



Mountain States Group Inc.
"international community resource development"

AUDITED CONSOLIDATED FINANCIAL STATEMENTS
AND OTHER FINANCIAL INFORMATION
June 30, 2009 and 2008



Mountain States Group Inc.
"international community resource development"

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Mountain States Group, Inc. (a nonprofit organization) and Subsidiary as of June 30, 2009 and 2008, 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, 2009. These consolidated financial statements are the responsibility of the Organization'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 audit 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 the 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, 2009 and 2008, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2009, on our consideration of Mountain States Group, Inc.'s internal control over financial reporting and on 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 important for assessing the results of our audit.

Our audit was conducted 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.

Eide Bailly LLP

Boise, Idaho
October 14, 2009



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

ASSETS	<u>June 30, 2009</u>	<u>June 30, 2008</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 641,211	\$ 447,915
Cash Held for Fiduciaries	138,021	99,539
Grants and Contracts Receivable	1,314,605	1,374,669
Accounts Receivable Other	79,168	89,853
Microenterprise Loan Receivable, Net	55,207	51,462
Prepaid Expenses	36,758	25,500
Total Current Assets	2,264,970	2,088,938
PROPERTY AND EQUIPMENT		
Land	151,193	151,193
Building and Improvements	1,170,150	1,170,150
Furniture, Fixtures, and Equipment	210,251	207,316
Less: Accumulated Depreciation	(637,548)	(591,089)
Total Property and Equipment	894,046	937,570
LONG TERM ASSETS		
Microenterprise Loan Receivable, Net	63,359	71,448
Loan Fee (Net Accum Amort of \$0 and \$8,015, respectively)	-	7,041
Total Long Term Assets	63,359	78,489
TOTAL ASSETS	\$ 3,222,375	\$ 3,104,997
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts Payable	\$ 689,546	\$ 737,439
Accrued Wages and Benefits	506,487	478,443
Deferred Revenue	209,026	151,178
Due to Fiduciaries	138,021	99,539
Current Portion of Mortgage Payable	22,772	23,195
Total Current Liabilities	1,565,852	1,489,794
LONG TERM LIABILITIES:		
Mortgage Payable, less current portion	472,693	490,292
TOTAL LIABILITIES	2,038,545	1,980,086
NET ASSETS:		
Unrestricted	1,183,830	1,124,911
TOTAL LIABILITIES AND NET ASSETS	\$ 3,222,375	\$ 3,104,997



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

	Year Ended June 30, 2009	Year Ended June 30, 2008
<u>SUPPORT AND REVENUES:</u>		
Grants and Contracts	\$ 10,511,130	\$ 9,330,660
Fees for Service and Reimbursements	2,508,152	2,479,000
Contributions / In-kind / Donations	226,256	245,673
Dividends and Interest	18,950	32,849
Total Revenue:	<u>13,264,488</u>	<u>12,088,182</u>
<u>EXPENDITURES:</u>		
Salaries	4,106,485	3,788,377
Benefits	865,370	795,642
Total Salaries & Benefits	<u>4,971,855</u>	<u>4,584,019</u>
Contracts and Consulting	2,425,814	2,621,535
Stipends / Scholarships / Assistance	1,923,355	1,088,097
Food Program Provider Payments	1,419,148	1,334,096
Indirect / Administrative Fees	848,141	787,803
Office Rental and Maintenance	313,260	288,675
Travel	293,544	297,394
Supplies	276,543	262,253
In-Kind / Match	120,472	158,181
Telephone and Utilities	91,748	76,684
Meetings and Conferences	89,068	78,171
Printing	83,102	58,366
Legal and Accounting	78,147	50,576
Staff and Volunteer Training	56,547	50,487
Depreciation and Amortization	50,233	58,876
Bad Debt Expense	45,520	34,055
Insurance	32,027	31,429
Postage	27,147	23,543
Property Taxes	23,928	22,410
Interest	23,779	26,807
Loss on Disposal of Assets	6,761	-
Income Tax Expense	3,621	-
Fundraising	1,809	2,092
Total Expenditures	<u>13,205,569</u>	<u>11,935,549</u>
CHANGE IN NET ASSETS	<u>58,919</u>	<u>152,633</u>
NET ASSETS, BEGINNING OF PERIOD	<u>1,124,911</u>	<u>972,278</u>
NET ASSETS, END OF PERIOD	<u>\$ 1,183,830</u>	<u>\$ 1,124,911</u>



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

	<u>Year Ended June 30, 2009</u>	<u>Year Ended June 30, 2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in Net Assets	\$ 58,919	\$ 152,633
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation & Amortization	50,233	58,876
Loan Fee Adjustment due to Refinance of Mortgage	6,631	-
Gain on Disposal of Property and Equipment	-	(5,145)
Changes in Assets and Liabilities		
Grants and Contracts Receivable	60,064	28,692
Accounts Receivable Other	10,685	(11,692)
Prepaid Expenses	(11,258)	(1,713)
Accounts Payable	(47,892)	4,822
Accrued Wages & Benefits	28,044	30,311
Deferred Revenue	57,848	2,891
Due to Fiduciaries	38,482	24,398
Net cash provided by Operating activities	<u>251,756</u>	<u>284,073</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Furniture, Fixtures, & Equipment	(6,300)	(6,684)
Building Improvements	-	(9,833)
Insurance Proceeds on Property Damage	-	7,080
Microenterprise Lending	(131,478)	(130,925)
Microenterprise Bad Debt Expense	15,953	15,403
Microenterprise Cash Collection	119,869	123,228
Net cash used by Investing activities	<u>(1,956)</u>	<u>(1,731)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Mortgage Payments	(18,022)	(24,122)
Capital Lease Payments	-	(10,922)
Net cash used by Financing activities	<u>(18,022)</u>	<u>(35,044)</u>
NET INCREASE IN CASH	231,778	247,298
CASH, BEGINNING OF PERIOD	<u>547,454</u>	<u>300,156</u>
CASH, END OF PERIOD	<u>\$ 779,232</u>	<u>\$ 547,454</u>
Supplemental Disclosures of cash flow information:		
Cash Paid for Interest	\$ 23,779	\$ 26,807
Cash Paid for Income Taxes	\$ 3,621	\$ -



**MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2009**

Expenditures	Mental Health	Public Health	Healthy Children & Families	Refugee Services
Salaries	\$ 829,141	\$ 70,234	\$ 1,083,265	\$ 858,005
Benefits	132,879	21,950	249,944	182,794
Total Salaries and Benefits	962,020	92,184	1,333,209	1,040,799
Contracts and Consulting	50,077	10,890	57,660	1,024,738
Stipends / Scholarships / Assistance	-	-	1,388	1,691,165
Food Program provider payments	-	-	1,419,148	-
Indirect / Administrative Fees	225,301	15,938	189,459	204,891
Office Rental and Maintenance	34,101	43	101,044	66,171
Travel	35,137	14,670	62,784	24,274
Supplies	24,273	2,006	79,437	61,591
In-Kind/Match	-	-	53,782	15,951
Telephone and Utilities	11,770	1,783	30,991	11,010
Meetings	23,953	16,113	4,106	22,556
Printing	4,414	1,780	23,916	10,948
Legal and Accounting	5,557	-	3,050	188
Staff and Volunteer Training	5,785	1,294	36,252	2,117
Depreciation and Amortization	-	-	-	-
Bad Debt Expense	29,567	-	-	15,953
Insurance	-	-	1,220	3,334
Postage	1,415	271	8,502	4,878
Property Taxes	-	-	2,514	-
Interest	-	-	-	-
Loss on Disposal of Assets	-	-	-	-
Provision for Income Taxes	-	-	-	-
Fundraising	-	-	-	1,809
Total Expenditures	\$ 1,413,370	\$ 156,972	\$ 3,408,462	\$ 4,202,373



MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)
YEAR ENDED JUNE 30, 2009

	Rural Health	Healthy Aging	Total Program Services
<u>Expenditures</u>			
Salaries	\$ 534,622	\$ 186,947	\$ 3,562,214
Benefits	111,187	53,575	752,329
Total Salaries and Benefits	<u>645,809</u>	<u>240,522</u>	<u>4,314,543</u>
Contracts and Consulting	1,201,003	81,446	2,425,814
Stipends / Scholarships / Assistance	8,896	221,906	1,923,355
Food Program provider payments	-	-	1,419,148
Indirect / Administrative Fees	181,011	31,541	848,141
Office Rental and Maintenance	22,755	5,166	229,280
Travel	135,032	8,803	280,700
Supplies	62,968	21,714	251,989
In-Kind/Match	-	50,739	120,472
Telephone and Utilities	7,180	2,962	65,696
Meetings	16,984	747	84,459
Printing	8,464	3,367	52,889
Legal and Accounting	-	-	8,795
Staff and Volunteer Training	175	96	45,719
Depreciation and Amortization	-	-	-
Bad Debt Expense	-	-	45,520
Insurance	-	4,456	9,010
Postage	5,711	2,272	23,049
Property Taxes	-	-	2,514
Interest	-	-	-
Loss on Disposal of Assets	-	-	-
Provision for Income Taxes	3,621	-	3,621
Fundraising	-	-	1,809
Total Expenditures	<u><u>\$ 2,299,609</u></u>	<u><u>\$ 675,737</u></u>	<u><u>\$ 12,156,523</u></u>



MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES (Continued)
YEAR ENDED JUNE 30, 2009

<u>Expenditures</u>	<u>Administration</u>	<u>Building & Equipment</u>	<u>Total Expenses</u>
Salaries	\$ 544,271	\$ -	\$ 4,106,485
Benefits	113,041	-	865,370
Total Salaries and Benefits	657,312	-	4,971,855
Contracts and Consulting	-	-	2,425,814
Stipends / Scholarships / Assistance	-	-	1,923,355
Food Program provider payments	-	-	1,419,148
Indirect / Administrative Fees	-	-	848,141
Office Rental and Maintenance	26,412	57,568	313,260
Travel	12,844	-	293,544
Supplies	24,554	-	276,543
In-Kind/Match	-	-	120,472
Telephone and Utilities	8,225	17,827	91,748
Meetings	4,609	-	89,068
Printing	30,213	-	83,102
Legal and Accounting	65,349	4,003	78,147
Staff and Volunteer Training	10,828	-	56,547
Depreciation and Amortization	2,953	47,280	50,233
Bad Debt Expense	-	-	45,520
Insurance	23,017	-	32,027
Postage	4,098	-	27,147
Property Taxes	2,108	19,306	23,928
Interest	-	23,779	23,779
Loss on Disposal of Assets	130	6,631	6,761
Provision for Income Taxes	-	-	3,621
Fundraising	-	-	1,809
Total Expenditures	<u>\$ 872,652</u>	<u>\$ 176,394</u>	<u>\$ 13,205,569</u>



Notes to Consolidated Financial Statements June 30, 2009 and 2008

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, Sandpoint and Weiser, Idaho and Jacksonville, Florida.

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. Our programs work toward the common mission of people shaping their own lives and sharing in their communities. MSG program areas include: Mental Health, Public Health, Healthy Children & Families, Refugee Services, Rural Health and Healthy Aging.

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 rehabilitation (PSR), individual counseling and clinic services in Boise, Idaho, serving approximately 200 individuals with case management and PSR and approximately 300 individuals for clinic services per year.
- ***Office of Consumer Affairs and Family Affairs (OCFA)*** – funded by the IDH&W encourages persons with a mental illness and their family members to have a voice in how Idaho's mental health services are provided. The OCFA assists consumers and family groups statewide in organizing and advocacy, and provides information on current service system issues and recovery-focused services.
- ***Idaho Peer Specialist Program*** – In August, 2008, OCFA received a contract from IDH&W to establish an Idaho Peer Specialist Training and Certification Program and to place Certified Peer Specialists within the state's Regional Mental Health Programs. OCFA successfully trained 5 Certified Peer Specialists by June 30, 2009.
- ***Home Recovery Team Pilot Project*** – On February 1, 2009, IDH&W issued a contract for MSG to provide Home Recovery Team services for IDH&W's Region IV Mental Health Program. The concept of Home Recovery is to provide individualized treatment and support to adults with serious mental illness and/or who are in need of short-term intervention, allowing clients to remain in their homes.

Public Health:

- ***Idaho HIV Community Planning Coordination*** – funded through IDH&W to assist in planning the state's HIV/AIDS care and prevention services that include convening a statewide planning group; compiling applicable information for decision making and preparing Idaho's plans for HIV/AIDS care and prevention services to assist the state in securing federal funding.

- **Idaho Statewide Quality Management Committee** – works with IDH&W’s Family Planning, STD and HIV Programs, and the Idaho Advisory Council on HIV/AIDS to develop and continually improve a quality continuum of care statewide that meets the identified needs of people living with HIV and AIDS.
- **Boise Women’s Prison Project** – reaches incarcerated women who are at-risk for HIV infection. Through group sessions, incarcerated women learn about HIV infection, how to reduce risky behaviors and gain confidence in keeping themselves safe from contracting HIV or other sexually transmitted diseases. Since this program’s inception in 2002, 1,674 incarcerated women have been reached.

Healthy Children & Families:

- **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 grants from the U.S. Department of Health and Human Services (USDHHS) and TANF, passed through from the Idaho Head Start Association. Funded to serve a minimum of 119 children, services include home visits, parent/child educational playgroups and classes such as CPR, money management, cooking and child discipline. MSEHS also provides assistance in linking families to needed community resources in areas of preventative health care, dental exams, immunizations, nutrition education and developmental screenings.
- **Nutrition Works** – provides reimbursement to Idaho family child care homes and centers to help provide 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. The program supports sponsored child care programs that each month feed over 4,000 children well-balanced, healthy meals and snacks that do not contribute to the childhood obesity epidemic. The program has also developed self-study programs for child care providers on nutrition and food safety.
- **Idaho KIDS COUNT** – compiles data and research that informs policy change to improve the lives of vulnerable children and their families, funded by the Annie E. Casey Foundation. During the past year, the program produced the 2008 Idaho Kids Count Annual Report on the well-being of Idaho children; produced a four-part policy brief series on Idaho child care, produced a policy brief on kin care issues in Idaho and partnered with Idaho Voices for Children to sponsor policy forums on early care and education, kin care, and children’s health care coverage.
- **Healthy Tomorrows: Starting Points for Idaho Youth** – a USDHHS grant that continues outreach efforts for health coverage to low income children and youth by targeting community events in rural counties, strategic media and school outreach and the continued involvement of school nurses in 15 rural school districts.
- **Idaho Voices for Children Policy Institute Project “Building Advocacy Capacity for School Readiness in Idaho”** – is funded by the Paul G. Allen Foundation to improve the educational and social readiness of young children entering elementary school. Idaho Voices for Children (IVC) partners with Idaho Kids Count and the Idaho Department of Education.

- ***Covering Kids and Families in Idaho: Reaching Uninsured Idaho Children through the Free/Reduced School Lunch Application*** – funded by the Paul G. Allen Foundation to continue to promote identification of and enrollment of uninsured low-income Idaho children in the State of Idaho Children’s Health Insurance Program with program partners including the Idaho Department of Education-Nutrition Programs, participating school districts and 211 Idaho Careline. This grant ended January 31, 2008.

Refugee Services:

- ***Idaho Office for Refugees (IOR)*** – is responsible for administration of the State of Idaho’s refugee resettlement program, overseeing the resettlement of 1,160 new refugees in Idaho during the fiscal year from 20 different countries, primarily from Iraq, Bhutan, Burma, Afghanistan, Somalia and the Congo. IOR receives USDHHS funds from the Office of Refugee Resettlement (ORR). IOR supports interim financial assistance, English language training, employment services, case management and social adjustment services to assist refugees to become self-supporting and integrate into the U.S.
 - ***Refugee Savings Program*** – an IOR program funded through ORR, opened 44 new IDA accounts for refugees to save for home purchase, microenterprise capital or post-secondary education/training. This program encourages self-sufficiency through education, training and saving and provides a match of participant savings on a one to one basis.
 - ***Refugee Agricultural Partnership Program*** – an IOR program funded through ORR to increase agricultural opportunities for low income refugee families in southwest Idaho by locating land for gardens to practice commercial growing; to establish model market gardens; and to assist beginning farmers to locate land for purchase or lease for small farm operations. In 2009, five community gardens and small farms offered opportunities for over 80 refugee families to grow produce for home consumption and sale at local markets and restaurants.
- ***Agency for New Americans (ANA)*** – provides initial reception and placement services to approximately 272 refugees in the Boise area a year representing 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 is 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. In 2008, ANA also received Board of Immigration Appeals accreditation to expand its Immigration program.
- ***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. This year, ELC taught 683 individuals

English language skills and American Culture orientation, trained 150 volunteers to be tutors and assisted 30 refugee elders in preparing for citizenship.

- **Microenterprise Lending and Technical Assistance (META)** – provides consulting, business plan training and microloans to refugees and other entrepreneurs interested in starting or expanding a small business. META is substantially funded through ORR with some support coming from local financial institutions. This year, META supported refugees establish 16 new business, 27 businesses were strengthened or expanded and 18 new jobs were created.

Rural Health:

- **Idaho Area Health Education Center (IAHEC)** – promotes careers in health care in underserved areas of Idaho. IAHEC is a member of a partnership between the University of Washington, School of Medicine Area Health Education Center Program and the states of Washington, Wyoming, Alaska, Montana and Idaho (WWAMI) to provide access to publicly supported medical education.
- **Rural Hospital Performance Improvement Project (RHPI)** – improves the financial, operational and clinical performance of rural hospitals in an 8-state region of the Mississippi Delta. RHPI is funded through the USDHHS Health Resources and Services Administration and works in collaboration with the Delta state's rural communities and state rural health care organizations. Over the past year, RHPI has provided technical assistance and performance improvement support to 112 rural hospitals.
- **Idaho Partnership for Hispanic Health** – funded through the National Institutes of Health, this study is working with the rural southwest Idaho Hispanic community to reduce the risk of metabolic syndrome. During the first three years that ended June 30, 2008, the project assessed the priority health concerns for the local Hispanic population, and has developed a promotore-centered pilot intervention in Weiser, Idaho, to reduce the prevalence of metabolic syndrome. The next five years of this grant, which began July 1, 2008 proceeds to the intervention phase of the project that includes weekly group classes and in-home visits to participants to improve eating habits and increase physical activity. Project partners include University of Washington, Centro De Comunidad y Justicia, and Idaho Commission on Hispanic Affairs.
- **Rural Health Strategies, Inc. (RHSI)** – was a wholly owned, for-profit subsidiary of MSG, incorporated under the laws of the state of Idaho, focusing on the health of rural communities by performing under a contract from the USDHHS Health Resources and Services Administration for the Technical Assistance Service Center for Rural Hospital Flexibility Program. This contract ended September 20, 2007 and the RHSI Corporation was dissolved effective November 5, 2008.

Healthy Aging:

- **Foster Grandparents of Treasure Valley (FGP)** – a federally funded intergenerational mentorship program through the Corporation for National Service (CNS). FGP is funded for up to 67 seniors, 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 927 volunteers provided 189,923 volunteer hours to their service communities.
- **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, none of which affected the results of activities and changes in net assets, have been made 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 daily maturing commercial paper. The carrying value of cash and cash equivalents approximates fair value because of the short-term maturities. Cash and cash equivalents reconciled with the Consolidated Statements of Cash Flows as of June 30 is as follows:

	<u>2009</u>	<u>2008</u>
Cash and Cash Equivalents	\$641,211	\$447,915
Cash held for Fiduciaries (see Due to Fiduciaries below)	138,021	99,539
Cash and Cash Equivalents per Statement of Cash Flows	<u>\$779,232</u>	<u>\$547,454</u>



MSG had bank balances at a single financial institution of \$639,862, of which \$389,862 exceeds the \$250,000 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. Routine building and equipment maintenance is expensed as incurred. 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.

Depreciation expense was \$49,824 and \$48,312 for the years ended June 30, 2009 and 2008, respectively.

Due to Fiduciaries

MSG acts as fiduciary or trustee that results in holding cash and cash equivalents in separate bank accounts 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 by directing 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 provides for a 1 to 1 match of federal dollars for refugees participating in this program.

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. Grants and contracts receivable are all due in less than one year.

MSG provides credit in the normal course of business to its customers and performs ongoing credit evaluations of those customers. It considers the need for allowances for doubtful accounts based on factors surrounding the credit risk of specific customers, historical trends and other information. 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 2009 or 2008 and the allowance for doubtful accounts for grants and contracts receivables is zero as of June 30, 2009 and 2008.



Microenterprise Lending Transactions

Under a grant from ORR, 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, calculated using the simple-interest method on principal amounts outstanding. Upon maturity or default, all sums due bear interest at 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. Loans are written off on a case-by-case basis, when all other means of collection over time have not resulted in payments and it is unlikely that any subsequent payments will be made. A small program participant / loan fee is collected and recognized as fee income in the period received.

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 93 and 91 percent of the Microenterprise Loan receivable balance, at June 30, 2009 and 2008 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 collectability of loans in light of historical collection experience and payment histories of current borrowers, estimated value of underlying collateral and the loan balances not fully covered by collateral, circumstances of payment delays or shortfalls, loans in default status, and any adverse situations that may affect the borrowers' ability to repay. Based on these factors, the allowance is 14.5% and 12% as of June 30, 2009 and 2008, respectively. Any subsequent recovery will offset the allowance.

At June 30, 2009 and 2008, the loan receivables balances that are past due ninety days or more were \$3,435 and \$15,696.



The Microenterprise Loan Receivable Balance for the years ending June 30, are as follows:

	<u>2009</u>	<u>2008</u>
Microenterprise Loan Receivables, current	\$ 74,962	\$ 68,223
Less: Allowance for Doubtful Accounts	<u>(19,755)</u>	<u>(16,761)</u>
Net Microenterprise Loan Receivable, current	55,207	51,462
Microenterprise Loan Receivables, long term	<u>63,359</u>	<u>71,448</u>
Total: Microenterprise Loan Receivables	<u><u>\$118,566</u></u>	<u><u>\$122,910</u></u>

Advertising and Public Relation Costs:

Public relation and non-direct response advertising costs are expensed as incurred. MSG does not participate in direct-response advertising.

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, was dissolved effective November 5, 2008. As a result of the forgiveness of intercompany debt upon dissolution, RHSI had income tax expense of \$3,621 for the year ending June 30, 2009. There are no deferred income taxes at June 30, 2009 and 2008.

Subsequent Events:

MSG has evaluated subsequent events through October 14, 2009, the date in which financial statements were available to be issued.

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>2009</u>	<u>2008</u>
• RSVP – supplies, rent, recognition and travel	\$ 27,243	\$ 19,058
• Idaho Voices for Children – travel, supplies and services	27,066	50,121
• MSEHS – supplies, rent and services	26,716	52,850
• Foster Grandparents – supplies, rent, and physicals	23,495	16,650
• ANA – silent auction goods and services	7,350	12,372
• English Language Center – rent, services	5,210	1,250
• RAPP / Community Gardens of Boise – supplies	3,392	4,130
• Covering Kids – supplies and meeting space	-	1,750
Total In-Kind Contributions	<u><u>\$120,472</u></u>	<u><u>\$158,181</u></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 food and used household items, furniture and 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 “Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others.”

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 “Accounting for Contributions Received and Contributions Made” 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>Unpaid Volunteers for Programs:</u>	<u>2009</u>	<u>2008</u>
• Retired Senior Volunteer Program	\$3,845,941	\$3,875,115
• Mountain States Early Head Start	\$ 345,966	\$ 355,286
• Agency for New Americans	\$ 29,102	\$ 33,459
• English Language Center	\$ 16,889	\$ 15,803
• RAPP / Global Gardens	\$ 2,531	\$ 10,797

Note 4. MORTGAGE PAYABLE

On May 1, 2009, MSG refinanced its mortgage secured by a deed of trust on the property located at 1607 W. Jefferson Street, Boise, Idaho. The mortgage is initially amortized over 180 months. Principal and interest is payable in monthly installments of \$3,960, due by the 10th of each month. Interest on the unpaid balance is compounded at 5.03 percent. On May 10, 2012, and on May 10th every three years thereafter, the interest rate will be adjusted by 2.05% plus the bank’s borrowing rate and other market adjustments. The periodic payments of principal and interest shall also be adjusted to fully amortize the remaining principal balance at the new applicable interest rate over the remaining amortization period. Payment in full is due on the maturity date of May 10, 2019. Maturities are as follows:

2010	\$22,772
2011	23,961
2012	25,151
2013	26,525
2014	27,910
Thereafter	<u>369,146</u>
Total	<u>\$495,465</u>

MSG incurred a loan fee of \$4,003 to secure this mortgage. This fee was expensed as incurred. MSG’s previous loan fees of \$15,055 were being amortized over the life of that



loan. MSG incurred a loss of \$6,631 due to the mortgage refinance and write-off of the prepaid loan fees when the previous loan was paid in full on May 1, 2009.

Note 5. LINE OF CREDIT

On February 15, 2009, MSG renewed an unsecured \$500,000 revolving line of credit with US Bank. The facility bears interest at an annual rate of 0.25% plus prime, but no less than 4%. At June 30, 2009, prime plus 0.25% was 3.50%. The facility requires a current ratio of 1:1. Interest is payable monthly, with the final interest payment due and payable on February 15, 2010. The line of credit balance is zero at both June 30, 2009 and 2008.

Note 6. LEASING ARRANGEMENTS

Capital Leases:

On May 1, 2008 MSG replaced three 60-month capital lease agreements for equipment located in the Boise office with operating leases, incurring a one time loss on disposal of \$323. At June 30, 2009, there are no future lease payments due under capital lease.

Operating Leases:

MSG leases, under operating leases, buildings and office equipment located in Boise, Coeur d'Alene, Sandpoint and Weiser, Idaho. The building lease terms for MSEHS centers, are \$1 per year for twenty-five years ending February 10, 2023 for Coeur d'Alene and \$4,313 per month for twenty years ending August 17, 2018 for Sandpoint. The Coeur d'Alene lease automatically renews for another twenty-five years as long as MSG receives MSEHS funding. The Sandpoint lease payment was adjusted January 2008 and at five year intervals thereafter. The maximum amount of adjustment is equal to the percentage change in the Consumer Price Index. The operating lease in Weiser extends through March 31, 2010 for \$750 per month for the Idaho Partnership for Hispanic Health Project.

Equipment under operating leases includes five copy machines and a postage meter. Minimum lease payments under operating leases for buildings and equipment are as follows:

<u>Year ending June 30,</u>	<u>Operating Lease:</u>
2010	\$77,543
2011	68,130
2012	68,130
2013	65,401
2014	51,758
Thereafter	<u>215,662</u>
Total minimum lease payments	<u>\$546,624</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, 2009 and 2008 was \$250,577 and \$219,831, respectively.



Note 7. PENSION PLAN

MSG’s defined contribution 403(b) plan covers substantially all employees after one year of employment. Employer contributions to the plan during the year ending June 30, 2009 and 2008 were \$237,016 and \$233,081, respectively. MSG matches employee contributions two-to-one up to 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 revenue from certain agencies, including direct and pass-through grants and contracts and fee-for-services, for the years ending June 30, as follows:

<u>Source:</u>	<u>2009</u> (in millions)	<u>2008</u> (in millions)
U.S. Department of Health & Human Services	\$7.49	\$6.62
U.S. Department of Agriculture	\$1.66	\$1.56
Idaho Department of Health & Welfare – Medicaid Services	\$1.15	\$1.33

Note 9. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157 “Fair Value Measurements” in order to establish a single definition of fair value and a framework for measuring fair value in generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements. SFAS No. 157 also expands disclosures about fair value measurements. SFAS No. 157 applies whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. SFAS No. 157 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years with early adoption permitted.

In early 2008, the FASB issued Staff Position (FSP) FAS-157-2, “Effective Date of FASB Statement No. 157,” which delays by one year, the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The delay pertains to items including, but not limited to, non-financial assets and non-financial liabilities initially measured at fair value in a business combination, non-financial assets (such as real estate or donations in kind) recorded at fair value at the time of donation, and long-lived assets measured at fair value for impairment assessment under SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”.

The Organization has adopted the portion of SFAS No. 157 that has not been delayed by FSP FAS-157-2 as of the beginning of its 2009 fiscal year, and plans to adopt the balance of its



provisions as of the beginning of its 2010 fiscal year. Items carried at fair value on a non-recurring basis (to which SFAS No. 157 will apply in 2010) generally consist of donations in kind. The Organization also uses fair value concepts to test various long-lived assets for impairment. The Organization is continuing to evaluate the impact the standard will have on the determination of fair value related to non-financial assets and non-financial liabilities in post-2009 years.

Note 10. 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, 2009



Federal Grantor / Pass-Through Grantor / Program Title	Federal CFDA Number	Grant/Award or Pass Through Agency Number	Federal Expenditures
<u>U.S. Department of Health and Human Services:</u>			
Direct Programs:			
Wilson Fish Demonstration Cooperative Agreement	93.583	90RW0022/03, 04	\$ 2,018,475
Delta States Rural Hospital Performance Improvement	N/A	HSH250200736006C	1,396,810
Mountain States Early Head Start	93.600	10CH0178/01	1,368,755
Wilson Fish Demonstration Cooperative Agreement	93.566	G-07WFID0120 and G-08	687,065
National Center on Minority Health and Health Disparities, Community-Based Participatory Research	93.307	5-R24 MD001711/04, 05	551,891
Refugee Targeted Assistance	93.584	G-07A1IDRRTA and G-08	263,178
Refugee Microenterprise Development	93.576	90RG0062/03, 04	188,045
Individual Development Account Program	93.576	90ZI0068/01, 02	152,780
Refugee School Impact	93.576	90ZE0092/03 and /04	146,034
Services to Older Refugees	93.576	90RL0137/01 and 02	141,053
Refugee Targeted Assistance - Discretionary	93.576	90RT0123/02 and /03	139,802
Refugee Agricultural Partnership Program	23.013	90ZR0004/01, 02	121,026
Healthy Tomorrows for Children	93.110	H17MC06710/03, 04	54,466
Pass Through Programs Through:			
Episcopal Migration Ministries (EMM) - Match Grant	93.567	90RV0053/01and /02	91,189
University of Washington - Idaho Area Health Education Center	93.824	448595 & 575344	65,859
Idaho Head Start Association - TANF	93.558	10-20087	65,237
Idaho State University-Bioterrorism Training / Curriculum	93.996	05-316A	16,185
EMM - Medical Case Management	93.576	90RE0082/03	15,596
IRC - Preferred Communities	93.576	90RE0081/03	6,000
EMM - Emergency Medical Assistance	93.576	90ZC0022	3,490
Total Department of Health and Human Services			<u>7,492,936</u>
<u>U.S. Department of Agriculture:</u>			
Pass Through Programs Through:			
Idaho State Dept of Education - Child & Adult Care Food Program	10.558	4864	<u>1,662,261</u>
<u>Corporation for National Service:</u>			
Direct Programs:			
Foster Grandparents	94.011	06SFPID002 & 09SFPID002	298,403
Retired Senior Volunteer Program	94.002	06SRPID002 & 09SRPID003	146,005
Total Corporation for National Service			<u>444,408</u>
<u>Department of State:</u>			
Pass Through Programs Through:			
EMM - Cooperative Agreement	19.510	SPRMCO 08 CA003, PRMCO 09 CA005	<u>262,020</u>
Total Federal Assistance			<u>\$ 9,861,625</u>



**Notes to the Schedule of Expenditures of Federal Awards
June 30, 2009**

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, 2009.

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, 2009:

CFDA Number:

93.307

- Idaho Partnership for Hispanic Health

93.576

- Refugee Microenterprise Development (META)
- Discretionary Refugee Targeted Assistance
- Refugee School Impact
- Refugee Individual Development Account Program
- Services to Older Refugees
- Episcopal Migration Ministries – Medical Case Management
- Episcopal Migration Ministries – Emergency Medical Assistance
- International Rescue Committee – Preferred Communities

N/A

- Rural Hospital Performance Improvement Project (RHPI)



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. (a nonprofit organization) and Subsidiary as of and for the years ended June 30, 2009 and 2008, and have issued our report thereon dated October 14, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mountain States Group, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's consolidated financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the consolidated financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 consolidated 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*.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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
October 14, 2009



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON 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. (a nonprofit organization) and Subsidiary 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, 2009. Mountain States Group, Inc.'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, Inc.'s management. Our responsibility is to express an opinion on Mountain States Group, Inc.'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, Inc.'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 of Mountain States Group, Inc.'s compliance with those requirements.

In our opinion, Mountain States Group, Inc. 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, 2009.

Internal Control Over Compliance

The management of Mountain States Group, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Mountain States Group, Inc.'s internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mountain States Group, Inc.'s internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the organization's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, 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.

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

Boise, Idaho
October 14, 2009

MOUNTAIN STATES GROUP, INC. AND SUBSIDIARY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year ended June 30, 2009

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued Unqualified

Internal control over financial reporting:

Material weakness identified No
 Significant deficiencies None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:

Material weaknesses identified No
 Significant deficiencies 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:

CFDA number

Name of Federal Program

93.307	Idaho Partnership for Hispanic Health
93.576	Refugee Assistance Programs
N/A	Rural Hospital Performance Improvement Project

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