



INVESTIGATION

**EXECUTIVE SUMMARY TO THE REPORT OF INVESTIGATION**  
*FOR TARTER KRINSKY & DROGIN, LLP*  
*RE: ST. MARY'S SCHOOL, POMPTON LAKES, NJ*

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Prepared By  
Anchin, Block & Anchin LLP  
July 27, 2020

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## I. OVERVIEW

Anchin, Block & Anchin (“Anchin”) was retained by Tarter Krinsky & Drogin (“TKD” or “Counsel”) on behalf of St. Mary’s School in Pompton Lakes, NJ (“SMS”) to perform a forensic investigation of the underlying cause of the recently declining economic performance of the school and projected future deficit which ultimately led to SMS’s closure.

The scope of the forensic investigation was set by counsel and included:

1. **Document Review and Forensic Analysis:** Anchin performed a forensic review of the financial performance of SMS for the 2017/18 through 2019/20 school years and performed an examination of the accounting related to SMS’ tuition, fundraising, payroll and allocated expense activities. We also reviewed certain emails pertaining to these financial activities. Our investigation included an analysis of account activity related to these financial activities and tracing amounts into the bank statements and supporting documentation.
2. **Interviews:** In order to obtain additional information on the above financial activities we conducted interviews with members of the school/parish finance and facilities departments.

We understand from Counsel and our review of press articles discussing the school closure that some in the St. Mary’s community are very upset about the closure of SMS, and have questioned the validity of the Pastor’s decision to close SMS. Consequently, the Pastor, in collaboration with the Finance Committee, and the Parish Finance Department, through Counsel, retained the services of an independent accounting firm capable of conducting a forensic review of the school’s financial performance and the economic data points used to support the decision to close the school. It should be noted that each year, SMS provided financial reports and related certifications to the Diocese that were signed by the Principal, the Pastor, a member of the Finance Committee and the Parish Finance department. We reviewed these reports and certifications for the 2017/2018 and 2018/19 school years. We understand that the financial

reports for the 2019/20 school year have not been filed as of the date of this report and are not required to be filed until September 30, 2020<sup>1</sup>.

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<sup>1</sup> Letter dated July 17, 2020 from Patrick Brennan, CFO of the Diocese to the Parish Business Manager.

## **II. METHODOLOGY**

Anchin performed a review and analysis of the SMS financial statements, general ledger, accounting records, enrollment records, payroll records, fundraising records, tuition records, bank statements and parish accounting records that were provided by the parish and the school for the 2017/18 through 2019/20 school years. The following areas were reviewed and analyzed throughout the investigation:

1. Background and factors relating to the current year financial situation
2. The relationship between St. Mary's Parish and SMS
3. Financials
4. Student enrollment
5. Tuition
6. Payroll and benefits
7. Allocated expenses
8. Fundraising
9. Specific concerns related to fundraising deposit endorsements
10. Expenses
11. Necessary repairs
12. Projected 2020/21 school year results

### III. CONCLUSION

For many years SMS has been running at a deficit that was funded by the Parish. The deficits were included in the financial reports provided to the Diocese, which contain certifications from the Principal, the Pastor, a member of the Finance Committee and the Director of Finance. During the 2019/20 school year, steps were taken to improve the school's finances and bring greater transparency to the school's financial statements, including a 5% tuition increase, a more transparent financial assistance policy and more complete allocation of shared expenses. Enrollment declined in 2019/20 and projected enrollment for 2020/21 indicated an additional decline in enrollment. The implementation of a proof-based system for financial assistance was controversial and caused some families to leave the school.

The emails we reviewed indicate that management of the school and the Parish contacted and met with numerous interested parties in order to increase school revenues including, the Diocese, the Pompton Lakes school board, the Pompton Lakes business improvement district and the mayor, and its own Parish membership.

The projected enrollment for the 2020/21 school year declined to 164 students, representing a decline of 25% from the 2019/20 enrollment. Moreover, many of the students registered for the 2020/21 school year received tuition assistance and had outstanding financial commitments related to the 2019/20 school year. As a result, it was unclear whether the families of the registered students would be able to meet their financial obligations for the 2020/21 school year, especially considering the continued economic environment due to COVID-19. Based on the projected enrollment, tuition receipts for the 2020/21 school year would likely be at least \$200,000 less than the 2019/20 school year.

Payroll, taxes and benefits comprise 73% of the school's total expenses. Despite decreased enrollment, the same number of teachers are needed to operate. Therefore, most of the school's expenses cannot be decreased despite the decline in tuition revenue.

The school needed to make necessary state-mandated and other repairs. The projected cost of these repairs is \$300,000.

Our SMS financial projection for the 2020/21 school year indicated that the school would have an operating deficit of approximately \$466,000, with an additional \$300,000 required to fund the necessary repairs for a total investment by the Parish of \$766,000. The Parish management team reported that the Parish would not be able to fund a deficit of that magnitude. Consequently, the decision was made to close SMS. The realization that the school was experiencing economic losses year after year coupled with the projected drop in enrollment in 2020/21 and the necessary repairs compelled Parish leaders to make the decision to close the school.

In conclusion, we noted no instances of material misallocation of funds between the school and the Parish. All revenue and expenses that were tested, were properly documented, and recorded. The deficits experienced by SMS are accurately reflected in the school's books and records and the projected future deficit was going to be the largest deficit experienced by SMS.