



**Mountain States Group** Inc.  
*"international community resource development"*

AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION  
June 30, 2006 and 2005



**Mountain States Group** Inc.  
*"international community resource development"*

<u>Table of Contents for the Year Ending June 30, 2006</u>	<u>Page</u>
Independent Auditors' Report	1
Consolidated Statements of Financial Position	2
Consolidated Statements of Activities and Changes in Net Assets	3
Consolidated Statements of Cash Flows	4
Consolidated Statement of Functional Expenses	5-11
Notes to Consolidated Financial Statements	12-21
<u>Supplemental Financial Information:</u>	
Schedule of Expenditures of Federal Awards and Notes	22-24
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25-26
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	27-28
Schedule of Findings and Questioned Costs	29



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Mountain States Group, Inc. and Subsidiary  
Boise, Idaho

We have audited the accompanying consolidated statements of financial position of Mountain States Group, Inc. and Subsidiary as of June 30, 2006 and 2005 and the related consolidated statements of activities and changes in net assets, and cash flows for the years then ended, and the statement of functional expenses for the year ended June 30, 2006. These financial statements are the responsibility of Mountain States Group Inc.'s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mountain States Group, Inc. and Subsidiary as of June 30, 2006 and 2005 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principle generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2006 on our consideration of Mountain States Group, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements of Mountain States Group, Inc. and Subsidiary taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Boise, Idaho  
September 26, 2006

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**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

<b>ASSETS</b>	<b>June 30, 2006</b>	<b>June 30, 2005</b>
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 407,143	\$ 456,973
Grants and Contracts Receivable	1,296,985	936,495
Accounts Receivable Other	92,486	76,146
Microenterprise Loan Receivable, Net	57,106	43,130
Prepaid Expenses	27,816	24,916
<b>Total Current Assets</b>	<b>1,881,536</b>	<b>1,537,660</b>
<b>PROPERTY AND EQUIPMENT</b>		
Land	151,193	151,193
Building and Improvements	1,161,562	1,161,562
Furniture, Fixtures, and Equipment	210,778	228,878
Less: Accumulated Depreciation	(546,351)	(538,081)
Equipment under Capital Lease (Net Accum Amort of \$38,436 and \$25,007 respectively)	28,711	42,140
<b>Total Property and Equipment</b>	<b>1,005,893</b>	<b>1,045,692</b>
<b>LONG TERM ASSETS</b>		
Microenterprise Loan Receivable, Net	69,865	64,042
Loan Fee (Net Accum Amort of \$7,033 and \$6,541, respectively)	8,023	8,515
<b>Total Long Term Assets</b>	<b>77,888</b>	<b>72,557</b>
<b>TOTAL ASSETS</b>	<b>\$ 2,965,317</b>	<b>\$ 2,655,909</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 886,061	\$ 508,996
Accrued Wages and Benefits	436,177	397,265
Deferred Revenue	114,968	146,216
Due to Fiduciaries	68,187	173,961
Current Portion of Mortgage Payable	20,992	19,970
Current Portion of Obligations under Capital Lease	13,538	12,943
<b>Total Current Liabilities</b>	<b>1,539,923</b>	<b>1,259,351</b>
<b>LONG TERM LIABILITIES:</b>		
Mortgage Payable, less current portion	539,565	562,419
Obligations under Capital Lease, less current portion	16,632	30,564
<b>Total Long Term Liabilities</b>	<b>556,197</b>	<b>592,983</b>
<b>TOTAL LIABILITIES</b>	<b>2,096,120</b>	<b>1,852,334</b>
<b>NET ASSETS:</b>		
Unrestricted	869,197	803,575
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 2,965,317</b>	<b>\$ 2,655,909</b>



**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**

	<b>Year Ended June 30, 2006</b>	<b>Year Ended June 30, 2005</b>
<b><u>SUPPORT AND REVENUES:</u></b>		
Grants and Contracts	\$ 9,195,232	\$ 8,868,055
Fees for Service and Reimbursements	2,548,770	2,350,060
Contributions / In-kind / Donations	256,369	279,704
Dividends and Interest	13,361	4,088
Total Revenue:	12,013,732	11,501,907
<b><u>EXPENDITURES:</u></b>		
Salaries	3,633,458	3,616,393
Benefits	790,529	731,675
Total Salaries & Benefits	4,423,987	4,348,068
Contracts and Consulting	3,115,448	2,679,611
Food Program Provider Payments	1,051,899	957,485
Stipends, Scholarships and Assistance	985,992	1,165,186
Indirect / Administrative Fees	772,971	686,117
Travel	344,775	280,954
Supplies	331,563	416,433
Office Rental and Maintenance	291,220	275,230
In-Kind / Match	176,014	180,909
Telephone and Utilities	79,395	89,045
Printing	68,837	57,352
Depreciation and Amortization	59,875	69,296
Staff and Volunteer Training	51,503	68,842
Legal and Accounting	45,833	48,693
Insurance	35,686	32,085
Interest	30,374	32,004
Property Taxes	27,894	27,866
Bad Debt Expense	25,596	-
Postage	25,106	24,129
Fundraising	4,142	7,857
Loss on Disposal of Equipment	-	400
Total Expenditures	11,948,110	11,447,562
<b>INCREASE IN NET ASSETS</b>	<b>\$ 65,622</b>	<b>\$ 54,345</b>
<b>NET ASSETS, BEGINNING OF PERIOD</b>	<b>803,575</b>	<b>749,230</b>
<b>NET ASSETS, END OF PERIOD</b>	<b>\$ 869,197</b>	<b>\$ 803,575</b>



**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>Year Ended</u> <u>June 30, 2006</u>	<u>Year Ended</u> <u>June 30, 2005</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Changes in Net Assets</b>	\$ 65,622	\$ 54,345
<b>Adjustments to reconcile changes in net assets to net cash provided by operating activities:</b>		
Depreciation & Amortization	59,875	69,296
Loss on Disposal of Assets	-	400
<b>Changes in Assets and Liabilities</b>		
Grants and Contracts Receivable	(360,490)	196,623
Accounts Receivable Other	(16,340)	18,761
Prepaid Expenses	(2,900)	2,112
Accounts Payable	377,065	(9,304)
Accrued Wages & Benefits	38,912	(33,346)
Deferred Revenue	(31,248)	(40,886)
Due to Fiduciaries	(105,774)	(32,317)
<b>Net cash provided by Operating activities</b>	24,722	225,684
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Building Improvements	-	(10,009)
Purchase of Furniture, Fixtures, & Equipment	(19,584)	-
Proceeds from Sale of Equipment	-	22
Microenterprise Lending	(108,000)	(99,500)
Microenterprise Bad Debt Expense	25,596	-
Microenterprise Cash Collection	62,605	15,550
<b>Net cash used by Investing activities</b>	(39,383)	(93,937)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Mortgage Payments	(21,832)	(20,768)
Capital Lease Payments	(13,337)	(12,752)
<b>Net cash used by Financing activities</b>	(35,169)	(33,520)
<b>NET (DECREASE) INCREASE IN CASH</b>	(49,830)	98,227
<b>CASH, BEGINNING OF PERIOD</b>	456,973	358,746
<b>CASH, END OF PERIOD</b>	\$ 407,143	\$ 456,973
<b>Supplemental Disclosures of cash flow information:</b>		
Cash Paid for Interest	\$ 30,374	\$ 32,004
Cash Paid for Income Taxes	\$ 30	\$ 30



**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
YEAR ENDED JUNE 30, 2006**

	<b>Mental Health Services</b>	<b>Office of Consumer Affairs</b>	<b>HIV Prevention / Advocacy</b>	<b>Idaho Public Health Workforce</b>
<b><u>Expenditures</u></b>				
Salaries	714,856	34,978	53,073	9,457
Benefits	118,453	2,101	12,584	1,484
<b>Total Salaries and Benefits</b>	<b>833,309</b>	<b>37,079</b>	<b>65,657</b>	<b>10,941</b>
Contracts and Consulting	43,441	-	4,075	-
Food Program provider payments	-	-	-	-
Stipends, Scholarships and Assistance	-	-	-	-
Indirect / Administrative Fees	177,353	5,265	10,047	929
Travel	2,856	6,036	7,664	162
Supplies	13,201	2,145	10,941	-
Office Rental and Maintenance	48,720	1,527	1,418	238
In-Kind/Match	-	-	-	-
Telephone and Utilities	10,291	733	171	34
Printing	2,791	185	356	200
Depreciation and Amortization	-	-	-	-
Staff and Volunteer Training	1,925	25	810	-
Legal and Accounting	-	-	-	-
Insurance	253	-	-	-
Interest	-	-	-	-
Property Taxes	-	-	-	-
Bad Debt Expense	-	-	-	-
Postage	888	134	249	40
Fundraising	-	-	-	-
<b>Total Expenditures</b>	<b>\$ 1,135,028</b>	<b>\$ 53,129</b>	<b>\$ 101,388</b>	<b>\$ 12,544</b>



**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)  
 YEAR ENDED JUNE 30, 2006**

	<b>Idaho Covering Kids</b>	<b>Healthy Tomorrows for Children</b>	<b>Mountain States Early Head Start</b>	<b>Nutrition Works</b>
<b><u>Expenditures</u></b>				
Salaries	58,798	2,953	736,310	90,627
Benefits	13,553	506	185,639	20,955
Total Salaries and Benefits	<u>72,351</u>	<u>3,459</u>	<u>921,949</u>	<u>111,582</u>
Contracts and Consulting	89,049	-	36,639	2,107
Food Program provider payments	-	-	-	1,051,899
Stipends, Scholarships and Assistance	-	-	943	-
Indirect / Administrative Fees	9,168	509	134,887	21,530
Travel	8,335	872	36,609	12,630
Supplies	18,306	-	82,255	3,706
Office Rental and Maintenance	91	297	74,624	4,458
In-Kind/Match	-	-	109,037	-
Telephone and Utilities	488	-	23,406	1,138
Printing	875	3	12,753	7,714
Depreciation and Amortization	-	-	-	-
Staff and Volunteer Training	-	-	31,180	-
Legal and Accounting	-	-	-	-
Insurance	-	-	1,357	-
Interest	-	-	-	-
Property Taxes	-	-	2,361	-
Bad Debt Expense	-	-	-	-
Postage	456	-	2,223	2,008
Fundraising	-	-	-	-
Total Expenditures	<u>\$ 199,119</u>	<u>\$ 5,140</u>	<u>\$ 1,470,223</u>	<u>\$ 1,218,772</u>



**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)  
 YEAR ENDED JUNE 30, 2006**

	<b>Idaho Kids Count</b>	<b>Idaho Office for Refugees</b>	<b>Agency for New Americans</b>	<b>English Language Center</b>
<b><u>Expenditures</u></b>				
Salaries	46,713	165,710	370,905	163,239
Benefits	13,541	37,309	92,081	30,948
Total Salaries and Benefits	60,254	203,019	462,986	194,187
Contracts and Consulting	30,066	755,308	26,973	11,678
Food Program provider payments	-	-	-	-
Stipends, Scholarships and Assistance	-	576,428	169,772	5,504
Indirect / Administrative Fees	415	74,125	67,552	28,331
Travel	1,552	3,734	19,189	55
Supplies	6,901	7,899	18,191	9,223
Office Rental and Maintenance	2,312	9,088	27,654	30,237
In-Kind/Match	-	-	25,281	2,350
Telephone and Utilities	187	1,567	3,780	662
Printing	3,008	989	2,645	4,191
Depreciation and Amortization	-	-	-	-
Staff and Volunteer Training	155	787	2,713	1,743
Legal and Accounting	2,000	-	1,567	-
Insurance	-	-	802	-
Interest	-	-	-	-
Property Taxes	-	-	-	-
Bad Debt Expense	-	-	25,596	-
Postage	829	2,062	921	71
Fundraising	-	-	3,856	-
 Total Expenditures	 \$ 107,679	 \$ 1,635,006	 \$ 859,478	 \$ 288,232



Mountain States Group<sup>Inc.</sup>  
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**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)  
 YEAR ENDED JUNE 30, 2006**

	<b>Idaho Area Health Education Center</b>	<b>Delta States Rural Hospital Performance Improvement</b>	<b>Hispanic Wellness Initiative</b>	<b>Idaho Partnership for Hispanic Health</b>
<b><u>Expenditures</u></b>				
Salaries	65,531	168,992	-	33,212
Benefits	14,183	40,351	-	10,043
Total Salaries and Benefits	79,714	209,343	-	43,255
Contracts and Consulting	162,244	1,101,519	3,300	245,331
Food Program provider payments	-	-	-	-
Stipends, Scholarships and Assistance	173	-	-	9,175
Indirect / Administrative Fees	20,667	134,836	270	19,169
Travel	8,380	116,562	-	9,322
Supplies	13,770	7,107	33	15,084
Office Rental and Maintenance	3,679	3,418	-	1,502
In-Kind/Match	-	-	-	-
Telephone and Utilities	1,290	5,003	17	176
Printing	8,908	2,442	17	3,691
Depreciation and Amortization	-	-	-	-
Staff and Volunteer Training	-	-	-	335
Legal and Accounting	-	-	-	-
Insurance	-	-	-	-
Interest	-	-	-	-
Property Taxes	-	-	-	-
Bad Debt Expense	-	-	-	-
Postage	3,788	2,423	6	160
Fundraising	-	-	-	-
Total Expenditures	\$ 302,613	\$ 1,582,653	\$ 3,643	\$ 347,200



**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)  
YEAR ENDED JUNE 30, 2006**

<b>Expenditures</b>	<b>Rural Health Flexibility Program</b>	<b>Community Gardens</b>	<b>Rural Health Strategies, Inc.</b>	<b>Foster Grandparent Program</b>
Salaries	-	10,603	12,149	54,863
Benefits	-	10	2,525	11,990
Total Salaries and Benefits	-	10,613	14,674	66,853
Contracts and Consulting	15,652	1,203	384,030	-
Food Program provider payments	-	-	-	-
Stipends, Scholarships and Assistance	-	-	-	199,150
Indirect / Administrative Fees	1,536	1,669	23,110	8,772
Travel	-	509	79,117	4,860
Supplies	-	2,627	43,622	14,158
Office Rental and Maintenance	-	540	-	1,908
In-Kind/Match	-	4,333	-	11,035
Telephone and Utilities	-	155	2,266	249
Printing	1	169	2,331	783
Depreciation and Amortization	-	-	-	-
Staff and Volunteer Training	-	-	-	468
Legal and Accounting	-	-	-	-
Insurance	-	-	-	400
Interest	-	-	-	-
Property Taxes	-	-	-	-
Bad Debt Expense	-	-	-	-
Postage	3	10	2,229	508
Fundraising	-	-	-	286
Total Expenditures	<u>\$ 17,192</u>	<u>\$ 21,828</u>	<u>\$ 551,379</u>	<u>\$ 309,430</u>



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**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)  
 YEAR ENDED JUNE 30, 2006**

<b>Expenditures</b>	<b>Retired Senior Volunteer Program</b>	<b>Inter- disciplinary Training in Geriatrics</b>	<b>Other</b>
Salaries	108,878	32,645	287,143
Benefits	32,658	6,366	47,661
<b>Total Salaries and Benefits</b>	<b>141,536</b>	<b>39,011</b>	<b>334,804</b>
Contracts and Consulting	-	190,333	-
Food Program provider payments	-	-	-
Stipends, Scholarships and Assistance	18,046	6,801	-
Indirect / Administrative Fees	9,555	9,884	13,392
Travel	3,799	1,368	-
Supplies	10,874	1,909	-
Office Rental and Maintenance	2,932	972	-
In-Kind/Match	23,978	-	-
Telephone and Utilities	2,893	906	-
Printing	2,670	461	-
Depreciation and Amortization	-	-	-
Staff and Volunteer Training	45	-	-
Legal and Accounting	-	-	-
Insurance	3,962	-	-
Interest	-	-	-
Property Taxes	-	-	-
Bad Debt Expense	-	-	-
Postage	2,380	418	-
Fundraising	-	-	-
<b>Total Expenditures</b>	<b>\$ 222,670</b>	<b>\$ 252,063</b>	<b>\$ 348,196</b>



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**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
 CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)  
 YEAR ENDED JUNE 30, 2006**

	<b>Total Program Services</b>	<b>Administration</b>	<b>Building &amp; Equipment</b>	<b>Total Expenses</b>
<b>Expenditures</b>				
Salaries	\$ 3,221,635	\$ 411,823	\$ -	\$ 3,633,458
Benefits	694,941	95,588	-	790,529
<b>Total Salaries and Benefits</b>	<b>3,916,576</b>	<b>507,411</b>	<b>-</b>	<b>4,423,987</b>
Contracts and Consulting	3,102,948	12,500	-	3,115,448
Food Program provider payments	1,051,899	-	-	1,051,899
Stipends, Scholarships and Assistance	985,992	-	-	985,992
Indirect / Administrative Fees	772,971	-	-	772,971
Travel	323,611	21,164	-	344,775
Supplies	281,952	49,611	-	331,563
Office Rental and Maintenance	215,615	28,438	47,167	291,220
In-Kind/Match	176,014	-	-	176,014
Telephone and Utilities	55,412	7,566	16,417	79,395
Printing	57,183	11,654	-	68,837
Depreciation and Amortization	-	13,430	46,445	59,875
Staff and Volunteer Training	40,186	11,317	-	51,503
Legal and Accounting	3,567	42,266	-	45,833
Insurance	6,774	28,912	-	35,686
Interest	-	1,750	28,624	30,374
Property Taxes	2,361	2,409	23,124	27,894
Bad Debt Expense	25,596	-	-	25,596
Postage	21,806	3,300	-	25,106
Fundraising	4,142	-	-	4,142
<b>Total Expenditures</b>	<b>\$ 11,044,605</b>	<b>\$ 741,728</b>	<b>\$ 161,777</b>	<b>\$ 11,948,110</b>



## Notes to Consolidated Financial Statements June 30, 2006 and 2005

### **Note 1. ORGANIZATION AND PROGRAM SERVICES**

**Organization:** Mountain States Group, Inc. and its subsidiary (hereinafter referred to collectively as MSG) is a 501(c) 3 nonprofit corporation, incorporated under the laws of the State of Idaho for the purpose of improving the delivery, accessibility, and quality of health care and social services. Offices are located in Boise, Nampa, Coeur d'Alene and Sandpoint, Idaho and Colorado.

**Mission:** MSG works locally, nationally, and internationally to promote citizen and community leadership in improving health and human services; and provides high quality direct services for diverse populations. All of our programs work toward the common mission of people shaping their own lives and sharing in their communities. MSG operates in the following program areas: Mental Health, Rural Health, Public Health, Children & Families, Refugees and Seniors.

#### ***Mental Health:***

- ***Mental Health Services*** – operates under Medicaid provider agreements on a fee-for-service basis, through the Idaho Department of Health and Welfare (IDH&W) for targeted case management, psychosocial and vocational rehabilitation and individual counseling and clinic services in Boise and Nampa, Idaho.
- ***Office of Consumer Affairs and Technical Assistance*** - funded by the IDH&W to coordinate, support and focus the consumer advocacy efforts of statewide and local mental health consumer groups across the state.

#### ***Public Health:***

- ***HIV Prevention*** – funded through IDH&W to reach persons in Idaho at high risk of becoming infected with HIV through proven prevention strategies. Also organizes and facilitates state HIV Prevention Planning Group.
- ***Idaho Public Health Workforce Development*** – under a sub-award from University of Washington, MSG coordinates with the Northwest Center for Public Health Practice, Idaho Division of Health and each of seven Public Health Districts to offer educational opportunities to the public health workforce. This program ended August 31, 2005.

#### ***Children & Families:***

- ***Idaho Covering Kids and Families Initiative (CKFI)*** – is a Robert Wood Johnson Foundation initiative working at the state and community levels to promote the identification and enrollment of uninsured low-income Idaho children in health coverage programs like the State of Idaho Children's Healthier Insurance Program. This program ends October 31, 2006. CKFI program results indicate that 40% of the state children's health insurance enrollment increases over the past four years came

- in the 11 counties where CKFI places its focus.
- **Healthy Tomorrows for Children** – is a U.S. Department of Health and Human Services (USDHHS) grant that adds the partnership of SERVE Idaho and builds on the success of the Covering Kids and Families in Idaho project to improve the health status and access to health care for uninsured youth in five rural and frontier counties in Idaho.
  - **Mountain States Early Head Start** – (MSEHS) provides comprehensive health, social and educational services for infants, toddlers, and their families through family-centered and community-based efforts in Kootenai and Bonner Counties in north Idaho through a grant from the USDHHS. Several parents' goals were met during the year including successful completion of high school or GED tests, enrollment into college and application and acceptance for a Habitat for Humanity house.
  - **Nutrition Works** - provides reimbursement to Idaho family child care homes and centers for the provision of nutritious meals to low-income children and assists the homes and centers in offering quality child care. Funded through the U.S. Department of Agriculture as a pass through from the State of Idaho's Child and Adult Care Food Program.
  - **Idaho KIDS COUNT** – collects the best available data on child well-being, uses that information to educate policy makers and citizens and mobilizes community efforts to secure a better future for all children. Funded by the Annie E. Casey Foundation. A third policy brief in a three-part series: *Bridge to Adulthood: On Their Own* was released this year for an intended audience of policy makers, higher education, labor and commerce, corrections and the public at large.

#### **Refugees:**

- **Idaho Office for Refugees (IOR)** – has statewide responsibility for administration of the State of Idaho's refugee resettlement program, overseeing the resettlement of 624 new refugees in Idaho during the fiscal year ending June 30, 2006, primarily from the Former Soviet Union, Africa and Asia. IOR receives USDHHS funds from the Office of Refugee Resettlement (ORR). IOR supports the provision of interim financial assistance, English language training, employment services, case management, refugee savings programs and social adjustment services in the communities where refugees are resettled in Idaho.
- **Agency for New Americans (ANA)** - provides initial reception and placement services to an average of 170 refugees in the Boise area a year representing 15 different nationalities and ethnicities from nearly every region of the world. ANA provides case management, employment, tutoring, immigration, ethnic community building and volunteer services to newly arrived and more established refugee clients. ANA provides technical assistance and access to loan funds to refugees interested in starting or expanding small businesses. ANA also has a Parents as Teachers program that is refugee parent focused. ANA services are funded through a variety of sources including: U.S. Department of State, Bureau for Population, Refugees and Migration, through a Cooperative Agreement with Episcopal Migration Ministries (EMM), State of Idaho, direct grants from ORR and as a subrecipient from IOR.

- **English Language Center (ELC)** – funded through IOR, ELC uses classroom and computer lab settings to conduct English language instruction for newly arrived refugees and English classes for refugees 60 years and older to help meet the cultural and linguistic need of older refugees.

### **Rural Health:**

- **Idaho Area Health Education Center (IAHEC)** - is affiliated with the University of Washington, School of Medicine Area Health Education Center Program. The mission of the IAHEC is to improve the supply, distribution, and quality of health professionals throughout Idaho. The Idaho Rural Technical Assistance program is a partnership with the Idaho Health Facilities Authority that provides subsidies for needed technical assistance to rural health care entities within Idaho. The Bioterrorism Training and Curriculum Development program, a National Institutes of Health pass-through grant from the University of Washington and a USDHHS pass-through grant from Idaho State University, works to disseminate bio-defense and emerging infectious disease information to primary care practitioners in Wyoming, Washington, Alaska, Montana, Idaho and Oregon. The Idaho AHEC website now hosts a five part bioterrorism course for primary care providers and a four part public health course. Courses include West Nile Virus and Avian Influenza.
- **Delta States Rural Hospital Performance Improvement** – funded through the USDHHS Health Resource Service Administration, this contract offers intensive technical assistance, training, performance assessments and strategic planning tools to rural hospitals in eight Mississippi Delta States, in collaboration with rural communities and state rural health organizations.
- **Idaho Hispanic Wellness** – funded through the USDHHS Health Resources and Services Administration, this project is a partnership with the Boise State University Nursing program to provide health and wellness services to three Hispanic communities in southwestern Idaho. This program received an extension through and ended December 31, 2005.
- **Idaho Partnership for Hispanic Health** – funded through the National Institutes of Health, this project researches interventions to reduce health disparities experienced by the Hispanic population, particularly those identified as Mexican-American. Interviews have been conducted with 523 Hispanic individuals in southwest Idaho so far.
- **Rural Health Flexibility Program** – under subcontract with Arizona Board of Regents, University of Arizona, working in collaboration with the Rural Health Office to implement programs that will benefit Arizona's critical access hospitals.
- **Community Gardens of Boise** - funds a garden coordinator to seek opportunities to create community gardens that are physically, financially, and socially accessible and welcoming to low income and other underserved populations.
- **Technical Assistance Service Center for the Rural Hospital Flexibility Program (TASC)** - supports the work of State Offices of Rural Health and other healthcare organizations with the federal Rural Health Flexibility Program. Technical assistance, information, and process tools are offered through a web site, library, conference

calls, newsletter, and consultant referral. TASC, funded through the USDHHS Health Resources and Services Administration, is a contract of MSG's wholly owned subsidiary, Rural Health Strategies, Inc.

- **Rural Health Strategies, Inc. (RHSI)** – is a wholly owned, for-profit subsidiary of MSG, incorporated under the laws of the state of Idaho, focusing on the health of rural communities, including, among other functions: education, consultation and technical assistance, resource development and performance improvement.

#### **Seniors:**

- **Foster Grandparents of Treasure Valley (FGP)**- a federally funded intergenerational mentorship program through the Corporation for National Service (CNS). In this fiscal year, FGP placed approximately 49 senior citizens a month, of limited income, into volunteer positions at non-profit educational centers for children who need extra attention, nurturing or help with academics.
- **Retired and Senior Volunteer Program (RSVP)** - serves ten counties in Southwestern Idaho providing persons 55 years and older opportunities to address critical community needs and enhance their lives through volunteer service. Primarily supported with federal funds through CNS, RSVP obtains about 30 percent of its funding from a variety of community sources. During this fiscal year 1,270 volunteers provided 207,876 volunteer hours to their service communities.
- **Rural Interdisciplinary Training in Geriatrics** - a partnership project with Idaho State University (ISU), Kasiska College of Health Professions and Area V Agency on Aging, known as the ISU Senior Health Mobile, providing health and wellness services to rural seniors in eastern Idaho through the use of students and faculty from ISU. Funded through the USDHHS Health Resources and Services Administration. This program ends December 31, 2006.
- **Services to Elderly Refugees** – funded through IOR, this program links refugees 60 years and older to mainstream senior services and promotes development of capacity within local aging networks to meet the cultural and linguistic need of older refugees.

#### **Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Consolidation**

The consolidated financial statements include the changes in net assets, account balances, and cash flows of MSG and its wholly-owned subsidiary. All material intercompany accounts and transactions have been eliminated.

##### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### ***Reclassification***

Certain reclassifications have been made, none of which affected the results of activities and changes in net assets, to present the financial statements on a consistent basis.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include all monies in banks and highly liquid investments including certificates of deposits with original maturities of eight months or less. The carrying value of cash and cash equivalents approximates fair value because of the short-term maturities. Cash and cash equivalents as of June 30, 2006 and 2005 include \$68,187 and \$173,961, respectively, in fiduciary funds for clients (see "Due to Fiduciaries").

MSG had a bank balance at an individual bank of \$488,972 at June 30, 2006 of which \$388,972 exceeds the \$100,000 FDIC insured limit.

### ***Property and Equipment***

Acquisitions of property and equipment in excess of \$5,000 are capitalized. Property and equipment are carried at cost or at approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of 5 years for equipment, 30 years for buildings and 5 to 10 years for building improvements. When property or equipment is retired or otherwise disposed of, the net book value is removed and the net gain or loss is included in determination of the change in net assets. Funding services may have a reversionary interest in certain equipment as well as the determination of use of any proceeds from sale of these assets.

### ***Due to Fiduciaries***

MSG acts as fiduciary or trustee that results in holding cash and cash equivalents on behalf of clients. These services include:

- Organizational representative payee for the Social Security Administration for mental health services clients to help ensure a more stable living environment for clients and to direct social security benefits towards basic needs of the beneficiary.
- Trustee and financial advisor, receiving, investing and expending funds for the benefit of designated Armed Forces veterans in accordance with sponsoring agency.
- Administrator for a parallel savings account for the federally-funded Refugee Savings Program, which allows for a 2 to 1 match of federal dollars for participating refugees. This program ended May 31, 2006. The parallel savings account represented a zero balance and \$105,071 of the Due to Fiduciary cash balance at June 30, 2006 and 2005, respectively.

### ***Grants, Contracts, Revenues and Receivables***

Support received under grants and contracts is treated as an exchange transaction. Exchange transactions are reciprocal transfers in which each party receives and sacrifices something of approximately equal value. For grants and contracts, revenue is recognized to the extent of related costs incurred.



MSG provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. It maintains allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends and other information. These accounts do not bear interest. Except for the loan losses and allowance specific to the Microenterprise Loans, described below, MSG has experienced no credit losses on grants and contracts during 2006 or 2005 and the allowance for doubtful accounts for grants and contracts receivables is zero as of June 30, 2006 and 2005.

### ***Microenterprise Loan Receivables***

Under a grant through MSG's Agency for New American's, the Microenterprise Lending and Technical Assistance program (META) issues microenterprise loans to refugees interested in starting or expanding a small business. The refugee population, due to lack of credit history, has difficulty obtaining traditional financing. META bridges the gap for these individuals to start or expand businesses, develop a credit history and continue to learn about business practices in the United States. Individual loans range from \$500 to a maximum of \$15,000 for terms ranging from six months to three years. MSG has the intent and ability to hold and administer these loans for the foreseeable future. Loans are stated at the unpaid principal balances.

Interest on loans, generally charged at 3 percent over Prime, is recognized as interest income over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Upon maturity or default, all sums due bear interest at the rate of 18% per annum until paid in full or as long as the default continues. Defaults are determined on a case-by-case basis considering excessive missed payments or failure to meet other loan obligations, as defined in each borrower's loan agreements. A small program participant / loan fee is collected and recognized as fee income in the period received. MSG continues to accrue interest on delinquent loans.

Management determines the need for collateral on a case-by-case basis, depending on the loan amount, borrower's business history and personal references. Approximately 91 and 112 percent of the microenterprise loan receivable balance, at June 30, 2006 and 2005 respectively, is collateralized by borrowers' business related vehicles and equipment. To determine the collateralized balance, MSG uses the lower of the ending loan receivable balance at June 30 or the fair value of the collateral. Fair value of collateral is based on Kelly Blue Book for vehicles or purchase price of applicable business assets. MSG files a lien on the vehicle's title and holds the title until the loan is paid in full or files a UCC1 lien with the State of Idaho for business equipment.

The need for an allowance for loan loss is evaluated on a regular basis by management considering the collectibility of loans in light of historical collection experience, estimated value of underlying collateral, circumstances of payment delays or shortfalls and any adverse situations that may affect the borrowers' ability to repay. Based on these factors, management concluded that the percentage of loan balance not fully covered by collateral, 9%, was the best estimate of outstanding loans potentially unrecoverable in the event of



default by a borrower. Any subsequent recovery will offset the allowance. At June 30, 2006 and 2005, the allowance for loan loss is \$12,557 and zero, respectively. The Microenterprise Loan Receivable Balance for the years ending June 30, are as follows:

	<u>2006</u>	<u>2005</u>
Microenterprise Loan Receivables, current	\$ 69,663	\$ 43,130
<b>Less:</b> Allowance for Doubtful Accounts	<u>( 12,557)</u>	<u>-</u>
Net Microenterprise Loan Receivable, current	57,106	43,130
Microenterprise Loan Receivables, long term	<u>69,865</u>	<u>64,042</u>
<b>Total:</b> Microenterprise Loan Receivable Balance	<u>\$126,971</u>	<u>\$107,172</u>

### ***Income Taxes***

MSG is exempt from any federal or state income tax under Internal Revenue Code Section 501(c)(3).

MSG's wholly-owned subsidiary, RHSI, had income tax expense of \$30 for the period ending June 30, 2006. There are no deferred income taxes at June 30, 2006 and 2005.

### **Note 3. IN-KIND CONTRIBUTIONS AND CONTRIBUTED SERVICES**

Contributions received are measured at fair value and recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Programs recognized in-kind contributions for items supporting each program's services for the years ending June 30, as follows:

	<u>2006</u>	<u>2005</u>
• MSEHS – supplies, rent, and services	\$109,038	\$ 8,062
• ANA – rent, supplies and services	25,281	72,767
• RSVP - rent, recognition, services and supplies	23,977	34,980
• Foster Grandparents – rent and physicals	11,035	41,748
• Community Gardens of Boise – supplies and services	4,333	579
• English Language Center – rent and supplies	2,350	13,917
• 211 Idaho – member office space and supplies	-	8,856
	<u>\$176,014</u>	<u>\$180,909</u>

In the regular course of business, MSG acts as an agent for and on behalf of donors by accepting assets and transferring those assets to the specified beneficiary. These assets generally consist of used household items, used furniture, food or used vehicles intended directly for refugee clients and meals that are provided directly to RSVP or FGP volunteers while they are volunteering at schools. When acting as an agent, MSG does not record these items as contributions in the statement of activities and changes in net assets or as an asset or liability in the statement of financial position, in accordance with Statement of Financial Accounting Standards No. 136.



MSG receives donated services from a variety of unpaid volunteers assisting programs or providing volunteer services in the community. No amounts have been recognized in the statement of activities because the criteria for recognition of such volunteer effort under Statement of Financial Accounting Standards No. 116 have not been satisfied. The estimated fair value of services provided for the years ending June 30, by unpaid volunteers for MSG programs are as follows:

	<u>2006</u>	<u>2005</u>
• Retired Senior Volunteer Program	\$3,752,162	\$3,432,236
• Mountain States Early Head Start	\$ 450,057	\$ 374,183
• Agency for New Americans	\$ 27,683	\$ 52,459
• Community Gardens of Boise	\$ 2,726	\$ 395
• English Language Center	\$ 2,568	\$ -
• 211 Idaho	\$ -	\$ 8,867

**Note 4. MORTGAGE PAYABLE**

MSG has a mortgage secured by a deed of trust on properties located at 1607 and 1614 W. Jefferson Street, Boise, Idaho. The mortgage is payable in 240 consecutive monthly installments on the 1st day of each month terminating on October 1, 2022. Monthly principal and interest payments are \$4,205. Interest on the unpaid balance is compounded at five (5) percent per annum. The mortgage holder has the option to call the remaining principal amount due, plus accrued interest, on October 1, 2012.

Maturities are as follows:

2007	\$ 20,992
2008	24,022
2009	25,251
2010	26,543
2011	27,901
Thereafter	<u>435,848</u>
Total	<u>\$560,557</u>

MSG incurred total loan fees of \$15,055 to secure this mortgage and renegotiate minor terms of the agreement October, 2002. The fee is being amortized over the life of the loan. Amortization expense and accumulated amortization is \$491 and \$7,033, respectively, for the year ending June 30, 2006 and \$491 and \$6,541, respectively, for the year ending June 30, 2005.

**Note 5. LINE OF CREDIT**

On November 30, 2005, MSG renewed a variable rate, revolving line of credit with Bank of America totaling \$500,000, collateralized by MSG equipment with a net book value of



\$18,471 at June 30, 2006 and requiring a current ratio of 1:1. The interest rate was 8.00 and 6.25 percent at June 30, 2006 and 2005, respectively. Accrued unpaid interest is payable monthly and any balance of outstanding principal and unpaid accrued interest is due and payable December 1, 2006. The line of credit had a zero balance at June 30, 2006 and 2005.

**Note 6. LEASING ARRANGEMENTS**

**Capital Leases:**

On July 1, 2003, MSG entered into three 60-month capital lease agreements for equipment located in the Boise office and capitalized \$67,147, representing the net present value of minimum lease payments, calculated at MSG's incremental borrowing rate at the date of the lease. If notice is not given prior to 30 days before the end of the lease term, the lease will automatically renew on a month-to-month basis at the same price and terms of the original lease. Future minimum lease payments under capital leases with the present value of the net minimum lease payments are as follows:

<u>Year ending June 30,</u>	<u>Capital Lease:</u>
2007	\$ 16,455
2008	16,939
2009	2,340
2010	-
2011	-
Total minimum lease payments	<u>35,734</u>
<b>Less:</b> Estimated executory costs (taxes, supplies, maintenance) included in total minimum lease payments.	(4,050)
<b>Less:</b> Amount representing interest	<u>(1,514)</u>
Present value of net minimum lease payments	<u>\$ 30,170</u>

**Operating Leases:**

MSG leases, under operating leases, buildings and office equipment located in Boise, Nampa, Coeur d'Alene and Sandpoint, Idaho. The building lease terms are \$1 per year for twenty-five years ending February 10, 2023 for MSEHS's Coeur d'Alene center; \$3,783 per month for twenty years ending August 17, 2018 for MSEHS's Sandpoint center; \$488 per month under a month-to-month lease in Boise for Mental Health Services; and \$1,164 per month under a month-to-month in Nampa for Mental Health Services.

The Coeur d'Alene lease automatically renews for another twenty-five years as long as MSG receives funding for the MSEHS program. The Sandpoint lease payment was adjusted January 2003 and at five year intervals thereafter. The maximum amount of adjustment is equal to the percentage change in the Consumer Price Index.



Equipment under operating leases includes four copy machines and a postage meter. One new copy machine lease was entered into in August, 2006. Minimum lease payments under operating leases for buildings and equipment, including the new lease, are as follows:

<u>Year ending June 30,</u>	<u>Operating Lease:</u>
2007	\$ 69,787
2008	48,641
2009	48,291
2010	45,555
2011	45,402
Thereafter	<u>325,384</u>
Total minimum lease payments	<u>\$ 583,060</u>

Rent expense for buildings, equipment and the allocation of rent expense to programs for the MSG-owned building for the year ended June 30, 2006 and 2005 was \$232,366 and \$228,052, respectively.

**Note 7. PENSION PLAN**

MSG's defined contribution 403(b) plan covers substantially all employees. Employer contributions to the plan during the year ending June 30, 2006 and 2005 were \$206,368 and \$207,048, respectively. MSG matches employee contributions two-to-one up to the first five percent of salary deferral for eligible employees. Employees are immediately vested in employer contributions.

All employees, at their discretion, may participate in MSG's tax-deferred annuity 403(b) plan that allows for elective contributions per IRS Code Section 415. MSG does not match employee contributions in this plan.

**Note 8. CONCENTRATION OF REVENUE**

MSG had concentrations of grants and contracts revenue from certain agencies, including direct awards and pass-through funding, for the years ending June 30, as follows:

<u>Source:</u>	<u>2006</u> (in millions)	<u>2005</u> (in millions)
U.S. Department of Health & Human Services	\$6.86	\$6.41
U.S. Department of Agriculture	\$1.22	\$1.11

**Note 9. CONTINGENCIES**

A portion of MSG revenue is from government grants and contracts, which are subject to audit by the federal government. The ultimate determination of amounts received under these programs generally is based upon allowable costs reported to and audited by the government. Until such audits have been completed and final settlement reached, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.



**Mountain States Group** Inc.  
*"international community resource development"*

SUPPLEMENTAL FINANCIAL INFORMATION  
June 30, 2006



**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2006**

Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Grant/Award or Pass Through Agency Number	Federal Expenditures
<b><u>U.S. Department of Health and Human Services:</u></b>			
<b>Direct Programs:</b>			
Delta States Rural Hospital Performance Improvement	N/A	2500200436009C	\$ 1,582,653
Mountain States Early Head Start	93.600	10YC0027/04	1,361,185
Wilson Fish Demonstration Cooperative Agreement	93.583	90RW0017/04, 90RW0022/01	1,028,680
Rural Hospital Technical Assistance Service Center (TASC)	N/A	250-02-0014	551,349
Refugee Targeted Assistance	93.584	G-04A1IDRRTA, -05	354,458
Idaho Partnership for Hispanic Health	93.307	1-R24 MD001711-01	347,200
Quentin N. Burdick Program for Rural Interdisciplinary Training (Senior Health Mobile)	93.192	2 D36HP00003-06-01	252,063
Wilson Fish Demonstration Cooperative Agreement	93.566	G-05WFID0120	251,687
Refugee Microenterprise Development	93.576	90RG0062/01	185,143
Wilson Fish Alternative Demonstration Project	93.583	G-04WFID0120	154,692
Refugee Targeted Assistance - Discretionary	93.576	90RT0102/03	106,658
Refugee School Impact	93.576	90ZE0092/01	97,448
Services to Elderly Refugees	93.576	90RL0081/01, /02	89,241
Refugee Savings Program	93.576	90Z10025/05	77,121
Services to Elderly Refugees - Systems Grant	94.576	90RL0103/01	9,399
Healthy Tomorrows for Children	93.110	H17MC06710	5,140
Quentin N. Burdick Program for Rural Interdisciplinary Training (Hispanic Wellness)	93.192	5 D36HP10031-03-01	3,643
<b>Pass Through Programs Through:</b>			
University of Washington - BioDefense	93.856	101571 & 834883	77,610
Episcopal Migration Ministries (EMM) - Match Grant	93.567	90RV0036/02	76,866
University of Washington - Idaho Area Health Education Center	93.824	162872 & 919479	74,209
Idaho State University - Bioterrorism Training /Curriculum Develop.	93.996	05-316A	47,402
EMM - Preferred Communities Capacity Building	93.576	90RE0073/03	42,968
EMM - Medical Case Management	93.576	90RE0082/01	29,007
EMM - Preferred Communities Somali Bantu	93.576	90RP0033/03	19,570
University of Arizona - Rural Health Flexibility	93.241	Y404825	17,192
University of Washington - Public Health Workforce	93.249	953642	12,544
EMM - Emergency Medical Assistance	93.576	90ZC0022	3,326
<b>Total Department of Health and Human Services</b>			<b><u>6,858,454</u></b>
<b><u>U.S. Department of Agriculture:</u></b>			
<b>Pass Through Programs Through:</b>			
Idaho State Dept of Education - Child & Adult Care Food Prgm	10.558	4864	<b><u>1,218,772</u></b>



MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2006

<u>Federal Grantor / Pass-Through Grantor / Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant/Award or Pass Through Agency Number</u>	<u>Federal Expenditures</u>
<b><u>Corporation for National Service:</u></b>			
<b>Direct Programs:</b>			
Foster Grandparents	94.011	06SFPID002	295,723
Retired Senior Volunteer Program	94.002	06SRPID002	144,911
<b>Total Corporation for National Service</b>			<b><u>440,634</u></b>
<b><u>Department of State</u></b>			
<b>Pass Through Programs Through:</b>			
EMM - Cooperative Agreement	N/A	SPRMCO 06CA018	<b><u>149,268</u></b>
	<b>Total Federal Assistance</b>		<b><u>\$ 8,667,128</u></b>



## **Notes to the Schedule of Expenditures of Federal Awards Year ended June 30, 2006**

### **Note A. SIGNIFICANT ACCOUNTING POLICIES**

All federal program receipts of Mountain States Group, Inc. (MSG) are included in the scope of the Office of Management and Budget (OMB) Circular A-133 audit. The Single Audit was performed in accordance with the provisions of the OMB Circular A-133 Compliance Supplement. Compliance testing requirements, as described in the Compliance Supplement, were performed for MSG's major federal programs for the year ended June 30, 2006.

The Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

### **Note B. MAJOR PROGRAMS**

The following programs have been identified as major programs for the year ended June 30, 2006.

#### **CFDA Number:**

##### **93.583**

- Wilson Fish Demonstration Cooperative Agreement

##### **93.307**

- Idaho Partnership for Hispanic Health

##### **93.576**

- Refugee Microenterprise Development
- Refugee Targeted Assistance – Discretionary
- Refugee School Impact
- Services to Elderly Refugees
- Refugee Savings Program
- Services to Elderly Refugees – Systems Grant
- Preferred Communities Capacity Building
- Medical Case Management
- Preferred Communities – Somali Bantu
- Emergency Medical Assistance

##### **N/A**

Rural Hospital Performance Improvement Initiative



CPAs & BUSINESS ADVISORS

REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
Mountain States Group, Inc. and Subsidiary  
Boise, Idaho

We have audited the consolidated financial statements of Mountain States Group, Inc. and subsidiary as of and for the year ended June 30, 2006, and have issued our report thereon dated September 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Mountain States Group, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mountain States Group, Inc.'s consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Eide Bailly LLP*

Boise, Idaho  
September 26, 2006



CPAs & BUSINESS ADVISORS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133

To the Board of Directors  
Mountain States Group, Inc. and Subsidiary  
Boise, Idaho

Compliance

We have audited the compliance of Mountain States Group, Inc. and subsidiary (Mountain States Group) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Mountain States Group's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Mountain States Group's management. Our responsibility is to express an opinion on Mountain States Group's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mountain States Group's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Mountain States Group's compliance with those requirements.

In our opinion, Mountain States Group complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Mountain States Group is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Mountain States Group's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho  
September 26, 2006

MOUNTAIN STATES GROUP, INC.  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 Year ended June 30, 2006

**Section I - Summary of Auditors' Results**

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness identified No  
 Reportable conditions None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified No  
 Reportable conditions None reported

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a) No

Identification of major programs:

<u>CFDA number</u>	<u>Name of Federal Program</u>
93.576	Refugee Assistance Programs
93.583	Wilson Fish Demonstration Programs
N/A	Delta States Rural Hospital Performance Improvement
93.307	Idaho Partnership for Hispanic Health

Dollar threshold used to distinguish between Type A and Type B programs \$300,000

Auditee qualified as low-risk auditee Yes

**Section II - Financial Statement Findings**

None

**Section III - Federal Award Findings and Questioned Costs**

None