

**BLUE RIDGE LEGAL SERVICES, INC.**

**Financial Statements  
and  
Accompanying Information  
for the years ended  
December 31, 2004 and 2003**

# BLUE RIDGE LEGAL SERVICES, INC.

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*Barcalow & Hart, P.L.L.C.*  
*Certified Public Accountants*

**Report of Independent Certified Public Accountants**

The Board of Directors  
Blue Ridge Legal Services, Inc.  
Harrisonburg, Virginia

We have audited the accompanying statements of financial position of Blue Ridge Legal Services, Inc. as of December 31, 2004 and 2003, and the related statements of activities and cash flows for the year ended December 31, 2004. These financial statements are the responsibility of Blue Ridge Legal Services, Inc. Our responsibility is to express an opinion on these financial statements based on our audits. The prior-year summarized comparative information has been derived from the Organization's 2003 financial statements and in our report dated March 4, 2004, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with generally accepted auditing standards of the United States, 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge Legal Services, Inc. as of December 31, 2004 and 2003, and the changes in its net assets, and its cash flows for the year ended December 31, 2004 in conformity with generally accepted accounting principles of the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 7, 2005 on our consideration of Blue Ridge Legal Services, Inc.'s internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The accompanying information shown in the statement of activities for the year ended December 31, 2003 Total column and the schedule of expenditures of federal awards; as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and Schedule of support, revenue and expenses for the year ended December 31, 2004 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information was subjected to the auditing procedures applied in the audit of the basic financial statements for 2004 and 2003 and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barcalow & Hart, P.L.L.C.  
Richmond, Virginia  
April 7, 2005

# BLUE RIDGE LEGAL SERVICES, INC.

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## Statements of Financial Position

December 31, 2004 and 2003

### Assets

	<u>2004</u>	<u>2003</u>
<b>Current assets</b>		
Cash	\$ 107 167	\$ 69 031
Cash in escrow, client deposits	3 806	4 031
Contributions receivable	711 128	686 019
Support receivable	5 844	3 337
Prepaid expenses	<u>4 877</u>	<u>18 627</u>
<b>Total current assets</b>	<u>832 822</u>	<u>781 045</u>
<b>Property and equipment</b>		
Land	6 724	6 724
Building and improvements	105 224	99 524
Furniture, fixtures and equipment	324 662	306 704
Law library	<u>18 695</u>	<u>18 695</u>
	455 305	431 647
Less accumulated depreciation	<u>376 169</u>	<u>351 672</u>
<b>Total property and equipment</b>	<u>79 136</u>	<u>79 975</u>
<b>Total assets</b>	<u>\$ 911 958</u>	<u>\$ 861 020</u>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 6 396	\$ 4 389
Accrued annual leave	38 100	35 226
Client deposits	<u>3 806</u>	<u>4 031</u>
<b>Total current liabilities</b>	<u>48 302</u>	<u>43 646</u>
<b>Commitments</b>		
<b>Net assets</b>		
Unrestricted	138 899	113 078
Temporarily restricted	<u>724 757</u>	<u>704 296</u>
<b>Total net assets</b>	<u>863 656</u>	<u>817 374</u>
<b>Total liabilities and net assets</b>	<u>\$ 911 958</u>	<u>\$ 861 020</u>

See notes to financial statements.

**BLUE RIDGE LEGAL SERVICES, INC.**

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**Statement of Activities****For the Year Ended December 31, 2004****(With Summarized Financial Information for the Year Ended December 31, 2003)**

	2004			2003
	Unrestricted	Temporarily Restricted	Total	Total
<b>Support and revenue</b>				
Federal grants	\$ 99 151	\$ 646 951	\$ 746 102	\$ 678 472
State grants	363 084	-	363 084	358 376
Other support	131 036	75 877	206 913	136 218
Interest	1 754	-	1 754	1 907
Donated services	443 771	-	443 771	641 853
Contributions	1 149	-	1 149	14 648
	1 039 945	722 828	1 762 773	1 831 474
Net assets released from restrictions				
Expiration of time or purpose restrictions	702 367	( 702 367)	-	-
<b>Total support and revenue</b>	1 742 312	20 461	1 762 773	1 831 474
<b>Expenses</b>				
Program services				
Legal assistance	1 551 187	-	1 551 187	1 643 531
Supporting services				
Management and general	150 960	-	150 960	190 888
Fundraising expenses	14 344	-	14 344	-
<b>Total expenses</b>	1 716 491	-	1 716 491	1 834 419
<b>Change in net assets</b>	25 821	20 461	46 282	( 2 945)
<b>Net assets at beginning of year</b>	113 078	704 296	817 374	820 319
<b>Net assets at end of year</b>	\$ 138 899	\$ 724 757	\$ 863 656	\$ 817 374

See notes to financial statements.

# BLUE RIDGE LEGAL SERVICES, INC.

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## Statement of Cash Flows

For the Year Ended December 31, 2004

### Cash flows from operating activities

Change in net assets	\$	46 282
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used by) operating activities		
Depreciation		24 497
(Increase) decrease in contributions receivable	(	25 109)
(Increase) decrease in other receivables	(	2 507)
(Increase) decrease in prepaid expenses		13 750
Increase (decrease) in accounts payable		2 007
Increase (decrease) in accrued vacation		<u>2 874</u>

**Net cash provided by (used in) operations** 61 794

### Cash flows used in investing activities

Additions to property and equipment ( 23 658)

**Net cash used by investing activities** ( 23 658)

**Net increase (decrease) in cash and cash equivalents** 38 136

**Cash and cash equivalents, beginning of year** 69 031

**Cash and cash equivalents, end of year** \$ 107 167

See notes to financial statements.

**Notes to Financial Statements  
December 31, 2004****Note 1 - Summary of significant accounting policies***Nature of activities*

Blue Ridge Legal Services, Inc. is a non-profit corporation organized for the purpose of providing legal assistance in noncriminal proceedings or matters to persons financially unable to afford legal assistance in the western Virginia areas. The corporation is funded primarily by grants from the Legal Services Corporation (LSC), a non-profit organization established by Congress to administer a nationwide legal assistance program, Legal Services Corporation of Virginia, a non-profit organization at the state level, contributions from the local government units within the Corporation's service area, and from various other grants and contributions.

*Promises to give*

Contributions are recognized when the donor makes a promise to give to the Corporation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine uncollectible unconditional contributions receivable. Historically, there have not been significant differences between the amounts allocated and collected, accordingly, no provision has been made for uncollectible amounts.

*Basis of presentation*

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Under generally accepted accounting principles of the United States, the Corporation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. At the present time, the Corporation does not have any permanently restricted net assets.

*Estimates*

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

(continued)

**Notes to Financial Statements  
December 31, 2004**

**Note 1 - Summary of significant accounting policies (continued)**

*Cash equivalents*

For purposes of the statement of cash flows, the Corporation considers highly liquid debt instruments purchased with an original maturity date of three months or less to be cash equivalents.

*Grant and contract support*

The Corporation recognizes grants from LSC as support on a straight-line basis over the grant period. Any grant remaining unexpended at the end of an accounting period is recorded in the LSC net assets balance. In accordance with normal LSC policies, the Corporation may use unspent funds in future periods as long as expenses incurred are in compliance with specified terms of the LSC grant, as defined. LSC may, at its discretion, request reimbursement for expenses or return of grants, or both, as a result of noncompliance by the Corporation with the terms of the grant. In addition, if the Corporation terminates its LSC grant activities, all unexpended amounts are to be returned to LSC.

The Corporation receives greater than 10% of its grant revenue from each of the following grantors:

Legal Services Corporation	51 %
Legal Services Corporation of Virginia	28 %

Grants are restricted by virtually all funding sources as to geographic region in which they may be spent. In addition, certain funding sources also restrict the purpose for which their grant may be used.

*Donated services*

The Corporation recognizes donated services as support. Donated services represent the involvement of attorneys and paralegals in the delivery of free legal assistance to eligible clients in conjunction with the Private Attorney Involvement program. A matching expense is also recorded. The value of the donated services is recorded at approximate market value. Other in-kind contributions are recorded when received at fair value as income and expense.

*Property and equipment*

Property, plant and equipment are stated at cost, if purchased, and at fair value at date of receipt, if donated. Expenditures of \$1,000 or more for acquisition, renewals and betterments are capitalized, whereas maintenance and repair costs are charged to expense as incurred. When properties are retired or otherwise disposed of, the appropriate accounts are relieved of costs and accumulated depreciation and any resultant gain or loss is credited or charged to operations. The Legal Services Corporation has a reversionary interest in assets purchased with contract funds; therefore, proceeds from sales of property and equipment may be transferred to Legal Services Corporation net assets to be used for general program purposes.

(continued)

**Notes to Financial Statements  
December 31, 2004****Note 1 - Summary of significant accounting policies (concluded)***Property and equipment (continued)*

Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the related assets. Useful lives range from 25 years for buildings, 5 to 10 years for furniture, fixtures and equipment, 5 to 25 years for leasehold improvements.

The Corporation capitalized the original cost of the books, reference materials, and multiple volume sets of law books which make up the law library. All updates are expensed as incurred. The Corporation estimates the salvage value of its law library at \$5,000 with a useful life of 12 years.

*Allocation of expenses*

The costs of providing programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Notes on Functional Expenses. Accordingly, certain costs have been allocated between the program and supporting services benefitted.

*Advertising*

The Corporation expenses advertising costs as incurred, which amounted to \$6,509 for the current year.

*Income taxes*

The Corporation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The corporation is also exempt from Virginia income taxes and, therefore, has made no provision for the federal or Virginia income taxes. In addition, the Internal Revenue Service has determined that the corporation is not a "private foundation" within the meaning of Section 509(a) of the Code.

**Note 2 - Property and equipment accumulated depreciation**

A summary of property and equipment accumulated depreciation follows:

	<u>2004</u>	<u>2003</u>
Building and improvements	\$ 95 086	\$ 90 402
Furniture, fixtures, library and equipment	<u>281 083</u>	<u>261 270</u>
	<u>\$ 376 169</u>	<u>\$ 351 672</u>

Depreciation expense aggregated \$24,497 in the current year.

**Note 3 - Pension plan**

The Corporation established in 1997 a defined contribution pension plan covering substantially all employees which qualifies under Section 403(b) of the Internal Revenue Code, in which employees may elect to have amounts withheld from their salaries and invested in tax deferred annuities. The Corporation contributed \$30,241 to the plan in 2004. The Corporation shall determine, in its sole discretion, the amount of employer contribution to be made to the plan.

# BLUE RIDGE LEGAL SERVICES, INC.

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## Notes to Financial Statements December 31, 2004

### Note 4 - Private Attorney Involvement (PAI)

The Corporation devoted over twelve and one-half percent (12.5%) of its current LSC annualized basic field grant toward the involvement of private attorneys in providing legal services.

Below is a summary of PAI support and expenses for the year ended December 31, 2004:

LSC basic field grant		\$ 650 572
LSC-PAI requirement		<u>12.5%</u>
Total LSC support for PAI		81 322
Total PAI expenses	569 105	
Less donated services	<u>424 480</u>	
Total net expenditures for PAI		<u>144 625</u>
Meets PAI requirement		\$ <u>(63 303)</u>

### Note 5 - Concentration of funding

Blue Ridge Legal Services, Inc. is funded primarily through grants from Legal Services Corporation and Legal Services Corporation of Virginia. The following information summarizes the Corporation's grant and contract activity during the current year:

<u>Description</u>	<u>Support</u>
Legal Services Corporation basic field grant	\$ 650 572
Legal Services Corporation - website grant	10 348
United Way Agencies	
Harrisonburg and Rockingham	32 568
Greater Augusta	27 375
Northern Shenandoah Valley	26 326
Front Royal and Warren	4 968
Page	2 500
Lexington and Rockbridge	6 000
Roanoke	2 579
Other designations	42
Franklin	4 763
Greater Alleghany	1 000
Less: support received without time restrictions	<u>( 66 674)</u>
Total support released from time restrictions	<u>\$ 702 367</u>

**Notes to Financial Statements  
December 31, 2004**

**Note 5 - Concentration of funding (concluded)**

<u>Description</u>	<u>Support</u>
Legal Service Corporation of Virginia (LSCV)	
State	\$ 263 428
IOLTA	<u>99 656</u>
Total LSCV support	\$ <u>363 084</u>
<b>Federal awards</b>	
Valley Program (Title III-Older Americans Act)	\$ 13 213
Shenandoah Area (Title III-Older Americans Act)	5 938
Legal Services TIG Grant	80 000
Legal Services Corporation (temporarily restricted)	<u>660 920</u>
Total federal support	\$ <u>760 071</u>
<b>Other grants and contributions</b>	
City of Staunton	\$ 2 534
City of Harrisonburg	5 277
Clarke County	1 021
City of Waynesboro	2 459
Augusta County	1 100
Rockingham County	5 415
City of Roanoke	6 000
Warren County	2 000
City of Lexington	995
Shenandoah County	3 000
Other income	28 561
United Way agencies	<u>72 674</u>
Unrestricted support from other grants and contributions	131 036
United Way Agencies (temporarily restricted)	<u>75 877</u>
Total support from other grants and contributions	\$ <u>206 913</u>

**Note 6 - Temporarily restricted net assets**

Temporarily restricted net assets from the United Way in the amount of \$64,177, other contributions \$11,700 and Legal Services Corporation in the amount of \$648,880 are available for the period after December 31, 2004.

Net assets were released from donor restrictions by satisfying the time restrictions specified by the United Way in the amount of \$35,447, from other grants \$6,000, and from Legal Services Corporation in the amount of \$660,920.

**Notes to Financial Statements  
December 31, 2004****Note 7 - Concentration of credit risk**

Financial instruments which potentially subject the Corporation to concentration of credit risk consist principally of cash and unsecured receivables. Cash accounts are maintained in several financial institutions in Central Virginia. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. There were no uninsured amounts at December 31, 2004 and 2003. Management believes there is no significant credit risk for receivables because of close monitoring.

**Note 8 - Comparative amounts**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended December 31, 2003, from which the summarized information was derived.

**Note 9 - United Way funding**

United Way funding released from time restrictions and amounts from other grants and contributions for the current year are as follows:

Harrisonburg and Rockingham	\$	32 568
Northern Shenandoah Valley		26 326
Lexington and Rockbridge		6 000
Page		2 500
Roanoke		2 579
Franklin		4 763
Greater Alleghany		1 000
Greater Augusta		27 375
Other designations		42
Front Royal and Warren		<u>4 968</u>
	\$	<u>108 121</u>

**Notes to Financial Statements  
December 31, 2004**

**Note 10 - Commitments**

The Corporation leases its Winchester office space under a quarterly operating lease at \$790 per month.

The Staunton office is rented at \$214 per month on a month-to-month basis.

The Roanoke office signed a five-year lease in 2004 for office space with a payment of \$1,268 per month. There is a clause in the Roanoke lease if funding is cut by 40% or more the corporation may give three months notice and be released from the remainder of the lease contract.

The Lexington office operates under a two year lease ending June 30, 2006 with minimum monthly lease payment of \$1,412. There is a clause in the Lexington lease if funding is cut by 30% from the law clinic or 20% overall revenue reduction, the lease may be modified.

Total future minimum monthly lease payments are as follows:

2005	\$	32 214
2006		23 974
2007		15 747
2008		16 002
2009		<u>12 150</u>
	\$	<u><u>100 087</u></u>

Rental expense under these leases totaled \$46,220 in the current year.

**Notes to Financial Statements  
December 31, 2004**

**Note 11 - Functional expenses, year ended December 31, 2004**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expenses</u>	<u>Total Expenses</u>
Lawyer wages	\$ 397,254	\$ 55,360	\$ 9,309	\$ 461,923
Paralegal wages	30,318	4,935	-	35,253
Non-legal wages	225,080	35,023	1,618	261,721
Donated services and equipment	427,371	-	-	427,371
Employee benefits	182,131	26,589	3,060	211,780
Travel	17,480	2,846	-	20,325
Rent	39,749	6,471	-	46,220
Utilities and telephone	36,489	5,940	-	42,429
Office supplies, postage and printing	20,364	2,958	357	23,679
Advertising	5,598	911	-	6,509
Insurance	8,056	1,311	-	9,367
Professional dues	6,457	1,051	-	7,508
Repairs and maintenance	14,745	2,400	-	17,145
Litigation expense	1,052	-	-	1,052
Equipment rental	1,623	264	-	1,887
Training and conferences	989	161	-	1,150
Independent contracts	6,244	1,017	-	7,261
Library materials	16,978	-	-	16,978
Miscellaneous	1,796	292	-	2,088
Website	90,348	-	-	90,348
Depreciation	21,067	3,430	-	24,497
	<u>\$ 1,551,187</u>	<u>\$ 150,960</u>	<u>\$ 14,344</u>	<u>\$ 1,716,491</u>

## **Accompanying Information**

**BLUE RIDGE LEGAL SERVICES, INC.**

**Statement of Support, Revenue, and Expenses**

**Year Ended December 31, 2004**

**(With Summarized Financial Information for the Year Ended December 31, 2003)**

	<b>2004</b>											
	<b>Unrestricted</b>											
	Legal Services Corporation		Legal Services Corporation of Virginia		United Way		Property and Equipment		Total Unrestricted		Temporarily Restricted	2004 Total
	Basic	PAI										
<b>Support and revenue</b>												
Grants and contracts	\$ 80,000	\$ -	\$ 363,084	\$ 72,674	\$ 59,702	\$ -	\$ -	\$ 575,460	\$ 711,128	\$ 1,286,588	\$ 1,152,666	
Interest	1,754	-	-	-	-	-	-	1,754	-	1,754	1,907	
Donated services and equipment	-	424,480	-	-	-	-	19,291	443,771	-	443,771	641,853	
Contributions	-	-	-	-	1,149	-	-	1,149	11,700	12,849	14,648	
Other income	-	-	-	-	17,811	-	-	17,811	-	17,811	20,400	
Net assets released from restrictions												
Expiration of time or purpose restrictions	579,598	81,322	-	35,447	6,000	-	-	702,367	(702,367)	-	-	
<b>Total support and revenue</b>	<b>661,352</b>	<b>505,802</b>	<b>363,084</b>	<b>108,121</b>	<b>84,662</b>	<b>19,291</b>	<b>1,742,312</b>	<b>20,461</b>	<b>1,762,773</b>	<b>1,831,474</b>		
<b>Expenses</b>												
Lawyer wages	237,831	6,988	139,768	47,033	30,303	-	-	461,923	-	461,923	471,837	
Paralegal wages	18,684	-	10,667	3,651	2,251	-	-	35,253	-	35,253	33,951	
Non-legal wages	55,746	82,966	79,180	30,851	12,978	-	-	261,721	-	261,721	263,969	
Donated services and equipment	-	424,480	-	-	2,891	-	-	427,371	-	427,371	626,418	
Employee benefits	83,146	29,097	64,106	17,851	17,580	-	-	211,780	-	211,780	219,300	
Travel	8,810	2,232	5,861	1,800	1,622	-	-	20,325	-	20,325	23,973	
Rent	20,689	3,808	18,769	1,951	1,003	-	-	46,220	-	46,220	45,063	
Utilities and telephone	18,772	3,180	10,000	1,851	8,626	-	-	42,429	-	42,429	34,016	
Office supplies, postage and printing	16,081	2,620	4,055	521	402	-	-	23,679	-	23,679	26,559	
Advertising	1,625	300	3,415	307	862	-	-	6,509	-	6,509	6,088	
Insurance	1,421	3,544	2,896	585	921	-	-	9,367	-	9,367	8,657	
Professional dues	-	-	6,909	251	348	-	-	7,508	-	7,508	8,618	
Repairs and maintenance	6,755	3,140	6,821	181	248	-	-	17,145	-	17,145	16,356	
Litigation expense	2	556	317	33	144	-	-	1,052	-	1,052	1,010	
Equipment rental	780	220	813	41	33	-	-	1,887	-	1,887	1,793	
Training and conferences	290	50	585	141	84	-	-	1,150	-	1,150	1,614	
Independent contracts	192	2,564	1,608	121	2,776	-	-	7,261	-	7,261	7,413	
Library materials	8,454	544	5,119	952	1,909	-	-	16,978	-	16,978	16,265	
Miscellaneous	-	2,086	-	-	2	-	-	2,088	-	2,088	2,056	
Website	85,354	730	-	-	4,264	-	-	90,348	-	90,348	791	
Depreciation	-	-	-	-	-	24,497	-	24,497	-	24,497	18,672	
<b>Total expenses</b>	<b>564,632</b>	<b>569,105</b>	<b>360,889</b>	<b>108,121</b>	<b>89,247</b>	<b>24,497</b>	<b>1,716,491</b>	<b>-</b>	<b>1,716,491</b>	<b>1,834,419</b>		
<b>Change in net assets</b>	<b>96,720</b>	<b>(63,303)</b>	<b>2,195</b>	<b>-</b>	<b>(4,585)</b>	<b>(5,206)</b>	<b>25,821</b>	<b>20,461</b>	<b>46,282</b>	<b>(2,945)</b>		
<b>Net assets at beginning of year</b>	<b>1,811</b>	<b>-</b>	<b>10,143</b>	<b>-</b>	<b>21,148</b>	<b>79,976</b>	<b>113,078</b>	<b>704,296</b>	<b>817,374</b>	<b>820,319</b>		
Add (deduct) acquisition of property	(3,846)	-	(521)	-	-	4,367	-	-	-	-		
Transfers	(63,303)	63,303	-	-	-	-	-	-	-	-		
<b>Net assets at end of year</b>	<b>\$ 31,382</b>	<b>\$ -</b>	<b>\$ 11,817</b>	<b>\$ -</b>	<b>\$ 16,563</b>	<b>\$ 79,137</b>	<b>\$ 138,899</b>	<b>\$ 724,757</b>	<b>\$ 863,656</b>	<b>\$ 817,374</b>		

**BLUE RIDGE LEGAL SERVICES, INC.**

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**Schedule of Expenditures of Federal Awards****For the Year Ended December 31, 2004**

<u>Federal Grantor/Pass-Through Grantor/ Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
Legal Services Corporation Basic field grant	*	\$ 713 103
U.S. Department of Health and Human Pass-through from Department on Aging Title III	93.282	<u>19 151</u>
Total Expenditures of Federal Awards		\$ <u><u>732 254</u></u>

\* Sponsoring agency was not able to provide federal catalog number

The accompanying notes are an integral part of this schedule

**Notes to the Schedule of Expenditures of Federal Awards  
December 31, 2004**

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Blue Ridge Legal Services, Inc. and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations"* and Legal Services Corporation Audit Guide and Compliance Supplements. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**Report of Independent Certified Public Accountants on  
Compliance and on the Internal Control Over the Financial Reporting  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

Board of Directors  
Blue Ridge Legal Services, Inc.  
Harrisonburg, Virginia

We have audited the financial statements of Blue Ridge Legal Services, Inc. as of and for the year ended December 31, 2004, and have issued our report thereon dated April 7, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Blue Ridge Legal Services, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Blue Ridge Legal Services, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 over financial reporting 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 misstatements 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.

This report is intended for the information of the Board of Directors, management, others within the organization and Legal Services Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Barcalow & Hart, P.L.L.C.  
Richmond, Virginia  
April 7, 2005

**Report of Independent Certified Public Accountants on  
Compliance with Requirements Applicable to Each  
Major Program and Internal Control Over Compliance  
in Accordance with OMB Circular A-133**

Board of Directors  
Blue Ridge Legal Services, Inc.  
Harrisonburg, Virginia

Compliance

We have audited the compliance of Blue Ridge Legal Services, Inc. with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and the Legal Services Corporation Audit Guide and Compliance Supplements* that are applicable to each of its major federal programs for the year ended December 31, 2004. Blue Ridge Legal Services, 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 Blue Ridge Legal Services, Inc.'s management. Our responsibility is to express an opinion on Blue Ridge Legal Services, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards in the United States; 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 and the Legal Services Corporation Audit Guide and Compliance Supplements*. Those standards, OMB Circular A-133 and Legal Services Corporation 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 Blue Ridge Legal Services, 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 on Blue Ridge Legal Services, Inc.'s compliance with those requirements.

In our opinion, Blue Ridge Legal Services, 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 December 31, 2004.

Internal Control Over Compliance

The management of Blue Ridge Legal Services, Inc. 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 Blue Ridge Legal Services, Inc.'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 and Legal Services Corporation.

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 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 for the information of the Board of Directors, management, others within the organization and Legal Services Corporation and is not intended to be and should not be used by anyone other than these specified parties.

Barcalow & Hart, P.L.L.C.  
Richmond, Virginia  
April 7, 2005

**Schedule of Findings and Questioned Costs**

**For the Year Ended December 31, 2004**

**A. Summary of audit results**

1. The auditor's report expresses an unqualified opinion on the financial statements of Blue Ridge Legal Services, Inc.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of Blue Ridge Legal Services, Inc. were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133 and Legal Services Corporation Audit Guide and Compliance Supplements.
5. The auditor's report on compliance for the major federal award programs for the Blue Ridge Legal Services, Inc. expresses an unqualified opinion.
6. No audit findings reported that were required to be disclosed in accordance with section 510(a) of Circular A-133.
7. The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA#</u>
Legal Services Corporation Basic Field Grant recipient # 447081	N/A

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Blue Ridge Legal Services, Inc. was not determined to be a low risk auditee.

**B. Findings - financial statement audit**

None

**C. Findings and questioned costs - major federal awards programs audit**

None