



TO: Sue Edwards, Director EGRSO
FROM: Vickie Schubert, Deputy Chief Financial Officer
DATE: October 30, 2007
SUBJECT: External Review of ATDF 380 Compliance

Attached is the report resulting from the external review of ATDF compliance with the terms of the 380 agreement the City has with that company. This review was requested by City Council for all payments to be made under existing economic development agreements. The work was performed by Sprouse and Anderson, L.L.P. as an agreed upon procedures engagement. I have also attached the engagement letter for your files.

The procedures performed did not reveal any major non-compliance issues related to ATDF. However with respect to procedure number 3, the requirement that ATDF use commercially reasonable efforts to purchase goods within the city limits of Austin, the auditors found that several of the purchases that were reported as being made within the City limits were from companies in surrounding communities. The amount of such purchases was small, only about 9 percent of the total dollar value of purchases reviewed.

From 2005 to 2006, ATDF reported an increase in local purchases from 6 to 25 percent. If you reduce the amount reported in 2006 by the 9 percent noted above that were not purchased in Austin, the result is approximately 23 percent (91 percent times 25 percent). This still represents a significant increase over 2005, and I believe this is indicative of their good faith efforts to purchase locally.

As a result, in my opinion the payment to ATDF can be released. Based on this review I would recommend that EGRSO revise its internal review checklist for these agreements to add a space that indicates the location of the purchase of all items reviewed in your sample.



SPROUSE & ANDERSON, L.L.P.
ACCOUNTANTS & CONSULTANTS

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

Ms. Vickie Schubert, Deputy Chief Financial Officer
City of Austin
301 West 2nd Street
Austin, Texas 78701

Mr. Bill Newman, Managing Director
Public Financial Management
700 Lavaca Street, Suite 1500
Austin, Texas 78701

We have performed the procedures enumerated below, which were agreed to by the City of Austin ("City") and Public Financial Management, Inc. ("PFM"), solely to assist the specified users in evaluating the City of Austin's assertion that Austin Technology Development Facility, Inc. ("ATDF") has complied with sections 4c, 4d, 4e and 5a of the Chapter 380 Economic Development Agreement ("Agreement"), approved by the City Council on September 2, 2004, as of December 31, 2006. The City's management is responsible for the determination of compliance by ATDF with the Agreement. This engagement to apply agreed-upon procedures was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We obtained from ATDF a report of the dollar amount of their investment in capital equipment or capital improvements at the SEMATECH facility located at 2706 Montopolis Drive, Austin, Texas, for the period from January 1, 2006 to December 31, 2006. We verified the mathematical accuracy of the schedule and agreed the total dollar amount to the accounting records of ATDF. We selected a sample of 15 individual capital equipment or capital improvement additions recorded during 2006 and compared the dollar amount reported on the ATDF report to the corresponding vendor's invoice and other supporting documentation provided by ATDF. No exceptions were found as a result of the foregoing procedure.
2. We requested a confirmation from the City of Austin Department of Watershed Management that ATDF has complied with the water regulations pertinent to the SEMATECH facility at 2706 Montopolis Drive, Austin, Texas. We received an e-mail confirmation from Mark Mauldin, Environmental Conservation Program Manager, with



the City of Austin Watershed Protection and Development Review Department stating that the two flood detention ponds, with identification numbers 735 and 2953, located at 2706 Montopolis Drive were inspected on February 28, 2007 and found to be compliant.

3. We obtained from ATDF a report of the dollar amount of business supplies, office equipment, materials and other items related to ATDF's operations purchased from vendors within the City of Austin during 2006. We selected a sample of 15 individual purchases of such items (total dollars were \$2,060,811) and compared the dollar amount reported to the corresponding vendor's invoice and other supporting documentation provided by ATDF showing the billing location of the vendor.

We found that for the 15 individual purchase transactions selected, there were a total of 11 different vendors. For these 11 vendors, we found that their billing address locations were dispersed as follows: Austin -- 4 (total dollars were \$40,644), Round Rock -- 2 (total dollars were \$168,000), Kyle -- 1 (total dollars were \$16,533), California -- 4 (total dollars were \$1,835,634). For the California vendors, we accessed the respective corporate web sites and inspected the list of corporate office locations. We found that each vendor with a California billing address also listed an Austin office location on their corporate web site.

4. We obtained from the City a copy of the original Travis County Tax Statement for 2006 showing the total ad valorem tax assessment for parcel 97004790000000 and a copy of the Travis County Tax Statement for 2006, printed on February 26, 2007, showing the unpaid balance of 2006 ad valorem taxes for parcel 97004790000000. We inspected the two Travis County Tax Statements for 2006 for parcel 97004790000000 and found that the 2006 ad valorem tax assessment for ATDF was \$69,970.28 and that the unpaid 2006 ad valorem taxes as of February 26, 2007 for ATDF were zero.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City and PFM, and is not intended to be and should not be used by anyone other than those specified parties.

Sprouse & Anderson, L.L.P.

October 30, 2007
Austin, Texas



SPROUSE & ANDERSON, L.L.P.
ACCOUNTANTS & CONSULTANTS

LESTER SPROUSE
JEFF C. ANDERSON
ROBERT M. NOTLEY
MIKE O'BRIEN
ANNA SWENSON

October 19, 2007

Ms. Vickie Schubert, Deputy Chief Financial Officer
City of Austin
301 West 2nd Street
Austin, Texas 78701

Dear Ms. Schubert:

Engagement Objective

This letter sets forth our understanding of the terms and objectives of our engagement, and the nature and limitations of the services we will provide.

The objective of this engagement is to provide independently derived information to the City of Austin ("City") that it can use to evaluate the compliance of Advanced Technology Development Facility, Inc. ("ATDF") with certain provisions of the Chapter 380 Economic Development Agreement referred to below. Public Financial Management ("PFM") is the prime contractor with the City. We are being engaged by PFM, with the approval of the City, as a subcontractor to PFM. The City is the responsible party regarding the subject matter of the engagement and the determination of the procedures that will be performed. The City and PFM are the specified users of the report which will result from the performance of the procedures listed below.

The City entered into a Chapter 380 Economic Development Agreement ("Agreement") with ATDF, which was approved by the City Council on September 2, 2004. Section 4 of the Agreement contains certain performance guidelines that ATDF is required to meet and Section 5 of the Agreement lists certain obligations of the City.

Engagement Procedures

Our engagement will be to perform the procedures enumerated below and to issue a report on the results of the procedures to the City and PFM. We will prepare a written report under the AICPA Attestation Standards (Section AT200) listing the procedures we performed, the results of those procedures and address the report to the City and PFM.

The procedures that you have asked us to perform are as follows:

1. With reference to Section 4c of the Agreement, obtain from ATDF a report of the dollar amount of their investment in capital equipment or capital improvements at the SEMATECH facility located at 2706 Montopolis Drive, Austin, Texas, for the period from January 1, 2006 to December 31, 2006. Verify the mathematical accuracy of the schedules and trace the dollar amounts to the accounting records of ATDF. Select a sample of 15 capital equipment or capital improvement additions made during 2006 and compare the dollar amount reported on the ATDF report to the vendor's invoice or other

Ms. Vickie Schubert
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pertinent documentation.

2. With reference to Section 4d of the Agreement, obtain a confirmation from the City of Austin Department of Watershed Management that ATDF has complied with the water quality regulations pertinent to the SEMATECH facility at 2706 Montopolis Drive, Austin, Texas.
3. With reference to Section 4e of the Agreement, obtain from ATDF a report of the dollar amount of business supplies, office equipment, materials and other items related to ATDF's operations within the City of Austin during 2006. Select a sample of 15 purchases of such items and compare the dollar amount reported to the vendor's invoice or other pertinent documentation showing the business location of the vendor.
4. With reference to Section 5a of the Agreement, obtain a copy of the Travis County Tax Statement for 2006 showing the total ad valorem tax assessment and a copy of the Travis County Tax Statement for 2006 showing the unpaid balance of 2006 ad valorem taxes. Inspect the Travis County Tax Statement and ascertain that the unpaid 2006 ad valorem taxes of ATDF are zero.

Other Engagement Matters

At the conclusion of the engagement, management of City agrees to supply us with a representation letter that, among other things, will confirm the City's responsibility for the sufficiency of the agreed-upon procedures for its purposes and the completeness of the information provided to us by the City.

Our engagement to apply agreed-upon procedures will be performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which our report is being prepared or for any other purpose.

Because the agreed upon procedures 1-4 above do not constitute an examination, the objective of which would be the expression of an opinion on the subject matter, we will not express an opinion on the results.

This report is intended solely for the use of the City and PFM, and is not intended to be and should not be used by anyone other than these specified parties.

If we are unable to complete the agreed-upon procedures referred to above, we will discuss the matter with you during the engagement. In such circumstances, we may conclude that we will not issue a report as a result of this engagement.

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By approving this engagement, you agree to release Sprouse & Anderson, L.L.P. (S&A) and its personnel from any claims, liabilities, costs, and expenses relating to our services under this letter, except to the extent determined to have resulted from the intentional or deliberate misconduct of S&A personnel. In the event S&A is required pursuant to subpoena or other legal process to produce its documents relating to engagements for the City in judicial or administrative proceedings to which S&A is not a party, the City shall reimburse S&A for its professional time and expense, including reasonable attorney's fees, incurred in responding to such requests.

The City agrees that all records, documentation, and information we request in connection with our audit will be made available to us, that all material information will be disclosed to us, and that we will have the full cooperation of City personnel.

We estimate that our fees for performing these services will be approximately \$4,000 - \$5,000 which is based on the expected time required to apply the procedures outlined above. The actual fees will be based on the actual hours incurred at our standard billing rates (Partner \$290/hr., Manager \$175/hr., Senior \$120/hr). Circumstances encountered during the performance of the procedures that warrant additional time could cause us to be unable to complete the procedures within the above estimate. We will endeavor to notify you of any such circumstances as they are assessed.

Very truly yours,

Sprouse & Anderson, L.L.P.



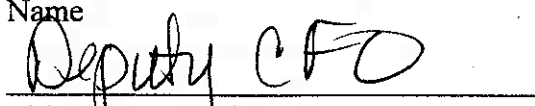
Michael W. O'Brien
Partner

ACCEPTED:

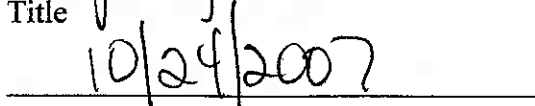
City of Austin



Name



Title



Date