



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

Internal Audit Report

For the Fiscal Year
From July 1, 2019 to June 30, 2020

CONTENTS

Audit Objective and Scope.....	1
Audit Process	1 – 4
Audit Findings and Recommendations	4
Conclusion	5

Appendix A – Statement of Assets and Liabilities

Appendix B – Statement of Operations

Appendix C – Statement of Change in Net Assets

华夏博根中文学校
HuaXia Chinese School at Bergen
Internal Audit Report
Fiscal Year Ended June 30, 2020

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, 2020, the statement of operations and the statement of change in net assets for the fiscal year from July 1, 2019 through June 30, 2020.

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, 2019 through June 30, 2020.

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 years, the School received tuition substantially 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.

华夏博根中文学校
HuaXia Chinese School at Bergen
Internal Audit Report
Fiscal Year Ended June 30, 2020

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.

A payroll accountant in the School processes payroll and files the quarterly/annual tax filings required by New Jersey and IRS. Prior to December 2019, the payroll accountant booked related payroll entries in GL system and issued payroll checks to teachers once a month. Effective December 2019, the School decided to book payroll and pay out compensation twice a month. The Principal reviews the payroll records and signs payroll checks as a control.

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, PayPal account balance, 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 2020 bank statements. The CD account and money market account balances in GL system agreed to the bank statements. A break on the checking account was noted which is due to timing difference. The auditor reviewed the bank reconciliation prepared by the Accountant. The reconciling items consisted of approximately \$6K of uncashed payroll checks and approximately \$5K of COVID-19 donations contributed to two healthcare institutions in 2020. The payroll and COVID-19 donations were booked in the accounting system. Nevertheless, the checks have not been cashed out until the following school year. The auditor reviewed the subsequent bank statements and noted that tuition refund was paid out in September and October 2020, and donations to two hospitals were cashed out in September 2020.

- PayPal account balance:

- Registration for the fall semester of the 2020-2021 school year was open in May 2020. The parents were allowed to register classes and pay tuition via PayPal before the school year-end. The School's PayPal account had a balance of \$52K, of which approximately \$46K represented tuition received in advance as of June 30, 2020. Due to COVID-19 pandemic, early registration was much less than prior years and the amount of tuition received in advance was significantly lower. The auditor agreed the

华夏博根中文学校
HuaXia Chinese School at Bergen
Internal Audit Report
Fiscal Year Ended June 30, 2020

PayPal account balance in the GL system to May and June 2020 PayPal statements without any exception noted.

➤ Tuition Received in Advance:

As aforementioned, the tuition received in May and June 2020 is related to the following school year. Therefore, these amounts were also recorded as liabilities, "tuition received in advance".

➤ Tuition refund payable:

The school was closed in mid-March as a result of COVID-19 outbreak. The school management and the Board agreed to refund some tuition. The amount of refund was determined and booked in the GL system on June 1, 2020, but the refund was not paid out until September and October 2020.

➤ Other Assets and Liabilities:

Other assets represent security deposit, which is required by the Paramus Catholic High School. The auditor obtained the leasing agreement and tied the amount of security deposit to the agreement. Other liabilities include payable for payroll taxes and insurance. The auditor agreed the payments to the subsequent bank statements to ensure the settlement.

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 95% of gross tuition income was received through PayPal. Periodically, the Accountant transferred cash from PayPal account to the checking account. The auditor agreed cash transfers per PayPal statements to the 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.

During the school year 2019-2020, the School raised approximately \$42K to support certain medical institutions to fight COVID-19 on the front lines. The School spent approximately \$32K to purchase masks and disposable protective clothing then donated those medical supplies to several hospitals in New Jersey. In addition, the School donated approximately \$10K to certain hospitals. Auditor traced and agreed donations to the bank statements without exception.

Since fundraising and donations for COVID-19 are not normal business operations of the School, the accountant booked the donation received and payout on a net basis. The auditor agreed with the accounting treatments. The net amount of COVID-19 donation is zero. The transactions are not reflected on the School's financial statements of the 2019-2020.

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. The semi-monthly payment of teachers is based on the hourly rate and total servicing

华夏博根中文学校
HuaXia Chinese School at Bergen
Internal Audit Report
Fiscal Year Ended June 30, 2020

hours during the period. The semi-monthly payment of school management or staff, such as Principal and accountants, is based on a flat rate. Most of teachers and admin staff receive a W2 at the end of the year. Certain teachers receive a Form 1099. The payroll accountant books the gross pay, FICA taxes owed by employer to IRS or NJ tax authority, and keeps track of payments to teachers and payments of payroll taxes to tax authorities. Auditors selected a few teachers/staff as samples for testing. In addition, the auditor agreed the payroll tax payments to IRS or New Jersey to the bank statements.

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 as of June 30, 2020, 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

- Tuition Revenue, Tuition Refund and PayPal Fees

In School year 2019-2020, the Accountant booked the tuition income, tuition refund and PayPal fees based on the registration system, which had 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 reconciled.

Separately, the auditor suggested book the net amount of tuition received and payments with respect to Gauss Math classes in “Other income”, instead of grossing up tuition revenue and expenses. For the school year 2019-2020, the Accountant made an adjustment before closing the books for the year.

华夏博根中文学校
HuaXia Chinese School at Bergen
Internal Audit Report
Fiscal Year Ended June 30, 2020

Conclusion

Above findings are below the materiality threshold and have immaterial 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, 2020 and for the school 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, 2018, 2019 and 2020, 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.



HuaXia Chinese School at Bergen

Statement of Assets and Liabilities
June 30, 2018, 2019 and 2020

	June 30, 2020	June 30, 2019	June 30, 2018
Assets			
Cash and cash equivalents	\$ 143,002	\$ 93,117	\$ 82,529
PayPal account	51,651	200,708	179,547
Security deposit	5,200	5,200	5,200
Total assets	\$ 199,853	\$ 299,025	\$ 267,276
Liabilities			
Payroll withholding tax payable	1,272	1,468	1,092
Tuition received in advance	46,409	193,417	176,444
Tuition refund payable	26,622	-	-
Insurance payable	2,807	-	-
Total liabilities	77,110	194,885	177,536
Net Assets	\$ 122,743	\$ 104,140	\$ 89,740



HuaXia Chinese School at Bergen

Statement of Operations
For the School Years Ended June 30, 2018, 2019 and 2020

	For the School Year Ended		
	June 30, 2020	June 30, 2019	June 30, 2018
Revenue			
Gross tuitions, PTA and registration fees	\$ 419,977	\$ 414,619	\$ 348,810
Less: Tuition refund	(60,015)	(39,438)	(41,262)
Net tuitions, PTA and registration fees	359,962	375,181	307,548
Donations	1,926	1,142	1,755
Interest income	3,600	1,537	81
Other revenue	2,144	10,059	3,110
Total Revenue	\$ 367,632	\$ 387,919	\$ 312,494
Expenses			
Payroll expenses including withholding taxes	207,390	191,403	155,217
Rent	76,350	104,025	101,500
School activities	29,550	35,939	23,578
Paypal fees	11,180	10,384	7,002
Insurance	7,477	4,505	3,704
Books	4,707	15,771	8,146
Office supplies	5,320	4,891	3,892
Membership fee to HuaXia Headquarter	3,210	3,054	2,826
Professional fees	3,845	3,547	2,370
Other expenses	-	-	240
Total Expenses	349,029	373,519	308,475
Net increase in net assets from operations	\$ 18,603	\$ 14,400	\$ 4,019

Note:

The School raised approximately \$42K to support certain medical institutions to fight COVID-19 on the front lines. The School spent approximately \$32K to purchase masks and disposable protective clothing then donated those medical supplies to several hospitals in New Jersey. In addition, the School donated approximately \$10K to four hospitals. Auditor reviewed the donation breakdown and agreed donation to hospitals to the bank statements without exception.

Since fundraising and donations for COVID-19 are not normal business operations of the School, the accountant booked the donation received and payout on a net basis. The net amount of COVID-19 donation is zero. Therefore, transactions are not reflected on the Statement of Operations for the year 2019-2020.



HuaXia Chinese School at Bergen

Statement of Changes in Net Assets
For the School Years Ended June 30, 2018, 2019 and 2020

Net assets, June 30, 2017	\$ 85,721
Net increase in net assets from operations	4,019
Net assets, June 30, 2018	<u>89,740</u>
Net increase in net assets from operations	14,400
Net assets, June 30, 2019	<u>\$ 104,140</u>
Net increase in net assets from operations	18,603
Net assets, June 30, 2020	<u>\$ 122,743</u>

The Internal Audit Report for the school year ended June 30, 2020 was prepared by:

Shannon Wei

Shannon Wei, CPA

Zhihui Xu, Treasurer and Member of the Board of Directors at HXBG

Li Li, Member of the Board of Directors at HXBG

Weimin Zhang, Member of the Board of Directors at HXBG

3/31/2021

Date