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Independent Auditor's Report

Board of Directors
Lafayette Village Community Association, Inc.
Annandale, Virginia

We have audited the accompanying Balance Sheet of Lafayette Village Community Association, Inc. as of December 31, 2006, and the related Statements of Income, Members' Equity, and Cash Flows for the year then ended. These financial statements are the responsibility of the Association. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Lafayette Village Community Association as of December 31, 2005 were audited by other auditors whose report dated March 29, 2007 expressed a qualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 the Association, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2006 financial statements referred to above present fairly, in all material respects, the financial position of Lafayette Village Community Association, Inc. as of December 31, 2006, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 7 to the financial statements, the Association changed its basis of accounting from the cash basis to the accrual basis during 2006.

The supplementary information on future major repairs and replacements on page 9 is not a required part of the basic financial statements of Lafayette Village Community Association, Inc., but is supplementary information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Goldklang, Cavanaugh & Associates, P.C.

January 10, 2008

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION
BALANCE SHEET
DECEMBER 31, 2006

ASSETS

Cash and Cash Equivalents	$	12,366
Interest-Bearing Deposits		206,577
Assessments Receivable		32,287
Accrued Interest		910
Prepaid Expenses		10,178
Total Assets	$	262,318

LIABILITIES AND MEMBERS' EQUITY

Accounts Payable	$	2,629
Income Taxes Payable		891
Prepaid Assessments		12,574
Total Liabilities	$	16,094
Replacement Reserves	$	173,612
Unappropriated Members' Equity		72,612
Total Members' Equity	$	246,224
Total Liabilities and Members' Equity	$	262,318

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2006

INCOME:		
Assessments	$	302,316
Interest		8,551
Other		27,628
Total Income	$	338,495
EXPENSES:		
Management	$	29,295
Legal and Audit		8,831
Insurance		3,881
Administrative		19,981
Grounds Maintenance		78,217
Trash Removal		58,979
Pool		38,766
Common Area Maintenance		3,971
Erosion Control		12,364
Snow Removal		1,200
Electricity		2,342
Income Taxes		1,359
Total Expenses	$	259,186
Net Income before Contribution to Reserves and Cumulative Effect of a Change in Accounting Principle	$	79,309
Contribution to Reserves		(72,451)
Net Income before Cumulative Effect of a Change in Accounting Principle	$	6,858
Cumulative Effect of a change in Accounting Principle		(12,837)
Net Income (Loss)	$	(5,979)

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION
STATEMENT OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Replacement Reserves	Unappropriated Members' Equity	Total Members' Equity
Balance as of December 31, 2005	$ 149,911	$ 78,591	$ 228,502
Addition:			
Contribution to Reserves	72,451		72,451
Deductions:			
Paving	(48,750)		(48,750)
Net Loss		(5,979)	(5,979)
Balance as of December 31, 2006	$ 173,612	$ 72,612	$ 246,224

See Accompanying Notes to Financial Statements

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	$	(5,979)
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Decrease (Increase) in:		
Assessments Receivable		(32,287)
Accrued Interest		(910)
Prepaid Expenses		(10,178)
Increase (Decrease) in:		
Accounts Payable		2,629
Income Taxes Payable		210
Prepaid Assessments		12,574
Net Cash Flows from Operating Activities	$	(33,941)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Received from Assessments (Reserves)	$	72,451
Disbursed for Reserve Expenditures		(48,750)
Received from Interest-Bearing Deposits		48,750
Disbursed for Interest-Bearing Deposits		(101,519)
Net Cash Flows from Investing Activities	$	(29,068)
Net Change in Cash and Cash Equivalents	$	(63,009)
Cash and Cash Equivalents at Beginning of Year		75,375
Cash and Cash Equivalents at End of Year	$	12,366
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Income Taxes	$	1,159

See Accompanying Notes to Financial Statements

NOTE 1 - NATURE OF OPERATIONS:

The Association is organized under the laws of the Commonwealth of Virginia for the purposes of maintaining and preserving the common property of the Association. The Association is located in Annandale, Virginia and consists of 21 single-family homes and 294 townhomes. The Board of Directors administers the operations of the Association.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES:

A) Method of Accounting - The financial statements are presented on the accrual method of accounting in which revenues are recognized when earned and expenses recognized when incurred, not necessarily when received or paid.

B) Member Assessments - Association members are subject to monthly assessments to provide funds for the Association's operating expenses, future capital acquisitions, and major repairs and replacements. Assessments receivable at the balance sheet date represent fees due from homeowners. The Association's policy is to retain legal counsel and place liens on the properties of owners whose assessments are delinquent. Any excess assessments at year-end are retained by the Association for use in future years.

C) Common Property - Common real property and common areas acquired from the developer and related improvements to such property are not recorded in the Association's financial statements since the property cannot be disposed of at the discretion of the Board of Directors. Common property includes, but is not limited to, the land, recreational facilities and site improvements.

D) Estimates - The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions. Such estimates affect the reported amounts of assets and liabilities. They also affect the disclosure of contingent assets and liabilities, at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E) Cash Equivalents - For purposes of the statement cash flows, the Association considers all highly liquid investments and interest-bearing deposits with an original maturity date of three months or less to be cash equivalents.

NOTE 3 - REPLACEMENT RESERVES:

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are generally not available for expenditures for normal operations.

NOTE 3 - REPLACEMENT RESERVES: (CONTINUED)

The Association had a replacement reserve study conducted by a reserve analyst during 2003 and utilizes the cash flow method of funding for replacement reserves. The table included in the Supplementary Information on Future Major Repairs and Replacements is based on this study.

The Association is funding for future major repairs and replacements over the remaining useful lives of the components based on the study's estimates of the replacement costs and considering amounts previously accumulated in the replacement reserves. Accordingly, the funding recommendation of $72,451 of assessments (approximately $19 per home per month) has been included in the 2006 financial statements.

Funds are being accumulated in replacement reserves based on estimates by management. Actual expenditures may vary from the estimated future expenditures and the variations may be material; therefore, amounts accumulated in the replacement reserves may or may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Board of Directors, on behalf of the Association may increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available.

As of December 31, 2006, the Association had designated $173,612 for replacement reserves. These designated reserves were funded by cash and interest-bearing deposits.

NOTE 4 - INCOME TAXES:

For income tax purposes, the Association may elect annually to file either as an exempt homeowners association or as an association taxable as a corporation. As an exempt homeowners association, the Association's net assessment income would be exempt from income tax, but its interest would be taxed. Electing to file as a corporation, the Association is taxed on its net income from all sources (to the extent not capitalized or deferred) at normal corporate rates after corporate exemption, subject to the limitation that operating expenses are deductible only to the extent of income from members. For 2006, the Association's income taxes were calculated using the corporate method.

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

As of December 31, 2006, the Association maintained its funds in the following manner:

NOTE 5 - CASH AND INTEREST-BEARING DEPOSITS:

Institution	Type Account	Cash and Cash Equivalents	Interest-Bearing Deposits	Total
First National Bank of Arizona	Checking	$ 12,366	$ -	$ 12,366
SonaBank	Certificates of Deposit (2)		67,855	67,855
CapitalOne	Certificate of Deposit		64,711	64,711
Mercantile Potomac	Certificate of Deposit		27,306	27,306
Cardinal Bank	Certificates of Deposit (2)		46,705	46,705
	Totals	$ 12,366	$ 206,577	$ 218,943

NOTE 6 - CHANGE IN BASIS OF ACCOUNTING:

During 2006, the Association changed the basis of accounting from the cash basis to the accrual basis. The Association's prior years' financial statements, which were audited by other auditors, were presented on a modified cash basis. The accrual basis of accounting is defined in Note 2. The cumulative effect of the change in accounting principle was $12,837.

LAFAYETTE VILLAGE COMMUNITY ASSOCIATION, INC.
SUPPLEMENTARY INFORMATION ON FUTURE MAJOR
REPAIRS AND REPLACEMENTS
DECEMBER 31, 2006
(UNAUDITED)

The Association had a replacement reserve study conducted a reserve analyst during 2003 to estimate the remaining useful lives and the replacement costs of the components of common property. The Association utilizes the cash flow method of funding for replacement reserves. Replacement costs were based on the estimated costs to repair or replace the common property components at the date of the study. Estimated replacement costs do not take into account the effects of inflation between the date of the study and the date the components will require repair or replacement.

The following has been extracted from the Association's replacement reserve study and presents significant information about the components of common property.

Component	2003 Estimated Remaining Useful Life Years	2003 Estimated Replacement Cost
Streets and Parking	2-15	$ 401,340
Pool Building	2-19	51,570
Pool	2-11	144,545
Tot Lot and Recreation Area	1-19	47,300