

BLUE RIDGE LEGAL SERVICES, INC.

**Financial Statements
and
Accompanying Information
for the years ended
December 31, 2006 and 2005**

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, 2006 and 2005, and the related statements of activities and cash flows for the year ended December 31, 2006. 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 2005 financial statements and in our report dated March 22, 2006, 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, 2006 and 2005, and the changes in its net assets, and its cash flows for the year ended December 31, 2006 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 29, 2007 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, 2005 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, 2006 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 2006 and 2005 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 29, 2007

BLUE RIDGE LEGAL SERVICES, INC.

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Statements of Financial Position

December 31, 2006 and 2005

Assets

	<u>2006</u>	<u>2005</u>
Current assets		
Cash	\$ 204 123	\$ 204 744
Cash in escrow, client deposits	1 407	36 989
Contributions receivable	727 107	704 001
Support receivable	12 881	7 533
Prepaid expenses	<u>1 447</u>	<u>5 327</u>
Total current assets	<u>946 965</u>	<u>958 594</u>
Property and equipment		
Land	6 724	6 724
Building and improvements	107 215	107 215
Furniture, fixtures and equipment	394 898	373 580
Law library	<u>18 695</u>	<u>18 695</u>
	527 532	506 214
Less accumulated depreciation	<u>427 752</u>	<u>398 615</u>
Total property and equipment	<u>99 780</u>	<u>107 599</u>
Total assets	<u>\$ 1 046 745</u>	<u>\$ 1 066 193</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 5 331	\$ 11 113
Accrued annual leave	37 167	41 308
Deferred revenue	37 150	15 000
Client deposits	<u>1 407</u>	<u>36 989</u>
Total current liabilities	<u>81 055</u>	<u>104 410</u>
Commitments		
Net assets		
Unrestricted	214 155	221 931
Temporarily restricted	<u>751 535</u>	<u>739 852</u>
Total net assets	<u>965 690</u>	<u>961 783</u>
Total liabilities and net assets	<u>\$ 1 046 745</u>	<u>\$ 1 066 193</u>

See notes to financial statements.

BLUE RIDGE LEGAL SERVICES, INC.

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Statement of Activities

For the Year Ended December 31, 2006

(With Summarized Financial Information for the Year Ended December 31, 2005)

	2006			2005
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Federal grants	\$ 31 156	\$ 685 028	\$ 716 184	\$ 746 924
State grants	418 613	-	418 613	362 618
Other support	148 432	62 729	211 161	192 509
Interest	7 042	-	7 042	3 318
Donated services	452 868	-	452 868	411 491
Contributions	40 951	-	40 951	9 722
	<u>1 099 062</u>	<u>747 757</u>	<u>1 846 819</u>	<u>1 726 582</u>
Net assets released from restrictions				
Expiration of time or purpose restrictions	<u>736 074</u>	<u>(736 074)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>1 835 136</u>	<u>11 683</u>	<u>1 846 819</u>	<u>1 726 582</u>
Expenses				
Program services				
Legal assistance	1 652 074	-	1 652 074	1 463 253
Supporting services				
Management and general	176 931	-	176 931	150 858
Fundraising expenses	<u>13 907</u>	<u>-</u>	<u>13 907</u>	<u>14 344</u>
Total expenses	<u>1 842 912</u>	<u>-</u>	<u>1 842 912</u>	<u>1 628 455</u>
Change in net assets	<u>(7 776)</u>	<u>11 683</u>	<u>3 907</u>	<u>98 127</u>
Net assets at beginning of year	<u>221 931</u>	<u>739 852</u>	<u>961 783</u>	<u>863 656</u>
Net assets at end of year	<u>\$ 214 155</u>	<u>\$ 751 535</u>	<u>\$ 965 690</u>	<u>\$ 961 783</u>

See notes to financial statements.

BLUE RIDGE LEGAL SERVICES, INC.

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Statement of Cash Flows

For the Year Ended December 31, 2006

Cash flows from operating activities

Change in net assets	\$ 3 907
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used by) operating activities	
Depreciation	29 137
(Increase) decrease in contributions receivable	(23 106)
(Increase) decrease in other receivables	(5 348)
(Increase) decrease in prepaid expenses	3 880
Increase (decrease) in accounts payable	(5 782)
Increase (decrease) in deferred revenue	22 150
Increase (decrease) in accrued vacation	(4 141)

Net cash provided by (used in) operations 20 697

Cash flows used in investing activities

Additions to property and equipment	(21 318)
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Net cash used by investing activities (21 318)

Net increase (decrease) in cash and cash equivalents (621)

Cash and cash equivalents, beginning of year 204 744

Cash and cash equivalents, end of year \$ 204 123

See notes to financial statements.

**Notes to Financial Statements
December 31, 2006****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, 2006****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	46 %
Legal Services Corporation of Virginia	30 %

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, 2006****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 \$10,635 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>2006</u>	<u>2005</u>
Building and improvements	\$ 98 484	\$ 97 256
Furniture, fixtures, library and equipment	<u>329 268</u>	<u>301 359</u>
	<u>\$ 427 752</u>	<u>\$ 398 615</u>

Depreciation expense aggregated \$29,137 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 \$33,454 to the plan in 2006. The Corporation shall determine, in its sole discretion, the amount of employer contributions to be made to the plan.

BLUE RIDGE LEGAL SERVICES, INC.

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Notes to Financial Statements December 31, 2006

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, 2006 :

LSC basic field grant		\$ 638 688
LSC-PAI requirement		<u>12.5%</u>
Total LSC support for PAI		79 836
Total PAI expenses	558 928	
Less donated services	<u>448 361</u>	
Total net expenditures for PAI		<u>110 567</u>
Meets PAI requirement		\$ <u>(30 731)</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	\$ 638 688
Legal Services Corporation - website grant	10 549
United Way Agencies	
Harrisonburg and Rockingham	33 352
Greater Augusta	25 250
Northern Shenandoah Valley	28 786
Front Royal and Warren	6 000
Page	2 500
Lexington and Rockbridge	6 800
Roanoke	2 930
Other designations	167
Franklin	4 500
Greater Alleghany	5 100
Less: support received without time restrictions	<u>(28 548)</u>
Total support released from time restrictions	<u>\$ 736 074</u>

BLUE RIDGE LEGAL SERVICES, INC.

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Notes to Financial Statements December 31, 2006

Note 5 - Concentration of funding (concluded)

<u>Description</u>		<u>Support</u>
Legal Service Corporation of Virginia (LSCV)		
State	\$	292 214
IOLTA		<u>126 399</u>
Total LSCV support	\$	<u><u>418 613</u></u>
Federal awards		
Valley Program (Title III-Older Americans Act)	\$	14 777
Shenandoah Area (Title III-Older Americans Act)		5 830
Legal Services TIG Grant		10 549
Legal Services Corporation (temporarily restricted)		<u>685 028</u>
Total federal support	\$	<u><u>716 184</u></u>
Other grants and contributions		
City of Staunton	\$	2 534
City of Harrisonburg		10 019
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		2 000
Bath County		387
Alleghany County		1 691
Page County		2 845
Frederick County		3 727
Other income		54 065
United Way agencies		<u>50 072</u>
Unrestricted support from other grants and contributions		148 432
United Way Agencies (temporarily restricted)		<u>62 729</u>
Total support from other grants and contributions	\$	<u><u>211 161</u></u>

**Notes to Financial Statements
December 31, 2006****Note 6 - Temporarily restricted net assets**

Temporarily restricted net assets from the United Way in the amount of \$62,729, other contributions \$3,778 and Legal Services Corporation in the amount of \$685,028 are available for the period after December 31, 2006.

Net assets were released from donor restrictions by satisfying the time restrictions specified by the United Way in the amount of \$65,313, from other grants \$32,073, and from Legal Services Corporation in the amount of \$638,688.

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, 2006 and 2005. 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, 2005, 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	\$	10 664
Northern Shenandoah Valley		8 386
Lexington and Rockbridge		8 000
Page		2 500
Roanoke		2 000
Franklin		4 763
Greater Augusta		23 000
Front Royal and Warren		<u>6 000</u>
	\$	<u><u>65 313</u></u>

**Notes to Financial Statements
December 31, 2006**

Note 10 - Commitments

The Corporation leases its Winchester office space under an operating lease at \$868 per month.

The Staunton office is rented at \$285 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 \$1,300 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:

2007	15 747
2008	16 002
2009	<u>12 150</u>
	\$ <u><u>43 899</u></u>

Rental expense under these leases totaled \$46,986 in the current year.

BLUE RIDGE LEGAL SERVICES, INC.

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**Notes to Financial Statements
December 31, 2006****Note 11 - Functional expenses, year ended December 31, 2006**

	<u>Program</u> <u>Services</u>	<u>Management</u> <u>and General</u>	<u>Fundraising</u> <u>Expenses</u>	<u>Total</u> <u>Expenses</u>
Lawyer wages	\$ 465,755	\$ 67,106	\$ 8,715	\$ 541,576
Paralegal wages	32,610	5,309	-	37,919
Non-legal wages	250,755	38,670	2,151	291,575
Donated services and equipment	448,361	-	-	448,361
Employee benefits	204,669	31,425	1,893	237,987
Travel	21,356	3,101	376	24,833
Rent	40,408	6,578	-	46,986
Utilities and telephone	37,941	5,818	358	44,117
Office supplies, postage and printing	21,479	3,083	414	24,975
Advertising	9,146	1,489	-	10,635
Insurance	7,612	1,239	-	8,851
Professional dues	8,224	1,339	-	9,563
Repairs and maintenance	30,339	4,939	-	35,278
Litigation expense	2,687	-	-	2,687
Equipment rental	1,440	234	-	1,674
Training and conferences	5,098	830	-	5,928
Independent contracts	6,326	1,030	-	7,356
Library materials	18,186	-	-	18,186
Miscellaneous	4,076	663	-	4,739
Website	10,549	-	-	10,549
Depreciation	25,058	4,079	-	29,137
Total expenses	\$ <u>1,652,074</u>	\$ <u>176,931</u>	\$ <u>13,907</u>	\$ <u>1,842,912</u>

Accompanying Information

BLUE RIDGE LEGAL SERVICES, INC.

Statement of Support, Revenue, and Expenses

Year Ended December 31, 2006

(With Summarized Financial Information for the Year Ended December 31, 2005)

	2006									
	Unrestricted							Temporarily Restricted	2006 Total	2005 Total
	Legal Services Corporation		Legal Services Corporation of Virginia		Property and Equipment		Total Unrestricted			
Basic	PAI		United Way	Other						
Support and revenue										
Grants and contracts	\$ -	\$ -	\$ 418,613	\$ 50,072	\$ 61,174	\$ -	\$ 529,859	\$ 747,757	\$ 1,277,616	\$ 1,276,323
Interest	7,042	-	-	-	-	-	7,042	-	7,042	3,318
Donated services and equipment	-	448,361	-	-	-	4,507	452,868	-	452,868	411,491
Contributions	-	-	-	-	40,951	-	40,951	-	40,951	31,247
Other income	-	-	-	-	68,342	-	68,342	-	68,342	4,203
Net assets released from restrictions										
Expiration of time or purpose restrictions	558,852	79,836	-	65,313	32,073	-	736,074	(736,074)	-	-
Total support and revenue	565,894	528,197	418,613	115,385	202,540	4,507	1,835,136	11,683	1,846,819	1,726,582
Expenses										
Lawyer wages	230,545	6,302	159,935	53,151	91,643	-	541,576	-	541,576	440,034
Paralegal wages	16,825	-	11,181	4,215	5,698	-	37,919	-	37,919	37,229
Non-legal wages	62,789	64,091	86,383	30,154	48,158	-	291,575	-	291,575	279,505
Donated services and equipment	-	448,361	-	-	-	-	448,361	-	448,361	408,911
Employee benefits	84,471	19,195	67,397	19,310	47,614	-	237,987	-	237,987	210,747
Travel	5,167	1,652	4,755	1,915	11,344	-	24,833	-	24,833	19,440
Rent	17,243	3,146	20,526	2,003	4,068	-	46,986	-	46,986	46,178
Utilities and telephone	22,002	2,601	9,996	1,851	7,667	-	44,117	-	44,117	42,416
Office supplies, postage and printing	18,568	1,966	3,151	207	1,083	-	24,975	-	24,975	28,247
Advertising	-	300	3,151	307	6,877	-	10,635	-	10,635	8,276
Insurance	2,326	1,523	2,450	585	1,967	-	8,851	-	8,851	7,617
Professional dues	-	-	8,515	251	797	-	9,563	-	9,563	7,237
Repairs and maintenance	13,639	1,758	7,848	181	11,852	-	35,278	-	35,278	18,133
Litigation expense	-	2,457	220	-	10	-	2,687	-	2,687	2,855
Equipment rental	327	401	482	41	423	-	1,674	-	1,674	1,767
Training and conferences	5,145	-	125	141	517	-	5,928	-	5,928	686
Independent contracts	1,948	1,549	2,062	121	1,676	-	7,356	-	7,356	7,560
Library materials	7,857	2,307	5,410	952	1,660	-	18,186	-	18,186	16,071
Miscellaneous	-	-	3,801	-	938	-	4,739	-	4,739	2,498
Website	9,230	1,319	-	-	-	-	10,549	-	10,549	20,602
Depreciation	-	-	-	-	-	29,137	29,137	-	29,137	22,446
Total expenses	498,082	558,928	397,388	115,385	243,992	29,137	1,842,912	-	1,842,912	1,628,455
Change in net assets	67,812	(30,731)	21,225	-	(41,452)	(24,630)	(7,776)	11,683	3,907	98,127
Net assets at beginning of year	5,124	-	38,316	-	70,892	107,599	221,931	739,852	961,783	863,656
Add (deduct) acquisition of property	(8,290)	-	(496)	-	(8,025)	16,811	-	-	-	-
Transfers	(30,731)	30,731	-	-	-	-	-	-	-	-
Net assets at end of year	\$ 33,915	\$ -	\$ 59,045	\$ -	\$ 21,415	\$ 99,780	\$ 214,155	\$ 751,535	\$ 965,690	\$ 961,783

BLUE RIDGE LEGAL SERVICES, INC.

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Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2006

<u>Federal Grantor/Pass-Through Grantor/ Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
Legal Services Corporation Basic field grant	*	\$ 616 939
U.S. Department of Health and Human Pass-through from Department on Aging Title III	93.282	<u>20 608</u>
Total Expenditures of Federal Awards		\$ <u><u>637 547</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.

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Notes to the Schedule of Expenditures of Federal Awards December 31, 2006

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 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**

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, 2006, and have issued our report thereon dated March 29, 2007. 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.

Compliance and other matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Blue Ridge Legal Services, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the 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.

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 29, 2007

**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, 2006 . 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, 2006 .

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 29, 2007

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2006

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