

Independent Accountant's Report
on Applying Agreed-Upon Procedures

Mr. Rodney Gonzales, Deputy Director
City of Austin
Economic Growth and Redevelopment Services Office
301 West 2nd Street, Suite 2030
Austin, Texas 78701

We have performed the procedures enumerated below, which were agreed to by the City of Austin (the "City") solely to assist the specified user in evaluating the City's assertion that Hanger Orthopedic Group, Inc. ("Hanger") has complied for the reporting year 2010 with certain provisions, as described below, of the Chapter 380 Economic Development Agreement (the "Agreement"), approved by the City Council on January 28, 2010, through Ordinance No. 20100128-043 and executed by the City Manager on February 9, 2010. The City is the specified user of this report. The City's management is responsible for the determination of compliance by Hanger 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 specified user of 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. With reference to Section 2.01 of the Agreement:
 - a. We obtained from Hanger a schedule showing Hanger's 2010 payments for the build-out of the headquarters facility, leasehold improvements and machinery and equipment. We inspected the schedule and confirmed that Hanger's 2010 total build-out payments totaled \$2,752,369.51. No exceptions were found as a result of the foregoing procedures.

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- b. Using the schedule obtained in Procedure 1a, we selected a sample representing 16% (4 items) of Hanger's 2010 payments for the build-out of the headquarters facility. For the sample selected, we inspected each invoice or other supporting documentation and confirmed that each invoice or supporting documentation agreed to the report provided by Hanger. No exceptions were found as a result of the foregoing procedures.
 - c. We inspected email communications dated March 22, 2011, March 31, 2011 and September 15, 2011 from Harvey Cleary Builders to Hanger's Fran Anderson and confirmed that according to the emails, \$341,315 of the payments to the general contractor were for machinery and equipment purchased by subcontractors. No exceptions were found as a result of the foregoing procedures.
2. With reference to Section 2.01 of the Agreement:
- a. We obtained from Hanger a schedule showing Hanger's 2010 investment in furniture, fixtures and equipment. We inspected the schedule and confirmed that Hanger's 2010 investment in furniture, fixtures and equipment totaled \$1,760,193.42. No exceptions were found as a result of the foregoing procedures.
 - b. Using the schedule obtained in Procedure 2a, we selected a sample representing 16% (9 items) of Hanger's 2010 investment in furniture, fixtures and equipment. For the sample selected, we inspected each invoice or other supporting documentation and confirmed that each invoice or supporting documentation agreed to the report provided by Hanger. No exceptions were found as a result of the foregoing procedures.
3. With reference to Section 2.01 of the Agreement:
- a. We obtained from Hanger a schedule indicating Hanger's 2010 investment in machinery and equipment. We inspected the schedule and confirmed that Hanger's 2010 investment in machinery and equipment totaled \$813,090.09. No exceptions were found as a result of the foregoing procedures.
 - b. Using the schedule obtained in Procedure 3a, we selected a sample representing 73% (6 items) of Hanger's 2010 investment in machinery and equipment of \$813,090.09. For the sample selected, we inspected each invoice or other supporting documentation and confirmed that each invoice or supporting documentation agreed to the report provided by Hanger. No exceptions were found as a result of the foregoing procedures.

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4. With reference to Section 2.02(a) of the Agreement:

- a. We obtained from Hanger a payroll schedule listing Hanger employees for the year ended December 31, 2010. We inspected and confirmed that the schedule includes the names, hire dates, compensation rates and number of hours compensated during the year ended December 31, 2010 for each employee. We confirmed that the schedule included 136 full-time Hanger employees. No exceptions were noted as a result of the foregoing procedures.
- b. Using the schedule obtained at Procedure 4a, we selected a sample representing 10% (14 items) of the employees listed in the schedule. For the sample selected, we inspected the paystub or other supporting documentation and confirmed that each paystub or other supporting documentation agreed to the report provided by Hanger. No exceptions were noted as a result of the foregoing procedures.
- c. Using the schedule obtained at Procedure 4a, we recalculated the prorated average annual salary, including bonuses but excluding benefits, of the 136 Hanger employees. We confirmed that the recalculated prorated average annual salary was at least \$97,343. No exceptions were noted as a result of the foregoing procedures.

5. With reference to Section 2.03(a) of the Agreement:

- a. We obtained from Hanger a payroll schedule listing Innovative Neurotronics employees for the year ended December 31, 2010. We inspected and confirmed that the schedule included the names, hire dates and number of hours compensated during the year ended December 31, 2010 for each employee. We confirmed that the schedule included 22 full-time Innovative Neurotronics employees. No exceptions were noted as a result of the foregoing procedures.
- b. Using the schedule obtained at Procedure 5a, we selected a sample representing 14% (3 items) of the employees listed in the schedule. For the sample selected, we inspected the paystub or other supporting documentation and confirmed that each paystub or other supporting documentation agreed to the report provided by Hanger. No exceptions were noted as a result of the foregoing procedures.

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6. With reference to Section 2.04(a) of the Agreement:

- a. We obtained verbal confirmation from Hanger's Mike Phelan, Human Resources Director, that Hanger made its employees aware of its Fair Employment Practices Standard Operating Procedures and that they are expected to comply with the procedures. No exceptions were noted as a result of the foregoing procedures.
- b. We obtained and inspected an email dated June 17, 2011 from Hanger's Mike Phelan to Terry Franz of the ERGSO. We inspected such e-mail and confirmed that Hanger met with the Austin Asian American Chamber of Commerce, the Capital City African American Chamber of Commerce and the Greater Austin Hispanic Chamber of Commerce in early 2010 in order to establish relationships between Hanger and each of the chambers and discuss advertisement of jobs and other areas of mutual interest. No exceptions were found as a result of the foregoing procedures.
- c. We obtained from Hanger a copy of the invoice or other supporting documentation dated March 4, 2010 from the Capital City African American Chamber of Commerce to Hanger. We inspected such documents and confirmed that the invoice or other supporting documentation represents Hanger's one year membership in the Capital City African American Chamber of Commerce. No exceptions were found as a result of the foregoing procedures.
- d. We obtained from the City a copy of the Exhibitor Registration Report for the Multi-Ethnic Chamber Alliance's 4th Annual Multicultural Career and Opportunities Expo, held August 6, 2010 in Austin, Texas. We inspected the report and confirmed that according to the report, Hanger participated as an exhibitor in the event. No exceptions were found as a result of the foregoing procedures.

7. With reference to Section 2.04(b) of the Agreement:

- a. We obtained from Hanger a report showing the names and addresses of 98 individuals hired in 2010 by Hanger for its headquarters. We inspected the report and confirmed that 94 of the 98 individuals have addresses in the Austin Round Rock Metropolitan Statistical Area ("MSA"). No exceptions were found as a result of the foregoing procedures.
- b. Using the report obtained at Procedure 7a, we selected a sample of 10 of the 94 employees with addresses in the Austin Round Rock MSA. For the sample selected, we inspected the Form W-2 or other supporting documentation of each sampled employee and confirmed that the employee's address on the Form W-2 corresponded to the address in the schedule provided. No exceptions were found as a result of the foregoing procedures.

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8. With reference to Section 2.05(a) of the Agreement:

- a. We obtained from Hanger a report noting Hanger's 2010 expenditures paid to three local vendors. We inspected the report and confirmed that Hanger's expenditures with these businesses totaled \$7,164.75 in 2010. No exceptions were found as a result of the foregoing procedures.
- b. Using the report obtained at Procedure 8a, we selected three 2010 invoices or other supporting documentation, representing one invoice from each of the three vendors. We confirmed that the sample selected represented 75% of the total of Hanger's reported 2010 expenditures with these businesses. For the sample selected, we inspected the invoice or other supporting documentation and confirmed that each invoice or other supporting documentation agreed to the report provided by Hanger. No exceptions were found as a result of the foregoing procedures.
- c. We obtained and inspected reports from each of the three vendors' websites noted at Procedure 8a and confirmed that each vendor has an Austin location per the internet report. No exceptions were found as a result of the foregoing procedures.
- d. We obtained from the City a copy of Hanger's supplier diversity policy, dated April 28, 2010. We inspected the policy and related correspondence and confirmed that the copy of the policy was provided to the City on July 19, 2010. No exceptions were found as a result of the foregoing procedures.
- e. We obtained from the City a copy of an e-mail dated August 4, 2011 between Brian Gildea and Terry Franz, both of EGRSO. We inspected the e-mail and confirmed that according to the e-mail the City did not ask Hanger for its supplier diversity policy until July 2010 and that Hanger provided the policy to the City on July 19, 2010. No exceptions were found as a result of the foregoing procedures.
- f. We obtained verbal confirmation from Hanger's Melissa Freeman-Taylor that before making a purchase for its headquarters, she checks the City's Small and Minority Business Resources database to identify any certified vendors that could provide the service or commodity. We confirmed that Ms. Freeman-Taylor then obtains bids from three vendors, including any certified vendors identified in the City's Small and Minority Business Resources database. No exceptions were found as a result of the foregoing procedures.

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9. With reference to Section 2.05(b), 2.05(c) and 2.05(d) of the Agreement, we obtained and inspected from the City a copy of an e-mail dated August 4, 2011 from Amelie Gonzalez-Flores of the City's Small and Minority Business Resources Department to Terry Franz at EGRSO. We inspected such e-mail and confirmed that according to the email Hanger complied with the standards and principles of the City's MBE/WBE Procurement Program. No exceptions were found as a result of the foregoing procedures.
10. With reference to Section 2.06 of the Agreement, we obtained a report provided by the City resulting from the query of the City of Austin Interactive Development Review Permitting and Inspection Database for records with "Hanger" in the Project Name for the period January 1, 2010 through April 4, 2011. We inspected the report and confirmed that the report produced by the query of the database contained no record of any site plan or subdivision application or amendment filed by Hanger Orthopedic Group during that period. No exceptions were found as a result of the foregoing procedures.
11. With reference to Section 2.07 of the Agreement, we obtained Hanger's 2010 Economic Development Reporting Form, received by the City on March 31, 2011. We inspected the report and confirmed that Hanger provided the completed and signed Economic Development Reporting Form to the City on March 31, 2011. No exceptions were found as a result of the foregoing procedures.
12. With reference to Section 2.08 of the Agreement, we obtained Hanger's acknowledgement to ERGSO regarding the stipulation that Hanger not employ undocumented workers. We inspected the acknowledgement and confirmed that according to the acknowledgement, during the term of the Chapter 380 agreement Hanger has:
 - (1) not been notified of any complaint alleging that it has employed undocumented workers;
 - (2) agreed that if it is notified of any such complaint during the term of the Chapter 380 agreement it will notify the City, and
 - (3) not been convicted of any violation under 8 U.S.C. Section 1324a(f).

No exceptions were found as a result of the foregoing procedures.

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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 is not intended to be and should not be used by anyone other than this specified party.

Padgett, Stratemann + Co., LLP

Certified Public Accountants
Austin, Texas