

FINANCIAL STATEMENTS

WorldQuest Resort Condominium Association, Inc

DECEMBER 31, 2011

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WORLDQUEST RESORT CONDOMINIUM ASSOCIATION, INC.

FINANCIAL STATEMENTS

December 31, 2011

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**James M. Rowe
Certified Public Accountant**

Independent Auditors' Report

To the Board of Directors of
WorldQuest Resort Condominium Association, Inc.:

We have audited the accompanying balance sheet of WorldQuest Resort Condominium Association, Inc. (WQRCA) and the accompanying statements of financial position as of December 31, 2011 and the related statements of activities and of cash flows for the year then ended. These financial statements are the responsibility of WQRCA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits 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 the WorldQuest Resort Condominium Association, Inc. as of December 31, 2011 and the results of its operations and its cash flows for the year then ended in conformity with United States generally accepted accounting principles.

Accounting principles generally accepted in the United States of America require that the information on future major repairs and replacements on page 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with managements responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

James M. Rowe

Certified Public Accountant

April 24, 2012

**WorldQuest Resort Condominium Association, Inc.
Statement of Assets, Liabilities and Fund Balances
As of December 31, 2011**

	2011		2010		Total
	General Fund	Reserve Fund	General Fund	Reserve Fund	
<u>Assets</u>					
Cash and cash equivalents	\$ 531,379	\$ 474,633	\$ 246,683	\$ 373,737	\$ 620,420
Assessments receivable - owners	197,403	8,743	540,789	8,756	549,545
Allowance for Doubtful Accounts	(44,599)	-	(380,890)	-	(380,890)
Prepaid expenses and other assets	59,236	-	84,002	-	84,002
<u>Total Assets</u>	<u>\$ 743,419</u>	<u>\$ 483,376</u>	<u>\$ 490,584</u>	<u>\$ 382,493</u>	<u>\$ 873,077</u>
<u>Liabilities & Fund Balances</u>					
Accounts payable and accrued expenses	\$ 185,409	\$ -	\$ 98,057	\$ -	\$ 98,057
Fund Balances	558,009	483,376	392,527	382,493	775,020
<u>Total Liabilities & Fund Balances</u>	<u>\$ 743,419</u>	<u>\$ 483,376</u>	<u>\$ 490,584</u>	<u>\$ 382,493</u>	<u>\$ 873,077</u>

WorldQuest Resort Condominium Association, Inc.
Statement of Revenues, Expenses & Changes in Fund Balance
For the 12 Months Ended December 31, 2011

	2011		2010	
<u>Revenues</u>	General Fund	Reserve Fund	General Fund	Reserve Fund
Maintenance fee assessment - owner	\$ 1,075,788	\$ 100,884	\$ 1,244,690	\$ 100,884
Maintenance fee assessment - developer	-	-	-	-
Other Income	(37,818)	-	102,840	397
	-	-	-	-
	-	-	-	-
Total Revenues	\$1,037,970	\$100,884	\$1,347,530	\$101,281
	\$ 124,583	\$ -	\$ 121,785	\$ -
<u>Expenses</u>	307	-	1,109	-
Utilities	-	-	-	-
Taxes and licenses	59,976	-	59,976	-
Management Fees	150,107	-	155,319	-
Repairs and maintenance	34,737	-	26,350	-
Administrative and general	177,248	-	167,294	-
Common area maintenance	184,251	-	219,171	-
Insurance	346,631	-	314,074	-
Telecommunications	5,287	-	(10,996)	-
Legal and professional	125,650	-	83,090	-
Security service	(336,291)	-	115,132	-
Allowance for doubtful accounts	872,487	-	1,252,304	-
Total Expenses	872,487	-	1,252,304	115,132
	165,483	100,884	95,226	101,281
Net Revenues/(Expenses)	266,367	266,367	196,507	196,507
<u>Other Changes in Fund Balances</u>	-	-	-	-
Fund balances at Beginning of the Year	392,526	382,493	297,301	281,213
Working Capital Contributions	-	-	-	-
Interfund Transfers	-	-	-	-
	-	-	-	-
	-	-	-	-
Fund Balances at the End of the Year	\$ 558,009	\$ 483,377	\$ 392,527	\$ 382,494
	\$ 1,041,386	\$ 1,041,386	\$ 775,019	\$ 775,019
	\$ 775,019	\$ 775,019	\$ 578,514	\$ 578,514
	\$ 578,514	\$ 578,514	\$ 115,132	\$ 115,132
	\$ 115,132	\$ 115,132	\$ 1,252,304	\$ 1,252,304
	\$ 1,252,304	\$ 1,252,304	\$ 1,252,304	\$ 1,252,304

See Notes to Financial Statements

WorldQuest Resort Condominium Association, Inc.
Statement of Cash Flows
As of December 31, 2011

	2011		2010		
	General Fund	Reserve Fund	General Fund	Reserve Fund	Total
<u>Cash Flows From Operating Activities</u>					
Assessments collected - owners	\$ 1,514,612	\$ 100,884	\$ 1,427,588	\$ 100,918	\$ 1,528,506
Other Income	(37,818)	-	102,840	397	103,237
Cash paid for expenditures	(1,192,099)	-	(1,304,967)	-	(1,304,967)
<u>Net Cash Provided by Operating Activities</u>	284,695	100,884	225,461	101,315	326,776
<u>Cash Flows from Investing Activities</u>					
Working Capital Contribution	-	-	-	-	-
Interfund Transfers	-	-	-	-	-
<u>Net Cash Provided (Used) by Investing Activities</u>	-	-	-	-	-
<u>Net Increase in Cash and Cash Equivalents</u>	284,695	100,884	225,461	101,315	326,776
<u>Cash and Cash Equivalents at Beginning of Year</u>	246,684	373,737	21,223	272,422	293,645
<u>Cash and Cash Equivalents at End of Year</u>	\$531,379	\$474,621	\$246,684	\$373,737	\$620,421

WorldQuest Resort Condominium Association, Inc.
 Statement of Cash Flows
 As of December 31, 2011

	2011		2010	
	General Fund	Reserve Fund	General Fund	Reserve Fund
	Total		Total	
<u>Excess of (expenses over revenues)/ revenues over expenses</u>	\$ 165,483	\$ 100,884	\$ 266,367	\$ 196,507
Adjustments to reconcile excess of revenues over expenses (expenses over revenues) to net cash provided by operating activities:				
Increase in assessments receivable owners	343,386	-	343,386	-
Increase in assessments receivable developer	-	-	-	182,898
Increase in due from affiliates	-	-	-	-
Increase in prepaid expenses and other assets	24,766	-	24,766	-
Increase in accounts payable and accrued expenses	87,352	-	87,352	-
Increase in allowance for doubtful accounts	(336,292)	-	(336,292)	-
Total Adjustments	119,212	-	119,212	(68,070)
<u>Net Cash (used in)/provided by operating activities</u>	\$ 284,695	\$ 100,884	\$ 385,579	\$ 326,743
			\$ 225,462	\$ 101,281
				\$ 196,507

See Notes to Financial Statements

WORLDQUEST RESORT CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A – ORGANIZATION

WorldQuest Resort Condominium Association, Inc. (Association) is a statutory condominium association incorporated October 22, 2004 under the laws of the State of Florida as a corporation not for profit, for the purpose of providing maintenance, preservation, and control of the common areas within the condominiums development and is located in Orlando, Florida, in accordance with the terms of Chapter 718 of the Florida Condominium Act. The Association consists of Phases 1-7 and contains 238 units. As a Phase is added, the owner of each unit shall become a member of the Association. If all phases are completed the association could total 1,986 units.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Accounting

The Association's governing documents provide certain guidelines for governing its financial activities. To ensure observance of limitations and restrictions on the use of financial resources, the Association maintains its accounts using fund accounting. Financial resources are classified for accounting and reporting purposes in the following funds established according to their nature and purpose.

Operating Fund – This fund reflects the operating assessments paid by owners to meet the regular, recurring costs of operation. Expenditures from this fund are generally at the discretion of the Board of Directors (the "board") and management of the Association and are limited to the day to day activities of the Association.

Replacement Fund – This fund is used to accumulate financial resources designated for future major repairs and replacements. Expenditures from this fund are restricted to those items for which assessments were levied.

Income Taxes

Condominium associations may be taxed either as homeowner's associations or as regular corporations. The Association has elected to be taxed as a homeowners' association under Section 528 of the Internal Revenue Code. This Section provides that the Association will be taxed only on nonexempt income as defined under Section 528. Net nonexempt function income, which includes interest earned and revenues received from nonmembers, is taxed at 32% by the federal government.

WORLDQUEST RESORT CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

DECEMBER 31, 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Cash Equivalents

Cash consists of bank deposits and cash on hand. At times bank deposits may exceed federally insured limits.

Statement of Cash Flows

For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less at the date of purchase to be cash equivalents. Cash and cash equivalents consist of checking and money market accounts held by financial institutions.

Members' 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. Members' assessments received in advance are classified as prepaid assessments on the balance sheet. The Association retains excess operating funds at the end of the operating year, if any, for use in future operating periods.

Allowance for Uncollectible Assessments

Assessments Receivable at the balance sheet date represent fees due from unit owners. It is the Association's policy that unpaid assessments for a period of 45 days after the due date shall bear interest at the rate of 1.5% plus \$10 per month. The Association shall have a lien on each unit for unpaid assessments along with unpaid interest. The allowance for uncollectible assessments is based on the Association's best estimate using historical collection factors of assessment receivable accounts not being collected. The ultimate loss on assessments receivable may vary from current estimates. Any adjustments to these estimates are included in earnings in the period in which such adjustments become known. At December 31, 2011 the estimated uncollectible assessments are \$44,599. At the end of December 31, 2010 the Association estimated uncollectible assessments were \$380,890.

WORLDQUEST RESORT CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

DECEMBER 31, 2011

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interest Earned

Interest is recorded in the fund in which it was earned.

Basis of Accounting

These financial statements have been prepared on the accrual basis of accounting which recognizes revenues when assessed or earned and expenses when incurred.

Property and Equipment

Real common property acquired from the Developer and related improvements to such property are not recorded in the Association's financial statements because it is commonly owned by the individual owners and is not the property of the Association. The Association has no common personal property.

Use of Estimates

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

Concentrations of Credit Risk

Financial instruments that potentially subject the Association to concentrations of credit risk consist of temporary cash investments. The Association places such assets if it has any with a quality financial institution and limits its exposure to any potential loss in excess of federally insured limits.

WORLDQUEST RESORT CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS - CONTINUED

DECEMBER 31, 2011

NOTE C - FUTURE MAJOR REPAIRS AND REPLACEMENTS

The Association accumulates funds for future major repairs and replacements. Accumulated funds, which sum to approximately \$483,376 and \$382,028 at December 31, 2011 and 2010 respectively, are held in the Association's reserve account. These accumulated funds are not available for expenditures for normal operations.

The Association's Board will annually review the major components of common property. As a part of this review, the Board will re-evaluate the estimated remaining useful lives and the estimated current replacement costs of each components of the Replacement Fund, considering amounts previously accumulated in the replacement fund. Actual expenditures may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet future needs. If additional funds are needed, however, the Association has the right, subject to member approval, to increase regular assessments or levy special assessments or it may delay major replacements and repairs until funds are available.

NOTE D - MANAGEMENT FEE ASSESSMENT

Pursuant to the Declaration and Bylaws of the Association, assessments (both regular and special) and related expenses are allocated and charged to owners and the developer, on unsold unit months, in the proration provided in the Declaration. The annual assessment to owners was as follows:

	<u>Total Assessment</u>	<u>Maintenance Fee Assessment</u>	<u>Replacement Fee Assessment</u>
2010	\$479	\$444	\$35
2011	\$412	\$377	\$35

At December 31, 2011 and 2010, the Developer owned 94 and 96 units respectively.

WORLDQUEST RESORT CONDOMINIUM ASSOCIATION, INC.

NOTES TO FINANCIAL STATEMENTS – CONTINUED

DECEMBER 31, 2011

NOTE E – MANAGEMENT FEES

The Association entered into a management agreement, effective July 31, 2006, to retain a non-related third party (Management Company) as managers of the property. This agreement was in effect for a period of three years and expired on June 30, 2009. It was renewed on July 1st, 2009 for another three years with a new fee schedule. The new fee schedule is based upon \$21 per unit, per month. The Management Company has been bought by a new Management Company. This contract continues in effect with the new management company. For the year ended December 31, 2011 and the period ended December 31, 2010, the Association incurred management fees amounting to \$59,976 and \$59,976, respectively.

NOTE F – CONCENTRATIONS AND CREDIT RISK

Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of cash. Concentrations of credit risk with respect to assessments receivable are limited due to number of owners and their geographical dispersion.

NOTE G – CONTINGENCIES

Worldquest Condominium Association is currently one of several defendants in a lawsuit filed by individual owners of condominium units at Worldquest that do not participate in the Developer-sponsored rental program. The Developer (Ashford TRS WQ, LLC) has reviewed the lawsuit, and on the advice of counsel, believes it is without merit, that the COA is not a proper defendant in the lawsuit, and is taking the legal steps necessary to have the COA dropped from the lawsuit. As of the date hereof, the Developer is paying all legal costs associated with the lawsuit.

James M. Rowe
Certified Public Accountant

**Independent Auditor's Report
On Supplemental Information**

Board of Directors
WorldQuest Resort Condominium Association, Inc.
Orlando, FL

Our report on our audit of the basic financial statements of WorldQuest Resort Condominium Association, Inc. for the year ended December 31, 2011 appears on page 1. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplemental Information on Future Major Repairs and Replacements on page 12 is not a required part of the basic financial statements, but is supplemental information required by the American Institute of Certified Public Accountants. We have applied certain limited procedures which consisted principally of inquiries of management information. However, we did not audit the information and express no opinion on it.

James M. Rowe

Certified Public Accountant

April 24, 2012

World Quest Resort Condominium Association, Inc.

**Supplemental Information on Future
Major Repairs and Replacements**

December 31, 2011
(Unaudited)

The Association's board of directors conducted studies to determine the remaining useful lives and the replacement costs of the components of common property. Replacement costs were based on the estimated costs to repair or replace the common property components at the time of the study. Estimated current replacement costs have not been revised since that date and do not take into account the effects of inflation between the date of the study and the date that the components will require repair or replacement.

The following table is based on this review and presents significant information about the components of common property:

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Cost	Components of Replacement Fund Balance 12/31/2010	Members Assessments	Charges to Fund	Components of Replacement Fund Balance 12/31/2011
Phase I-III						
Roof replacement	46.5	700,000	60,506	13,034		73,540
Building painting	3.5	150,000	87,298	18,471		105,769
Elevators	21.5	225,000	38,650	8,379		47,029
Pavement resurfacing	1.5	18,000	15,322	3,352		18,674
		1,093,000	201,776	43,236		245,012

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Cost	Components of Replacement Fund Balance 12/31/2010	Members Assessments	Charges to Fund	Components of Replacement Fund Balance 12/31/2011
Phase IV-V						
Roof replacement	47.67	466,667	30,398	8,689		39,087
Building painting	4.67	100,000	43,424	12,314		55,738
Elevators	22.67	150,000	19,256	5,586		24,842
Pavement resurfacing	2.67	12,000	7,066	2,234		9,300
		728,667	100,144	28,824		128,968

World Quest Resort Condominium Association, Inc.

**Supplemental Information on Future
Major Repairs and Replacements
Continued**

**December 31, 2011
(Unaudited)**

Components	Estimated Remaining Useful Lives (Years)	Estimated Current Replacement Cost	Components of Replacement Fund Balance 12/31/2010	Members Assessments	Charges to Fund	Components of Replacement Fund Balance 12/31/2011
Phase VI-VII						
Roof replacement	48.26	466,667	24,470	8,689		33,159
Building painting	5.26	100,000	33,879	12,314		46,193
Elevators	23.26	150,000	15,577	5,586		21,163
Pavement resurfacing	3.26	12,000	6,181	2,235		8,416
		<u>728,667</u>	<u>80,107</u>	<u>28,824</u>		<u>108,931</u>
Grand Total		<u>2,550,334</u>	<u>382,027</u>	<u>100,884</u>		<u>482,911</u>

WorldQuest Resort Condominium Association, Inc.

Budget Comparison

As of December 31, 2011

<u>Revenues</u>	Actual	Budget	Variance (Unaudited)
Maintenance fee assessment - owner	1,176,672	1,176,677	(5)
Maintenance fee assessment - developer	-	-	-
Other Income	(37,818)	-	(37,818)
Total Revenues	1,138,854	1,176,677	(37,823)
<u>Expenses</u>			
Utilities	124,583	147,990	(23,407)
Taxes and licenses	307	960	(653)
Management Fees	59,976	59,978	-
Repairs and maintenance	150,107	264,560	(114,453)
Administrative and general	34,737	18,950	15,787
Common area maintenance	177,248	95,126	82,122
Insurance	184,251	235,873	(51,622)
Telecommunications	346,631	314,160	32,471
Legal and professional	5,287	4,996	291
Security service	125,650	121,764	3,886
Allowance for doubtful accounts	(336,291)	38,946	(375,237)
Replacement Fund	100,884	100,884	-
Total Expenses	973,370	1,404,185	(430,815)
<u>Excess of (Expenses over Revenues)/ Revenues over Expenses</u>	165,484	(227,508)	392,992