

**HARRIS COUNTY  
IMPROVEMENT DISTRICT NO. 1  
FEDERAL SINGLE AUDIT REPORT  
For the Year Ended June 30, 2010**



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**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1**  
**FEDERAL SINGLE AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2010**  
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***Independent Auditors' 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 Directors  
Harris County Improvement District No. 1  
Houston, Texas

We have audited the basic financial statements of the governmental activities and each major fund of Harris County Improvement District No. 1 (the "District") as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 12, 2011. 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 opinion 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be control deficiencies.

*A control 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 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control over financial reporting that might be 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, 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*.

To the Board of Directors  
Harris County Improvement District No. 1  
Houston, Texas  
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***Closing***

This report is intended solely for the information and use of the Board of Directors, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Nell Garrison, P. e.*

Houston, Texas  
January 12, 2011



***Independent Auditors' Report on Compliance  
with Requirements That Could Have a Direct and Material Effect on Each Major  
Program and On Internal Control Over  
Compliance in Accordance with OMB Circular A-133***

To the Board of Directors  
Harris County Improvement District No. 1  
Houston, Texas

***Compliance***

We have audited the compliance of Harris County Improvement District No. 1 (the "District") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance 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*. 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 the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, Harris County Improvement District No. 1 complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

***Internal Control Over Compliance***

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 on the effectiveness of the District's internal control over compliance.

To the Board of Directors  
Harris County Improvement District No. 1  
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A *deficiency* in internal control over compliance 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 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.

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 that might be deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the governmental activities and each major fund of Harris County Improvement District No. 1 as of and for the year ended June 30, 2010, and have issued our report thereon dated December 16, 2010. Our audit was performed for the purpose of forming our opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

***Closing***

This report is intended solely for the information and use of the Board of Director's, management, others within the organization and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Houston, Texas  
January 12, 2011



**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1**  
**SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS**  
*June 30, 2010*

Federal grantor/ Pass through grantor/ Program title	<u>CFDA Number</u>	<u>Grantor Number</u>	<u>Federal Grant Expenditures</u>
<b>Federal Transit Administration</b>			
Pedestrian/Transit Improvement Program	20.507	TX-95-X005-01	\$ 1,533,675
ARRA LCI Streetscape Improvements in Uptown	20.507	TX-66-X002-00	868,660
<b>Total Federal Transit Administration</b>			<u>2,402,335</u>
<b>Total Federal Awards</b>			<u>\$ 2,402,335</u>

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the Year Ended June 30, 2010*

**NOTE 1 - BASIS OF ACCOUNTING**

The District accounts for federal funding using the modified accrual method of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences, claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Capital items for grant purposes are treated as expenses in the schedule of expenditures of federal awards.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For the Year Ended June 30, 2010*

<b>I. SUMMARY OF AUDITORS' RESULTS</b>	
<b>Financial Statements</b>	
Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiency identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No
<b>Federal Awards</b>	
Internal control over major programs:	
Material weakness identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	No
Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers
<b>Federal Transit Cluster</b>	
Pedestrian/Transit Improvement Program	20.507
ARRA LCI Streetscape Improvement in Uptown	20.507
1. Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
2. Auditee qualified as low-risk auditee?	No

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For the Year Ended June 30, 2010*

**Section II. - Financial Statement Findings**

None

**Section III. – Federal Award Findings and Questioned Costs**

None

**Section IV. – Status of Prior Year Findings and Questioned Costs**

None

**HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For the Year Ended June 30, 2010*

**Section V. - Corrective Action**

None