

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2007**

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Supervisors
Captain's Key Dependent District
Palm Beach County, Florida

We have audited the accompanying financial statements of the governmental activities and the major fund of Captain's Key Dependent District, Palm Beach County, Florida (the "District") as of and for the fiscal year ended September 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the District as of September 30, 2007, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2008 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grau & Associates

August 20, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Captain's Key Dependent District, Palm Beach County, Florida ("District") provides a narrative overview of the District's financial activities for the fiscal year ended September 30, 2007. Please read it in conjunction with the District's Independent Auditor's Report, basic financial statements, accompanying notes and supplementary information to the basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the fiscal year ended September 30, 2007 resulting in a net asset balance of \$63,713. Of this amount, \$51,146 is unrestricted net assets which may be used to meet the District's ongoing obligations.
- The District's total net assets increased by \$40,321 in comparison with the prior year. The key components of the District's net assets and change in net assets are reflected in the table in the government-wide financial analysis section.
- At September 30, 2007, the District's governmental fund reported an ending fund balance of \$51,146, an increase of \$30,797 in comparison with the prior year. The total fund balance of \$51,146 is unreserved, undesignated fund balance which is available for spending at the District's discretion.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as the introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements include all governmental activities that are principally supported by special assessment revenues. The District does not have any business-type activities. The governmental activities of the District include the general government (management) and maintenance functions.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has one fund category: governmental funds.

OVERVIEW OF FINANCIAL STATEMENTS (Continued)

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflow of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains one individual governmental fund the general fund which is a major fund.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with the budget.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. In the case of the District, assets exceeded liabilities by \$63,713 at the close of the fiscal year ended September 30, 2007.

The largest portion of the District's net assets reflects unrestricted net assets of \$51,146 which may be used to meet the District's obligations.

An additional portion of the District's net assets represents investment in capital assets (e.g. land, land improvements, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to residents; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Key components of the District's net assets are reflected in the following table:

NET ASSETS		
SEPTEMBER 30,		
	2007	2006
Assets, excluding capital assets	\$ 63,691	\$ 36,399
Capital assets, net of depreciation	210,576	117,704
Total assets	<u>274,267</u>	<u>154,103</u>
Liabilities, excluding long-term liabilities	8,797	11,861
Long-term liabilities	201,757	118,850
Total liabilities	<u>210,554</u>	<u>130,711</u>
Net Assets		
Invested in capital assets, net of related debt	12,567	3,043
Unrestricted	51,146	20,349
Total net assets	<u>\$ 63,713</u>	<u>\$ 23,392</u>

The District's net assets increased by \$40,321 during the fiscal year ended September 30, 2007. The majority of the increase represents the extent to which ongoing program revenues exceeded general government and debt service expenses.

Key elements of the change in net assets are reflected in the following table:

FOR THE FISCAL YEAR END SEPTEMBER 30,		
	2007	2006
Revenues:		
Program revenues	\$ 112,664	\$ 149,603
General revenues	1,194	897
Total revenues	<u>113,858</u>	<u>150,500</u>
Expenses:		
General government	49,250	39,592
Maintenance and operations	12,715	1,123
Interest	11,572	5,743
Total expenses	<u>73,537</u>	<u>46,458</u>
Change in net assets	40,321	104,042
Net assets beginning	23,392	(80,650)
Net assets ending	<u>\$ 63,713</u>	<u>\$ 23,392</u>

Program revenues comprised of primarily assessments, decreased by \$36,939 (24% percent) during the fiscal year. In the prior year, program revenues were comprised of approximately \$82,203 in assessments and approximately \$67,400 in donated assets contributed by Palm Beach County.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

FINANCIAL ANALYSIS OF GOVERNMENTAL FUNDS (Continued)

The general fund is the operating fund of the District and includes all activities related to providing management and operating services.

In the table below we have presented the cost of the largest functions/programs as a percentage of total governmental funds.

FOR THE FISCAL YEAR END SEPTEMBER 30,

	2007		2006	
General government	\$ 49,250	26%	\$ 39,592	20%
Interest and principal on long-term debt	35,549	19%	40,720	20%
Capital outlay	105,587	55%	118,827	60%
Total	<u>\$ 190,386</u>	<u>100%</u>	<u>\$ 199,139</u>	<u>100%</u>

As noted above, capital outlay comprises the majority of expenditures for total governmental activities for the current and prior year.

GENERAL BUDGETING HIGHLIGHTS

An operating budget was adopted and maintained by the governing board for the District pursuant to the requirements of Florida Statutes. The budget is adopted using the same basis of accounting that is used in preparation of the fund financial statements. The legal level of budgetary control, the level at which expenditures may not exceed budget, is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The 2007 general fund budget was amended to increase revenues by \$24,161 and increase appropriations by \$105,742. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2007.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2007, the District had \$224,414 invested in an entrance way, gate system, and roadways. In the government-wide statements, depreciation of \$13,838 has been taken, which resulted in a net book value of \$210,576. More detailed information about the District's capital assets is presented in the notes of the financial statements.

Long-term Debt

At September 30, 2007, the District had a \$201,757 promissory note outstanding, an increase of approximately 69% from the prior year. More detailed information about the District's long-term debt is presented in the notes of the financial statements.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages and the stewardship of the facilities it maintains. If you have questions about this report or need additional financial information, contact the Captain's Key Dependent District's Finance Department at 2501A Burns Road, Palm Beach Gardens, FL 33410.

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

	Governmental Activities
ASSETS	
Cash	\$ 59,206
Assessments and other receivables	737
Deferred charges	3,748
Capital assets:	
Depreciable, net	210,576
Total assets	274,267
 LIABILITIES	
Accounts payable	8,797
Non-current liabilities:	
Due within one year	18,355
Due in more than one year	183,402
Total liabilities	210,554
 NET ASSETS	
Invested in capital assets, net of related debt	12,567
Unrestricted	51,146
Total net assets	\$ 63,713

See notes to the financial statements

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Charges for Services	Operating Grants and Contributions	Governmental Activities	
<u>Functions/Programs</u>				
Primary government:				
Governmental activities:				
General government	\$ 49,250	\$ -	\$ -	
Maintenance and operations	12,715	21,975	21,975	
Interest on long-term debt	11,572	-	17,152	
Total governmental activities	73,537	21,975	39,127	
General revenues:				
Unrestricted investment earnings			1,194	
Total general revenues			1,194	
Change in net assets			40,321	
Net assets - beginning			23,392	
Net assets - ending			\$ 63,713	

See notes to the financial statements

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007**

	Major Fund General	Total Governmental Funds
ASSETS		
Cash	\$ 59,206	\$ 59,206
Assessments and other receivables	737	737
Total assets	\$ 59,943	\$ 59,943
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 8,797	\$ 8,797
Total liabilities	8,797	8,797
Fund balances:		
Unreserved, undesignated	51,146	51,146
Total fund balances	51,146	51,146
Total liabilities and fund balances	\$ 59,943	\$ 59,943

See notes to the financial statements

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007**

Amounts reported for governmental activities in the statement of net assets are different because:

Fund balance - governmental funds		\$ 51,146
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds. The statement of net assets includes those capital assets, net of any accumulated depreciation, in the net assets of the government as a whole.</p>		
Cost of capital assets	224,414	
Accumulated depreciation	<u>(13,838)</u>	210,576
<p>Loan issue costs are not financial resources and, therefore are not reported as assets in the governmental funds. The statements of net assets includes these costs, net of amortization.</p>		
Loan issue costs	4,850	
Accumulated amortization	<u>(1,102)</u>	3,748
<p>Liabilities not due and payable from current available resources are not reported as liabilities in the governmental fund statements. All liabilities, both current and long-term, are reported in the government-wide statements.</p>		
Promissory note	<u>(201,757)</u>	<u>(201,757)</u>
Net assets of governmental activities		<u><u>\$ 63,713</u></u>

See notes to the financial statements

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

	Major Fund	Total
	General	Governmental Funds
REVENUES		
Assessments	\$ 90,689	\$ 90,689
Other revenue	21,975	21,975
Interest	1,194	1,194
Total revenues	113,858	113,858
EXPENDITURES		
Current:		
General government	49,250	49,250
Debt Service:		
Principal	24,418	24,418
Interest	11,131	11,131
Capital outlay	105,587	105,587
Total expenditures	190,386	190,386
Excess (deficiency) of revenues over (under) expenditures	(76,528)	(76,528)
OTHER FINANCING SOURCES		
Draws on promissory note	107,325	107,325
Other financing sources	107,325	107,325
Net change in fund balances	30,797	30,797
Fund balances - beginning	20,349	20,349
Fund balances - ending	\$ 51,146	\$ 51,146

See notes to the financial statements

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 30,797
Governmental funds report capital outlays as expenditures; however, the cost of capital assets is eliminated in the statement of activities and capitalized in the statement of net assets.	105,587
Depreciation on capital assets is not recognized in the governmental fund statement but is reported as an expense in the statement of activities.	(12,715)
Governmental funds report draws on promissory notes when made, whereas these draws are eliminated in the statement of activities and recognized as long-term liabilities in the statement of net assets.	(107,325)
Governmental funds report the effect of issuance of costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	(441)
Repayment of long-term liabilities are reported as expenditures in the governmental fund statement but such repayments reduce liabilities in the statement of net assets and are eliminated in the statement of activities.	24,418
Change in net assets of governmental activities	\$ 40,321

See notes to the financial statements

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Captain's Key Dependent District ("District") was created on July 13, 2004 by Ordinance 2004-018 of the Palm Beach County, Florida, pursuant to Chapter 189, Florida Statutes. The Act provides among other things, the power to manage basic services for community development, power to borrow money and issue bonds, and to levy and assess non-ad valorem assessments for the financing and delivery of capital infrastructure. The District is considered a dependent district according to Florida Statute and under Palm Beach County Ordinance 2004-018 because during unexpired terms, its governing body members are subject to removal at will by the Board of County Commissioners.

The District was established for the purposes of financing and managing the acquisition, construction, maintenance and operation of a portion of the infrastructure necessary for community development within the District.

The District is defined as an independent special district under the Uniform Special District Accountability Act of 1989, otherwise known as Chapter 189 of the Florida Statutes. Chapter 189 mandates certain requirements for the formation, dissolution and reporting of special districts.

The Board has the responsibility for:

1. Assessing and levying assessments.
2. Approving budgets.
3. Exercising control over facilities and properties.
4. Controlling the use of funds generated by the District.
5. Approving the hiring and firing of key personnel.
6. Financing improvements.

The financial statements were prepared in accordance with Governmental Accounting Standards Board ("GASB") Statement 14, and Statement 39, an amendment of GASB Statement 14. Under the provisions of those standards, the financial reporting entity consists of the primary government, organizations for which the District Board of Supervisors is considered to be financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that, if excluded, the financial statements of the District would be considered incomplete or misleading. There are no entities considered to be component units of the District; therefore, the financial statements include only the operations of the District.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment (Operating-type special assessments for maintenance and debt service are treated as charges for services), and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not included among program revenues are reported instead as *general revenues*.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Assessments are recognized as revenues in the year for which they are levied. Grants and similar items are to be recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Assessments

Assessments are non-ad valorem assessments on all platted lots within the District. Assessments are levied each November 1 on property as of the previous January 1 to pay for the operations and maintenance of the District. The fiscal year for which annual assessments are levied begins on October 1 with discounts available for payments through February 28 and become delinquent on April 1. For debt service assessments, amounts collected as advance payments are used to prepay a portion of the Bonds outstanding. Otherwise, assessments are collected annually to provide funds for the debt service on the portion of the Bonds which are not paid with prepaid assessments.

Assessments and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The District reports the following major governmental fund:

General Fund

The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

The District has elected to proceed under the Alternative Investment Guidelines as set forth in Section 218.415 (17) Florida Statutes. The District may invest any surplus public funds in the following:

- a) The Local Government Surplus Trust Funds, or any intergovernmental investment pool authorized pursuant to the Florida Interlocal Cooperation Act;
- b) Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency;
- c) Interest bearing time deposits or savings accounts in qualified public depositories;
- d) Direct obligations of the U.S. Treasury.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (Continued)

Deposits and Investments (Continued)

Securities listed in paragraph c and d shall be invested to provide sufficient liquidity to pay obligations as they come due.

The District records all interest revenue related to investment activities in the respective funds and reports investments at fair value.

Inventories and Prepaid Items

Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, sidewalks and similar items) are reported in the government activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure – roadways	30
Infrastructure – entrance and gate system	15

In the governmental fund financial statements, amounts incurred for the acquisition of capital assets are reported as fund expenditures. Depreciation expense is not reported in the governmental fund financial statements.

Deferred Charges

In a prior year, in connection with the issuance of certain debt, the District incurred costs totaling \$4,850. In the government-wide financial statements that amount has been capitalized and amortized over the estimated life of the debt. At September 30, 2007 the District reported accumulated amortization of \$1,102.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities and Net Assets or Equity (continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Issuance costs are deferred and amortized ratably over the life of the loan using the straight-line method, which does not result in a material difference from the effective interest method.

In the fund financial statements, governmental fund types recognize issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures

Fund Equity/Net Assets

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net assets in the government-wide financial statements are categorized as invested in capital assets, net of related debt, restricted or unrestricted. Invested in capital assets, net of related debt represents net assets related to infrastructure and property, plant and equipment, net of any related debt.

Other Disclosures

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 the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

The District is required to establish a budgetary system and an approved Annual Budget. Annual Budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund. All annual appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements.

- a) Each year the District Manager submits to the District Board a proposed operating budget for the fiscal year commencing the following October 1.
- b) Public hearings are conducted to obtain comments.
- c) Prior to October 1, the budget is legally adopted by the District Board.
- d) All budget changes must be approved by the District Board.
- e) The budgets are adopted on a basis consistent with generally accepted accounting principles.
- f) Unused appropriation for annually budgeted funds lapse at the end of the year.

NOTE 3- CASH

The District's cash balances were entirely covered by federal depository insurance or by a collateral pool pledged to the State Treasurer. Florida Statutes Chapter 280, "Florida Security for Public Deposits Act", requires all qualified depositories to deposit with the Treasurer or another banking institution eligible collateral equal to various percentages of the average daily balance for each month of all public deposits in excess of any applicable deposit insurance held. The percentage of eligible collateral (generally, U.S. Governmental and agency securities, state or local government debt, or corporate bonds) to public deposits is dependent upon the depository's financial history and its compliance with Chapter 280. In the event of a failure of a qualified public depository, the remaining public depositories would be responsible for covering any resulting losses.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2007 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental activities</u>				
Capital assets, not being depreciated				
Infrastructure in progress	\$ 51,427	\$ 105,587	\$ 157,014	\$ -
Total capital assets, not being depreciated	<u>51,427</u>	<u>105,587</u>	<u>157,014</u>	<u>-</u>
Capital assets, being depreciated				
Infrastructure - roadways	67,400	-	-	67,400
Infrastructure - entrance and gate system	-	157,014	-	157,014
Total capital assets, being depreciated	<u>67,400</u>	<u>157,014</u>	<u>-</u>	<u>224,414</u>
Less accumulated depreciation for:				
Infrastructure - roadways	1,123	2,247	-	3,370
Infrastructure - entrance and gate system	-	10,468	-	10,468
Total accumulated depreciation	<u>1,123</u>	<u>12,715</u>	<u>-</u>	<u>13,838</u>
Total capital assets, being depreciated, net	<u>66,277</u>	<u>144,299</u>	<u>-</u>	<u>210,576</u>
Governmental activities capital assets, net	<u>\$ 117,704</u>	<u>\$ 249,886</u>	<u>\$ 157,014</u>	<u>\$ 210,576</u>

In a prior year, Palm Beach County conveyed roadways, which were recorded at \$67,400, to the District. In the current year, the District's entrance and gate system infrastructure was placed in service as of fiscal year ended September 30, 2007.

NOTE 5 – LONG-TERM LIABILITIES

On March 31, 2005, the District entered into a promissory note with a principal amount not to exceed \$250,000. On September 26, 2007, the District entered into a modified promissory note with a principal amount not to exceed \$266,299. The modified Note is due March 31, 2016 with an interest rate of 6.50%. The notes were issued to finance the construction of certain improvements for the benefit of the District. Principal and interest of \$2,580 shall be paid in 102 equal monthly installments commencing on October 31, 2007.

NOTE 5 – LONG-TERM LIABILITIES (Continued)

Long-term Debt activity

Changes in long-term liability activity for the fiscal year ended September 30, 2007 were as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental activities</u>					
Promissory Note	\$ 118,850	\$ 107,325	\$ 24,418	\$ 201,757	\$ 18,355
Total	<u>\$ 118,850</u>	<u>\$ 107,325</u>	<u>\$ 24,418</u>	<u>\$ 201,757</u>	<u>\$ 18,355</u>

At September 30, 2007, the scheduled debt service requirements on the long - term debt were as follows:

Year ending September 30:	Governmental Activities		
	Principal	Interest	Total
2008	\$ 18,355	\$ 12,605	\$ 30,960
2009	19,620	11,340	30,960
2010	20,934	10,026	30,960
2011	22,337	8,623	30,960
2012	23,812	7,148	30,960
2013 - 2016	96,699	11,668	108,367
Total	<u>\$ 201,757</u>	<u>\$ 61,410</u>	<u>\$ 263,167</u>

NOTE 6 - MANAGEMENT COMPANY

The District has contracted with a management company to perform management advisory services, which include financial and accounting advisory services. Certain employees of the management company also serve as officers of the District. Under the agreement, the District compensates the management company for management, accounting, financial reporting, computer and other administrative costs.

NOTE 7 - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and environmental remediation. The District has obtained commercial insurance from independent third parties to mitigate the costs of these risks; coverage may not extend to all situations. Settled claims from these risks have not exceeded commercial insurance coverage over the past three years.

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Assessments	\$ 88,521	\$ 90,037	\$ 90,689	\$ 652
Other revenue	-	21,825	21,975	150
Interest	360	1,180	1,194	14
Total revenues	88,881	113,042	113,858	816
EXPENDITURES				
Current:				
General government	54,669	53,487	49,250	4,237
Debt Service:				
Principal	34,212	35,549	24,418	11,131
Interest	-	-	11,131	(11,131)
Capital outlay	-	105,587	105,587	-
Total expenditures	88,881	194,623	190,386	4,237
Excess (deficiency) of revenues over (under) expenditures	-	(81,581)	(76,528)	5,053
OTHER FINANCING SOURCES				
Draws on promissory note	-	107,325	107,325	-
Other financing sources	-	107,325	107,325	-
Net change in fund balances	\$ -	\$ 25,744	30,797	\$ 5,053
Fund balance - beginning			20,349	
Fund balance - ending			\$ 51,146	

See notes to required supplementary information

**CAPTAIN'S KEY DEPENDENT DISTRICT
PALM BEACH COUNTY, FLORIDA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

The District is required to establish a budgetary system and an approved Annual Budget for the general fund. The District's budgeting process is based on estimates of cash receipts and cash expenditures which are approved by the Board. The budget approximates a basis consistent with accounting principles generally accepted in the United States of America (generally accepted accounting principles).

The legal level of budgetary control, the level at which expenditures may not exceed budget is in the aggregate. Any budget amendments that increase the aggregate budgeted appropriations must be approved by the Board of Supervisors. The 2007 general fund budget was amended to increase revenues by \$24,161 and increase appropriations by \$105,742. Actual general fund expenditures did not exceed appropriations for the fiscal year ended September 30, 2007.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Supervisors
Captain's Key Dependent District
Palm Beach County, Florida

We have audited the financial statements of the governmental activities and the major fund of Captain's Key Dependent District, Palm Beach County, Florida ("District") as of and for the fiscal year ended September 30, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 20, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 District's financial statements that is more than inconsequential will not be prevented or detected by the District'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 District's internal control.

Our consideration of 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

This report is intended for the information of the management, Board of Supervisors of Captain's Key Dependent District, Palm Beach County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Associates
August 20, 2008

**MANAGEMENT LETTER PURSUANT TO THE RULES OF
THE AUDITOR GENERAL FOR THE STATE OF FLORIDA**

To the Board of Supervisors
Captain's Key Dependent District
Palm Beach County, Florida

We have audited the accompanying basic financial statements of Captain's Key Dependent District ("District") as of and for the fiscal year ended September 30, 2007, and have issued our report thereon dated August 20, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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.

In addition, we have issued our Report on Internal Control over Financial Reporting and Compliance and Other Matters dated August 20, 2008. Disclosures in that report should be considered in conjunction with this management letter.

The purpose of this letter is to comment on those matters required by Chapter 10.550 of the Rules of the Auditor General for the State of Florida. Accordingly, in connection with our audit of the financial statements of the District, as described in the first paragraph, we report the following:

- I. Current year findings and recommendations.**
- II. Status of prior year findings and recommendations.**
- III. Compliance with the Provisions of the Auditor General of the State of Florida.**

This report is intended for the information of the management, Board of Supervisors of Captain's Key Dependent District, Palm Beach County, Florida and the Auditor General of the State of Florida and is not intended to be and should not be used by anyone other than these specified parties.

We wish to thank Captain's Key Dependent District, Palm Beach County, Florida and the personnel associated with it, for the opportunity to be of service to them in this endeavor as well as future engagements, and the courtesies extended to us.

Grau & Associates

August 20, 2008

REPORT TO MANAGEMENT

I. CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None

II. PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Budget

Observation: Actual expenditures exceeded appropriations in the general fund at September 30, 2006.

Recommendation: The District should amend the budget during the fiscal year to ensure that all expenditures are properly budgeted.

Management Response: Actual expenditures exceeded amended budgeted expenditures due to an adjusting audit entry recording the conveyance of Roadways to the District from Palm Beach County.

Current year status: Actual expenditures did not exceed appropriations in the general fund at September 30, 2007.

III. COMPLIANCE WITH THE PROVISIONS OF THE AUDITOR GENERAL OF THE STATE OF FLORIDA

Unless otherwise required to be reported in the auditor's report on compliance and internal controls, the management letter shall include, but not be limited to the following:

1. A statement as to whether or not corrective actions have been taken to address significant findings and recommendations made in the preceding annual financial audit report.

There were no significant findings and recommendations made in the preceding annual financial audit report for the fiscal year ended September 30, 2006, except as noted above.

2. A statement as to whether or not the local governmental entity complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

The District complied with Section 218.415, Florida Statutes, regarding the investment of public funds.

3. Any recommendations to improve the local governmental entity's financial management, accounting procedures, and internal controls.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported.

4. Violations of provisions of contracts and grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential.

There were no such matters discovered by, or that came to the attention of, the auditor, to be reported.

5. For matters that are inconsequential to the financial statements, considering both quantitative and qualitative factors, the following may be reported based on professional judgment:

REPORT TO MANAGEMENT (Continued)

- a. Violations of laws, rules, regulations, and contractual provisions or abuse that have occurred, or were likely to have occurred, and would have an immaterial effect on the financial statements.
- b. Improper expenditures or illegal acts that would have an immaterial effect on the financial statements.
- c. Control deficiencies that are not significant deficiencies, including, but not limited to:
 1. Improper or inadequate accounting procedures (e.g., the omission of required disclosures from the annual financial statements).
 2. Failures to properly record financial transactions.
 3. Other inaccuracies, shortages, defalcations, and instances of fraud discovered by, or that come to the attention of, the auditor.

There were no such matters discovered by, or that came to the attention of, the auditor, that, in our judgment, are required to be reported.

6. The name or official title and legal authority of the District are disclosed in the notes to the financial statements.
7. The District has not met one or more of the financial emergency conditions described in Section 218.503(1), Florida Statutes.
8. The financial report filed with the Florida Department of Financial Services pursuant to Section 218.32(1)(a), Florida Statutes agrees with the September 30, 2007 financial audit report.
9. We applied financial condition assessment procedures pursuant to Rule 10.556(7) and no deteriorating financial conditions were noted. It is management's responsibility to monitor financial condition, and our financial condition assessment was based in part on representations made by management and the review of financial information provided by same.