

**HARRIS COUNTY
IMPROVEMENT DISTRICT NO. 1
FEDERAL SINGLE AUDIT REPORT**

For the Year Ended June 30, 2011



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HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

FEDERAL SINGLE AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

TABLE OF CONTENTS

| | <u>Page</u> |
|---|--------------------|
| 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 <i>Government Auditing Standards</i> | 1 |
| Independent Auditors' Report on Compliance with the 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 | 3 |
| Schedule of Findings and Questioned Costs | 5 |
| Schedule of Expenditures of Federal Awards | 7 |
| Notes to Schedule of Expenditures of Federal Awards | 8 |



**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, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 26, 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

Management of the District is responsible for establishing and maintaining effective 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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a 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 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 internal control over financial reporting that might be deficiencies, 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.

To the Board of Directors
Harris County Improvement District No. 1
Houston, Texas
Page 2

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*.

Closing

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

Null-Harrison, P.C.

Houston, Texas
October 26, 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, 2011. 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, 2011.

Internal Control Over Compliance

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.

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.

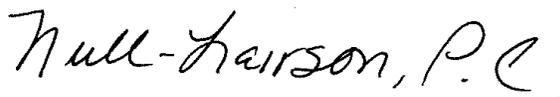
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any 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, 2011, and have issued our report thereon dated October 26, 2011, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming our opinions on the financial statements as a whole. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements 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 is not intended to be and should not be used by anyone other than these specified parties.



Houston, Texas
October 26, 2011

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2011

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

| | |
|--|---------------|
| 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 |

Federal Awards

| | |
|---|---------------|
| 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:**

Federal Transit Cluster:

| | |
|--|--------|
| <i>Federal Transit Capital Investment Grants</i> | |
| Intermodal Transit Terminal | 20.500 |
| <i>Federal Transit Formula Grants</i> | |
| Pedestrian/Transit Improvement Program | 20.507 |
| LCI Streetscape Improvement in Uptown - ARRA | 20.507 |

Dollar Threshold Considered Between Type A and Type B Federal Programs \$300,000

Auditee qualified as low-risk auditee? No

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2011

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

Section V. - Corrective Action

None

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

June 30, 2011

| <u>Federal grantor/ Pass through grantor/ Program title</u> | <u>CFDA Number</u> | <u>Grantor Number</u> | <u>Federal Grant Expenditures</u> |
|---|------------------------|---------------------------|---------------------------------------|
| Federal Transit Administration | | | |
| <i>Federal Transit Capital Investment Grants</i> | | | |
| Intermodal Transit Terminal | 20.500 | TX-04-0029-02 | \$ 140,750 |
| <i>Federal Transit Formula Grants</i> | | | |
| Pedestrian/Transit Improvement Program | 20.507 | TX-95-X005-01 | 2,300,212 |
| LCI Streetscape Improvements in Uptown - ARRA | 20.507 | TX-66-X002-00 | 958,159 |
| Total Federal Transit Administration | | | <u>3,399,121</u> |
| Total Federal Awards | | | <u>\$ 3,399,121</u> |

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011

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.