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Independent Auditor's Report

To the Board of Directors of
The Harlem Center for Education, Inc.

We have audited the accompanying statements of financial position of **The Harlem Center for Education, Inc.** ("The Harlem Center") as of August 31, 2007 and 2006 and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of The Harlem Center's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **The Harlem Center** as of August 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007 on our consideration of **The Harlem Center's** internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were performed for the purpose of forming an opinion on the basic financial statements of **The Harlem Center** taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not also a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A. F. Paredes & Co.

December 10, 2007

**THE HARLEM CENTER FOR EDUCATION
STATEMENTS OF FINANCIAL POSITION
AUGUST 31, 2007 and 2006**

	2007	2006
ASSETS		
Cash and Cash Equivalents (Note 2)	\$182,106	\$83,709
Advances to Employees (Note 4)	3,550	12,839
Grants Receivable (Note 3)	112,500	-
Property and Equipment - Net (Note 1)	11,843	7,010
Prepaid Expenses	1,388	10,200
Security Deposits	1,949	8,821
	\$313,336	\$122,579
 LIABILITIES AND NET ASSETS		
Liabilities		
Salaries Payable	\$20,690	\$21,432
Payroll Taxes Payable	1,881	1,209
Accrued Expenses (Note 5)	10,117	10,467
	32,688	33,108
Total Liabilities		
Net Assets		
Unrestricted	152,648	89,471
Temporarily restricted (Note 6)	128,000	-
	280,648	89,471
Total Net Assets	280,648	89,471
	\$313,336	\$122,579
TOTAL LIABILITIES AND NET ASSETS	\$313,336	\$122,579

See accompanying Notes to the Financial Statements

THE HARLEM CENTER FOR EDUCATION, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2007</u>	<u>2006</u>
Operating revenues, gains and other support				
Government grants	\$0	\$908,390	\$908,390	\$892,390
Contributions - corporate and foundations	28,126	205,500	233,626	44,508
Contributions - individuals	1,450	-	1,450	3,350
In-kind contributions	12,642	-	12,642	-
Interest and other income	6,308	-	6,308	3,516
Net assets released from restrictions:				
Satisfaction of restriction by payment	985,890	(985,890)	-	-
	<u>1,034,416</u>	<u>128,000</u>	<u>1,162,416</u>	<u>943,764</u>
Total operating revenues, gains and other support				
Expenses				
Program services -				
College counselling	271,947	-	271,947	284,136
Career counselling	116,547	-	116,547	121,774
Financial aid counseling	233,097	-	233,097	243,548
Tutoring	145,688	-	145,688	152,218
PSAT/ SAT	77,700	-	77,700	81,183
Computer Class	48,563	-	48,563	50,739
Program Design Improvement & Oversight	38,848	-	38,848	40,592
	<u>932,390</u>	<u>-</u>	<u>932,390</u>	<u>974,190</u>
Supporting services -				
Administrative and general	19,423	-	19,423	20,297
Fundraising expenses	19,423	-	19,423	20,290
	<u>38,846</u>	<u>-</u>	<u>38,846</u>	<u>40,587</u>
Total Expenses	<u>971,236</u>	<u>-</u>	<u>971,236</u>	<u>1,014,777</u>
Change in net assets	63,177	128,000	191,177	(71,013)
Net assets at beginning of year	<u>89,471</u>	<u>-</u>	<u>89,471</u>	<u>160,484</u>
Net assets at end of year	<u>\$152,648</u>	<u>\$128,000</u>	<u>\$280,648</u>	<u>\$89,471</u>

See accompanying notes to financial statements.

THE HARLEM CENTER FOR EDUCATION, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	2007	2006
Cash flows from operating activities:		
Change in net assets	\$191,177	(\$71,013)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	7,810	11,084
Write-off of security deposits	6,872	-
Write-off of advances to employees	6,764	-
Change in assets and liabilities:		
Decrease in prepaid expenses	8,812	2,545
Decrease in security deposits	-	500
Increase in grants receivable	(112,500)	-
Increase (decrease) in accrued expenses	(350)	2,087
Decrease in salaries payable	(742)	(4,607)
Decrease in due to grantor	-	(1,194)
Increase in payroll taxes payable	672	649
Increase in donated equipment	(12,642)	-
	98,398	(59,024)
Net cash provided by (used in) operating activities		
Cash and cash equivalents at beginning of year	83,709	142,733
	\$182,106	\$83,709
Cash and cash equivalents at end of year		

See accompanying notes to financial statements

THE HARLEM CENTER FOR EDUCATION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED AUGUST 31, 2007 AND 2006

	Program Services										Supporting Services			Total 2006
	College Counseling	Career Counseling	Financial Aid	Tutoring	PSAT/ SAT	Computer Class	Computer Imp. & Oversight	Program Design	Adminis-		Sub- Total	Fund Raising	Sub- Total	
									General	Raising				
Salaries	\$153,489	\$65,781	\$131,562	\$82,226	\$43,854	\$27,409	\$21,927	\$526,248	\$10,964	\$10,964	\$21,928	\$548,176	\$588,973	
Employee benefits	18,424	7,896	15,792	9,870	5,264	3,290	2,632	63,168	1,316	1,316	2,632	65,800	73,121	
Supplies	15,653	6,708	13,417	8,386	4,472	2,795	2,236	53,667	1,118	1,118	2,236	55,903	66,807	
Utilities	4,625	1,982	3,964	2,478	1,321	826	661	15,857	330	330	660	16,517	14,626	
Postage	1,788	766	1,532	958	511	319	254	6,128	128	128	256	6,384	8,144	
Repairs and maintenance	5,274	2,260	4,520	2,825	1,507	942	753	18,081	377	377	754	18,835	22,790	
Rent	29,521	12,652	25,304	15,815	8,435	5,272	4,217	101,216	2,108	2,108	4,216	105,432	103,372	
Equipment rental	6,452	2,765	5,530	3,456	1,843	1,152	922	22,120	461	461	922	23,042	21,644	
Staff travel	3,139	1,345	2,690	1,682	897	561	448	10,762	224	224	448	11,210	15,763	
Student travel	4,469	1,915	3,831	2,394	1,277	798	638	15,322	319	319	638	15,960	11,516	
Book scholarship	5,180	2,220	4,440	2,775	1,480	925	740	17,760	370	370	740	18,500	-	
Professional fees	3,337	1,430	2,861	1,788	954	596	477	11,443	238	238	476	11,919	18,079	
Insurance	10,113	4,334	8,669	5,418	2,890	1,806	1,445	34,675	722	722	1,444	36,119	51,480	
Depreciation	2,187	937	1,874	1,172	625	391	312	7,498	156	156	312	7,810	11,084	
Write-off advances to employees	1,894	812	1,623	1,015	541	338	271	6,494	135	135	270	6,764	-	
Miscellaneous	6,402	2,744	5,488	3,430	1,829	1,143	915	21,951	457	457	914	22,865	7,378	
	\$271,947	\$116,547	\$233,097	\$145,688	\$77,700	\$48,563	\$38,848	\$932,390	\$19,423	\$19,423	\$38,846	\$971,236	\$1,014,777	

See accompanying notes to financial statements.

THE HARLEM CENTER FOR EDUCATION, INC.
Notes to Financial Statements
August 31, 2007 and 2006

Note 1: Organization and Summary of Significant Accounting Policies

Organization and Nature of Activities

The Harlem Center is a not-for-profit organization, incorporated in the State of New York. It provides free services to community members with respect to college and career opportunities available to them such as college, career, financial aid and academic counseling; tutoring; after-school programs; college campus visits; cultural/educational trips; Scholastic Aptitude Test (SAT) preparation; and others.

Basis of Presentation

Financial statement presentation is in accordance with the provisions of the Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, The Harlem Center is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets - Consists of assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets - Consists of assets whose use by The Harlem Center is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization. The temporarily restricted assets include all revenues and contributions designated for program activities.

Permanently restricted net assets - Consists of assets whose use by The Harlem Center is subject to donor-imposed stipulations that the funds be maintained in perpetuity and only the interests earned from the investment of such funds may be released from restrictions and used in The Harlem Center's operations.

The Harlem Center has also adopted the Statement of Financial Accounting Standard No. 116, "Accounting for Contributions Received and Contributions Made".

THE HARLEM CENTER FOR EDUCATION, INC.
Notes to Financial Statements
August 31, 2007 and 2006

Note 1: Organization and Summary of Significant Accounting Policies (continued)

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

Income Tax Status

The Harlem Center is a qualified tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. As a not-for-profit organization, The Harlem Center is also exempt from New York State and New York City income and sales taxes.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in banks and money market funds with original maturities of three months or less.

Property and Equipment

Property and equipment are carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets. Depreciation expense for the current year is \$ 7,810. Details of property and equipment follow:

	<u>2007</u>	<u>2006</u>
Computer equipment	\$ 120,332	\$107,689
Computer software	19,450	19,450
Furniture and fixtures	<u>1,352</u>	<u>1,352</u>
Total	141,134	128,491
Less: Accumulated depreciation	<u>129,291</u>	<u>121,481</u>
Net property and equipment	<u>\$ 11,843</u>	<u>\$ 7,010</u>

THE HARLEM CENTER FOR EDUCATION, INC.
Notes to Financial Statements
August 31, 2007 and 2006

Note 1: Organization and Summary of Significant Accounting Policies (continued)

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in the temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished) temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities as net assets released from restrictions.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities and in the Schedule of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited, based on reasonable determinations by management.

THE HARLEM CENTER FOR EDUCATION, INC.
Notes to Financial Statements
August 31, 2007 and 2006

Note 2: Cash and Cash Equivalents

The cash balances as of August 31, 2007 and 2006 consist of:

	<u>2007</u>	<u>2006</u>
Cash in Bank		
CA# 034-036059	\$ 17,184	\$ 2,012
CA #688-5015392-65	53,353	2,954
CA #034-036067	42,257	12,458
JP Morgan Prime Money Market - 0283-5200026659	22,423	21,362
JP Morgan Treasury Securities - MM-M0677-5200125212	44,271	42,351
Business Money Market - 688-6168158-65	1,059	1,036
Business Money Market - 688-6168166-65	1,059	1,036
Petty Cash Fund	<u>500</u>	<u>500</u>
Total	<u>\$ 182,106</u>	<u>\$ 83,709</u>

Note 3: Grants Receivable

Grants receivable represents receivable from Council for Opportunity in Education (COE) amounting to \$112,500. COE will pay The Harlem Center three equal quarterly payments amounting to \$37,500 until March 2008. Subsequent to August 31, 2007, \$75,000 was received from COE.

Note 4: Advances to Employees

This account consists of the following:

<u>Particulars</u>	<u>2007</u>	<u>2006</u>
Salary advances to an employee	\$ 3,200	\$ 5,600
Overpayment of salaries of resigned employees	-	6,564
Others	<u>350</u>	<u>675</u>
Total	<u>\$ 3,550</u>	<u>\$12,839</u>

Subsequent to August 31, 2007, the amount of \$400 was paid. Remaining amount as of audit date amounted to \$3,150.

THE HARLEM CENTER FOR EDUCATION, INC.
Notes to Financial Statements
August 31, 2007 and 2006

Note 5: Accrued Expenses

The balance of this account as of August 31, 2007 and 2006 consists of:

<u>Particulars</u>	<u>2007</u>	<u>2006</u>
Professional fees	\$ 8,000	\$ 8,000
Supplies	1,294	1,640
Others	<u>823</u>	<u>827</u>
Total	<u>\$10,117</u>	<u>\$ 10,467</u>

Subsequent to August 31, 2007, the amount of \$6,117 was paid.

Note 6: Lease Commitments

The Harlem Center leases its property from East Harlem Arts & Education LDC, a New York not-for-profit local development corporation which leases the property from the City of New York. The rental expense for the period September 1, 2006 to August 31, 2007 totaled \$59,124.

The Harlem Center also leases another property from Hope Community, Inc. with an annual rental of \$46,308 for the period September 1, 2006 to August 31, 2007.

Note 6: Temporarily Restricted Net Assets

The temporarily restricted net assets consist of the following:

<u>Donor</u>	<u>Program</u>	<u>Amount</u>
Council for Opportunity in Education	Provision for college access services at four schools in New York City	\$ 112,500
General Motors Acceptance Corporation	Book scholarships for college freshmen	<u>15,500</u>
		<u>\$ 128,000</u>

THE HARLEM CENTER FOR EDUCATION, INC.
Schedule of Expenditures of Federal Awards
For the year ended August 31, 2007

<u>Grantor/Program Title</u>	<u>CFDA No.</u>	<u>Award No.</u>	<u>Amount</u>
U.S. Department of Education Talent Search Program	84.044A	P044A02053106 P044A060139	\$ 438,129 250,261
U.S. Department of Education Educational Opportunity Centers	84.066A		<u>220,000</u>
			<u>\$ 908,390</u>

Other Financial Information

and

Reports of Independent Auditor

THE HARLEM CENTER FOR EDUCATION, INC.
Notes to Schedule of Expenditures of Federal Awards
August 31, 2007

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards is a summary of the cash activity of The Harlem Center for Education, Inc.'s federal awards programs and does not present transactions that would be included in the financial statements of the Organization presented on the accrual basis of accounting, as contemplated by generally accepted accounting principles.



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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 of
The Harlem Center for Education, Inc.

We have audited the financial statements of the **Harlem Center for Education, Inc.** as of and for the year ended August 31, 2007, and have issued our report thereon dated December 10, 2007. 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 Harlem Center for Education, Inc.**'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **The Harlem Center for Education, Inc.**'s financial statements are free of material misstatement, we 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 our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information and use of the Board of Directors, management and the grantors listed in the accompanying Schedule of Expenditures of Federal Awards and is not intended to be and should not be used by anyone other than these specified parties.

A. F. Paredes & Co.

December 10, 2007