

Allegheny Regional Asset District
Report of the Audit Committee
March 30, 2010

Board Members:

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 and revenue enhancement measures in order to deal with projected operating losses. The changes would significantly alter the Library's plan of operations submitted with its 2010 District funding request.

Upon receiving the Action Plan and supporting information as well as considerable public comment, the District Board approved a special audit of the Library's Action Plan. The purpose was to validate the financial projections, evaluate the method for determining the cost reduction plan and to review certain other areas of the Library's operations. The firm ParenteBeard was engaged and asked to examine nine specific areas and to provide any recommendations resulting from their work.

The report has been completed and reviewed by the committee. The Library was given an executive summary presentation last week.

Prior to hearing from the consultants, we should note that there have been important developments since the Action Plan was submitted and the audit ordered:

- The City of Pittsburgh authorized a special grant of \$600,000 for this year while efforts are made to address the long term funding needs.

- The Legislature has directed that the share of table games fee revenue that would otherwise go directly to the City be directed instead to the Carnegie Library contingent on the current branch structure remaining largely in place.
- As a result of these revenue enhancements, Carnegie Library's Trustees delayed the implementation of most of its Action Plan until at least the end of 2010. An early retirement plan and library fine increases have been implemented.
- The proposed state budget for 2010-2011 further reduces funding in various library categories and there is no projection of increased state support in the near future.
- Carnegie Library has formed a public/private Task Force on Sustainable Library Funding to examine approaches to meet its long term operating and capital needs.

ParenteBeard has been kept informed of these developments and has incorporated assumptions about them into their analysis of the financial projections where appropriate.

The Committee believes that the report responds to the questions posed by the District and that the information contained in the report will be helpful to the Board, the Library and its Trustees, the Task Force and the public. 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 at the time. 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.

Recommendations are made by the consultants for improvements to the Library's budget process which we know the Library will consider. The main point we take from the report, however, is 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. This conclusion makes the work of the Task Force timely and critical.

Finally, it is important to remember that *projections* are not *predictions*. Projections are based on reasonable assumptions, often based on historic trends, that may turn out better or worse than assumed. While the projections in the report differ from those submitted by the Library, Parente Beard concludes that the Library's work in developing the Action Plan was based on reasonable assumptions. Adjustments have been made due to changes in circumstances as well as differing future expectations.

We recommend that the Board accept the report and that copies be sent to the Library Board of Trustees, the Citizens Committee and made available to the public via web posting and other means.

Submitted by the Audit Committee

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