



华夏博根中文学校
HuaXia Chinese School at Bergen

Internal Audit Report

For the Fiscal Year
From July 1, 2017 to June 30, 2018

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Audit Objective and Scope

At the request of the Board of Directors (“the Board”) of HuaXia Chinese School at Bergen (“the School”), a New Jersey nonprofit corporation, the independent auditor conducted an internal audit of the School’s financial statements including the statement of assets and liabilities as of June 30, 2018, the statement of operations and the statement of change in net assets for the fiscal year from July 1, 2017 through June 30, 2018.

The primary audit objective is to attest the fairness, completeness and accuracy of the financial statements. These financial statements are the responsibility of the school management and the Board. The auditor’s responsibility is to express an opinion on these financial statements based on audit results.

The audit will be conducted in accordance with auditing standards generally accepted in the United States of America (“U.S. GAAS”). An audit includes examining, on a test basis, evidence which support the amounts in the financial statements. An audit also includes assessment of the accounting principles used by the School as well as evaluation of the internal controls at the School are designed adequately and operated effectively.

The Independent Auditor

The auditor is independent and not involved in the operations of any school within the HuaXia Chinese School system for the fiscal year from July 1, 2017 through June 30, 2018.

Audit Process

- **Planning**

The auditor obtained the trial balances, general ledger details, monthly bank statements and monthly PayPal statements from the Accountant of the School. The materiality thresholds are determined based upon the gross revenue. The auditor identified the key audit areas with consideration of risk assessment.

- **Risk Assessment**

The main transactions of the School are receiving tuition income and paying various operating expenses, such as payroll expenses, rent, expenses for school activities and etc. The School started to receive tuition via PayPal, to a limited extent, in the school year 2015-2016. For the school years 2016-2017 and 2017-2018, approximately 80% and 89% of tuition, respectively, was received through PayPal, which significantly reduced the workload of the Registrar and the Accountant. The new process also minimized the chances of making errors. The parents are able to register the classes online and pay tuition through PayPal. The Registrar maintains the registration system which has information of family ID, the student’s name, registered classes, tuition amounts and etc. The School continues to accept the tuition payments by cash or check. At each month end, the Registrar receives the PayPal statement which presents the beginning balance, tuition amounts received, tuition refund paid, PayPal fees charged and the ending balance. The Accountant books the tuition income received via PayPal based on the registration system. For the tuition received in cash or checks, the Registrar types the student information and registration details in the registration system and prepares a list of tuition received. The Registrar provides cash/checks and this list to the Accountant. The Accountant then deposits the tuition received to the checking account and books in the GL system.

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Within the first week after the beginning of the school year, the parents are eligible for full refund if the student withdraws from a class. Within the second week after the beginning of the school year, the parents are eligible for a refund of 80% of tuition. However after two weeks, a request of tuition refund will not be accepted. The use of PayPal enhances the internal controls and helps the School to simplify both the registration process and refund process.

The school hires a third party service provider to process payroll and file the quarterly/annual tax filings required by New Jersey and IRS. At each month end, the service provider provides the payroll package to the Accountant. The Accountant reviews the packages and books the payroll compensations to the GL.

Teachers and staff fill out the Expense Reimbursement Request Form and submit it with receipts or invoices to the Accountant in order to get reimbursement. The Accountant reviews the request form and supporting documents then gives them to the Principal or Vice Principal for approval. Once the reimbursement request is approved, the Accountant books it in GL system and processes the payment.

The balance sheet accounts mainly consist of cash and cash equivalents, tuition receivable from PayPal, tuition received in advance and other assets/liabilities. These balances are easy to check and validate. The risk of misstatement associated with those accounts is assessed as low.

The income statement accounts mainly consist of tuition, payroll expenses and other operating expenses of the school. Some internal controls are in place, such as usage of PayPal, segregation of duties, monthly bank reconciliations as well as expense review and approval. Therefore the risk of misstatement of income statement accounts is assessed as low.

- **Audit Strategy and Procedures**

- Balance Sheet

- Cash and cash equivalents:

- The auditor compared the balances of checking account and money market account per accounting GL to the June 2018 bank statements. A difference on the checking account was noted which was primarily due to timing differences. The auditor reviewed the bank reconciliation prepared by the Accountant. Certain payments for payroll expenses or other operating expenses have been booked in the accounting system. However, the checks have not been cashed out as of the school year-end.

- PayPal account balance:

- Registration for the fall semester of the 2018-2019 School Year was open in May 2018. The parents began to register classes and pay tuition via PayPal before the school year-end. Therefore, the School's PayPal account had a material balance of tuition income as of June 30, 2018. The auditor agreed the GL balance to the PayPal June 2017 statement.

- Tuition Received in Advance:

- As aforementioned, the tuition received in May and June 2018 is related to the following school year. Therefore, these amounts were booked as liabilities, "tuition received in advance".

- Other Assets and Liabilities:

- Other assets and liabilities include security deposit and payroll tax payable. Security deposit was required by the Paramus Catholic High School. The auditor obtained the leasing agreement and tied

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the amount of security deposit to the agreement. The auditor agreed the payroll tax payable to the subsequent bank statement to ensure the liability was paid timely after the school year end.

Income Statement – Revenue

➤ Tuition and Tuition Refund:

Based on the monthly PayPal statements, the auditor summarized the activities of PayPal account during the school year to get the total tuition received, tuition refund and the fees charged by PayPal. Approximately 90% of tuition income was received through PayPal. Periodically, the Accountant transferred cash from PayPal account to the checking account. The auditor agreed cash transfers to PayPal statements and bank statements. For the tuition received in cash or checks, the auditor agreed to the bank statements and supporting documents such as photocopy of checks.

➤ Other income (i.e. donation and etc.):

The auditors agreed the GL records to the bank statements and reviewed supporting documents, if any.

Income Statement – Expenses

➤ Payroll and Payroll Taxes

The auditor inquired of the Accountant to understand the compensation policies and procedures. The School maintains a weekly sign-in sheet to keep track of the total servicing hours of each teacher/staff. Their monthly payment is based on the hourly rate and total servicing hours during the month. Most of teachers and admin staff receive a W2 at the end of the year. Certain teachers receive a Form 1099. The payroll service provider sends a payroll package to the Accountant at each month end. The packages show the gross pay, payroll taxes owed by employer to IRS or NJ tax authority, and the net pay. Two monthly packages were selected as samples for testing. In terms of the payroll taxes, the auditor agreed the payroll tax payments to IRS or New Jersey to the bank statements.

➤ Operating expenses (i.e. rent, insurance, book cost and expenses for school activities)

On a sample basis, the auditor reviews the expense reimbursement request forms to ensure the invoices/receipts or other supports are in place and the Principal/Vice Principal approved the reimbursement requests by signing the form. The auditor also agreed the expenses per GL to the bank statements.

Audit Findings and Recommendations

• Tuition Revenue, Tuition Refund and PayPal Fees

Currently, the Accountant books the tuition income, tuition refund and PayPal fees based on the registration system, which have immaterial differences to the PayPal statements.

It is recommended to book these GL accounts based on PayPal statements. In addition, the Registrar should work with Accountant to perform 3-way reconciliation at the year end to make sure that accounting system, registration system and PayPal statements are tied up.

• Improvements on GL bookings

Overall, the Accountant maintains a good amount of audit evidence to support the transactions during the school year. However, the following areas need to be improved on documentation:

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- a) Add a note on "Memo" field in the accounting system so that tuition income and tuition refund through PayPal or check/cash can be distinguished.
- b) Deposit made by Accountant may consist of many transactions/activities, such as tuition received in cash/check, book fees, income from food booth, tickets for Chinese New Year event, etc. The auditor recommends the Accountant to prepare a breakdown of transactions (e.g. the total amount of each category, the GL accounts being booked, etc.) to make sufficient audit evidence.

Follow-up on Prior Year Recommendations:

The auditor noticed that the School took most of prior year recommendations, except for the following.

- Staled and Expired Checks
When the auditor reviewed the bank reconciliation as of the school year-end, it was noted that some checks were staled and expired since they were issued in 2009 through 2016. For some reason, those checks were uncashed for years. The total amount of those checks is approximately \$5,200 as of June 30, 2017. It is recommended to write off those staled checks.

Conclusion

Above findings are below the materiality threshold and have no material impact on the operating results of the School. Based on the testwork performed, the Statements of Assets and Liabilities, Statements of Operations and Statement of Change in Net Assets are fairly reflected the School's financial position and operating results in all material aspects as of June 30, 2018 and for the fiscal year then ended.

Appendices to the Audit Report

The appendices to the internal audit report include comparative financial statements for the school years ended June 30, 2017 and June 30, 2018, respectively. The Board and the school management may use comparative financial information to revisit the school budget to improve operating results of the School in the near future.

The Internal Audit Report for the fiscal year ended June 30, 2018 was prepared by:

Shannon Wei

Shannon Wei, CPA

3/12/2019

Date

ACCEPTED by:

Hua Xia Chinese School at Bergen

Hongmei DU

Hongmei DU

Authorized Person [Management]

3/17/2019

Date



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Statement of Assets and Liabilities June 30, 2017 and June 30, 2018

	June 30, 2018	June 30, 2017
Assets		
Cash and cash equivalents	82,529	\$ 82,236
PayPal account	179,547	149,252
Security deposit	5,200	5,200
Total assets	<u>\$ 267,276</u>	<u>\$ 236,688</u>
Liabilities		
Payroll withholding tax payable	1,092	1,715
Tuition received in advance	176,444	149,252
Total liabilities	<u>177,536</u>	<u>150,967</u>
Net Assets	<u>\$ 89,740</u>	<u>\$ 85,721</u>



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Statement of Operations
For the School Years Ended June 30, 2017 and June 30, 2018

	For the School Year Ended	
	June 30, 2018	June 30, 2017
Revenue		
Gross tuitions, PTA and registration fees	\$ 348,810	\$ 341,045
Less: Tuition refund	(41,262)	(16,986)
Net tuitions, PTA and registration fees	<u>307,548</u>	<u>324,059</u>
Donations	1,755	1,114
Interest income	81	212
Other revenue	<u>3,110</u>	<u>4,060</u>
Total Revenue	<u>\$ 312,494</u>	<u>\$ 329,445</u>
Expenses		
Payroll expenses including withholding taxes	155,217	196,404
Rent	101,500	96,750
School activities	23,578	39,206
Paypal fees	7,002	6,555
Insurance	3,704	4,739
Books	8,146	4,161
Office supplies	3,892	3,163
Membership fee to HuaXia Headquarter	2,826	3,050
Professional fees	2,370	2,145
Other expenses	<u>240</u>	<u>236</u>
Total Expenses	<u>308,475</u>	<u>356,409</u>
Net increase (decrease) in net assets from operations	<u>\$ 4,019</u>	<u>\$ (26,964)</u>



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Statement of Changes in Net Assets For the School Years Ended June 30, 2017 and June 30, 2018

Net assets, June 30, 2016	\$ 112,685
Net decrease in net assets from operations	(26,964)
Net assets, June 30, 2017	<u>\$ 85,721</u>
Net increase in net assets from operations	4,019
Net assets, June 30, 2018	<u>\$ 89,740</u>

Accrual Basis

**Huaxia at Bergen, Inc,
Balance Sheet
As of June 30, 2018**

ASSETS

Current Assets

Checking/Savings

Checking - TD 1,725.95

Money Market - TD 80,803.69

Paypal school account 179,546.67

Total Checking/Savings 262,076.31

Total Current Assets 262,076.31

Other Assets

Security Deposits Asset 5,200.00

Total Other Assets 5,200.00

TOTAL ASSETS 267,276.31

LIABILITIES & EQUITY

Liabilities

Current Liabilities

Accounts Payable

Grants Payable 1,092.27

Total Accounts Payable 1,092.27

Other Current Liabilities

Unearned Tuition income 176,444.48

Total Other Current Liabilities 176,444.48

Total Current Liabilities 177,536.75

Total Liabilities 177,536.75

Equity

Retained Earnings 143,781.02

Unrestricted Net Assets -58,060.47

Net Income 4,019.01

Total Equity 89,739.56

TOTAL LIABILITIES & EQUITY 267,276.31

Accrual Basis

Huaxia at Bergen, Inc.
Profit & Loss
July 2017 through June 2018

Ordinary Income/Expense

Income

Donation	1,755
Interest Income	81
Other Types of Income	
Miscellaneous Revenue	3,110
Total Other Types of Income	3,110
Tuition	348,810
Tuition Refund	(41,262)
Total Income	312,494

Expense

Bank Fee/Paypal	7,002
Contract Services	
Accounting Fees	2,370
Independant Teacher	12,050
Substitute Teachers	1,479
Total Contract Services	15,899
Operations	
Books, Subscriptions, Reference	8,147
Postage, Mailing Service	289
Printing and Copying	711
Supplies	889
Telephone, Telecommunications	263
Total Operations	10,299
Other Types of Expenses	
Insurance - General Liability	499
Insurance - Workers comp	3,205
Other Costs-HQ membership fee	2,826
Total Other Types of Expenses	6,530
Rent	101,500
Salaries & Wages	
Bonus	20,130
Payroll Taxes	11,652
Salaries & Wages - Other	109,906
Total Salaries & Wages	141,688
School Activity	
Chinese New Year Event	8,748
Class Activity	2,862
Debate Contest	426
Graduation Party	1,789
Halloween	232
HSK Test	

Accrual Basis

	Huaxia Head Quarter meeting	50
	Huaxia Star	368
	Meals & Entertainment	2,267
	Mid-Autumn Festival	2,649
	Speech Contest	27
	Teachers' Training	4,160
	Total School Activity	23,577
	School Supplies	1,740
	Travel and Meetings	
	Conference, Convention, Meeting	
	Travel	240
	Total Travel and Meetings	240
	Total Expense	308,475
	Net Ordinary Income	4,019
Net Income		4,019