

BLUE RIDGE LEGAL SERVICES, INC.

**Financial Statements
and
Accompanying Information
for the years ended
December 31, 2005 and 2004**

BLUE RIDGE LEGAL SERVICES, INC.

Contents

	Page
Report of Independent Certified Public Accountants	1
Statements of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Notes to Financial Statements	5-12
Accompanying Information	
Schedule of Support, Revenue and Expenses	13
Schedule of Expenditures of Federal Awards	14
Notes to the Schedule of Expenditures of Federal Awards	15
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 <u>Government Auditing Standards</u>	16
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	17-18
Schedule of Findings and Questioned Costs	19

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, 2005 and 2004, and the related statements of activities and cash flows for the year ended December 31, 2005. 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 2004 financial statements and in our report dated April 7, 2005, 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, 2005 and 2004, and the changes in its net assets, and its cash flows for the year ended December 31, 2005 in conformity with generally accepted accounting principles of the United States.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 22, 2006 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, 2004 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, 2005 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 2005 and 2004 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
March 22, 2006

BLUE RIDGE LEGAL SERVICES, INC.

-2-

Statements of Financial Position

December 31, 2005 and 2004

Assets

	<u>2005</u>	<u>2004</u>
Current assets		
Cash	\$ 204 744	\$ 107 167
Cash in escrow, client deposits	36 989	3 806
Contributions receivable	704 001	711 128
Support receivable	7 533	5 844
Prepaid expenses	<u>5 327</u>	<u>4 877</u>
Total current assets	<u>958 594</u>	<u>832 822</u>
Property and equipment		
Land	6 724	6 724
Building and improvements	107 215	105 224
Furniture, fixtures and equipment	373 580	324 662
Law library	<u>18 695</u>	<u>18 695</u>
	506 214	455 305
Less accumulated depreciation	<u>398 615</u>	<u>376 169</u>
Total property and equipment	<u>107 599</u>	<u>79 136</u>
Total assets	<u>\$ 1 066 193</u>	<u>\$ 911 958</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 11 113	\$ 6 396
Accrued annual leave	41 308	38 100
Deferred revenue	15 000	-
Client deposits	<u>36 989</u>	<u>3 806</u>
Total current liabilities	<u>104 410</u>	<u>48 302</u>
Commitments		
Net assets		
Unrestricted	221 931	138 899
Temporarily restricted	<u>739 852</u>	<u>724 757</u>
Total net assets	<u>961 783</u>	<u>863 656</u>
Total liabilities and net assets	<u>\$ 1 066 193</u>	<u>\$ 911 958</u>

See notes to financial statements.

BLUE RIDGE LEGAL SERVICES, INC.

-3-

Statement of Activities

For the Year Ended December 31, 2005

(With Summarized Financial Information for the Year Ended December 31, 2004)

	2005			2004
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Federal grants	\$ 28 597	\$ 718 327	\$ 746 924	\$ 746 102
State grants	362 618	-	362 618	363 084
Other support	170 984	21 525	192 509	206 913
Interest	3 318	-	3 318	1 754
Donated services	411 491	-	411 491	443 771
Contributions	9 722	-	9 722	1 149
	<u>986 730</u>	<u>739 852</u>	<u>1 726 582</u>	<u>1 762 773</u>
Net assets released from restrictions				
Expiration of time or purpose restrictions	<u>724 757</u>	<u>(724 757)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1 711 487</u>	<u>15 095</u>	<u>1 726 582</u>	<u>1 762 773</u>
Expenses				
Program services				
Legal assistance	1 463 253	-	1 463 253	1 551 187
Supporting services				
Management and general	150 858	-	150 858	150 960
Fundraising expenses	<u>14 344</u>	<u>-</u>	<u>14 344</u>	<u>14 344</u>
Total expenses	<u>1 628 455</u>	<u>-</u>	<u>1 628 455</u>	<u>1 716 491</u>
Change in net assets	83 032	15 095	98 127	46 282
Net assets at beginning of year	<u>138 899</u>	<u>724 757</u>	<u>863 656</u>	<u>817 374</u>
Net assets at end of year	<u>\$ 221 931</u>	<u>\$ 739 852</u>	<u>\$ 961 783</u>	<u>\$ 863 656</u>

See notes to financial statements.

BLUE RIDGE LEGAL SERVICES, INC.

-4-

Statement of Cash Flows

For the Year Ended December 31, 2005

Cash flows from operating activities

Change in net assets	\$ 98 127
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used by) operating activities	
Depreciation	22 446
(Increase) decrease in contributions receivable	7 127
(Increase) decrease in other receivables	(1 689)
(Increase) decrease in prepaid expenses	(450)
Increase (decrease) in accounts payable	4 717
Increase (decrease) in deferred revenue	15 000
Increase (decrease) in accrued vacation	<u>3 208</u>

Net cash provided by (used in) operations 148 486

Cash flows used in investing activities

Additions to property and equipment	<u>(50 909)</u>
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Net cash used by investing activities (50 909)

Net increase (decrease) in cash and cash equivalents 97 577

Cash and cash equivalents, beginning of year 107 167

Cash and cash equivalents, end of year \$ 204 744

See notes to financial statements.

**Notes to Financial Statements
December 31, 2005****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.

**Notes to Financial Statements
December 31, 2005****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, 2005****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 \$8,276 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>2005</u>	<u>2004</u>
Building and improvements	\$ 97 256	\$ 95 086
Furniture, fixtures, library and equipment	<u>301 359</u>	<u>281 083</u>
	<u>\$ 398 615</u>	<u>\$ 376 169</u>

Depreciation expense aggregated \$22,446 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 \$30,142 to the plan in 2005. The Corporation shall determine, in its sole discretion, the amount of employer contributions to be made to the plan.

BLUE RIDGE LEGAL SERVICES, INC.

-8-

Notes to Financial Statements December 31, 2005

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, 2005:

LSC basic field grant		\$ 646 951
LSC-PAI requirement		<u>12.5%</u>
Total LSC support for PAI		80 869
Total PAI expenses	513 540	
Less donated services	<u>408 911</u>	
Total net expenditures for PAI		<u>104 629</u>
Meets PAI requirement		\$ <u>(23 760)</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	\$ 646 951
Legal Services Corporation - website grant	10 602
United Way Agencies	
Harrisonburg and Rockingham	33 227
Greater Augusta	24 750
Northern Shenandoah Valley	23 339
Front Royal and Warren	4 438
Page	2 500
Lexington and Rockbridge	4 800
Roanoke	2 504
Other designations	318
Franklin	4 763
Greater Alleghany	1 000
Less: support received without time restrictions	<u>(34 435)</u>
Total support released from time restrictions	\$ <u>724 757</u>

BLUE RIDGE LEGAL SERVICES, INC.

-9-

Notes to Financial Statements December 31, 2005

Note 5 - Concentration of funding (concluded)

<u>Description</u>		<u>Support</u>
Legal Service Corporation of Virginia (LSCV)		
State	\$	286 203
IOLTA		<u>76 415</u>
Total LSCV support	\$	<u>362 618</u>
Federal awards		
Valley Program (Title III-Older Americans Act)	\$	14 629
Shenandoah Area (Title III-Older Americans Act)		5 295
Legal Services TIG Grant		10 602
Legal Services Corporation (temporarily restricted)		<u>716 398</u>
Total federal support	\$	<u>746 924</u>
Other grants and contributions		
City of Staunton	\$	2 534
City of Harrisonburg		10 077
Clarke County		1 021
Rockbridge County		1 976
Augusta County		3 685
Rockingham County		5 415
City of Roanoke		6 000
Warren County		2 000
City of Lexington		995
Shenandoah County		1 500
Bath County		387
Alleghany County		905
Page County		2 845
Frederick County		3 727
Other income		25 142
United Way agencies		<u>58 987</u>
Unrestricted support from other grants and contributions		127 196
United Way Agencies (temporarily restricted)		<u>65 313</u>
Total support from other grants and contributions	\$	<u>192 509</u>

BLUE RIDGE LEGAL SERVICES, INC.

-10-

Notes to Financial Statements December 31, 2005

Note 6 - Temporarily restricted net assets

Temporarily restricted net assets from the United Way in the amount of \$65,313, other contributions \$35,851 and Legal Services Corporation in the amount of \$638,688 are available for the period after December 31, 2005.

Net assets were released from donor restrictions by satisfying the time restrictions specified by the United Way in the amount of \$64,177, from other grants \$11,700, and from Legal Services Corporation in the amount of \$648,880.

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 western 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, 2005 and 2004. 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, 2004, 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	\$	11 900
Northern Shenandoah Valley		9 550
Lexington and Rockbridge		6 000
Page		2 500
Roanoke		1 277
Franklin		4 763
Greater Alleghany		750
Greater Augusta		23 000
Front Royal and Warren		<u>4 437</u>
	\$	<u>64 177</u>

BLUE RIDGE LEGAL SERVICES, INC.

-11-

Notes to Financial Statements December 31, 2005

Note 10 - Commitments

The Corporation leases its Winchester office space under an operating lease at \$817 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:

2006	\$	23 974
2007		15 747
2008		16 002
2009		<u>12 150</u>
	\$	<u><u>67 873</u></u>

Rental expense under these leases totaled \$46,178 in the current year.

Accompanying Information

Statement of Support, Revenue, and Expenses

Year Ended December 31, 2005

(With Summarized Financial Information for the Year Ended December 31, 2004)

	2005									
	Unrestricted						Temporarily Restricted	2005 Total	2004 Total	
	Legal Services Corporation Basic	Legal Services Corporation PAI	Legal Services Corporation of Virginia	United Way	Other	Property and Equipment				Total Unrestricted
Support and revenue										
Grants and contracts	\$ 8,673	\$ -	\$ 362,618	\$ 37,462	\$ 149,243	\$ -	\$ 557,996	\$ 718,327	\$ 1,276,323	\$ 1,286,588
Interest	3,318	-	-	-	-	-	3,318	-	3,318	1,754
Donated services and equipment	-	411,491	-	-	-	-	411,491	-	411,491	443,771
Contributions	-	-	-	-	9,722	-	9,722	21,525	31,247	12,849
Other income	-	-	-	-	4,203	-	4,203	-	4,203	17,811
Net assets released from restrictions										
Expiration of time or purpose restrictions	568,011	80,869	-	64,177	11,700	-	724,757	(724,757)	-	-
Total support and revenue	580,002	492,360	362,618	101,639	174,868	-	1,711,487	15,095	1,726,582	1,762,773
Expenses										
Lawyer wages	253,151	6,216	115,151	42,151	23,365	-	440,034	-	440,034	461,923
Paralegal wages	18,972	-	10,378	1,515	6,364	-	37,229	-	37,229	35,253
Non-legal wages	78,719	64,074	78,106	27,302	31,304	-	279,505	-	279,505	261,721
Donated services and equipment	-	408,911	-	-	-	-	408,911	-	408,911	427,371
Employee benefits	88,232	19,670	59,005	18,951	24,889	-	210,747	-	210,747	211,780
Travel	6,479	844	3,928	1,515	6,674	-	19,440	-	19,440	20,325
Rent	19,803	3,840	18,115	2,515	1,905	-	46,178	-	46,178	46,220
Utilities and telephone	24,199	2,100	9,170	1,951	4,996	-	42,416	-	42,416	42,429
Office supplies, postage and printing	17,257	1,801	7,938	651	600	-	28,247	-	28,247	23,679
Advertising	5,715	-	1,515	409	637	-	8,276	-	8,276	6,509
Insurance	2,607	1,292	2,233	625	860	-	7,617	-	7,617	9,367
Professional dues	-	-	6,500	251	486	-	7,237	-	7,237	7,508
Repairs and maintenance	12,511	1,560	239	2,515	1,308	-	18,133	-	18,133	17,145
Litigation expense	217	1,245	789	33	571	-	2,855	-	2,855	1,052
Equipment rental	905	-	220	41	601	-	1,767	-	1,767	1,887
Training and conferences	215	36	201	141	93	-	686	-	686	1,150
Independent contracts	1,462	1,226	1,539	121	3,212	-	7,560	-	7,560	7,261
Library materials	8,190	-	4,475	952	2,454	-	16,071	-	16,071	16,978
Miscellaneous	1,501	725	102	-	170	-	2,498	-	2,498	2,088
Website	20,602	-	-	-	-	-	20,602	-	20,602	90,348
Depreciation	-	-	-	-	-	22,446	22,446	-	22,446	24,497
Total expenses	560,737	513,540	319,604	101,639	110,489	22,446	1,628,455	-	1,628,455	1,716,491
Change in net assets	19,265	(21,180)	43,014	-	64,379	(22,446)	83,032	15,095	98,127	46,282
Net assets at beginning of year	31,382	-	11,817	-	16,563	79,137	138,899	724,757	863,656	817,374
Add (deduct) acquisition of property	(24,343)	-	(16,515)	-	(10,050)	50,908	-	-	-	-
Transfers	(21,180)	21,180	-	-	-	-	-	-	-	-
Net assets at end of year	\$ 5,124	\$ -	\$ 38,316	\$ -	\$ 70,892	\$ 107,599	\$ 221,931	\$ 739,852	\$ 961,783	\$ 863,656

BLUE RIDGE LEGAL SERVICES, INC.

-14-

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2005

<u>Federal Grantor/Pass-Through Grantor/ Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
Legal Services Corporation Basic field grant	*	\$ 689 709
U.S. Department of Health and Human Pass-through from Department on Aging Title III	93,282	<u>19 924</u>
Total Expenditures of Federal Awards		\$ <u><u>709 633</u></u>

* Sponsoring agency was not able to provide federal catalog number

The accompanying notes are an integral part of this schedule

BLUE RIDGE LEGAL SERVICES, INC.

-15-

Notes to the Schedule of Expenditures of Federal Awards December 31, 2005

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, 2005, and have issued our report thereon dated March 22, 2006. 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
March 22, 2006

**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, 2005. 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, 2005.

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
March 22, 2006

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2005

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