

BLUE RIDGE LEGAL SERVICES, INC.

**Financial Statements
and
Accompanying Information
for the years ended
December 31, 2007 and 2006**

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, 2007 and 2006, and the related statements of activities and cash flows for the year ended December 31, 2007 . 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 2006 financial statements and in our report dated March 29, 2007, 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, 2007 and 2006, and the changes in its net assets, and its cash flows for the year ended December 31, 2007 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 28, 2008 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, 2006 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, 2007 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 2007 and 2006 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.

Barcalow & Hart, P.L.L.C.
Richmond, Virginia
March 28, 2008

BLUE RIDGE LEGAL SERVICES, INC.

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Statements of Financial Position

December 31, 2007 and 2006

Assets

	<u>2007</u>	<u>2006</u>
Current assets		
Cash	\$ 377 544	\$ 204 123
Cash in escrow, client deposits	7 162	1 407
Contributions receivable	622 093	727 107
Support receivable	14 484	12 881
Prepaid expenses	<u>1 516</u>	<u>1 447</u>
Total current assets	<u>1 022 799</u>	<u>946 965</u>
Property and equipment		
Land	6 724	6 724
Building and improvements	107 215	107 215
Furniture, fixtures and equipment	402 230	394 898
Law library	<u>18 695</u>	<u>18 695</u>
	534 864	527 532
Less accumulated depreciation	<u>451 371</u>	<u>427 752</u>
Total property and equipment	<u>83 493</u>	<u>99 780</u>
Total assets	<u>\$ 1 106 292</u>	<u>\$ 1 046 745</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 15 605	\$ 5 331
Accrued annual leave	39 220	37 167
Deferred revenue	33 380	37 150
Client deposits	<u>7 162</u>	<u>1 407</u>
Total current liabilities	<u>95 367</u>	<u>81 055</u>
Commitments		
Net assets		
Unrestricted	259 631	214 155
Temporarily restricted	<u>751 294</u>	<u>751 535</u>
Total net assets	<u>1 010 925</u>	<u>965 690</u>
Total liabilities and net assets	<u>\$ 1 106 292</u>	<u>\$ 1 046 745</u>

See notes to financial statements.

BLUE RIDGE LEGAL SERVICES, INC.

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Statement of Activities

For the Year Ended December 31, 2007

(With Summarized Financial Information for the Year Ended December 31, 2006)

	2007			2006
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Federal grants	\$ 20 783	\$ 685 028	\$ 705 811	\$ 716 184
State grants	468 750	-	468 750	418 613
Other support	283 881	43 513	327 394	211 161
Interest	9 265	-	9 265	7 042
Donated services	473 357	-	473 357	452 868
Contributions	<u>29 332</u>	<u>-</u>	<u>29 332</u>	<u>40 951</u>
	1 285 368	728 541	2 013 909	1 846 819
Net assets released from restrictions				
Expiration of time or purpose restrictions	<u>728 782</u>	<u>(728 782)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2 014 150</u>	<u>(241)</u>	<u>2 013 909</u>	<u>1 846 819</u>
Expenses				
Program services				
Legal assistance	1 763 544	-	1 763 544	1 652 074
Supporting services				
Management and general	197 177	-	197 177	176 931
Fundraising expenses	<u>7 953</u>	<u>-</u>	<u>7 953</u>	<u>13 907</u>
Total expenses	<u>1 968 674</u>	<u>-</u>	<u>1 968 674</u>	<u>1 842 912</u>
Change in net assets	45 476	(241)	45 235	3 907
Net assets at beginning of year	<u>214 155</u>	<u>751 535</u>	<u>965 690</u>	<u>961 783</u>
Net assets at end of year	<u>\$ 259 631</u>	<u>\$ 751 294</u>	<u>\$ 1 010 925</u>	<u>\$ 965 690</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, 2007

Cash flows from operating activities

Change in net assets	\$ 45 235
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used by) operating activities	
Depreciation	23 619
(Increase) decrease in contributions receivable	105 014
(Increase) decrease in other receivables	(1 603)
(Increase) decrease in prepaid expenses	(69)
Increase (decrease) in accounts payable	10 274
Increase (decrease) in deferred revenue	(3 770)
Increase (decrease) in accrued vacation	<u>2 053</u>

Net cash provided by (used in) operations 180 753

Cash flows used in investing activities

Additions to property and equipment	<u>(7 332)</u>
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Net cash used by investing activities (7 332)

Net increase (decrease) in cash and cash equivalents 173 421

Cash and cash equivalents, beginning of year 204 123

Cash and cash equivalents, end of year \$ 377 544

See notes to financial statements.

**Notes to Financial Statements
December 31, 2007**

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, 2007****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	44 %
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, 2007****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 \$12,358 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>2007</u>	<u>2006</u>
Building and improvements	\$ 99 708	\$ 98 484
Furniture, fixtures, library and equipment	<u>351 663</u>	<u>329 268</u>
	<u>\$ 451 371</u>	<u>\$ 427 752</u>

Depreciation expense aggregated \$23,619 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 \$36,495 to the plan in 2007. 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, 2007

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, 2007:

LSC basic field grant		\$ 685 028
LSC-PAI requirement		<u>12.5%</u>
Total LSC support for PAI		85 629
Total PAI expenses	597 512	
Less donated services	<u>473 357</u>	
Total net expenditures for PAI		<u>124 155</u>
Meets PAI requirement		\$ <u>(38 526)</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	\$ 685 028
Legal Services Corporation - website grant	10 000
United Way Agencies	
Harrisonburg and Rockingham	33 435
Greater Augusta	26 000
Northern Shenandoah Valley	30 846
Front Royal and Warren	3 600
Page	2 500
Lexington and Rockbridge	8 000
Roanoke	4 876
Other designations	56
Franklin	4 875
Greater Alleghany	7 800
Less: support received without time restrictions	<u>(88 234)</u>
Total support released from time restrictions	<u>\$ 728 782</u>

BLUE RIDGE LEGAL SERVICES, INC.

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Notes to Financial Statements December 31, 2007

Note 5 - Concentration of funding (concluded)

<u>Description</u>		<u>Support</u>
Legal Service Corporation of Virginia (LSCV)		
State	\$	304 949
IOLTA		<u>163 801</u>
Total LSCV support	\$	<u>468 750</u>
Federal awards		
Valley Program (Title III-Older Americans Act)	\$	12 235
Shenandoah Area (Title III-Older Americans Act)		8 549
Legal Services TIG Grant		10 000
Legal Services Corporation (temporarily restricted)		<u>685 028</u>
Total federal support	\$	<u>715 812</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		3 832
Rockingham County		5 415
City of Roanoke		12 000
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		153 530
United Way agencies		<u>79 909</u>
Unrestricted support from other grants and contributions		283 881
United Way Agencies (temporarily restricted)		<u>43 513</u>
Total support from other grants and contributions	\$	<u>327 394</u>

Notes to Financial Statements December 31, 2007

Note 6 - Temporarily restricted net assets

Temporarily restricted net assets from the United Way in the amount of \$43,513, other contributions \$22,753 and Legal Services Corporation in the amount of \$685,028 are available for the period after December 31, 2007.

Net assets were released from donor restrictions by satisfying the time restrictions specified by the United Way in the amount of \$42,079, from other grants \$1,675, and from Legal Services Corporation in the amount of \$685,028.

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. Balances may at times exceed the insured maximum, but management believes there is no significant credit risk. 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, 2006, from which the summarized information was derived.

**Notes to Financial Statements
December 31, 2007**

Note 9 - 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:

2008	16 002
2009	<u>12 150</u>
	\$ <u><u>28 152</u></u>

Rental expense under these leases totaled \$48,110 in the current year.

Accompanying Information

BLUE RIDGE LEGAL SERVICES, INC.

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**Notes to Financial Statements
December 31, 2007****Note 11 - Functional expenses, year ended December 31, 2007**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expenses</u>	<u>Total Expenses</u>
Lawyer wages	\$ 512,308	\$ 79,887	\$ 3,512	\$ 595,707
Paralegal wages	36,707	5,976	-	42,683
Non-legal wages	278,572	43,339	2,010	323,921
Donated services and equipment	471,370	-	-	471,370
Employee benefits	218,871	34,028	1,602	254,501
Travel	26,196	4,013	251	30,460
Rent	41,375	6,735	-	48,110
Utilities and telephone	36,638	5,774	190	42,602
Office supplies, postage and printing	19,968	2,863	388	23,219
Advertising	10,628	1,730	-	12,358
Insurance	7,888	1,284	-	9,172
Professional dues	7,080	1,152	-	8,232
Repairs and maintenance	18,044	2,937	-	20,981
Litigation expense	4,441	-	-	4,441
Equipment rental	1,440	234	-	1,674
Training and conferences	7,775	1,266	-	9,041
Independent contracts	6,989	1,138	-	8,127
Library materials	17,651	-	-	17,651
Miscellaneous	9,292	1,513	-	10,805
Website	10,000	-	-	10,000
Depreciation	20,312	3,307	-	23,619
Total expenses	\$ <u>1,763,544</u>	\$ <u>197,177</u>	\$ <u>7,953</u>	\$ <u>1,968,674</u>

Statement of Support, Revenue, and Expenses

Year Ended December 31, 2007

(With Summarized Financial Information for the Year Ended December 31, 2006)

	2007									
	Unrestricted						Temporarily Restricted	2007 Total	2006 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	\$ 10,000	\$ -	\$ 468,750	\$ 79,909	\$ 107,198	\$ -	\$ 665,857	\$ 728,541	\$ 1,394,398	\$ 1,277,616
Interest	9,265	-	-	-	-	-	9,265	-	9,265	7,042
Donated services and equipment	-	473,357	-	-	-	-	473,357	-	473,357	452,868
Contributions	-	-	-	-	29,332	-	29,332	-	29,332	40,951
Other income	-	-	-	-	107,557	-	107,557	-	107,557	68,342
Net assets released from restrictions										
Expiration of time or purpose restrictions	599,399	85,629	-	42,079	1,675	-	728,782	(728,782)	-	-
Total support and revenue	618,664	558,986	468,750	121,988	245,762	-	2,014,150	(241)	2,013,909	1,846,819
Expenses										
Lawyer wages	273,080	8,384	183,941	55,151	75,151	-	595,707	-	595,707	541,576
Paralegal wages	16,822	-	13,193	4,651	8,017	-	42,683	-	42,683	37,919
Non-legal wages	96,911	72,660	100,048	32,151	22,151	-	323,921	-	323,921	291,575
Donated services and equipment	-	471,370	-	-	-	-	471,370	-	471,370	448,361
Employee benefits	114,227	21,689	78,550	19,512	20,523	-	254,501	-	254,501	237,987
Travel	14,502	36	5,395	2,012	8,515	-	30,460	-	30,460	24,833
Rent	15,477	3,978	20,523	2,009	6,123	-	48,110	-	48,110	46,986
Utilities and telephone	28,086	1,432	9,917	2,015	1,152	-	42,602	-	42,602	44,117
Office supplies, postage and printing	13,286	4,673	3,151	121	1,988	-	23,219	-	23,219	24,975
Advertising	2,167	-	3,151	525	6,515	-	12,358	-	12,358	10,635
Insurance	3,052	778	2,775	615	1,952	-	9,172	-	9,172	8,851
Professional dues	-	-	8,232	-	-	-	8,232	-	8,232	9,563
Repairs and maintenance	6,001	2,669	7,848	212	4,251	-	20,981	-	20,981	35,278
Litigation expense	579	3,491	220	-	151	-	4,441	-	4,441	2,687
Equipment rental	26	1,082	516	35	15	-	1,674	-	1,674	1,674
Training and conferences	7,605	645	125	151	515	-	9,041	-	9,041	5,928
Independent contracts	3,141	999	1,693	229	2,065	-	8,127	-	8,127	7,356
Library materials	7,865	2,307	5,469	952	1,058	-	17,651	-	17,651	18,186
Miscellaneous	223	-	5,610	1,647	3,325	-	10,805	-	10,805	4,739
Website	8,681	1,319	-	-	-	-	10,000	-	10,000	10,549
Depreciation	-	-	-	-	-	23,619	23,619	-	23,619	29,137
Total expenses	611,731	597,512	450,357	121,988	163,467	23,619	1,968,674	-	1,968,674	1,842,912
Change in net assets	6,933	(38,526)	18,393	-	82,295	(23,619)	45,476	(241)	45,235	3,907
Net assets at beginning of year	33,915	-	59,045	-	21,415	99,780	214,155	751,535	965,690	961,783
Add (deduct) acquisition of property	-	-	(7,332)	-	-	7,332	-	-	-	-
Transfers	(38,526)	38,526	-	-	-	-	-	-	-	-
Net assets at end of year	\$ 2,322	\$ -	\$ 70,106	\$ -	\$ 103,710	\$ 83,493	\$ 259,631	\$ 751,294	\$ 1,010,925	\$ 965,690

BLUE RIDGE LEGAL SERVICES, INC.

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Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2007

<u>Federal Grantor/Pass-Through Grantor/ Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
Legal Services Corporation Basic field grant	*	\$ 737 873
U.S. Department of Health and Human Pass-through from Department on Aging Title III	93.282	<u>20 783</u>
Total Expenditures of Federal Awards		\$ <u><u>758 656</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, 2007**

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, 2007, and have issued our report thereon dated March 28, 2008. We conducted our audit 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.

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 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.

Barcalow & Hart, P.L.L.C.
Richmond, Virginia
March 28, 2008

**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, 2007. 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, 2007 .

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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion over the effectiveness of the Organization's internal control over compliance.

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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

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

This report is intended 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.

Barcalow & Hart, P.L.L.C.
Richmond, Virginia
March 28, 2008

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2007

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