

BLUE RIDGE LEGAL SERVICES, INC.

**Financial Statements
and
Accompanying Information
for the years ended
December 31, 2012 and 2011**

BLUE RIDGE LEGAL SERVICES, INC.

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Frank Barcalow CPA, P.L.L.C.
Certified Public Accountant

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Blue Ridge Legal Services, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit organizations*, and the statement of support, revenue and expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2013, on our consideration of Blue Ridge Legal Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Blue Ridge Legal Services, Inc.'s internal control over financial reporting and compliance.

Frank Barcalow CPA, P.L.L.C.

Frank Barcalow CPA, P.L.L.C.
Richmond, Virginia
March 28, 2013

BLUE RIDGE LEGAL SERVICES, INC.

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Statements of Financial Position

December 31, 2012 and 2011

Assets

	<u>2012</u>	<u>2011</u>
Current assets		
Cash	\$ 369 568	\$ 417 079
Cash in escrow, client deposits	2 773	3 652
Contributions receivable	743 602	620 616
Support receivable	27 089	37 077
Prepaid expenses	<u>5 897</u>	<u>3 941</u>
Total current assets	<u>1 148 929</u>	<u>1 082 365</u>
Property and equipment		
Land	6 724	6 724
Building and improvements	134 125	134 125
Furniture, fixtures and equipment	477 679	468 443
Law library	<u>18 695</u>	<u>18 695</u>
	637 225	627 987
Less accumulated depreciation	<u>566 165</u>	<u>549 066</u>
Total property and equipment	<u>71 060</u>	<u>78 921</u>
Total assets	<u>\$ 1 219 989</u>	<u>\$ 1 161 286</u>
Liabilities and net assets		
Current liabilities		
Accounts payable	\$ 11 045	\$ 17 560
Accrued annual leave	54 559	65 269
Deferred revenue	15 424	21 415
Client deposits	<u>2 773</u>	<u>3 652</u>
Total current liabilities	<u>83 801</u>	<u>107 896</u>
Commitments		
Net assets		
Unrestricted	392 586	321 232
Temporarily restricted	<u>743 602</u>	<u>732 158</u>
Total net assets	<u>1 136 188</u>	<u>1 053 390</u>
Total liabilities and net assets	<u>\$ 1 219 989</u>	<u>\$ 1 161 286</u>

See notes to financial statements.

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Statement of Activities

For the Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue				
Federal grants	\$ 37 608	\$ 672 555	\$ 710 163	\$ 695 273
State grants	534 550	-	534 550	522 273
Other support	279 654	71 047	350 701	363 819
Interest	1 014	-	1 014	2 839
Donated services	474 115	-	474 115	514 602
Contributions	157 907	-	157 907	54 226
	<u>1 484 848</u>	<u>743 602</u>	<u>2 228 450</u>	<u>2 153 032</u>
Net assets released from restrictions				
Expiration of time or purpose restrictions	<u>732 158</u>	<u>(732 158)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>2 217 006</u>	<u>11 444</u>	<u>2 228 450</u>	<u>2 153 032</u>
Expenses				
Program services				
Legal assistance	1 958 249	-	1 958 249	2 083 726
Supporting services				
Management and general	181 625	-	181 625	193 965
Fund-raising expenses	<u>5 778</u>	<u>-</u>	<u>5 778</u>	<u>6 631</u>
Total expenses	<u>2 145 652</u>	<u>-</u>	<u>2 145 652</u>	<u>2 284 322</u>
Change in net assets	71 354	11 444	82 798	(131 290)
Net assets at beginning of year	<u>321 232</u>	<u>732 158</u>	<u>1 053 390</u>	<u>1 184 680</u>
Net assets at end of year	<u>\$ 392 586</u>	<u>\$ 743 602</u>	<u>\$ 1 136 188</u>	<u>\$ 1 053 390</u>

See notes to financial statements.

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Statement of Cash Flows

For the Year Ended December 31, 2012

Cash flows from operating activities

Change in net assets	\$ 82 798
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used by) operating activities	
Depreciation	17 099
(Increase) decrease in contributions receivable	(122 986)
(Increase) decrease in other receivables	9 988
(Increase) decrease in prepaid expenses	(1 957)
Increase (decrease) in accounts payable	(6 513)
Increase (decrease) in deferred revenue	(5 991)
Increase (decrease) in accrued vacation	<u>(10 711)</u>

Net cash provided by (used in) operations (38 273)

Cash flows provided by (used in) investing activities

Additions to property and equipment	<u>(9 238)</u>
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Net cash provided by (used in) investing activities (9 238)

Net increase (decrease) in cash and cash equivalents (47 511)

Cash and cash equivalents, beginning of year 417 079

Cash and cash equivalents, end of year \$ 369 568

See notes to financial statements.

**Notes to Financial Statements
December 31, 2012****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.

Recently issues accounting standards

The Financial Accounting Standards (FASB) issued FASB ASC 105, Generally Accepted Accounting Principles, which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of FASB ASC 105, the organization has updated references to GAAP in its financial statements issued for the year ended December 31, 2010. The adoption of FASB ASC 105 did not impact the Organization's financial position or results of operations.

(continued)

**Notes to Financial Statements
December 31, 2012**

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	39 %
Legal Services Corporation of Virginia	31 %

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 \$5,000 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, 2012****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 \$7,256 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.

Investments

Investments are in certificate of deposits for one year or less and have readily determinable fair values and all investments are reported at their fair values which also approximate cost. There were no investments for the current or prior years.

Note 2 - Property and equipment accumulated depreciation

A summary of property and equipment accumulated depreciation follows:

	<u>2012</u>	<u>2011</u>
Building and improvements	\$ 111 561	\$ 109 254
Furniture, fixtures, library and equipment	<u>454 604</u>	<u>439 812</u>
	<u>\$ 566 165</u>	<u>\$ 549 066</u>

Depreciation expense aggregated \$17,099 in the current year.

BLUE RIDGE LEGAL SERVICES, INC.

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Notes to Financial Statements December 31, 2012

Note 3 - 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, 2012:

LSC basic field grant		\$ 669 232
LSC-PAI requirement		<u>12.5%</u>
Total LSC support for PAI		83 654
Total PAI expenses	571 051	
Less donated services	<u>474 115</u>	
Total net expenditures for PAI		<u>96 936</u>
Meets PAI requirement		<u><u>\$ (13 282)</u></u>

Note 4 - 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	\$ 669 252
United Way Agencies	
Alleghany	7 414
Harrisonburg and Rockingham	13 209
Greater Augusta	5 443
Northern Shenandoah Valley	8 011
Front Royal and Warren	6 663
Lexington and Rockbridge	10 000
Roanoke	4 166
Page	3 000
Franklin	<u>5 000</u>
Total support released from time restrictions	<u>\$ 732 158</u>

BLUE RIDGE LEGAL SERVICES, INC.

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Notes to Financial Statements December 31, 2012

Note 4 - Concentration of funding (concluded)

<u>Description</u>		<u>Support</u>
Legal Service Corporation of Virginia (LSCV)		
State	\$	528 326
IOLTA		<u>6 224</u>
Total LSCV support	\$	<u><u>534 550</u></u>
Federal awards		
Valley Program (Title III-Older Americans Act)	\$	15 886
Shenandoah Area (Title III-Older Americans Act)		8 807
Local Office on Aging - Roanoke (Title III-Older Americans Act)		6 685
Legal Services Corporation TIG grant		6 250
Legal Services Corporation decrease in funding	(20)
Legal Services Corporation (temporarily restricted)		<u>672 555</u>
Total federal support	\$	<u><u>710 163</u></u>
Other grants and contributions		
City of Harrisonburg	\$	10 019
Clarke County		2 000
Rockbridge County		2 705
Rockingham County		8 054
City of Roanoke		12 400
Warren County		3 812
City of Lexington		895
City of Buena Vista		774
Bath County		714
Alleghany County		1 691
Page County		2 845
Frederick County		2 851
Shenandoah County		1 000
Roanoke County		800
City of Covington		400
Other income		162 979
United Way agencies		<u>65 715</u>
Unrestricted support from other grants and contributions		279 654
United Way Agencies (temporarily restricted)		<u>71 047</u>
Total support from other grants and contributions	\$	<u><u>350 701</u></u>

**Notes to Financial Statements
December 31, 2012**

Note 5 - Temporarily restricted net assets

Total temporarily restricted net assets of \$743,602 are available for the period after December 31, 2012. The temporarily net assets are from the United Way in the amount of \$71,047 and Legal Services Corporation in the amount of \$672,555.

Total net assets released of \$732,158 in the current year from donor restrictions by satisfying the time restrictions specified by the United Way in the amount of \$62,906 and from Legal Services Corporation in the amount of \$669,252.

Note 6 - 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 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 7 - 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, 2012, from which the summarized information was derived.

Note 8 - 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 \$64,296 to the plan in 2012. The Corporation shall determine, in its sole discretion, the amount of employer contributions to be made to the plan.

**Notes to Financial Statements
December 31, 2012****Note 9 - Commitments**

The Corporation leases its Winchester office space under an operating lease at \$1,916 per month over a ten year lease ending in 2019.

The Staunton office is rented at \$150 per month on a month-to-month basis.

The Roanoke office signed a five-year lease in 2009 for office space with a payment of \$1,386 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 one year lease ending December 31, 2014 with minimum monthly lease payment of \$1,000 with a clause to renew for another 12 months. There is a clause in the Lexington lease if funding is reduced by 20% or more the lease may be terminated.

Total future minimum monthly lease payments are as follows:

2013	\$	54 064
2014		49 932
2015		24 239
2016		24 481
2017		24 726
2018		24 974
2019		<u>17 815</u>
	\$	<u>220 231</u>

Rental expense under these leases totaled \$57,436 in the current year.

Note 10 - Subsequent events

In preparing these financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through March 28, 2013 the date the financial statements were issued.

BLUE RIDGE LEGAL SERVICES, INC.

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**Notes to Financial Statements
December 31, 2012****Note 11 - Functional expenses, year ended December 31, 2012**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising Expenses</u>	<u>Total Expenses</u>
Lawyer wages	\$ 607,078	\$ 67,004	\$ 1,951	\$ 676,033
Paralegal wages	43,028	4,781	-	47,809
Non-legal wages	288,310	45,348	1,586	335,244
Donated services and equipment	474,115	-	-	474,115
Employee benefits	295,544	37,787	1,132	334,463
Travel	25,860	3,829	381	30,070
Rent	51,118	6,318	-	57,436
Utilities and telephone	34,062	3,959	251	38,272
Office supplies, postage and printing	18,845	2,024	401	21,270
Advertising	6,458	747	51	7,256
Insurance	7,079	787	-	7,866
Professional dues	8,653	455	-	9,108
Repairs and maintenance	14,563	2,371	-	16,934
Litigation expense	9,830	-	-	9,830
Equipment rental	1,964	320	-	2,284
Training and conferences	1,808	201	-	2,009
Independent contracts	11,216	1,826	-	13,042
Library materials	21,085	-	-	21,085
Miscellaneous	9,215	1,475	25	10,715
Other program expenses	13,712	-	-	13,712
Depreciation	14,705	2,394	-	17,099
Total expenses	\$ <u>1,958,249</u>	\$ <u>181,625</u>	\$ <u>5,778</u>	\$ <u>2,145,652</u>

Accompanying Information

BLUE RIDGE LEGAL SERVICES, INC.

Statement of Support, Revenue, and Expenses

Year Ended December 31, 2012

(With Summarized Financial Information for the Year Ended December 31, 2011)

	2012										
	Unrestricted										
	Basic	Legal Services Corporation TIG Grant	PAI	Legal Services Corporation of Virginia	United Way	Other	Property and Equipment	Total Unrestricted	Temporarily Restricted	2012 Total	2011 Total
Support and revenue											
Grants and contracts	\$ (20)		\$ -	\$ 534,550	\$ 65,715	\$ 129,838	\$ -	\$ 730,083	\$ 743,602	\$ 1,473,685	\$ 1,445,823
Interest	1,014		-	-	-	-	1,014	-	1,014	2,839	
Donated services and equipment	-		474,115	-	-	-	474,115	-	474,115	514,602	
Contributions	-		-	-	-	157,907	157,907	-	157,907	54,226	
Other income	-	6,250	-	-	-	115,479	121,729	-	121,729	135,542	
Net assets released from restrictions											
Expiration of time or purpose restrictions	585,595		83,657	-	62,906	-	732,158	(732,158)	-	-	
Total support and revenue	586,589	6,250	557,772	534,550	128,621	403,224	-	2,217,006	11,444	2,228,450	2,153,032
Expenses											
Lawyer wages	223,852	-	51,321	224,141	55,151	121,568	-	676,033	-	676,033	724,328
Paralegal wages	18,457	-	-	15,416	3,347	10,589	-	47,809	-	47,809	48,216
Non-legal wages	127,732	-	12,460	108,059	26,252	60,741	-	335,244	-	335,244	374,044
Donated services and equipment	-	-	474,115	-	-	-	-	474,115	-	474,115	498,557
Employee benefits	118,413	-	19,811	111,237	28,643	56,359	-	334,463	-	334,463	345,663
Travel	6,919	-	356	6,325	2,105	14,365	-	30,070	-	30,070	28,313
Rent	16,862	-	10,239	23,534	4,021	2,780	-	57,436	-	57,436	62,056
Utilities and telephone	11,103	-	-	9,629	2,679	14,861	-	38,272	-	38,272	40,240
Office supplies, postage and printing	11,386	-	-	7,935	1,489	460	-	21,270	-	21,270	26,566
Advertising	1,515	-	-	-	508	5,233	-	7,256	-	7,256	10,735
Insurance	2,377	-	546	2,489	551	1,903	-	7,866	-	7,866	9,829
Professional dues	-	-	-	9,108	-	-	-	9,108	-	9,108	9,346
Repairs and maintenance	2,155	-	-	4,658	1,185	8,936	-	16,934	-	16,934	19,645
Litigation expense	3,515	-	1,812	-	-	4,503	-	9,830	-	9,830	1,812
Equipment rental	849	-	-	739	160	536	-	2,284	-	2,284	2,115
Training and conferences	-	-	-	1,210	141	658	-	2,009	-	2,009	1,474
Independent contracts	4,498	-	349	2,330	913	4,952	-	13,042	-	13,042	13,765
Library materials	7,823	-	-	6,829	1,476	4,957	-	21,085	-	21,085	21,088
Miscellaneous	5,566	-	42	3,155	-	1,952	-	10,715	-	10,715	10,972
Other program expenses	-	11,500	-	1,015	-	1,197	-	13,712	-	13,712	14,714
Depreciation	-	-	-	-	-	-	17,099	17,099	-	17,099	20,844
Total expenses	563,022	11,500	571,051	537,809	128,621	316,550	17,099	2,145,652	-	2,145,652	2,284,322
Change in net assets	23,567	(5,250)	(13,279)	(3,259)	-	86,674	(17,099)	71,354	11,444	82,798	(131,290)
Net assets at beginning of year	1,685	1,000	-	8,285	-	231,341	78,921	321,232	732,158	1,053,390	1,184,680
Add (deduct) acquisition of property	-	-	-	-	-	(9,238)	9,238	-	-	-	-
Transfers	(13,279)	-	13,279	-	-	-	-	-	-	-	-
Net assets at end of year	\$ 11,973	(4,250)	\$ -	\$ 5,026	\$ -	\$ 308,777	\$ 71,060	\$ 392,586	\$ 743,602	\$ 1,136,188	\$ 1,053,390

BLUE RIDGE LEGAL SERVICES, INC.

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Schedule of Expenditures of Federal Awards**For the Year Ended December 31, 2012**

<u>Federal Grantor/Pass-Through Grantor/ Program</u>	<u>Federal Catalog Number</u>	<u>Federal Expenditures</u>
Legal Services Corporation Basic field grant	09.447081	\$ 712 958
U.S. Department of Health and Human Pass-through from Department on Aging Title III	93.282	<u>31 378</u>
Total Expenditures of Federal Awards		\$ <u><u>744 336</u></u>

The accompanying notes are an integral part of this schedule

**Notes to the Schedule of Expenditures of Federal Awards
December 31, 2012**

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal awards (the Schedule) includes the federal grant activity of Blue Ridge Legal Services, Inc. under programs of the federal government for the year ended December 31, 2012. 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. Because the Schedule presents only a selected portion of the operations of the Blue Ridge Legal Services, Inc., it is not intended to and does not present the financial position, changes in net assets, functional expenses or the cash flows of the Blue Ridge Legal Services, Inc.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, Cost Principles for Non-Profit Organizations, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Independent Auditor's Report on Internal Control Over the 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 in accordance with the 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, the financial statements of Blue Ridge Legal Services, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and issued our report thereon dated March 28, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Blue Ridge Legal Services, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Blue Ridge Legal Services, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Blue Ridge Legal Services Inc.'s financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Frank Barcalow CPA, P.L.L.C.

Frank Barcalow CPA, P.L.L.C.
Richmond, Virginia
March 28, 2013

**Independent Auditor's Report on
Compliance For Each Major Program and On Internal Control Over Compliance
Required by OMB Circular A-133**

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

We have audited Blue Ridge Legal Services, Inc.'s compliance with the types of compliance requirement described in the *OMB Circular A-133 Compliance Supplement and Legal Services Corporation Audit Guide and Compliance Supplements* that could have a direct and material effect on each of Blue Ridge Legal Services, Inc.'s major federal programs for the year ended December 31, 2012. Blue Ridge Legal Services, Inc. major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Blue Ridge Legal Services, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance with auditing standards generally accepted in the United States of America; 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 Legal Services Corporation Audit Guide and Compliance Supplements*. Those standards and OMB Circular A-133 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Blue Ridge Legal Services, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Blue Ridge Legal Services, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

The management of Blue Ridge Legal Services, Inc. is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Blue Ridge Legal Services, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Blue Ridge Legal Services, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Frank Barcalow CPA, P.L.L.C.

Frank Barcalow CPA, P.L.L.C.
Richmond, Virginia
March 28, 2013

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2012

A. Summary of audit results

Type of auditor’s report issued:	Unqualified
Financial statements - Internal control over financial reporting	
Deficiency identified	No
Material weaknesses identified	No
Significant deficiencies identified	None reported
Financial statements -	
Noncompliance material to financial statements	No
Federal awards - Internal control over major programs:	
Deficiency identified	No
Material weaknesses identified	No
Significant deficiencies identified not considered to be	
Material weaknesses	None reported

The auditor’s report on compliance for the major federal award programs for the Blue Ridge Legal Services, Inc. expresses an unqualified opinion.

No audit findings reported that were required to be disclosed in accordance with section 510(a) of Circular A-133.

The programs tested as major programs were:

<u>Name of Program</u>	<u>CFDA#</u>
Legal Services Corporation	
Basic Field Grant recipient	09.447081

The threshold for distinguishing Types A and B programs was \$300,000.

Auditee 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