

HuaXia Bergen Chinese School

Internal Review Report

Issued on January 30, 2017

For the School Fiscal Year Ending

June 30, 2016

(CONFIDENTIAL)

At the request of Board of Directors of Huaxia Bergen Chinese School ("the Board"), a review of accounting systems and related procedures of Huaxia Bergen Chinese School ("the School") was conducted during November and December 2016 for fiscal school year ended June 30, 2016. Specifically, the review focused on adherence to the established policies and procedures, as well as an evaluation of the effectiveness of the internal control, aiming to determine the accuracy of financial statements, in compliance with financial reporting standards, and to inform management of the results of the review.

OBJECTIVES

The review was conducted to achieve the following specific audit objectives:

1. Determine accounting function at the School is clearly defined, accounting personnel are adequately aware of their responsibilities;
2. Verify that the School adopts and adheres to generally accepted accounting principles in the United States in recording School transactions;
3. Determine that there exists a process to ensure all School financial information is accurately recorded in the general ledger;
4. Determine account balances are properly categorized;
5. Ensure transactions are recorded timely, accurately, and are authorized and approved by appropriate personnel;
6. Determine that entries to the general ledger are properly supported, approved, adequately explained, and posted timely;
7. Ascertain that account reconciliations are prepared and approved timely and that differences are investigated and resolved timely;
8. Determine if any fixed assets are booked in general ledger.

PROCEDURES

The School has provided Balance Sheet, Profit & Loss and detailed Profit & Loss, as well as other relevant financial information for review. Discussions were held with the school Vice Principal Ms. Ruth Shi and Accountant Grace Zhang. Specifically, the following were performed:

- Discussed with Ms. Shi regarding the accounting procedures including tuition recognition, tuition refund, payroll calculation and payment process, expense

approval process, bank statement reconciliation, journal entry booking and year end book close.

- Discussed with Ms. Zhang on payroll process, employee tax withholding and corporate tax returns filed by external vendor CFO.
- Starting school year 2015-2016, the School implemented PayPal for tuition collection aiming to replace check payment and thus improve the efficiency of tuition collection and refund process.
- Quick Book software is used for School's transaction booking. Detailed transactions on the general ledgers were reviewed and verified with documentations on sample basis to ensure the bookkeeping were properly recorded.
- A review of the School's revenue collection on sample basis was performed to ensure proper procedures and segregation of duties were followed. The School's main income was from tuition, donation, advertising and book sales. Except tuition, the majority of the income received was in the form of checks. Some cash receipts occurred from book sales and food vendors.
- The School maintains a live registration records on its website with admin access that allows a view of total families, total students, total classes and teachers with detailed information for each class, including tuition, student name, and registration status. A review of this system has been performed to evaluate the accuracy of tuition reported on financial statement.
- Teacher's attendance reports were sampled for testing and bonus report was reviewed to ensure compensations were accurately calculated with sufficient supports and were approved by the authorized personnel. In addition, some routine expenses were reviewed to ensure sufficient supports were retained.
- The School maintains an account with TD Bank. Reconciliations were performed by Ms. Ru Shi. Sample reconciliation was selected for Checking Account balance as of June 30, 2016. Outstanding items were individually identified. There were no large stale reconciling items.
- A confirmation that the School currently does not have significant fixed assets on the books was made per discussion with the key member in charge of accounting functions at the School. The only fixed asset include one DVD machine used for Culture Class and due to the size and cost of equipments, the School charged off one-time expenses.
- Based on our review, it is noted that the School adopts cash method for its accounting. Accrual method is usually preferable to reflect the accurate financial position of an entity.

COMMENTS

1. To improve the efficiency of tuition collection, for School Year 2016, the School implemented PayPal for tuition collection. the concerns have been expressed on the tuition collection validation process. It's noted that the balance of PayPal was not recorded at the end of the tuition collection cycle. thus was not fully reconciled to the School's online registration system.
2. In certain cases tuition refund is allowable and needs to adhere to specific tuition refund policy and procedures. Refund is required to be processed in the same manner as the original tuition payment. Based on sample reviews, certain tuition refund transactions did not have sufficient documentations to support the refund, e.g. 2 PayPal refunds were processed via check (due to refund was processed beyond PayPal's timeframe requirement on refund) and are missing detailed description of class and reasons to justify the refund amounts; 1 check refund was processed with full amount including registration fee and member fee without sufficient explanation. It's recommended the School retains sufficient audit trail records and implements proper review/approval to ensure the refund process to be adequately conducted.
3. We noted certain wages & salaries were booked as Net Amount excluding taxes withheld and paid by the School eventually to tax authority; such withheld taxes were comingled with taxes owed and paid by the School. As a result, Payroll Taxes was over reported by \$13K while wages & salaries was underreported by the same amount. It's recommended that the School books gross wages and salaries and only payroll taxes owed by the School is booked in such category.
4. It's noted Federal and New Jersey Income Tax was not consistently withheld and deducted from employee payroll by external vendor CFO. During the school year of 2016, New Jersey Income Taxes was omitted from withholding for 3 months (April to June 2016) and Federal Income Taxes was withheld only for 1 month (Dec. 2015). Per discussion with the accountant, it's agreed that the School requested payroll vendor CFO to withhold only FICA tax and not any other taxes going forward.
5. Based on our review, we noted that the School adopts cash method for its accounting. Accrual method is usually preferable to reflect the accurate financial position of an organization.

CONCLUSION

Based on the testwork performed, we conclude that the School needs to enhance the tuition collection and refund review process, especially transactions posted via PayPal, as well as reconciliation between the online registration system and financial statements to ensure the accuracy of financial statement and a robust and effective internal control in place. Overall the school's accounting operations appear to be reliable, the controls over accounting functions at the School are adequate, segregation of duties on accounting personnel are fairly observed, the accounting practice is generally in compliance with established policies, and supporting documentation are prepared and reviewed and approved by the School management.

Auditor:

A handwritten signature in black ink, appearing to read 'Jing Xie', is written over a horizontal line.

Jing Xie, CPA

Huaxia at Bergen, Inc.
Balance Sheet
As of June 30, 2016

ASSETS

Current Assets

Checking/Savings

Checking - HSBC	20.00
Checking - TD	-5,963.91
Money Market - TD	113,511.27
Paypal school account	0.00
Total Checking/Savings	<u>107,567.36</u>

Total Current Assets 107,567.36

Other Assets

Security Deposits Asset	5,200.00
Total Other Assets	<u>5,200.00</u>

TOTAL ASSETS 112,767.36

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable	
Grants Payable	0.00
Total Accounts Payable	<u>0.00</u>

Other Current Liabilities

Payroll Liabilities	82.18
Unearned Tuition income	0.00
Total Other Current Liabilities	<u>82.18</u>

Total Current Liabilities 82.18

Total Liabilities 82.18

Equity

Retained Earnings	143,781.02
Unrestricted Net Assets	7,518.68
Net Income	-38,614.52
Total Equity	<u>112,685.18</u>

TOTAL LIABILITIES & EQUITY 112,767.36

Huaxia at Bergen, Inc.
Profit & Loss
July 2015 through June 2016

Ordinary Income/Expense

Income

Book Sales	1,321.00
Donation	1,500.00
Interest Income	156.42
Other Income	0.00
Other Types of Income	
Miscellaneous Revenue	2,516.00
Total Other Types of Income	2,516.00

Text book Sales	0.00
Tuition	289,360.00
Tuition Refund	-6,850.50
Total Income	288,002.92

Expense

Advertising	0.00
Award	
Award for AP Exam	0.00
Honor Student Award	0.00
Award - Other	0.00
Total Award	0.00

Bank Fee (PayPal Fee)	162.84
Board Meeting	0.00
Class Supplies	0.00
Contract Services	
Accounting Fees	0.00
Independant Teacher	17,586.35
Outside Contract Services	0.00
Total Contract Services	17,586.35

Copying Service	56.04
Miscellaneous	0.00
Office Supplies	0.00

Operations

Books, Subscriptions, Reference	6,820.73
Postage, Mailing Service	285.25
Printing and Copying	30.00
Supplies	0.00
Telephone, Telecommunications	591.60
Total Operations	7,727.58

Other Types of Expenses

Insurance - General Liability	672.00
Insurance - Liability, D and O	3,021.69

Huaxia at Bergen, Inc.
Profit & Loss
July 2015 through June 2016

Other Costs-HQ membership fee	2,500.00
Total Other Types of Expenses	6,193.69
Payroll - Payroll	0.00
Payroll Expenses	1,714.00
Professional Fees	1,000.00
Rent	96,750.00
Salaries & Wages	
Bonus	0.00
Payroll Taxes	26,388.09
Salaries & Wages - Other	138,127.79
Total Salaries & Wages	164,515.88
School Activity	
AP Exam Processing Fee	0.00
Chinese New Year Event	12,058.93
Class Activity	1,557.17
Class Room Fee	1,719.00
CLERC PD Workshop	0.00
Debate Contest	100.00
Graduation Party	2,467.19
Halloween	223.86
HSK Test	0.00
Huaxia Head Quarter meeting	100.00
Huaxia Star	350.00
HX Basketball Tournament	0.00
Meals & Entertainment	951.74
Mid-Autumn Festival	2,306.56
Registration Fee - Graduation E	
School Activity	0.00
Registration Fee - Graduation E - Other	0.00
Total Registration Fee - Graduation E	0.00
School General Meeting	0.00
Speech Contest	851.00
Sports	2,149.27
Spring Games	0.00
Student Performance	0.00
Teachers' Training	3,119.19
Track & Field Event	0.00
Writing Contest	152.10
School Activity - Other	0.00
Total School Activity	28,106.01
School Supplies	2,230.05
Taxes	0.00

Huaxia at Bergen, Inc.
Profit & Loss
July 2015 through June 2016

Test Book Order	0.00
Transportation Expenses	125.00
Travel and Meetings	
Conference, Convention, Meeting	300.00
Travel	150.00
Total Travel and Meetings	450.00
 Total Expense	 326,617.44
 Net Ordinary Income	 -38,614.52
 Net Income	 -38,614.52