

BLUE RIDGE LEGAL SERVICES, INC.

**Financial Statements
and
Accompanying Information
for the years ended
December 31, 2008 and 2007**

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, 2008 and 2007, and the related statements of activities and cash flows for the year ended December 31, 2008 . 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 2007 financial statements and in our report dated March 28, 2008, 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, 2008 and 2007, and the changes in its net assets, and its cash flows for the year ended December 31, 2008 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 25, 2009 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, 2008 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, 2008 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 2008 and 2007 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 25, 2009

BLUE RIDGE LEGAL SERVICES, INC.

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Statements of Financial Position

December 31, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Current assets		
Cash	\$ 374 330	\$ 377 544
Cash in escrow, client deposits	2 199	7 162
Contributions receivable	695 355	622 093
Support receivable	5 677	14 484
Prepaid expenses	<u>1 465</u>	<u>1 516</u>
Total current assets	<u>1 079 026</u>	<u>1 022 799</u>

Property and equipment

Land	6 724	6 724
Building and improvements	134 125	107 215
Furniture, fixtures and equipment	416 830	402 230
Law library	<u>18 695</u>	<u>18 695</u>
	576 374	534 864
Less accumulated depreciation	<u>475 341</u>	<u>451 371</u>
Total property and equipment	<u>101 033</u>	<u>83 493</u>

Total assets

\$ 1 180 059 \$ 1 106 292

Liabilities and net assets

Current liabilities

Accounts payable	\$ 14 522	\$ 15 605
Accrued annual leave	53 823	39 220
Deferred revenue	16 751	33 380
Client deposits	<u>2 199</u>	<u>7 162</u>
Total current liabilities	<u>87 295</u>	<u>95 367</u>

Commitments

Net assets

Unrestricted	259 913	259 631
Temporarily restricted	<u>832 851</u>	<u>751 294</u>
Total net assets	<u>1 092 764</u>	<u>1 010 925</u>

Total liabilities and net assets

\$ 1 180 059 \$ 1 106 292

See notes to financial statements.

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Statement of Activities**For the Year Ended December 31, 2008****(With Summarized Financial Information for the Year Ended December 31, 2007)**

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Federal grants	\$ 43 654	\$ 757 598	\$ 801 252	\$ 705 811
State grants	576 673	-	576 673	468 750
Other support	308 636	52 500	361 136	327 394
Interest	6 208	-	6 208	9 265
Donated services	371 027	-	371 027	473 357
Contributions	<u>31 592</u>	<u>-</u>	<u>31 592</u>	<u>29 332</u>
	1 337 790	810 098	2 147 888	2 013 909
Net assets released from restrictions				
Expiration of time or purpose restrictions	<u>728 541</u>	<u>(728 541)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2 066 331</u>	<u>81 557</u>	<u>2 147 888</u>	<u>2 013 909</u>
Expenses				
Program services				
Legal assistance	1 834 030	-	1 834 030	1 763 544
Supporting services				
Management and general	224 695	-	224 695	197 177
Fund-raising expenses	<u>7 324</u>	<u>-</u>	<u>7 324</u>	<u>7 953</u>
Total expenses	<u>2 066 049</u>	<u>-</u>	<u>2 066 049</u>	<u>1 968 674</u>
Change in net assets	282	81 557	81 839	45 235
Net assets at beginning of year	<u>259 631</u>	<u>751 294</u>	<u>1 010 925</u>	<u>965 690</u>
Net assets at end of year	\$ <u><u>259 913</u></u>	\$ <u><u>832 851</u></u>	\$ <u><u>1 092 764</u></u>	\$ <u><u>1 010 925</u></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, 2008

Cash flows from operating activities

Change in net assets	\$ 81 839
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used by) operating activities	
Depreciation	23 970
(Increase) decrease in contributions receivable	(73 262)
(Increase) decrease in other receivables	8 807
(Increase) decrease in prepaid expenses	51
Increase (decrease) in accounts payable	(1 084)
Increase (decrease) in deferred revenue	(16 629)
Increase (decrease) in accrued vacation	<u>14 603</u>

Net cash provided by (used in) operations 38 295

Cash flows used in investing activities

Additions to property and equipment	<u>(41 509)</u>
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Net cash used by investing activities (41 509)

Net increase (decrease) in cash and cash equivalents (3 214)

Cash and cash equivalents, beginning of year 377 544

Cash and cash equivalents, end of year \$ 374 330

See notes to financial statements.

**Notes to Financial Statements
December 31, 2008****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, 2008****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	41 %
Legal Services Corporation of Virginia	34 %

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, 2008****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 \$9,003 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>2008</u>	<u>2007</u>
Building and improvements	\$ 101 622	\$ 99 708
Furniture, fixtures, library and equipment	<u>373 719</u>	<u>351 663</u>
	<u>\$ 475 341</u>	<u>\$ 451 371</u>

Depreciation expense aggregated \$23,970 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 \$54,575 to the plan in 2008. 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, 2008

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, 2008:

LSC basic field grant		\$ 688 403
LSC-PAI requirement		<u>12.5%</u>
Total LSC support for PAI		86 050
Total PAI expenses	530 534	
Less donated services	<u>363 527</u>	
Total net expenditures for PAI		<u>167 007</u>
Meets PAI requirement		\$ <u>(80 957)</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	\$ 688 403
Legal Services Corporation - website grant	17 000
United Way Agencies	
Harrisonburg and Rockingham	36 061
Greater Augusta	29 750
Northern Shenandoah Valley	25 495
Front Royal and Warren	4 409
Page	2 000
Lexington and Rockbridge	9 000
Roanoke	6 572
Other designations	595
Franklin	5 000
Greater Alleghany	6 000
Less: support received without time restrictions	<u>(81 744)</u>
Total support released from time restrictions	\$ <u>728 541</u>

BLUE RIDGE LEGAL SERVICES, INC.

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Notes to Financial Statements December 31, 2008

Note 5 - Concentration of funding (concluded)

<u>Description</u>		<u>Support</u>
Legal Service Corporation of Virginia (LSCV)		
State	\$	437 423
IOLTA		<u>139 250</u>
Total LSCV support	\$	<u>576 673</u>
Federal awards		
Valley Program (Title III-Older Americans Act)	\$	14 747
Shenandoah Area (Title III-Older Americans Act)		11 907
Legal Services TIG Grant		17 000
Legal Services Corporation (temporarily restricted)		<u>757 598</u>
Total federal support	\$	<u>801 252</u>
Other grants and contributions		
City of Staunton	\$	2 534
City of Harrisonburg		10 019
Clarke County		2 000
Rockbridge County		1 976
Augusta County		3 835
Rockingham County		5 415
City of Roanoke		12 000
Warren County		2 631
City of Lexington		995
Shenandoah County		2 000
Bath County		194
Alleghany County		1 691
Page County		2 845
Frederick County		3 727
Other income		206 268
United Way agencies		<u>83 785</u>
Unrestricted support from other grants and contributions		341 915
United Way Agencies (temporarily restricted)		<u>52 500</u>
Total support from other grants and contributions	\$	<u>394 415</u>

Notes to Financial Statements December 31, 2008

Note 6 - Temporarily restricted net assets

Temporarily restricted net assets from the United Way in the amount of \$52,500, other contributions \$22,753 and Legal Services Corporation in the amount of \$757,598 are available for the period after December 31, 2008.

Net assets were released from donor restrictions by satisfying the time restrictions specified by the United Way in the amount of \$43,513 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 \$250,000 for the current year and \$100,000 for the prior year. 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 accounts 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, 2007, from which the summarized information was derived.

**Notes to Financial Statements
December 31, 2008**

Note 9 - Commitments

The Corporation leases its Winchester office space under an operating lease at \$906 per month.

The Staunton office is rented at \$315 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 \$1,326 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:

2009	<u>12 150</u>
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Rental expense under these leases totaled \$48,845 in the current year.

BLUE RIDGE LEGAL SERVICES, INC.

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**Notes to Financial Statements
December 31, 2008****Note 11 - Functional expenses, year ended December 31, 2008**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expenses</u>	<u>Total Expenses</u>
Lawyer wages	\$ 591,217	\$ 93,330	\$ 2,915	\$ 687,462
Paralegal wages	38,902	6,333	-	45,235
Non-legal wages	314,458	49,077	2,114	365,649
Donated services and equipment	363,527	-	-	363,527
Employee benefits	254,216	40,027	1,357	295,600
Travel	35,519	5,467	315	41,301
Rent	42,007	6,838	-	48,845
Utilities and telephone	39,083	6,146	216	45,445
Office supplies, postage and printing	19,559	2,777	407	22,743
Advertising	7,743	1,260	-	9,003
Insurance	7,912	1,288	-	9,200
Professional dues	7,997	1,302	-	9,299
Repairs and maintenance	26,984	4,393	-	31,377
Litigation expense	4,401	-	-	4,401
Equipment rental	1,708	278	-	1,986
Training and conferences	3,691	601	-	4,292
Independent contracts	8,421	1,371	-	9,792
Library materials	19,346	-	-	19,346
Miscellaneous	5,225	851	-	6,076
Website	21,500	-	-	21,500
Depreciation	20,614	3,356	-	23,970
Total expenses	\$ <u>1,834,031</u>	\$ <u>224,695</u>	\$ <u>7,324</u>	\$ <u>2,066,049</u>

Accompanying Information

Statement of Support, Revenue, and Expenses
Year Ended December 31, 2008

(With Summarized Financial Information for the Year Ended December 31, 2007)

	2008									
	Unrestricted						Temporarily Restricted	2008 Total	2007 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	\$ 2,954	\$ 421	\$ 576,673	\$ 83,785	\$ 136,108	\$ -	\$ 799,941	\$ 810,098	\$ 1,610,039	\$ 1,394,398
Interest	6,208	-	-	-	-	-	6,208	-	6,208	9,265
Donated services and equipment	-	371,027	-	-	-	-	371,027	-	371,027	473,357
Contributions	-	-	-	-	31,592	-	31,592	-	31,592	29,332
Other income	17,000	-	-	-	112,022	-	129,022	-	129,022	107,557
Net assets released from restrictions										
Expiration of time or purpose restrictions	599,399	85,629	-	43,513	-	-	728,541	(728,541)	-	-
Total support and revenue	625,561	457,077	576,673	127,298	279,722	-	2,066,331	81,557	2,147,888	2,013,909
Expenses										
Lawyer wages	173,712	9,830	286,144	52,551	165,225	-	687,462	-	687,462	595,707
Paralegal wages	15,482	-	15,624	6,112	8,017	-	45,235	-	45,235	42,683
Non-legal wages	87,779	99,346	126,234	25,135	27,155	-	365,649	-	365,649	323,921
Donated services and equipment	-	363,527	-	-	-	-	363,527	-	363,527	471,370
Employee benefits	120,228	29,904	102,324	22,621	20,523	-	295,600	-	295,600	254,501
Travel	17,783	2,529	8,963	3,511	8,515	-	41,301	-	41,301	30,460
Rent	3,236	4,732	28,142	6,612	6,123	-	48,845	-	48,845	48,110
Utilities and telephone	22,593	3,228	11,410	7,062	1,152	-	45,445	-	45,445	42,602
Office supplies, postage and printing	13,821	3,662	3,151	121	1,988	-	22,743	-	22,743	23,219
Advertising	1,812	-	3,151	525	3,515	-	9,003	-	9,003	12,358
Insurance	2,683	946	3,004	615	1,952	-	9,200	-	9,200	9,172
Professional dues	149	918	8,232	-	-	-	9,299	-	9,299	8,232
Repairs and maintenance	17,539	1,527	7,848	212	4,251	-	31,377	-	31,377	20,981
Litigation expense	711	3,319	220	-	151	-	4,401	-	4,401	4,441
Equipment rental	223	1,036	677	35	15	-	1,986	-	1,986	1,674
Training and conferences	1,248	2,253	125	151	515	-	4,292	-	4,292	9,041
Independent contracts	2,967	1,298	3,233	229	2,065	-	9,792	-	9,792	8,127
Library materials	9,378	1,278	6,680	952	1,058	-	19,346	-	19,346	17,651
Miscellaneous	1,356	1,201	1,511	854	1,154	-	6,076	-	6,076	10,805
Website	21,500	-	-	-	-	-	21,500	-	21,500	10,000
Depreciation	-	-	-	-	-	23,970	23,970	-	23,970	23,619
Total expenses	514,200	530,534	616,673	127,298	253,374	23,970	2,066,049	-	2,066,049	1,968,674
Change in net assets	111,361	(73,457)	(40,000)	-	26,348	(23,970)	282	81,557	81,839	45,235
Net assets at beginning of year	2,322	-	70,106	-	103,710	83,493	259,631	751,294	1,010,925	965,690
Add (deduct) acquisition of property	(34,010)	(7,500)	-	-	-	41,510	-	-	-	-
Transfers	(80,957)	80,957	-	-	-	-	-	-	-	-
Net assets at end of year	\$ (1,284)	\$ -	\$ 30,106	\$ -	\$ 130,058	\$ 101,033	\$ 259,913	\$ 832,851	\$ 1,092,764	\$ 1,010,925

BLUE RIDGE LEGAL SERVICES, INC.

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Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2008

<u>Federal Grantor/Pass-Through Grantor/ Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
Legal Services Corporation Basic field grant	*	\$ 755 217
U.S. Department of Health and Human Pass-through from Department on Aging Title III	93.282	<u>26 654</u>
Total Expenditures of Federal Awards		\$ <u><u>781 871</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, 2008

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, 2008, and have issued our report thereon dated March 25, 2009. 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 25, 2009

**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, 2008. 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, 2008.

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 25, 2009

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2008

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