

**HARRIS COUNTY
IMPROVEMENT DISTRICT NO. 1**

**Supplemental Single Audit Reports
for the Fiscal Year Ended
June 30, 2007**

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
SUPPLEMENTAL SINGLE AUDIT REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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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 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, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated April 15, 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 basic 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 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, 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 organization, and applicable 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. C.

Houston, Texas
April 15, 2008

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***Independent Auditors' Report on Compliance
with the Requirements Applicable to 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 is applicable to its major federal program for the year ended June 30, 2007. The District's major federal program is 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 its major federal program 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 of the District's compliance with those requirements.

In our opinion, Harris County Improvement District No. 1 complied, in all material respects, with requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

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 the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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.

Internal Control Over Compliance (continued)

A *control deficiency* in the District's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

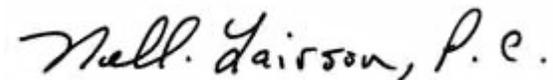
Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over 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 the District as of and for the year ended June 30, 2007 and have issued our report thereon dated April 15, 2008. Our audit was performed for the purpose of forming 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. This schedule is the responsibility of the District's management. 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 Directors, management, others within the organization, and applicable 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
April 15, 2008

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

Section I – Summary of Auditors’ Results

Financial Statements	
Type of auditors’ report issued:	Unqualified
Internal control over financial reporting:	
Material weakness (es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to the financial statements noted?	No
Federal Awards	
Internal control over major programs:	
Material weakness (es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported.
Type of auditor’s report issued on compliance for major program:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) 2-7 of OMB Circular A-133	No

Identification of Major Programs:

CFDA Number	Name of Federal Program
20.205	Highway Planning and Construction – Intelligent Transportation Systems Program: Condition Responsive Uptown Traveler Information System

Dollar threshold used to distinguish
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
For the Year Ended June 30, 2007

II. Financial Statement Findings

No items reported.

III. Federal Award Findings and Questioned Costs

No items reported.

IV. Status of Prior Year Findings

There were no prior year findings.

V. Corrective Action Plan

No items reported.

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Federal Project Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass- Through
U.S. Department of Transportation					
Passed through Texas Department of Transportation:					
Highway Planning and Construction -					
Intelligent Transportation Systems Program:					
Condition Responsive Uptown Traveler Information System	20.205	9348(305)	IVH CSJ 0912-71-573	\$ 825,128	\$ 825,128

HARRIS COUNTY IMPROVEMENT DISTRICT NO. 1
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

1. The modified accrual basis of accounting is used for the accompanying schedule of expenditures of federal awards. 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.
2. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and; accordingly, when such funds are expended, they are recorded as due from the pass-through grantor. The grant is considered a reimbursement grant and as such, no funds are forwarded by the pass-through entity until expenditures have been incurred.