



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

**Internal Audit Report**

**For the Fiscal Year**  
**From July 1, 2018 to June 30, 2019**

## **CONTENTS**

<b>Audit Objective and Scope.....</b>	<b>1</b>
<b>Audit Process .....</b>	<b>1 – 3</b>
<b>Audit Findings and Recommendations .....</b>	<b>3 – 5</b>
<b>Conclusion .....</b>	<b>5</b>

**Appendix A – Statement of Assets and Liabilities**

**Appendix B – Statement of Operations**

**Appendix C – Statement of Change in Net Assets**

### **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, 2019, the statement of operations and the statement of change in net assets for the fiscal year from July 1, 2018 through June 30, 2019.

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, 2018 through June 30, 2019.

### **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. In the subsequent three years ended June 30, 2017, 2018 and 2019, approximately 80%, 89% and 93% 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.

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 and payroll taxes 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, CD account and money market account per accounting GL to the June 2019 bank statements. A break on the checking account was noted which are due to timing difference. The auditor reviewed the bank reconciliation prepared by the Accountant. The reconciling items are primarily uncashed payroll checks in 2019. The payroll and payroll taxes were 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 2019-2020 School Year was open in May 2019. The parents began to register classes and pay tuition via PayPal before the school year-end. Therefore, the School's PayPal account had a significant balance of tuition income as of June 30, 2019. The auditor agreed the GL balance to the PayPal June 2019 statement.

- Tuition Received in Advance:

- As aforementioned, the tuition received in May and June 2019 is related to the following school year. Therefore, these amounts were booked as liabilities, "tuition received in advance".

华夏博根中文学校  
HuaXia Chinese School at Bergen  
Internal Audit Report  
Fiscal Year Ended June 30, 2019

---

➤ 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 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 93% of tuition income (net of tuition refund) 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, rental income from food booth 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.

Effective January 2019, the School no longer hired a third-party payroll service provider. Accountant books gross payroll amount of each employee in Quickbook GL system. The system calculates FICA taxes and withholding of federal and NJ income tax as well on each individual basis.

- The gross payroll is recorded in GL account of “Wage” for each individual.
- The School’s FICA tax liabilities are booked in GL account “Payroll Taxes” for each individual.
- Total FICA tax payables to IRS (including school’s portion and employees’ portion) are booked in the GL account “Payroll Liabilities – Federal Taxes (941/944)” for each individual.
- Withholding of NJ income tax, which is liability of each employee, is booked in the GL account “Payroll Liabilities – NJ Income Tax (GIT)” for each individual.
- The NJ LBR tax is recorded in GL account of “Payroll Liabilities – NJ Quarterly Taxes” for each individual.
- The net payroll is recorded in GL account “Direct Deposit Payable” for each individual, which can be traced and agreed to bank statements.

GL accounts “Wages” and “Payroll Taxes” for those employees who receive a W-2 are mapped to Payroll expenses on the statement of operations. All accounts under “Payroll Liabilities” are paid off

华夏博根中文学校  
HuaXia Chinese School at Bergen  
Internal Audit Report  
Fiscal Year Ended June 30, 2019

---

as of June 30, 2019, except for NJ quarterly taxes. It is shown as a liability on the statement of assets and liabilities.

➤ 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**

- Other Revenue

In the past few years, the account of "Other Revenue" mainly consisted of rental income of food booth, rental income of classrooms for seminars and income from book sale event. The total amount of other revenue ranged from approximately \$3K to \$4K. The auditor noticed the other revenue for the school year ended June 30, 2019 was over \$10K. Upon review of GL details and transactions, auditor noted that fees received for textbooks were recorded as other revenue, instead of credit the account balance of "Book expenses".

Fees received from parents for textbooks are reimbursement to the school for purchasing books for students. It is not revenue of the school and should be treated as deduction or offset of book expenses. The Accountant should change back to the original accounting treatment prior to the school year 2018-2019.

- Payroll and Payroll Taxes

The payroll bookings changed from January 2019 as the school no longer utilized a third-party payroll service provider. Auditor noticed that all sub-accounts under payroll liabilities (including employer's portion and employees' portion of FICA taxes, withholding of the federal income taxes and NJ income taxes) were booked on each employee level, which created a large volume of monthly GL entries and provided unnecessary information. If possible, Accountant can turn off the function that produces GL entries on the individual basis for those tax liabilities accounts. Instead, the accountant books one entry of total amount for each payroll liability account. Only gross payroll and net payroll should be booked for each employee.

- Other observations from above Audit Findings:

The School shall maintain consistent accounting policies over years. If Accountant believes certain accounting policy, accounting procedure or accounting treatment should be revisited and updated, the Accountant shall reach out to Principal/Vice Principal and Treasurer for further discussion and approval. The Accountant is recommended to contact the Auditor seeking second opinion. This process serves as a control over accounting function of the School. Without approval, the Accountant should not change accounting policies and procedures.

### **Follow-up on Prior Year Recommendations:**

The auditor noticed the following recommendations raised in prior school years have been addressed by the Accountant in 2018-2019.

华夏博根中文学校  
HuaXia Chinese School at Bergen  
Internal Audit Report  
Fiscal Year Ended June 30, 2019

---

- Staled and Expired Checks

When the auditor reviewed the bank reconciliations as of the school years ended June 30, 2017 and 2018, 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 \$8.5K as of June 30, 2018. Auditor recommended write off those staled checks. On June 30, 2019, those checks were all written off.

- Tuition Revenue, Tuition Refund and PayPal Fees

In School year 2017-2018, the Accountant booked the tuition income, tuition refund and PayPal fees based on the registration system, which have immaterial differences to the PayPal statements. Auditor recommended 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.

It was noted that Accountant reconciled the accounting GL system to PayPal statements in 2018-2019. There was no difference between them at the year ended June 30, 2019.

## Conclusion

Above findings are below the materiality threshold and have no 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, 2019 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, 2018 and 2019, 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.



CONFIDENTIAL

**HuaXia Chinese School at Bergen**Statement of Assets and Liabilities  
June 30, 2017, 2018 and 2019

	June 30, 2019	June 30, 2018	June 30, 2017
<b>Assets</b>			
Cash and cash equivalents	\$ 93,117	\$ 82,529	\$ 82,236
PayPal account	200,708	179,547	149,252
Security deposit	5,200	5,200	5,200
<b>Total assets</b>	<u>\$ 299,025</u>	<u>\$ 267,276</u>	<u>\$ 236,688</u>
<b>Liabilities</b>			
Payroll withholding tax payable	1,468	1,092	1,715
Tuition received in advance	193,417	176,444	149,252
<b>Total liabilities</b>	<u>194,885</u>	<u>177,536</u>	<u>150,967</u>
<b>Net Assets</b>	<u>\$ 104,140</u>	<u>\$ 89,740</u>	<u>\$ 85,721</u>





## HuaXia Chinese School at Bergen

CONFIDENTIAL

### Statement of Operations For the School Years Ended June 30, 2017, 2018 and 2019

	For the School Year Ended		
	June 30, 2019	June 30, 2018	June 30, 2017
<b>Revenue</b>			
Gross tuitions, PTA and registration fees	\$ 414,619	\$ 348,810	\$ 341,045
Less: Tuition refund	(39,438)	(41,262)	(16,986)
Net tuitions, PTA and registration fees	375,181	307,548	324,059
Donations	1,142	1,755	1,114
Interest income	1,537	81	212
Other revenue	10,059	3,110	4,060
<b>Total Revenue</b>	<b>\$ 387,919</b>	<b>\$ 312,494</b>	<b>\$ 329,445</b>
<b>Expenses</b>			
Payroll expenses including withholding taxes	191,403	155,217	196,404
Rent	104,025	101,500	96,750
School activities	35,939	23,578	39,206
Paypal fees	10,384	7,002	6,555
Insurance	4,505	3,704	4,739
Books	15,771	8,146	4,161
Office supplies	4,891	3,892	3,163
Membership fee to HuaXia Headquarter	3,054	2,826	3,050
Professional fees	3,547	2,370	2,145
Other expenses	-	240	236
<b>Total Expenses</b>	<b>373,519</b>	<b>308,475</b>	<b>356,409</b>
<b>Net increase (decrease) in net assets from operations</b>	<b>\$ 14,400</b>	<b>\$ 4,019</b>	<b>\$ (26,964)</b>



## HuaXia Chinese School at Bergen

CONFIDENTIAL

### Statement of Changes in Net Assets For the School Years Ended June 30, 2017, 2018 and 2019

<b>Net assets, June 30, 2016</b>	\$ 112,685
Net decrease in net assets from operations	(26,964)
<b>Net assets, June 30, 2017</b>	<u>85,721</u>
Net increase in net assets from operations	4,019
<b>Net assets, June 30, 2018</b>	<u>89,740</u>
Net increase in net assets from operations	14,400
<b>Net assets, June 30, 2019</b>	<u>\$ 104,140</u>

The Internal Audit Report for the school year ended June 30, 2019 was prepared by:

*shannon wei*

---

Shannon Wei, CPA

Hongmei Du, Treasurer of the Board of Directors at HXBG

Li Li, Member of the Board of Directors at HXBG

4/6/2020

---

Date

# Huaxia at Bergen, Inc.

## Balance Sheet

As of June 30, 2019

	Total
<b>ASSETS</b>	
<b>Current Assets</b>	
Bank Accounts	
Checking - TD	10,242.69
Fixed Term CD	60,598.69
Money Market - TD	22,275.96
Paypal school account	200,707.85
Total Bank Accounts	\$ 293,825.19
Accounts Receivable	
Accounts Receivable	0.00
Total Accounts Receivable	\$ 0.00
Total Current Assets	\$ 293,825.19
<b>Other Assets</b>	
Security Deposits Asset	5,200.00
Total Other Assets	\$ 5,200.00
<b>TOTAL ASSETS</b>	\$ 299,025.19
<b>LIABILITIES AND EQUITY</b>	
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts Payable	
Grants Payable	0.00
Total Accounts Payable	\$ 0.00
Other Current Liabilities	
Direct Deposit Payable	0.00
Payroll Liabilities	0.00
Federal Taxes (941/944)	0.00
NJ Income Tax	0.00
NJ Quarterly Taxes	1,468.66
Total Payroll Liabilities	\$ 1,468.66
Unearned Tuition income	193,416.85
Total Other Current Liabilities	\$ 194,885.51
Total Current Liabilities	\$ 194,885.51
Total Liabilities	\$ 194,885.51
<b>Equity</b>	
Retained Earnings	143,781.02
Unrestricted Net Assets	-54,041.46
Net Revenue	14,400.12
Total Equity	\$ 104,139.68
<b>TOTAL LIABILITIES AND EQUITY</b>	\$ 299,025.19

# Huaxia at Bergen, Inc.

## Profit & Loss

July 2018 - June 2019

	<u>Total</u>
<b>Revenue</b>	
Donation	1,142.33
Interest Income	1,536.81
Other Types of Income	
Miscellaneous Revenue	10,059.46
<b>Total Other Types of Income</b>	<b>\$ 10,059.46</b>
Tuition	414,619.00
Tuition Refund	-39,438.00
<b>Total Revenue</b>	<b>\$ 387,919.60</b>
<b>Gross Profit</b>	<b>\$ 387,919.60</b>
<b>Expenditures</b>	
Bank Fee (PayPal Fee)	10,384.19
Contract Services	
Accounting Fees	2,259.23
Independant Teacher	13,642.00
Substitute Teachers	1,923.00
<b>Total Contract Services</b>	<b>\$ 17,824.23</b>
Operations	
Books, Subscriptions, Reference	15,771.02
Other Costs-HQ membership fee	3,054.00
Postage, Mailing Service	292.55
Professional Fees	1,287.70
Rent	104,025.00
Supplies	4,065.25
Telephone, Telecommunications	533.30
<b>Total Operations</b>	<b>\$ 129,028.82</b>
Other Types of Expenses	
Insurance - General Liability	1,427.92
Insurance - Liability, D and O	3,077.00
<b>Total Other Types of Expenses</b>	<b>\$ 4,504.92</b>
<b>Payroll Expenses</b>	
Bonus	35,850.00
Payroll Taxes	14,269.23
Taxes	0.00
Wages	125,719.19
<b>Total Payroll Expenses</b>	<b>\$ 175,838.42</b>
<b>School Activity</b>	
Chinese New Year Event	11,919.25
Class Activity	4,284.00
Debate Contest	2,172.10
Graduation Party	5,607.57

Halloween	177.74
HSK Test	100.00
Huaxia Star	730.00
Meals & Entertainment	768.37
Mid-Autumn Festival	2,833.60
Speech Contest	289.71
Sports	477.50
Spring Games	501.99
Student Performance	159.58
Teachers' Training	5,403.89
Thanksgiving	353.60
Xiao Yu World	160.00
<b>Total School Activity</b>	<b>\$ 35,938.90</b>
<b>Total Expenditures</b>	<b>\$ 373,519.48</b>
<b>Net Operating Revenue</b>	<b>\$ 14,400.12</b>
<b>Net Revenue</b>	<b>\$ 14,400.12</b>

Thursday, Jul 18, 2019 01:58:48 PM GMT-7 - Accrual Basis