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RAD BOARD RECEIVES SPECIAL AUDIT OF CARNEGIE LIBRARY

PITTSBURGH—The Allegheny Regional Asset District Board today received the report on the *Special Audit of the Carnegie Library of Pittsburgh* conducted by an independent auditing firm, ParenteBeard LLC.

According to the District's Audit Committee that reviewed the report, "Based on the review, it appears that the Trustees approached the operations, finances and planning for the future in a reasonable manner based on the facts available to them [last Fall]. Since the Library has decided to maintain its organizational structure for 2010, the plan of operations submitted with its 2010 application remains in good order."

However, the Audit Committee cautioned that the report also makes clear that "even under the most optimistic projections, maintaining the current cost structure at Carnegie Library will require additional resources for operations and to meet the capital needs" over the next five years.

The report was commissioned by the District Board last December following an "Action Plan" proposed by CLP that included branch closings and reductions in service hours in response to a Library-projected operating deficit of some \$5.5 million by the year 2015. The Audit Committee noted that most of the plan has been delayed through the end of this year thanks to additional support from the City of Pittsburgh. Since the Action Plan was announced, the state Legislature directed that the share of gaming table revenue that would otherwise go directly to the City be directed instead to CLP. Some of those funds may also begin to flow in 2010.

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RAD Board Chair Rob Jones directed that a copy of the report be sent to the recently formed Task Force on Library sustainability formed by CLP as a public and private initiative to identify possible additional sources of support for the CLP.

Background information and highlights of the report follow. The full ParenteBeard report will be posted on the District's web site.

Background

Following release of RAD's 2010 preliminary budget in October of last year, the District received an "Action Plan" from the Carnegie Library of Pittsburgh. The Plan stated that the Library would undertake a series of cost reduction efforts in order to deal with projected operating losses. The changes, which included branch closings, reductions in hours and other cost containment measures, would significantly alter the Library's plan of operations submitted with its 2010 District funding request.

The District's Board referred this matter to its Audit Committee and subsequently accepted the Audit Committee's recommendation to conduct a special audit of the CLP, "for the purpose of validating the projections and the method for determining [the Library's] cost reduction plan components." The Library is funded as a contractual asset of the District and in 2009 received a grant of \$17.6 million. The contract between the District and CLP allows for a special audit on any library related matter to be conducted by and paid for by the District. The District solicited requests for proposals from qualified proposals and retained ParenteBeard LLC, a national accounting and consulting firm.

Highlights of the Parente Beard Report to the Allegheny Regional Asset District

The District tasked ParenteBeard to assess nine issues with regard to CLP's budget assumptions and projections and the related Action Plan developed to address the deficit. To assess these issues, the auditors performed a number of procedures including conducting interviews with CLP and RAD personnel; analyzing documents and information provided by CLP and RAD; and analyzing independently-obtained data.

A major task assigned to the auditors was to test the assumptions made in CLP's financial projections to determine their reasonableness. According to the report, "The majority of the assumptions employed in the CLP's financial projections are reasonable. However, in certain instances, material adjustments are required to better reflect actual historical operating experience, the current economic environment and funding expectations. The largest of these adjustments is a projected increase in RAD funding which was not assumed in the CLP model." The auditor recommendations include adjusting projections of RAD funding to increase by three percent per annum beginning in 2012.

To address the options facing CLP, the consultant presented two of its own forecasted scenarios (with different income and revenue assumptions) in the report:

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- In the first scenario, the Library abandons its plan to close branches and accepts the dedicated revenue from table games played in the Pittsburgh casino as authorized under Act 1 of 2010. A provision of that law essentially prohibits the library from closing branches while accepting the new revenue. The consultants estimate that, under this scenario, the library will experience operating deficits from 2011 to 2015 ranging from \$715,000 to \$1.1 million annually, *before* receipt of table games revenue. That revenue will offset the losses to some degree, but it is impossible to accurately project that receipt at this time. Table games play is not slated to begin until later this year. The current estimate is that table games will produce \$750,000 per year.
- In the second scenario, the library implements the Action Plan as outlined in October and, therefore, cannot accept the table games revenue. Under this scenario CLP has a small operating surplus each year.

The consultants note that neither scenario provides funding for the extensive capital needs of branches that have not yet been renovated or replaced. These needs average \$3.9 million a year under the first scenario and \$2.4 million a year under the second scenario which has fewer branches remaining in operation.

In its scenarios, the consultant assumes that state funding for CLP is reduced in 2010 and remains flat for the balance of the projection period. State support for the Carnegie Library has been reduced by \$1 million during the current recession. The consultant further assumes that funding from the Regional Asset District, which has remained level during the recession, should be projected to begin increasing again in 2012, which the consultant noted is consistent with historic trends. CLP has previously projected RAD funding as flat through the projection period accounting for the difference between CLP and the Consultant in the projected operating deficit.

In addition to the financial projections, the report also included a detailed analysis of the items that make up the library budget, an estimate of the savings from the branch closing proposal, a review of the internal control evaluations performed at the library as well as an analysis of the cost containment measures already in place. After comparing CLP to other similarly sized libraries and local nonprofit cultural organizations, the consultant concluded that the expenses in various categories, including executive compensation, were not out of line with those comparable organizations.

The consultant also concluded, based on an examination of the record, that CLP considered alternatives before adopting the Action Plan. CLP eliminated some \$3 million in cost from their budget prior to the Plan's adoption. The CLP records examined by the consultant indicate that CLP did not predetermine the branches to be recommended for closing and used specific criteria on which to base that decision.