

Audit Report
August 31, 2002



San Jacinto College

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Introduction

San Jacinto College District

Organization Data For Fiscal Year 2001-2002

Board of Regents

Officers

Dr. Ruede Wheeler	Chair
Mrs. Marie Flickinger	Vice Chair
J. D. Bruce	Secretary
Dr. Parker Williams	Assistant Secretary

Members

Term Expires

J. D. Bruce	Pasadena, Texas	2005
Marie Flickinger	Houston, Texas	2007
John W. Nichols, M.D.	Deceased	2003
C. Wayne Slovacek	Deer Park, Texas	2003
W. L. "Levi" Smallwood	Pasadena, Texas	2007
Ruede Wheeler, D.D.S.	La Porte, Texas	2005
Dr. Parker Williams	Houston, Texas	2003

District Administrators

Key Officers

Dr. James F. Horton, Jr.	Chancellor
Dr. Ron Rucker	Vice Chancellor for Administration
Dr. William Lindemann, Jr.	Vice Chancellor of Instructional Programs and Services
Mr. Rudy V. Gonzales	Vice Chancellor of Fiscal Affairs
Mr. James Fowler	Vice Chancellor of Human Resources
Mrs. Tuesday Stanley	Associate Vice Chancellor of Marketing and Enrollment
Mrs. Brenda Hellyer	Executive Vice President for Institutional Advancement
Dr. Monte Blue	President, Central Campus
Dr. Charles Grant	President, North Campus
Dr. Adena Williams Loston	President, South Campus

EUGENE HOVEY
CERTIFIED PUBLIC ACCOUNTANT
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PHONE 281-471-2700

NOVEMBER 24, 2002

TO THE BOARD OF REGENTS
SAN JACINTO COLLEGE DISTRICT

Re: Independent Auditor's Report

I have audited the accompanying statement of net assets of the San Jacinto College District as of August 31, 2002 and the related statement of revenues, expenses, and changes in net assets, and the statement of cash flows for the year then ended. These financial statements are the responsibility of the District's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards 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 I 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 and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the San Jacinto College District as of August 31, 2002, and the revenues, expenses and changes in net assets and its cash flows for the fiscal year then ended in conformity with U.S. generally accepted accounting principles.

As described in Note 2 to the basic financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements--and Management's Discussion and Analysis--For State and Local Governments; and GASB Statement 35, Basic Financial Statements--Management Discussion and Analysis--For Public Colleges and Universities. These standards result in a change in the format and content of the basic financial statements presented. In adopting these standards, the District has also changed its equipment and library book policy as described in Note 2 to the financial statements.

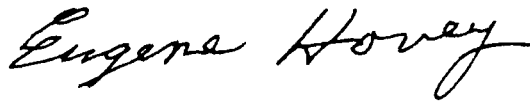
To The Board of Regents
November 24, 2002
Page Two

In accordance with Government Auditing Standards, I have also issued a report dated November 24, 2002 on my consideration of the District's internal control over financial reporting and my test of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information the Government Accounting Standards Board requires. I applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion thereon.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules, including the schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, the schedule of expenditures of state awards required by the State of Texas Uniform Grants Management Standards, and statistical data marked "unaudited" are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the statistical data marked "unaudited" on which I express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion, is fairly presented in all material respects, in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink that reads "Eugene Hovey". The signature is written in a cursive, flowing style.

Eugene Hovey
Certified Public Accountant

Management Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS

San Jacinto Community College District's Management Discussion and Analysis (MD&A) of its financial condition provides an overview of financial activity, identifies changes in financial position, and assists the reader in focusing on significant financial issues. While maintaining its financial health is crucial to the long-term viability of the College, the primary mission of a public institution of higher education is to provide education, research and public service. Therefore, net assets are accumulated only as required to ensure that there are sufficient reserve funds for future operations and implementation of new programs. Since this is a transition year for this format, only one year of the management's discussion and analysis is presented.

The MD&A provides summary level financial information; therefore, it should be read in conjunction with the accompanying financial statements.

Financial Highlights

Cash and cash equivalents increased by \$27.8 million. \$27.4 million was provided by capital and related financing activities

San Jacinto College's net assets increased \$7.06 million.

Institutional Highlights

San Jacinto Community College District began construction on three Advance Interactive Learning Centers. The Advance Interactive Learning Centers on each of the campuses will be opened in the Fall of 2003. San Jacinto Community College District also began construction of a music building at the Central Campus. The music building will be opened for classes in the Spring of 2003. Construction of a Fine Arts Building on the North and South Campus was also started. The Fine Arts Buildings are scheduled to be opened in the Spring of 2004.

Using The Annual Report

This annual report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board in Statement 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. Prior year financial statements have not been restated. In future years a comparison analysis will be presented.

One of the most important questions asked about San Jacinto College District finances is "Is the College as a whole better off or worse as a result of the year's activities?" The key to understanding that question is the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These statements present financial information in a form similar to that used by corporations. The San Jacinto College District's net assets (difference between assets and liabilities) is one indicator of the College's financial health. Over time, increases or decreases in net assets is one indicator of the improvement or erosion of the College's financial health when considered with non-financial facts such as enrollment levels and condition fo the facilities.

The Statement of Net Assets includes all assets (property that we own and what we are owed by others) and liabilities (what we owe to others and have collected from others before we have provided the service). It is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. All things being equal, a public institution's dependency on state aid, gifts and tax revenue will result in operating deficits. That is because the financial reporting model classifies tax revenue as non-operating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life. Depreciation is included in operating expenses.

Another important factor to consider when evaluating financial viability is the College's ability to meet financial obligations as they mature. The Statement of Cash Flows presents information related to cash inflows and outflows summarized by operating, capital, financing and investing activities.

Condensed Financial Information

Statement of Net Assets

The following table reflects the condensed Statement of Net Assets

	2002
Current and other assets	\$ 46,319,449
Capital assets - net	162,563,083
Total assets	\$ 208,882,532
Current and other liabilities	\$ 27,872,392
Long term liabilities	65,516,518
Total liabilities	\$ 93,388,910
Net Assets:	
Invested in capital assets, net of related	
Debt	\$ 44,699,247
Restricted	33,846,228
Unrestricted	36,948,147
Total net assets	\$ 115,493,622

For more detailed information see the accompanying Statement of Net Assets

Six basic transactions affect the comparability of the Statement of Net Assets summary above:

- > The issuance of notes or bonds will increase current assets and increase long-term liabilities.
- > Spending note or bond proceeds on capital acquisitions will change the composition of the assets: current assets will decrease and capital assets will increase. Likewise, the classifications of net assets changes: Restricted Net Assets will decrease and Invested in Capital Assets, Net of Debt will increase.
- > Spending other resources on capital acquisitions will decrease current assets and increase capital assets. A second affect will be the decrease of Unrestricted Net Assets and the increase of Invested in Capital Assets, Net of Debt.
- > Principal payments on liabilities will decrease current assets and decrease long-term liabilities. These payments will also increase Invested in Capital Assets, Net of Debt and decrease Unrestricted Net Assets.
- > Depreciation expense, which is reflected as an operating expense, will reduce capital assets Invested in Capital Assets, Net of Debt.
- > Operating results, excluding depreciation expense, will affect (increase or decrease) all of the categories other than capital assets and Invested in Capital Assets, Net of Debt.

For additional information to Capital Assets and Long-term liabilities refer to notes to the financial statements 5 and 6.

The changes in net assets are summarized below:

	Invested in Capital Assets Net of Related			Total
	Debt	Restricted	Unrestricted	
Net assets beginning of year	\$ 75,306,490	\$ 886,866	\$ 32,230,736	\$ 108,424,092
Net operating income (loss)	\$ (36,630,332)	\$ (727,653)	\$ 14,722,164	\$ (22,635,821)
Ad Valorem Taxes	7,178,596		25,717,675	32,896,271
Investment income		940,064	1,321,228	2,261,292
Interest on capital related debt			(1,745,579)	(1,745,579)
Other non-operating revenues & (expenses)			(3,706,633)	(3,706,633)
Bonds & Notes Payable	(32,746,951)	32,746,951		
Capital assets purchased	23,899,434		(23,899,434)	
Principal repaid on debt	7,692,010		(7,692,010)	
Change in net assets	\$ (30,607,243)	\$ 32,959,362	\$ 4,717,411	\$ 7,069,530
Net assets end of year	\$ 44,699,247	\$ 33,846,228	\$ 36,948,147	\$ 115,493,622

Statement of Revenues, Expenses and Changes in Net Assets

The following schedule shows the revenues and expenses for the current fiscal Year Ended August 31, 2002

REVENUES

Operating Revenues	
State Appropriations	\$ 44,949,969
Student tuition and fees	18,125,667
Grants and contracts	15,259,657
Sales and services of educational departments	336,423
Auxiliary enterprises	8,658,087
Other revenues	534,068
Total operating revenues	<u>\$ 87,863,871</u>

EXPENSES

Operating Expenses	
Program activities:	
Instruction	\$ 40,201,059
Public service	4,052,810
Supporting services:	
Academic support	7,026,226
Student services	7,283,789
Institutional support	21,688,799
Operations and maintenance of plant	10,972,056
Student aid	6,866,583
Auxiliary enterprises	9,047,508
Depreciation expense	3,360,862
Other expenses (restated adjustments)	
Total operating expenses	<u>\$ 110,499,692</u>
Net operating revenues (expenses)	<u>\$ (22,635,821)</u>

NONOPERATING REVENUES

Ad Valorem Taxes	
Taxes for Maintenance & Operations	\$ 25,717,675
Taxes for General Obligation Bonds	7,178,596
Investment income (net of investment expense)	2,261,292
Interest on capital asset-related debt	(1,745,579)
Other Non-Operating Revenues (Expenses)	<u>(3,706,633)</u>
Total nonoperating revenues	<u>\$ 29,705,351</u>

Change in net assets \$ 7,069,530

NET ASSETS

Net assets - beginning of year	108,424,092
Net assets - end of year	<u>\$ 115,493,622</u>

District operating revenue of \$87.9 million derives from state appropriations, tuition and fees, grants and contracts, auxiliary enterprises and other. State appropriations and tuition and fees account for the majority, 51.2 percent and 20.6 percent respectively.

State appropriations to the San Jacinto College District, as to all Texas public colleges and universities, are set during biennial sessions of the Texas Legislature. Funding is based on enrollment, with contact hours reimbursed depending on the cost of instruction within specific disciplines. The level of funding for each biennium is derived from enrollment during a "base year"; the total number of contact hours amassed during a period beginning the summer preceding the legislature session and ending with the spring semester which the appropriations bill is passed. Appropriations for public community and junior colleges are made in a lump sum rather than for individual institutions, as is the case with universities. Texas community colleges have attempted for decades, without success, to achieve "full formula funding"; an appropriate amount equal to 100 percent of the reimbursable contact hours. Each legislature has instead chosen to fund a given percentage of the formula, which rose as high as 89.4 percent in the 1994-95 biennium but fell to 67.4 percent for 2002-03. The State of Texas faces a budget shortfall variously estimated anywhere from \$5 billion to \$12 billion. Given the remarkable growth in enrollments, a 15.5 increase from the previous base year, Texas' community colleges face a formidable challenge in the 2003 legislative session if they are to achieve the same or greater level of funding.

Respectfully Submitted

A handwritten signature in black ink, appearing to read "Rudy V. Gonzales", with a long, sweeping flourish extending to the right.

Rudy V. Gonzales
Vice Chancellor of Fiscal Affairs

Financial Exhibits

**San Jacinto College District
Statement of Net Assets
For the Year Ended August 31, 2002
Exhibit 1**

ASSETS	
Current Assets	
Cash and cash equivalents	\$ 25,617,469
Short-term investments	8,321,702
Accounts receivable (net)	9,404,514
Inventories	2,975,764

Total Current Assets	\$ 46,319,449

Noncurrent Assets	
Restricted cash and cash equivalents	\$ 38,124,775
Endowment investments	16,260
Other noncurrent investments	10,431,845
Capital assets (net) (see note)	113,990,203

Total noncurrent assets	\$ 162,563,083

Total Assets	\$ 208,882,532
	=====
LIABILITIES	
Current Liabilities	
Accounts Payable	\$ 11,808,572
Accrued Liabilities	558,029
Funds held for others	308,368
Deferred Revenues	8,703,778
Accrued Compensable Absences Payable	242,282
Notes Payable-current portion	876,363
Bonds Payable-current portion	5,375,000

Total Current Liabilities	\$ 27,872,392

Noncurrent Liabilities	
Notes Payable	\$ 5,924,594
Bonds Payable	57,114,999
Other noncurrent liabilities	2,476,925

Total Noncurrent Liabilities	\$ 65,516,518

Total Liabilities	\$ 93,388,910

NET ASSETS	
Invested in capital assets, net of related debt	\$ 44,699,247
Restricted for	
Nonexpendable-Student Aid	12,000
Expendable-Student Aid	1,087,277
Expendable-Unexpended Bond Proceeds	31,129,609
Expendable-Debt Service	1,617,342
Unrestricted	36,948,147

Total net assets	\$ 115,493,622
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The Notes to the Financial Statements are an integral part of this statement.

San Jacinto College District
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended August 31, 2002
Exhibit 2

Revenues

Operating Revenues

State Appropriations	\$	44,949,969
Tuition and Fees (Net of Discounts of \$4,415,876)		18,619,142
Federal Grants and Contracts		13,411,687
State Grants and Contracts		1,596,901
Non-Governmental Grants and Contracts		251,069
Sales and Services of Educational Activities		336,423
Auxiliary Enterprises (Net of of Discounts of \$1,111,215)		8,658,087
Other Operating Revenues		40,593

Total Operating Revenues (Schedule 2-A)	\$	87,863,871
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Expenses

Operating Expenses

Instruction	\$	40,201,059
Public Service		4,052,810
Academic Support		7,026,226
Student Services		7,283,789
Institutional Support		21,688,799
Operation and Maintenance of Plant		10,972,056
Scholarships and Fellowships		6,866,583
Auxiliary Enterprises		9,047,508
Depreciation		3,360,862

Total Operating Expenses (Schedule 2-B)	\$	110,499,692
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Operating Income (Loss)	\$	(22,635,821)
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Non-Operating Revenues (Expenses)

Ad Valorem Taxes		
Taxes for Maintenance & Operations	\$	25,717,675
Taxes for General Obligation Bonds		7,178,596
Investment Income (Net of Investment Expenses)		2,261,292
Interest on Capital Related Debt		(1,745,579)
Other Non-Operating Revenues (Expenses)		(3,706,633)

Net Non-Operating Revenues (Expenses)	\$	29,705,351
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Increase in Net Assets	\$	7,069,530
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Net Assets

Net Assets - Beginning of Year		108,424,092
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Net Assets - End of Year	\$	115,493,622
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The Notes to the Financial Statements are an integral part of this statement.

San Jacinto College District
Statement of Cash Flows
For the Fiscal Year Ended August 31, 2002
Exhibit 3

Cash Flows from Operating Activities	
Receipts from students and other customers	\$ 27,807,917
Receipts of appropriations, grants, and contracts	53,129,745
Collection of loans to students and employees	7,029,124
Payments to or on behalf of employees	(62,645,900)
Payments to suppliers for goods or services	(38,463,768)
Payments of scholarships	(11,901,935)

Net cash provided (used) by operating activities	\$ (25,044,817)

Cash Flows from Noncapital Financing Activities	
Ad valorem tax revenues	\$ 25,030,629
Student organization and other agency transactions	(239,412)

Net cash provided (used) by non-capital financing activities	\$ 24,791,217

Cash Flows from Capital and Related Financing Activities	
Net proceeds from issuance of capital debt	\$ 51,440,990
Capital contracts, grants and gifts	422,356
Ad valorem tax revenues	7,178,596
Purchases of capital assets	(23,899,434)
Payments on capital debt and leases	(7,692,010)

Net cash provided (used) by capital and related financing activities	\$ 27,450,498

Cash Flows From Investing Activities	
Proceeds from sale and maturity of investments	\$ 22,265,906
Investment earnings	2,388,586
Purchases of investments	(23,957,101)

Net cash provided (used) by investing activities	\$ 697,391

Increase (decrease) in cash and cash equivalents	\$ 27,894,289
Cash and cash equivalents - September 1, 2001	35,847,955

Cash and cash equivalents - August 31, 2002	\$ 63,742,244
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Reconciliation of operating income (loss) to net cash used by operating activities:	
Operating income (loss)	\$ (22,635,821)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:	
Depreciation expense	3,360,862
Unrealized gain and loss on fair value of investments	22,802
Changes in assets and liabilities	
Receivables, net	4,504,327
Inventories	704,898
Other assets	(1,661,329)
Accounts payable	(7,719,555)
Deferred revenue	(1,556,662)
Deposits held for others	232,051
Compensated absences	(296,390)

Net cash provided (used) by operating activities	\$ (25,044,817)
	=====

The Notes to the Financial Statements are an integral part of this statement.

SAN JACINTO COLLEGE DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2002

1. Reporting Entity

San Jacinto College District (the District) was established in 1962, in accordance with the laws of the state of Texas, to serve the educational needs of the Public and the surrounding communities. The District is considered to be a special-purpose, primary government according to the definition in Government Accounting Standards Board (GASB) Statement No. 14 The Financial Reporting Entity. While the District receives funding from local, State and Federal sources, and must comply with the spending, reporting and record keeping requirements of these entities, it is not a component unit of any other governmental entity.

2. Summary of Significant Accounting Policies

Reporting Guidelines

The significant accounting policies followed by the District in preparing these financial statements are in accordance with the Texas Higher Education Coordinating Board's Annual Financial Reporting Requirements for Texas Public Community and Junior Colleges. The District applies all applicable GASB pronouncements and all applicable Financial Accounting Standard Board (FASB) statements and interpretations issued on or before November 30, 1989, unless they conflict or contradict GASB pronouncements. The College has elected not to apply FASB guidance issued subsequent to November 30, 1989, unless specifically adopted by the GASB. The District is reported as a special-purpose government engaged in business-type activities.

Tuition Discounting

Texas Public Education Grants

Certain tuition amounts are required to be set aside for use as scholarships by qualifying students. This set aside, called the Texas Public Education Grant (TPEG), is shown with tuition and fee revenue amounts as a separate set aside amount (Texas Education Code 56.0333). When the award for tuition is used by the student, the amount is recorded as tuition and a corresponding amount is recorded as a tuition discount.

Title IV, HEA Program Funds

Certain Title IV HEA Program funds are received by the District to pass through to the student. These funds are initially received by the District and recorded as restricted revenue. When the student is awarded and uses these funds for tuition and fees, the amounts are recorded as revenue and a corresponding amount is recorded as a tuition discount.

Other tuition discounts

The District awards tuition and fee scholarships from institutional funds to students who qualify. When these amounts are used for tuition and fees, the amounts are recorded as tuition and fee revenue and a corresponding amount is recorded as a tuition discount.

Basis of Accounting and Measurement Focus

The financial statements of the District are prepared using the economic resources measurement focus and the accrual basis of accounting including the reclassification or elimination of internal activity. All revenues are recorded when earned and all expenses are recorded when they have been reduced to a legal or contractual obligation to pay.

Operating income includes revenues and expenses related to the primary, continuing operations of the District. Principal operating revenues include state appropriations, tuition and fees, grants and contracts, and charges to customers for sales and services. Principal operating expenses are the costs of providing services and include administrative expenses and depreciation of capital assets. Other revenues, such as ad valorem taxes and investment income, are treated as non operating income. Non operating expense includes interest expense on capital related debt and other non operating expenses such as facility major rehabilitation expense. Grants are recognized when grant or eligibility requirements are met. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and then unrestricted resources as needed.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. Encumbrances outstanding at year-end that are provided for in subsequent year's budget are reported as designations of net assets since they do not constitute expenditures or liabilities.

Budgetary Data

Each community college district in Texas is required by law to prepare an annual operating budget of anticipated revenues and expenditures for the fiscal year beginning September 1. The District's Board of Regents adopts the budget, which is prepared on the accrual basis of accounting. A copy of the approved budget must be filed with the Texas Higher Education Coordinating Board, Legislative Budget Board, Legislative Reference Library, and Governor's Office of Budget and Planning.

Cash and cash equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. The District considers funds held in public funds investment pools as cash equivalents for purposes of these financial statements, except for Texpool funds held as Endowment investment assets.

Investments

In accordance with GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and External Investment Pools, investments are reported at fair value. Fair values are based on published market rates. Short-term investments have an original maturity greater than three months but less than one year at time of purchase. Long-term investments have an original maturity of greater than one year at the time of purchase and are considered as noncurrent assets.

Inventories

Inventories consist of consumable office supplies, physical plant supplies, food service supplies and bookstore stock. Inventories are valued at cost on a first in, first out basis and are charged to expense as consumed.

Funds Held for Others

Funds held by the District as custodial or fiscal agent for students, faculty members and/or others.

Endowment Assets

Endowment assets are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and only the income be utilized. Term endowment gifts are similar to endowment gifts except that all or part of the principal may be utilized after a stated period of time or upon the occurrence of a certain event. Endowment funds are invested in Texpool liquid assets subject to the restrictions of the trust instruments which require that the principal be maintained and that only the income be spent. Income from interest available to be spent at August 31, 2002 is \$4,260 and is included in the Endowment investments reflected in Exhibit 1 at \$16,260. The investment-spending policy is limited to earnings available from liquid assets. All endowments have specific donor instructions.

Restricted Assets

Restricted assets are assets restricted for construction purposes funded through long-term debt, for payment of debt service and for student aid and related programs. Assets restricted for endowments are reported under Endowment Assets. Restricted assets are reported as restricted cash and cash equivalents in Exhibit 1 at \$38,124,775.

Capital Assets, Depreciation and Amortization

Capital assets are stated at cost. Donated capital assets are valued at their estimated fair market value on the date received. The District reports depreciation under a single-line item as a business-type unit. Depreciation is computed using the straight-line method over the estimated useful life of the assets applying the half-year convention. The following lives are used:

Buildings	50 years
Facilities and Other Improvements	20 years
Furniture, Machinery, Vehicles and Other Equipment	10 years
Telecommunications and Peripheral Equipment	5 years
Library Books	as long as in collection

Library books are capitalized but not depreciated. Library books will be written off as the books are removed from service.

Interest costs are capitalized when incurred on debt where proceeds were used to finance construction of assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized. Net interest costs of \$82,547, capitalized in 2002, is included in construction in progress as of August 31, 2002.

Bond issuance costs are recorded at historical cost and amortized over the term of the bonds on a straight-line basis. The unamortized bond issuance costs of \$619,932 at August 31, 2002, is considered as part of capital assets and included in capital assets (net) on Exhibit 1.

Collections

The District has no collections other than library books.

Deferred revenues

Tuition, fees and other revenues received and related to the period after August 31, 2002 have been deferred.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Prior year restatement

In June 1999, GASB approved Statement No 34, Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments. This was followed by GASB Statement No 35, Basic Financial Statements--Management's Discussion and Analysis for Public Colleges and Universities, which extends the guidance of GASB 34 to public colleges and universities. The District implemented the new reporting model effective September 1, 2001, resulting in an entirely new financial statement presentation format. The District is reported as a special-purpose government engage in business-type activities. Total fund balances reported at August 31, 2001 are restated as beginning net assets at September 1, 2001 as follows:

Fund Balances at August 31, 2001	\$150,815,718
Restatement adjustments:	
Depreciation and other capital asset changes	(42,521,318)
Accrued interest payable	(103,075)
Bond issue costs-net	232,767

Restated net assets at September 1, 2001	\$108,424,092
	=====

Significant changes, which included eliminating plant funds and reporting capital assets with accumulated depreciation, reflect a decrease in beginning net assets as summarized below:

Accumulated depreciation	(\$41,556,213)
Equipment policy-changed to eliminatlon of units greater than \$2,500 but less than \$5,000	(3,894,143)
Library books-updating and revising estimated cost	5,654,273
Land Improvements-greater than 20 years since acquisition	(2,700,990)
Buildings	(24,245)

Total decrease of net assets	(\$42,521,318)
	=====

The District in adopting a policy of capitalizing individual units of equipment with an acquisition cost of \$5,000 or more per unit is following the recommendations of the State's GASB committee in implementing GASB standards. In increasing the library's estimated costs of its book, the District is recognizing estimated costs of books versus nominal cost values used in the past. Land improvements were also recommended to be written off when acquired more than 20 years ago.

3. Authorized Investments

The District is authorized to invest in obligations and instruments as defined in the Public Funds Investment Act (Sec.2256.001 Texas Government Code). Such investments include (1) obligations of the United States or its agencies, (2) direct obligations of the State of Texas or its agencies (3) obligations of political subdivisions rated not less than A by a national investment rating firm, (4) certificates of deposit, and (5) other instruments and obligations authorized by statute.

In accordance with Sec. 2256.005 (n) of the Public Funds Investment Act, the community college shall arrange for a compliance audit of management controls on investments and adherence to the college's established investment policies. The compliance audit shall be performed by the college's internal auditor or by a private auditor. Not later than January 1 of each even-numbered year, the community college shall report the results of the most recent audit performed to the state auditor.

The State Auditor has determined that the District and its independent auditor would indicate compliance with the Act by completing the following:

- The categorization of investments by risk which is required by GASB Statement No.3, footnote "Deposits and Investments" and
- Placing a statement in the scope paragraph of the Report on Compliance and Internal Controls over Financial Reporting which indicates the audit work covered in the Act.

or

Writing a separate letter to the State Auditor's Office stating that the District is in compliance with all aspects of the Act.

4. Deposits and Investments

At August 31, 2002, the District's bank balances of deposits are entirely insured or collateralized with securities held by the District or by its agent in its name. Cash and deposits included on Exhibit 1, Statement of Net Assets, consist of the items reported below:

Cash and Deposits		
Bank Demand Deposits	(\$2,035,008)	
Bank Overnight Investment (1)	2,864,895	\$829,887

Petty Cash on Hand		52,677

Total Cash and Deposits		\$882,564
		=====

(1) The bank overnight investment (a mutual fund) of \$2,864,895 is an uncategorized investment.

To comply with the reporting requirements of FASB Statement No. 3, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements, the District's investments are categorized under investment Categories" to give an indication of credit risk assumed by the District at year end. Credit risk is the risk that another party to a deposit or investment will not fulfill its obligations. This is not to be confused with market risk, which is the risk that the market value of an investment, collateral protecting a deposit, or securities underlying a repurchase agreement will decline. Market risk is not depicted in this note.

The following categories of credit risk are included:

Category 1: Investments that are insured or registered or for which the securities are held by the institution or its agent in the institution's name.

Category 2: Uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the institution's name.

Category 3: Uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the institution's name.

Investment Categories Type of Security.	Category			Carrying Amount	Market Value
	1	2	3		
U.S. Government Securities	\$18,753,547	-	-	\$18,753,547	\$18,753,547
Repurchase Agreement	58,047	-	-	58,047	58,047
TOTALS	\$18,811,594	-	-	\$18,811,594	\$18,811,594
Uncategorized Investments:					
Tex Pool				\$7,353,206	\$7,353,206
Lone Star-Liquidity Corporate Fund				7,364,555	7,364,555
Lone Star-Liquidity Plus Fund				48,083,735	48,083,735
Lone Star-Government Fund				16,397	16,397
TOTAL INVESTMENTS				\$62,817,893	\$62,817,893
Total Cash and Deposits				\$882,564	
Total Investments				81,629,487	
TOTAL DEPOSITS AND INVESTMENTS				\$82,512,051	
Per Exhibit 1:					
Cash and cash equivalents				\$25,617,469	
Short-term investments (U S Government Securities)				8,321,702	
Restricted cash and cash equivalent				38,124,775	
Endowment investments				16,260	
Other noncurrent investments (U S Gov't Securities)				10,431,845	
Total Deposits and Investments				\$82,512,051	

5. Capital Assets

Capital assets activity for the year ended August 31, 2002 was as follow:

	Balance September 1, 2001	Increase	Decrease	Balance August 31, 2002
Not Depreciated				
Land	\$5,189,067	\$37,500		\$5,226,567
Library Books	6,070,460	131,440	\$7,600	6,194,300
Construction in Process	8,020,867	25,028,612	-	33,049,479
Subtotal-not depreciated	\$19,280,394	\$25,197,552	\$7,600	\$44,470,346
Other Capital Assets:				
Buildings	\$89,466,272	\$328,167	-	\$89,794,439
Land Improvements	4,307,154	1,258,830	-	5,565,984
Furniture, Machinery, Vehicles, and Other Equipment	12,416,960	1,235,923	-	13,652,883
Telecommunications and Peripheral Equipment	2,470,139	2,333,555	-	4,803,694
Subtotal-other capital assets	\$108,660,525	\$5,156,475	-	\$113,817,000
Accumulated Depreciation:				
Buildings	(31,412,749)	(\$1,810,939)	-	(\$33,223,688)
Land Improvements	(2,376,804)	(215,358)	-	(2,592,162)
Furniture, Machinery, Vehicles, and Other Equipment	(5,282,413)	(758,365)	-	(6,040,778)
Telecommunications and Peripheral Equipment	(2,484,247)	(576,200)	-	(3,060,447)
Subtotal-Accumulated Depreciation	(\$41,556,213)	(\$3,360,862)	-	(\$44,917,075)
Net Other Capital Assets	\$67,104,312	\$1,795,613	-	\$68,899,925
Net Capital Assets	\$86,384,706	\$26,993,165	\$7,600	\$113,370,271

6. Long-term Liabilities

Long-term liability activity for the year ended August 31, 2002 was as follows:

	Balance 9-01-01	Additions	Reductions	Balance 8-31-02	Current Portion
Leases, bonds and notes					
General obligation bonds and notes	\$23,507,490	\$44,645,000	\$5,871,534	\$62,280,956	\$4,841,363
Revenue bonds and notes	-	7,010,000	-	7,010,000	1,410,000
Total bonds and notes	\$23,507,490	\$51,655,000	\$5,871,534	\$69,290,956	\$6,251,363
Other liabilities					
Compensated absences	\$2,422,818	\$410,194	\$113,805	\$2,719,207	\$242,282
Total other liabilities	\$2,422,818	\$410,194	\$113,805	\$2,719,207	\$242,282
Total long-term liabilities	\$25,930,308	\$52,065,194	\$5,985,339	\$72,010,163	\$6,493,645

Non current liabilities are deemed to be liabilities due beyond one year of these financial statements.

Bonds and Notes Payable at August 31, 2002 are as follows:

School Building Bonds, Series 1993, Issued \$12,000,000, January 1, 1993, Tax Supported Bonds	\$2,000,000
General Obligation Bonds, Series 2000, \$20,000,000 Sold, August 15, 2000 and Issued September 20, 2000; To provide for construction of new buildings and renovating existing District facilities; Tax Supported Bonds	14,900,000
Limited Tax General Obligation Building Bonds, Series 2001, To construct, improve, renovate and equip District facilities, Tax Supported Bonds	40,000,000
Revenue Financing System Bonds, Series 2001, Issued November 5, 2001, To provide for construction of buildings and renovating existing facilities, Obligations are supported by District's general revenues	5,590,000
Maintenance Tax Notes, Series 2001, Issued November, 5, 2001, To provide for repair and renovation of certain major building system components and purchase and installation of equipment. Tax Supported Notes	4,645,000
Lone Star Note Payable, issued on November 8, 1999, for \$3,166,239, To provide for energy conservation program; Note is payable from District's general revenues in equal quarterly installments of \$114,452 over an eight year period at 4.04% interest.	2,155,956

Total Bonds and Notes Payable	\$69,290,956
	=====

Bonds and notes payable are due in annual installments varying from \$2,100,000 to \$21,700,490 with interest rates from 3.4% to 6.00%.

Debt and Lease Obligations

Debt service requirements at August 31, 2002 were as follows:

Year Ended August 31	General Obligation Bonds/Notes		Revenue Bonds	
	Principal	Interest	Principal	Interest
2003	\$4,841,363	\$2,982,767	\$1,410,000	\$195,400
2004	891,800	2,858,271	1,340,000	140,400
2005	2,222,870	2,797,767	1,390,000	85,800
2006	2,344,600	2,708,963	1,450,000	29,000
2007	2,092,015	2,622,710	-	-
2008-2012	9,013,308	11,960,857	-	-
2013-2017	11,740,000	9,960,490	-	-
2018-2022	12,890,000	7,014,250	-	-
2023-2027	15,665,000	2,170,625	-	-
2028-2029	2,000,000	100,000	-	-
	-----	-----	-----	-----
Total	\$63,700,956	\$45,176,700	\$5,590,000	\$450,600
	=====	=====	=====	=====

7. Employees' Retirement Plan

The State of Texas has joint contributory retirement plans for almost all its employees. One of the the primary plans in which the District participates is administered by the Teacher Retirement System of Texas. The percentage of participant salaries currently contributed by the State and by each participant are 6.00% and 6.4% respectively, of annual compensation. A participant is vested after 5 years. Normal retirement age is 65 with 15 years of service, age 60 with 20 years of service or age 50 with 30 years of service.

The Teacher Retirement System does not separately account for each of its component government agencies, because it bears sole responsibility for retirement commitments beyond contributions fixed by the Legislature.

The State has also established an optional retirement program for institutions of higher education. Participation in the optional retirement program is in lieu of participation in the Teacher Retirement System. The optional retirement provides for the purchase of annuity contracts. The percentages of participant salaries currently contributed by the State and each participant are 6.00% and 6.65% respectively. Since these are individual annuity contracts, the State has no additional or unfunded liability for this program.

8. Retirement Incentive Pay and Compensated Absences

The District provides retirement incentive pay for employees hired before August 1, 1988 based on unused sick days accumulation prior to August 1, 1988. To receive the incentive pay, the employee must accumulate 10 years of service, must not terminate for reasons other than leave authorized by Board policy, must retire under the terms of the Teacher Retirement System of Texas, or be paid by reason of death. The District recognized, for those hired before August 1, 1988 and who qualify, an accrued liability for sick pay of \$264,122 for 8-31-02. Effective August 1, 1988, the District allows sick leave to accumulate at a rate of 8 hours per month to a maximum of 1,280 hours. However, there is no additional accumulation for retirement incentive pay purposes for any sick days that an employee earned after August 1, 1988. An employee who is on sick leave will be paid only to the extent of accumulated sick leave hours. The District's policy is to recognize this sick leave cost when paid. No liability is shown in the financial statements since experience indicates the expenditure for sick leave to be minimal. Full-time employees earn annual leave from 6.66 to 12.66 hours per month depending on the number of years employed with the District. The District's policy is that an employee may carry his accrued leave forward to a maximum of 80 hours. Employees who terminate their employment are entitled to payment for accumulated annual leave up to the maximum allowed. The District recognized the accrued liability for the unpaid annual leave of \$94,793 for 8-31-02. Total compensated absences and deferred compensation at August 31, 2002 are \$2,719,207.

9. Pending Lawsuits and Claims

On August 31, 2002, certain lawsuits and claims involving the District were pending. While the ultimate liability with respect to litigation and other claims asserted against the District cannot be reasonably estimated at this time, this liability, to the extent not provided for by insurance or otherwise, is not likely to have a material effect on the District.

10. Contracts and Grant Awards

Contract and grant assets received, but not expended during the reporting period, are shown as additions to restricted net assets. Revenues are recognized as funds are actually expended. For Federal contract and grant awards, funds expended but not collected, are reported as Federal Receivables on Exhibit 1. Contract and grant awards that are not yet funded and for which the institution has not yet performed services are not included in the financial statements. Contract or grant awards funds already committed, e. g. multi-year awards, or funds awarded during fiscal year 2002 for which monies have not been received nor funds expended totalled \$9,899,860. Of this amount, \$9,104,382 was from Federal Contract and Grant Awards and \$795,478 was from State Contract and Grant Awards.

11. Post Retirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the State provides certain health care and life insurance benefits for retired employees. Almost all of the employees may become eligible for those benefits if they reach normal retirement age while working for the State. Those and similar benefits for active employees are provided through a state sponsored program with premiums based on benefits paid during the previous year. The State recognizes the cost of providing these benefits by expending the annual insurance premiums. The State contribution per full-time employees was \$326 per month for the year ended August 31, 2002. The State's cost of providing those benefits for 1,122 active employees was \$4,392,013 and for 283 retirees was \$1,024,306, or a total state funded amount of \$5,416,319.

12. Related Parties

The San Jacinto College Foundation, incorporated in 1996, is a nonprofit organization with the sole purpose of supporting the educational and other activities of the District. The District does not appoint a voting majority nor does it fund or is it obligated to pay debt related to the Foundation. The Foundation solicits donations and acts as a coordinator of gifts made by other parties. During the fiscal year ended August 31, 2002, the Foundation provided grants of \$358,864 to District students and programs. During the fiscal year, the District provided certain services, such as office space, utilities and staff to the Foundation. The cost of these unreimbursed services for the year were \$833,578.

13. Property Tax

The District's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

At August 31, 2002:

Assessed Valuation of the District	\$28,294,370,480
Less: Exemptions	(3,221,700,970)
Less: Abatements	(38,882,200)

Net Assessed Valuation of the District	\$25,033,787,310
	=====

	Current Operations	Debt Service	Total
Tax Rate per \$100 valuation for authorized	0.20000	0.50000	0.70000
Tax Rate per \$100 valuation for assessed	0.10128	0.02943	0.13071

Taxes levied for the year ended August 31, 2002 is \$32,721,663. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Taxes Collected	Current Operations	Debt Service	Total
Current Taxes Collected	\$24,710,654	\$6,988,894	\$31,699,548
Delinquent Taxes Collected	465,063	131,534	596,597
Penalties & Interest Collected	205,670	58,168	263,838
	-----	-----	-----
Total Collections	\$25,381,387	\$7,178,596	\$32,559,983
	=====	=====	=====

Current tax collections for the year ended August 31, 2002 were 96.88% of the current tax levy. Allowances for uncollectible taxes are based upon historical experience in collecting property taxes. The use of tax proceeds is restricted to either maintenance and operations or interest and sinking fund expenditures.

14. Income Taxes

The District is exempt from income taxes under Internal Revenue Code Section 115, Income of States, Municipalities, etc., although unrelated business income may be subject to income taxes under Income Revenue Code Section 511 (a)(2)(B). Imposition of Tax on Unrelated Business Income of Charitable, Etc. Organizations. The District had no unrelated business income tax liability for the year ended August 31, 2002.

15. Deferred Compensation Program

District employees may elect to defer a portion of their earnings for income tax and investment purposes pursuant to authority granted in Government Code 609.001.

16. Disaggregation of Receivables and Payables Balances

Receivables at August 31, 2002 were as follows:

Student Receivables	\$3,991,145
Taxes Receivable	818,113
Federal Receivable	1,866,831
Accounts Receivable	1,854,834
Interest Receivable	123,155
Other Receivable	750,436

Total Receivables	\$9,404,514
	=====

Payables at August 31, 2002 were as follows:

Vendor Payable	\$11,808,572
Salaries & Benefits Payable	429,763
Accrued Interest Payable	128,266

Total Payables	\$12,366,601
	=====

17. Uncollectible Accounts

Taxes receivable are reserved based upon historical experience and evaluation of collectibility. The allowance for uncollectible taxes as of August 31, 2002 is \$3,679,179. The District believes, based on past history and experience, that the student receivables, federal receivable, accounts receivable, interest and other receivable are collectible and only insignificant amounts may be uncollectible; accordingly no allowance for uncollectible accounts is recorded. The District expects to collect all substantial receivable balances within one year of the end of the period.

18. Operating Lease Commitments and Rental Agreement

The District paid rental payments of \$64,239 under operating leases in 2002. Future minimum lease payments under noncancellable operating leases having an initial term in excess of one year as of August 31, 2002 are as follows:

Year Ending August 31	Minimum Future Lease Payments
-----	-----
2003	\$71,070
2004	71,070
2005	71,070

Total	\$213,210
	=====

19. Bond Election and Issuance of Bonds Status

On December 14, 1999, the District passed a bond election in the amount of \$91,395,000 of general obligation bonds for the purpose of constructing new buildings and renovating existing District facilities. The District has sold \$60,000,000 of these bonds and at August 31, 2002 has \$31,395,000 unissued from this election. The District has also issued revenue financing system bonds of \$7,010,000 in 2002, not related to the 1999 bonds. Also in 2002, the District sold \$4,645,000 of maintenance tax notes for the maintenance, repair or replacement of buildings, property and equipment.

19. Subsequent Event

On October 4, 2002, the District purchased a 35.7561 acre tract of land for use by the South Campus for \$1,154,110. The land will be purchased from the operating funds of the District. Closing is contemplated in December 2002 or in early 2003.

EUGENE HOVEY
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 1375
LA PORTE, TEXAS 77572

PHONE 281-471-2700

November 24, 2002

To The Board of Regents
San Jacinto College District

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

I have audited the financial statements of the San Jacinto College District for the year ended August 31, 2002, and have issued my report thereon dated November 24, 2002. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the San Jacinto College District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. In accordance with the Public Funds Investment Act, I performed a compliance audit of management controls over its investments and adherence to its established investment policies. The results of my tests indicated that the District is in compliance with all aspects of the Act.

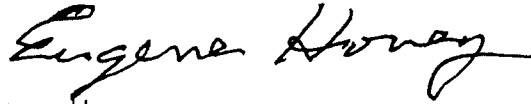
Internal Control Over Financial Reporting

In planning and performing my audit, I considered the San Jacinto College District's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

To The Board of Regents
November 24, 2002
Page Two

This report is intended for the information of the Board of Regents, the District's management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink that reads "Eugene Hovey". The signature is written in a cursive, flowing style with a prominent loop at the end of the last name.

Eugene Hovey
Certified Public Accountant

EUGENE HOVEY
CERTIFIED PUBLIC ACCOUNTANT
P.O. BOX 1375
LA PORTE, TEXAS 77572

PHONE 281-471-2700

November 24, 2002

To The Board of Regents
San Jacinto College District

Re: Report on Compliance and Internal Control Related to Federal and State
Programs

Compliance

I have audited the compliance of the San Jacinto College District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal and state programs for the year ended August 31, 2002. The District's major federal and state programs are identified in the summary of auditor's results section of the accompanying federal and state schedules of findings and questioned cost. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the District's management. My responsibility is to express an opinion on the District's compliance based on our audit.

I conducted my audit of compliance in accordance with U.S. generally accepted auditing standards; 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 and State of Texas Uniform Grant Management Standards (UGMS). These standards, OMB Circular A-133 and UGMS require that I 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 or state 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 I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the District's compliance with those requirements.

In my opinion, the San Jacinto College District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the year ended August 31, 2002.

Internal Control Over Compliance

The management of the San Jacinto College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In plan-

To The Board of Regents
November 24, 2002
Page 2

ning and performing my audit, I considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and UGMS.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I considered to be material weaknesses.

This report is intended for the information of the Board of Regents, the District's management, federal and state awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink that reads "Eugene Hovey". The signature is written in a cursive style with a large, prominent initial "E".

Eugene Hovey
Certified Public Accountant

Financial Schedules

**San Jacinto College District
Schedule of Detailed Operating Revenues
For the Year Ended August 31, 2002**

Schedule 2-A

	Educational Activities	Auxiliary Enterprises	Total
	-----	-----	-----
State Appropriations			
Educational and general state support	\$ 36,760,877	\$ -	\$ 36,760,877
State group insurance	5,416,319	-	5,416,319
State retirement matching	2,694,117	-	2,694,117
Developmental Education Program	78,656	-	78,656
	-----	-----	-----
Total State Appropriations	\$ 44,949,969	\$ -	\$ 44,949,969
	-----	-----	-----
Tuition			
State funded courses			
In-district resident tuition	\$ 5,081,071	\$ -	\$ 5,081,071
Out-of-district resident tuition	6,257,745	-	6,257,745
TPEG (set aside) *	493,475	-	493,475
Non-resident tuition	1,227,328	-	1,227,328
Non state funded courses	1,369,922	-	1,369,922
	-----	-----	-----
Total Tuition	\$ 14,429,541	\$ -	\$ 14,429,541
	-----	-----	-----
Fees			
General fee	\$ 382,933	\$ -	\$ 382,933
Student service fee	7,191,915	419,057	7,610,972
Laboratory fee	611,572	-	611,572
	-----	-----	-----
Total fees	\$ 8,186,420	\$ 419,057	\$ 8,605,477
	-----	-----	-----
Scholarship allowances and discounts			
Scholarship allowances	\$ (316,730)	\$ -	\$ (316,730)
Remissions and exemptions	(366,297)	-	(366,297)
Federal grants to students	(3,052,454)	-	(3,052,454)
State Aid-Schedule 2-C	(680,395)	-	(680,395)
	-----	-----	-----
Total scholarship allowances	\$ (4,415,876)	\$ -	\$ (4,415,876)
	-----	-----	-----
Total net tuition and fees	\$ 18,200,085	\$ 419,057	\$ 18,619,142
	-----	-----	-----
Other operating revenues			
Federal grants and contracts	\$ 13,411,687	\$ -	\$ 13,411,687
State grants and contracts	1,596,901	-	1,596,901
Nongovernmental grants and contracts	251,069	-	251,069
Sales and services of educational activities	336,423	-	336,423
Investment income (program restricted)	13,437	-	13,437
Sales and Services-non educational activities	27,156	-	27,156
	-----	-----	-----
Total other operating revenues	\$ 15,636,673	\$ -	\$ 15,636,673
	-----	-----	-----
Auxiliary enterprises			
Bookstore & other enterprises (net)	\$ -	\$ 9,769,302	\$ 9,769,302
Scholarship allowances and discounts	-	(1,111,215)	(1,111,215)
	-----	-----	-----
Total net auxiliary enterprises	\$ -	\$ 8,658,087	\$ 8,658,087
	-----	-----	-----
Total Operating Revenues (Exhibit 2)	\$ 78,786,727	\$ 9,077,144	\$ 87,863,871
	=====	=====	=====

* In accordance with Education Code 56.033, \$493,475 of tuition was set aside for Texas Public Education Grants (TPEG).

San Jacinto College District
 Schedule of Operating Expenses and Capital Outlay by Functional and Natural Classifications
 For the Year Ended August 31, 2002

Schedule 2-B

	Operating Expenses					Total (Exhibit 2)	Memorandum Only		
	Faculty Salaries	Staff Salaries/ Wages	Benefits		Other Expenses		Capital Outlay		Total Operating Expenses and Capital Outlay
			State Benefits	Local Benefits			Equipment	Facilities	
Educational Activities									
Instruction	\$ 28,772,502	\$ 1,330,732	\$ 4,291,059	\$ 2,385,852	\$ 3,420,914	\$ 40,201,059	\$ 13,429	\$ -	\$ 40,214,488
Public Services	1,268,942	1,407,899	381,589	207,257	787,123	4,052,810	-	-	4,052,810
Academic Support	27,064	4,865,106	697,388	383,970	1,052,698	7,026,226	-	-	7,026,226
Student Services	43,635	5,098,599	732,542	397,060	1,011,953	7,283,789	-	-	7,283,789
Institutional Support	290,053	9,463,272	1,389,360	895,699	9,650,415	21,688,799	2,177,333	603,462	24,469,594
Operation and Maintenance of Plant	-	4,334,585	618,498	345,573	5,673,400	10,972,056	-	30,999	11,003,055
Scholarship and Fellowships	-	-	-	-	6,866,583	6,866,583	-	-	6,866,583
Educational Activities	\$ 30,402,196	\$ 26,500,193	\$ 8,110,436	\$ 4,615,411	\$ 28,463,086	\$ 98,091,322	\$ 2,190,762	\$ 634,461	\$ 100,916,545
Auxiliary Enterprises	-	1,508,350	-	69,150	7,470,008	9,047,508	34,777	-	9,082,285
Depreciation Expense	-	-	-	-	3,360,862	3,360,862	-	-	-
Total	\$ 30,402,196	\$ 28,008,543	\$ 8,110,436	\$ 4,684,561	\$ 39,293,956	\$ 110,499,692	\$ 2,225,539	\$ 634,461	\$ 109,998,830 (a)

(a) Memorandum Total excludes Depreciation Expense.

**San Jacinto College District
Schedule of Tuition Discounting
For the Year Ended August 31, 2002**

Schedule 2-C

Scholarship allowances and discounts

Scholarship Allowances	
Auxiliary Funds	\$ 290,025
Endowment and Similar Funds	1,010
Local Restricted Funds	24,895
Unrestricted Funds	800

	\$ 316,730

Remissions and Exemptions	
Blind, Deaf Students	\$ 16,071
Fireman Enrolled in Fire Science Courses	7,345
Hazelwood Act	341,953
Highest Ranking High School Graduates	928

	\$ 366,297

Federal Grants	
Achieving Performance Excellent Grant	\$ 21,406
Community Development Block Grants	84,648
Federal Title IV - Pell Grants	1,543,967
High tech Jobs in Aerospace grant	1,084,214
Houston Alliance for Minority Participation Project	24,870
Student Support Services	744
Talent Search	2,715
Texas Workforce Commission	
Temporary Assistance for Needy Families (Boot Up SSF-TANF)	243,174
Self Sufficiency Fund - Health Sciences	31,436
Self Sufficiency Fund - Network Cabling	15,280

	\$ 3,052,454

Other	
State Aid	
Aid for Dependent Children Program	\$ 402
Certified Educational Aide Program	8,782
Early High School Graduates	72,825
State Military Tuition Assistance	15,308
Texas Workforce Commission	583,078

	\$ 680,395

TOTAL SCHOLARSHIP ALLOWANCES AND DISCOUNTS	\$ 4,415,876
Exhibit 2 and Schedule 2-A	=====

Single Audit

SAN JACINTO COLLEGE DISTRICT
 SCHEDULE D-3
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2002

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	PASS-THROUGH DISBURSEMENTS AND EXPENDITURES
U S DEPARTMENT OF AGRICULTURE			
Pass-Through From:			
Texas Department of Human Services			
Child Care Food Program	10.558		<u>5,762</u>
U S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
HIS Assisting the Community	14.514		336,136
Pass-Through From:			
The City of Pasadena			
Community Development Block Grant	14.218		93,026
TOTAL U S DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>429,162</u>
U S DEPARTMENT OF LABOR			
Pass-Through From:			
Houston-Galveston Area Council			
High Tech Grant	17.255		1,501,188
APEX	17.258		128,397
TOTAL U S DEPARTMENT OF LABOR			<u>1,629,585</u>
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			
Direct Programs:			
KC-135	43.001		67,406
Texas Aerospace Scholars	43.001		40,237
TOTAL NATIONAL AERONAUTICS AND SPACE ADMINISTRATION			<u>107,643</u>
NATIONAL SCIENCE FOUNDATION			
Direct Program:			
EAR 02-05	47.050		17,961
Pass-Through From:			
University of Houston			
Houston Alliance for Minority Participation Project (AMP)	47.076		27,870
TOTAL NATIONAL SCIENCE FOUNDATION			<u>45,831</u>
U S SMALL BUSINESS ADMINISTRATION			
Pass-Through From:			
The University of Houston-Central			
Small Business Development Center	59.037		<u>107,493</u>
U S DEPARTMENT OF VETERANS AFFAIRS			
Direct Programs:			
Veteran's Administration Admin Allowance	64.124		<u>5,445</u>
U S DEPARTMENT OF EDUCATION			
Direct Programs:			
Federal Supplemental Educational Opportunity Grant	84.007		772,965
Title V - Strengthening the Institution	84.031S		469,736
Federal College Workstudy Program	84.033		503,604
Upward Bound Grant - Student Support Services	84.042A		127,913
Upward Bound Grant	84.047A		319,830
Federal Pell Grant	84.063		7,286,847
CCAMPIS	84.335A		12,597
Pass-Through From:			
Texas Higher Education Coordinating Board			
Carl Perkins Voc Ed	84.048		781,000
Eisenhower	84.281		163,514
Ferris State University - Michigan			
F.I.P.S.E. 01-04	84.116B		12,862
North Harris Community College District			
Carl Perkins - Tech Prep	84.243		13,272
Schools To Careers-Local Implementation Partnership Grant	84.278E		35,641
TOTAL U S DEPARTMENT OF EDUCATION			<u>10,499,781</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Pass-Through From:			
The Texas Workforce Commission			
Temporary Assistance for Needy Families (Boot Up SSF-TANF)	93.558	SSF00-502	125,858
Boot Up Plus 4 (SSF-TANF)	93.558	281SSF1123	317,653
Health and Sciences (SSF-TANF)	93.558	281SSF1183	78,482
SSF - Network Cabling	93.558	2802SSF001	58,018
CCDF 2001	93.596		976
TOTAL U S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>580,986</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>13,411,687</u>

SAN JACINTO COLLEGE DISTRICT
 SCHEDULE D-3
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2002

Note 1: Federal Assistance Reconciliation

Federal Revenues - per Schedule 2-A:		
Federal Grants and Contracts	\$	13,411,687
Reconciling items-none		0

Total Expenditures per Federal Schedule	\$	13,411,687
		=====

Note 2: Student Loans Processed-not Included in Schedule

Federal Grantor CFDA Number/Program Name		New Loans Processed
-----		-----
Department of Education		
84.032 Federal Family Education Loan Program	\$	1,917,172
		=====

Note 3: Significant accounting policies used in preparing the schedule

The expenditures included in the schedule are reported for the college's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis. The expenditures reported above may not have been reimbursed by the funding agencies as of the end of the fiscal year. Some amounts reported in the schedule may differ from amounts used in the preparation of the basic financial statements. Separate accounts are maintained for the different awards to aid in the observance of limitations and restrictions imposed by the fund agencies. The District has followed all applicable guidelines issued by various entities in the preparation of the schedule.

Note 4: Nonmonetary federal assistance received-not Included in Schedule

Federal Grantor CFDA Number/Program Name		

39.003 U S General Services Administration		
Pass-through from:		
Texas State General Services Commission		
Donation of Federal Surplus Personal Property	\$	2,157
		=====

SAN JACINTO COLLEGE DISTRICT
 SCHEDULE D-4
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2002

<u>GRANTOR AGENCY/PROGRAM TITLE</u>	<u>GRANT CONTRACT NUMBER</u>	<u>EXPENDITURES</u>
TEXAS WORKFORCE COMMISSION		
Skills Development	281SDF1152	108,196
Skills Development	POT-00-041	89,834
Skills Development	2802SDF001	385,049
TOTAL TEXAS WORKFORCE COMMISSION		<u>583,078</u>
TEXAS STATE LIBRARY AND ARCHIVES COMMISSION		
Texttreasures Grant - TIFB Grant 00/01	713-01048	0
TIFB - HE3	QE-2001-HTA2S-5419	267,228
TIFB - LB8	QE-2001-LTA6C-5345	362,068
TOTAL TEXAS STATE LIBRARY AND ARCHIVES COMMISSION		<u>629,296</u>
TEXAS HIGHER EDUCATION COORDINATING BOARD		
Incentive Grant for Vocational Nursing Retention		2,000
New Horizons		0
State Military Tuition Assistance		15,308
Texas Grant I - Initial		202,800
Texas Grant I - Renewal		0
Texas Grant II - Initial		68,448
Texas Grant II - Renewal		0
Texas College Work Study		13,961
Early High School - HB1479		72,825
AFDC Program-HP1479		402
Certified Edu Aide Program		8,782
TOTAL TEXAS HIGHER EDUCATION COORDINATING BOARD		<u>384,526</u>
TOTAL STATE FINANCIAL ASSISTANCE		<u><u>1,596,901</u></u>

SAN JACINTO COLLEGE DISTRICT
 SCHEDULE D-4
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2002

Note 1: State Assistance Reconciliation

State Revenues - Per Schedule 2-A:		
State Financial Assistance	\$	1,596,901
Reconciling items-none		0

Total Expenditures per State Schedule	\$	1,596,901
		=====

Note 2: Significant Accounting Policies Used in Preparing the Schedule

The accompanying schedule is presented using the accrual basis of accounting. See Note 2 to the financial statements for the District's significant accounting policies. These expenditures are reported on the District's fiscal year. Expenditure reports to funding agencies are prepared on the award period basis.

SAN JACINTO COLLEGE DISTRICT
 FEDERAL SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2002

1. SUMMARY OF AUDIT RESULTS:

Financial Statements

The type of report issued on the financial statements of the District was an unqualified opinion.

Internal control over financial reporting:

Material weakness(es) identified? yes no
 Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported
 Noncompliance material to financial statements. yes no

Federal Awards

Internal control over major programs:

Material weakness(es) identified? yes no
 Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of Circular A-133?

yes no

The type of report issued on compliance for major programs was unqualified.

Identification of major programs:

CFDA Number	Name of Federal Program
14.514	Assisting the Community
17.255	High Tech Grant
Student Financial Aid-Cluster:	
84.007	Federal SEOG Program
84.032	Federal Family Education Loan Program
84.033	Federal College Workstudy Program
84.063	Federal Pell Grant Program
84.031S	Title V-Strengthening the Institution
84.048	Carl Perkins Voc Ed Program
93.558	Temporary Assistance for Needy Families (Boot Up SSF-TANF) and Boot Up Plus 4 (SSF-TANF)

The dollar threshold used to distinguish between Type A and Type B programs was \$402,351. The District was determined to be a low-risk auditee.

FINDINGS--FINANCIAL STATEMENTS AUDIT None

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

	Federal CFDA Number	Findings	Questioned Costs
Assisting the Community	14.514	None	None
High Tech Grant	17.255	None	None
Student Financial Aid--Cluster:			
Federal SEOG Program	84.007	None	None
Federal Family Education Loan	84.032	None	None
Federal College Workstudy	84.033	None	None
Federal Pell Grant Program	84.063	None	None
Title V-Strengthening the Institution	84.031S	None	None
Carl Perkins Voc Ed Program	84.048	None	None
Temporary Assistance Needy Families (Boot Up SSF-TANF) and Boot Up Plus 4 (SSF-TANF)	93.558	None	None

SAN JACINTO COLLEGE DISTRICT
 STATE SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2002

1. SUMMARY OF AUDIT RESULTS:

Financial Statements

The type of report issued on the financial statements of the District was an unqualified opinion.

Internal control over financial reporting:

Material weakness(es) identified? yes no

Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements. yes no

State Awards

Internal control over major programs:

Material weakness(es) identified? yes no

Reportable condition(s) identified that are not considered to be material weaknesses? yes none reported

Any audit findings disclosed that are required to be reported in accordance with section 510 (a) of the State of Texas Single Audit Circular? yes no

The type of report issued on compliance for major programs was unqualified.

Identification of major state programs:

Grant Contract Number	Name of State Program
2802SDF001	Skills Development
281SDF1152	Skills Development
QE-2001-HTA2S-5419	TIFB-HE3
QE-2001-LTA6C-5345	TIFB-LB8
	Texas Grant I-Initial

The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.

The District was determined to be a low-risk auditee.

FINDINGS--FINANCIAL STATEMENTS AUDIT None

STATE AWARD FINDINGS AND QUESTIONED COSTS

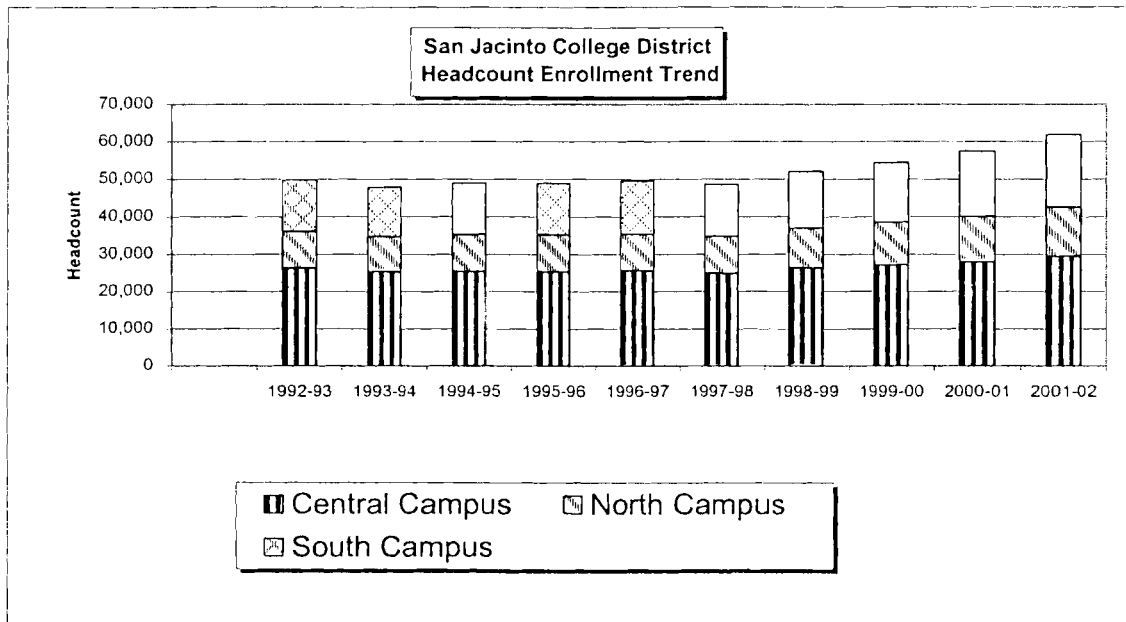
	Grant Contract Number	Findings	Questioned Costs
Skills Development	2802SDF001	None	None
Skills Development	281SDF1152	None	None
TIFB-HE3	QE-2001-HTA2S-5419	None	None
TIFB-LB8	QE-2001LTA6-5345	None	None
Texas Grant I-Initial		None	None

San Jacinto College District
 Headcount Enrollment*
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	State Funded			Total**	Non State Funded Other
	Central Campus	North Campus	South Campus		
1992-93	26,259	9,805	13,782	49,846	
1993-94	25,330	9,299	13,217	47,846	
1994-95	25,357	9,868	13,742	48,967	
1995-96	25,290	9,865	13,742	48,897	
1996-97	25,510	9,813	14,264	49,587	
1997-98	24,845	9,861	13,893	48,599	
1998-99	26,354	10,587	15,083	52,024	
1999-00	27,148	11,390	15,838	54,376	
2000-01	27,916	12,157	17,371	57,444	
2001-02	29,478	13,045	19,345	61,868	

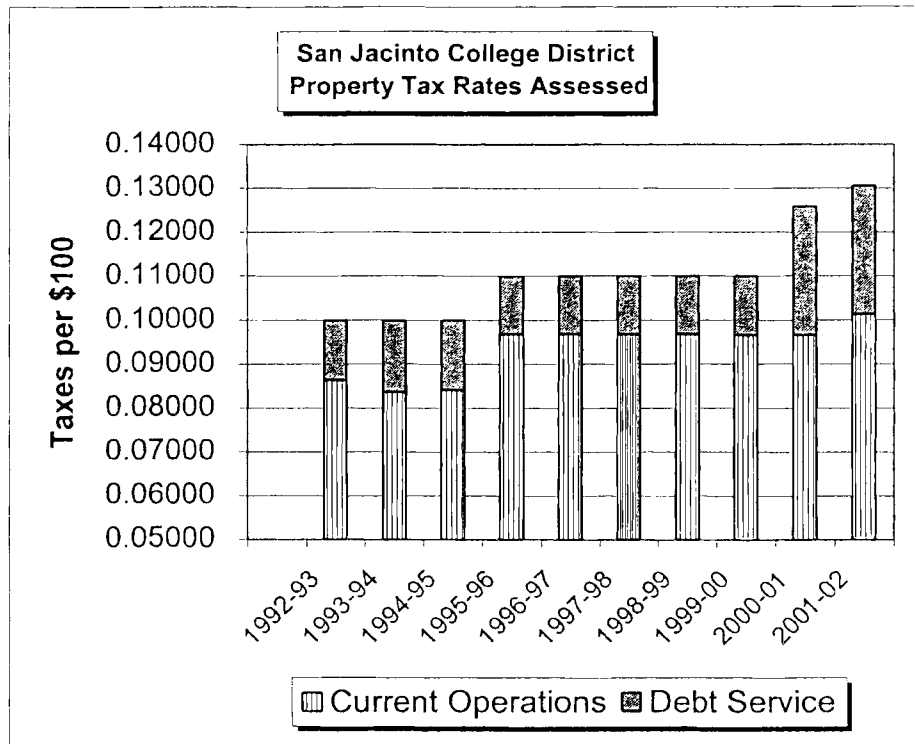
*Duplicated Headcount

**Includes Semester Length Courses - Does Not Include Continuing Education



San Jacinto College District
 Property Tax Rates Assessed
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Current Operations	Debt Service	Total
1992-93	0.08633	0.01367	0.10000
1993-94	0.08360	0.01640	0.10000
1994-95	0.08406	0.01594	0.10000
1995-96	0.09680	0.01320	0.11000
1996-97	0.09678	0.01322	0.11000
1997-98	0.09678	0.01322	0.11000
1998-99	0.09673	0.01327	0.11000
1999-00	0.09657	0.01343	0.11000
2000-01	0.09657	0.02943	0.12600
2001-02	0.10128	0.02943	0.13071



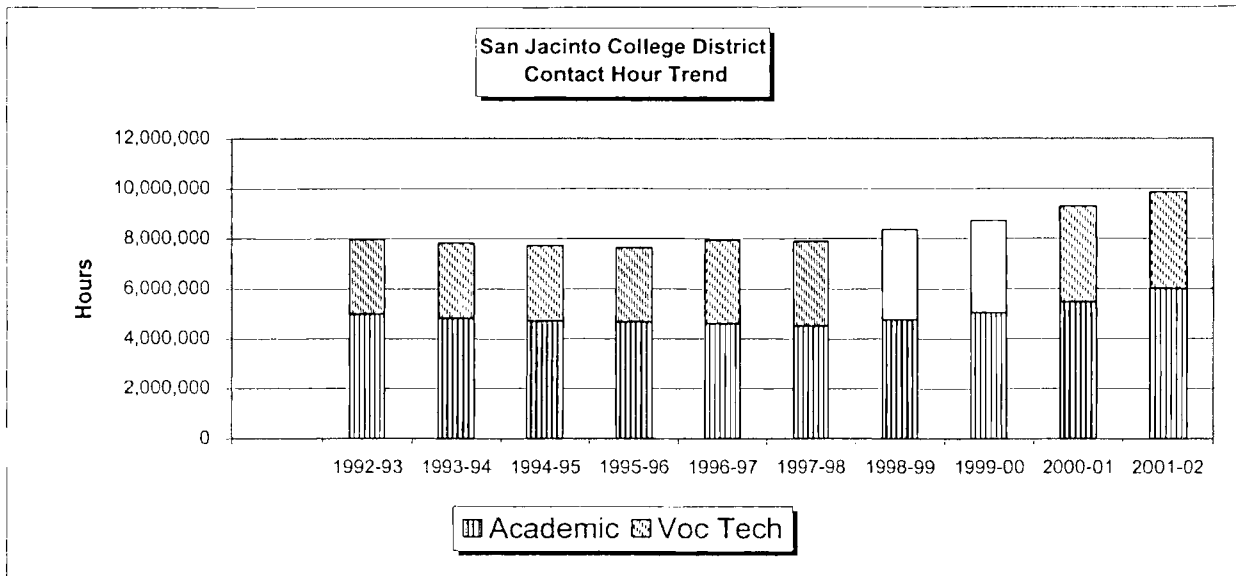
San Jacinto College District
Property Tax Rates Authorized
Last 10 Fiscal Years
(UNAUDITED)

Fiscal Year	Current Operations	Debt Service	Total
1992-93	0.20000	0.50000	0.70000
1993-94	0.20000	0.50000	0.70000
1994-95	0.20000	0.50000	0.70000
1995-96	0.20000	0.50000	0.70000
1996-97	0.20000	0.50000	0.70000
1997-98	0.20000	0.50000	0.70000
1998-99	0.20000	0.50000	0.70000
1999-00	0.20000	0.50000	0.70000
2000-01	0.20000	0.50000	0.70000
2001-02	0.20000	0.50000	0.70000

San Jacinto College District
 Contact Hour Information
 Last 10 Fiscal Years
 (UNAUDITED)

Contact Hours

Fiscal Year	Academic	Voc Tech	Total
1992-93	4,978,910	2,996,541	7,975,451
1993-94	4,822,288	3,009,031	7,831,319
1994-95	4,703,512	3,024,431	7,727,943
1995-96	4,663,832	2,968,188	7,632,020
1996-97	4,585,952	3,356,341	7,942,293
1997-98	4,507,640	3,385,799	7,893,439
1998-99	4,756,008	3,609,549	8,365,557
1999-00	5,039,080	3,677,619	8,716,699
2000-01	5,463,816	3,818,841	9,282,657
2001-02	5,995,176	3,863,939	9,859,115

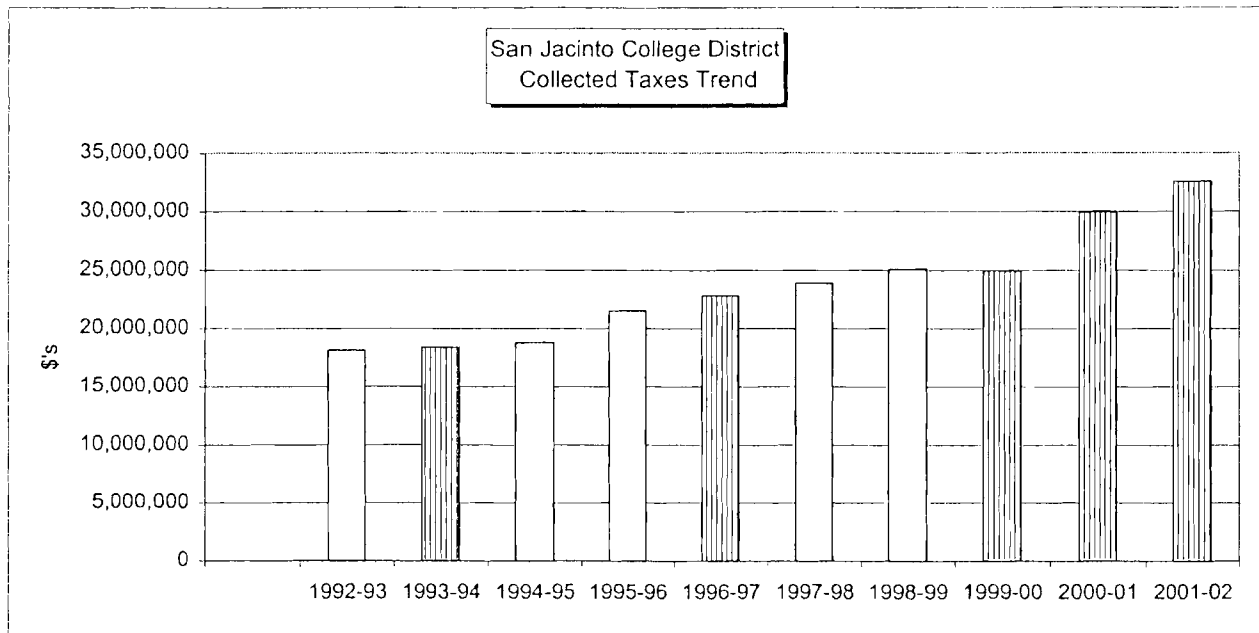


San Jacinto College District
 Net Assessed Valuation
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Assessed Valuation	Less: Exemptions	Net Assessed Valuation
1992-93	18,226,162,164	xx	18,226,162,164
1993-94	18,444,560,180	xx	18,444,560,180
1994-95	18,880,811,130	xx	18,880,811,130
1995-96	19,473,628,855	xx	19,473,628,855
1996-97	23,660,535,694	(2,818,066,774)	20,842,468,920
1997-98	24,091,167,482	(2,309,988,900)	21,781,178,582
1998-99	25,156,108,236	(2,352,397,800)	22,803,710,436
1999-00	25,469,382,330	(2,513,382,140)	22,956,000,190
2000-01	26,783,885,330	(2,803,006,470)	23,980,878,860
2001-02	28,294,370,480	(3,260,583,170)	25,033,787,310

San Jacinto College District
 Property Tax Collected
 Last 10 Fiscal Years
 (UNAUDITED)

Fiscal Year	Current Tax Collections	Delinquent Collections	Total Tax Collections
1992-93	17,763,795	388,210	18,152,005
1993-94	18,011,432	363,662	18,375,094
1994-95	18,411,512	387,109	18,798,621
1995-96	21,048,944	455,348	21,504,292
1996-97	22,450,943	384,991	22,835,934
1997-98	23,547,044	369,402	23,916,446
1998-99	24,625,891	476,143	25,102,034
1999-00	24,701,689	258,433	24,960,122
2000-01	29,301,820	677,929	29,979,749
2001-02	31,699,548	860,436	32,559,984



**San Jacinto College District
State Appropriations Per FTSE
Last 10 Fiscal Years
(UNAUDITED)**

Fiscal Year	Appropriations Per FTSE	
1992-93	\$	886.48
1993-94	\$	925.22
1994-95	\$	906.08
1995-96	\$	870.04
1996-97	\$	847.77
1997-98	\$	996.70
1998-99	\$	976.31
1999-00	\$	1,020.18
2000-01	\$	993.91
2001-02	\$	1,020.73

*Credit Courses Only