It is premature to forecast the outcome of Congressional action. The expiring statutory provisions impact rates approximately $34 per day.

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Results of Operations

Net earnings for the Fund were $834,000 for the three months ended March 31, 2002 as compared to $351,000 for the same period in fiscal year 2001. The increase in earnings is primarily due to an increase in Medicaid and Medicare patients revenue, offset partially by increased operating costs.

Overall revenues of $15,070,000 increased $819,000 or 5.7% for the three months ended March 31, 2002 compared to the same period in fiscal year 2001. The increase in revenue is primarily due to an increase in Medicaid revenue. Medicaid and Medicare revenue increased $915,000 to $12,534,000 for the first quarter of 2002 compared to the first quarter of fiscal year 2001. Medicaid revenue for the three months ended March 31, 2002 increased $1,006,000 compared to the same period in the prior year. This increase is primarily due to an overall Medicaid rate increase of approximately 8.3% driven primarily by the four Maryland centers, which received their annual Medicaid rate adjustment in July 2001. Also the Medicaid average daily census for the first quarter ended March 31, 2002 increased 4.1% or twenty-seven customers compared to the first quarter of fiscal year 2001. Medicare revenue of $3,958,000 decreased $91,000 or 2.2% for the three month period ended March 31, 2002 compared to the same period in fiscal year 2001. The decrease in Medicare revenue is due to a reduction in the Medicare census, which is partially offset by higher rates. The average daily Medicare census decreased eighteen customers per day or 12.3% to 128 for the three months ended March 31, 2002 as compared to the same period in the prior year.

Operating expenses increased $334,000 or 2.9% in the first quarter of 2002 as compared to the same period in fiscal year 2001. This increase is primarily due to the increased cost of nursing services and bad debt expense, partially offset by decreased ancillary costs. Nursing costs of $6,370,000 increased $428,000 for the three months ended March 31, 2002 as compared to the same period in fiscal year 2001. This increase is primarily due to an increase in utilization of temporary nurse staffing, which is a result of an overall shortage of nurses within the healthcare industry. Bad debt expense of $333,000 increased $161,000 for the three month period ended March 31, 2002 compared to the same period in fiscal year 2001. Ancillary costs decreased $310,000 or 15.7% in the first quarter of 2002 as compared to the same period in fiscal year 2001, which is attributable to the 12.3% decrease in the

Results of Operations (continued)

average daily Medicare census. The remaining increase in operating costs is due to general inflationary cost increases.

Management and administrative fees of $829,000 increased $43,000 or approximately 5.5% for the first quarter 2002 compared to the same period in fiscal year 2001. The management fee is calculated at 5% of the Fund's net revenues.

Depreciation and Amortization expense decreased $58,000 to $501,000 for the three months ended 2002 as compared to the same period in fiscal year 2001. This decrease is due to the adoption of Statement of Financial Accounting Standards No. 142, which required that the Fund discontinue the amortization of goodwill effective January 1, 2002.

Recently Issued Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement No. 142, Goodwill and Other Intangible Assets. Statement 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually in accordance with the provisions of Statement 142. Statement 142 requires that intangible assets with definite useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment. The Fund adopted the provisions of Statement 142 effective January 1, 2002.

On October 3, 2001, the FASB issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (Statement No. 144), which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While Statement No. 144 supersedes FASB Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, it retains many of the fundamental provisions of that Statement.

Statement No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations--Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in Opinion 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Statement No. 144 is effective for the Company for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years.

PART I. FINANCIAL INFORMATION

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Fund has exposure to changing interest rates and is currently not engaged in hedging activities. Interest on the Fund's $23.2 million mortgage is at a fixed rate of 9.75%.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Inapplicable

Item 2. Changes in Securities and Use of Proceeds

Inapplicable

Item 3. Defaults upon Senior Securities

Inapplicable

Item 4. Submission of Matters to a Vote of Security Holders

Inapplicable

Item 5. Other Information

Inapplicable

Item 6. Exhibits and Reports on Form 8-K

a) Reports on Form 8-K: None

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MERIDIAN HEALTHCARE GROWTH AND INCOME FUND
LIMITED PARTNERSHIP

DATE: 05/13/02

By: /s/ John M. Prugh
John M. Prugh
President and Director
Brown-Healthcare, Inc.
Administrative General Partner

DATE: 05/13/02

By: /s/ Timothy M. Gisriel
Timothy M. Gisriel
Treasurer
Brown-Healthcare, Inc.
Administrative General Partner