

August 31, 2012

**Independent Accountant's Report
on Applying Agreed-Upon Procedures**

Ms. Sylnovia Holt-Rabb, Acting Assistant 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 2011 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 2011 investment in furniture, fixtures, and equipment. We inspected the schedule and confirmed Hanger's 2011 investment in furniture, fixtures, and equipment totaled \$258,451.67. No exceptions were found as a result of the foregoing procedures.
 - b. Using the schedule obtained in Procedure 1a, we selected a sample of three items representing 23% of Hanger's 2011 investment in furniture, fixtures, and equipment. For the sample selected, we inspected each invoice or other supporting documentation and confirmed 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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2. With reference to Section 2.01 of the Agreement:

- a. We obtained from Hanger a schedule indicating Hanger's 2011 investment in machinery and equipment. We inspected the schedule and confirmed Hanger's 2011 investment in machinery and equipment totaled \$67,749.71. No exceptions were found as a result of the foregoing procedures.
- b. Using the schedule obtained in Procedure 2a, we selected a sample of four items representing 10% of Hanger's 2011 investment in machinery and equipment. For the sample selected, we inspected each invoice or other supporting documentation and confirmed 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 2.02(a) of the Agreement:

- a. We obtained from Hanger a payroll schedule listing Hanger employees for the year ended December 31, 2011. We inspected and confirmed the schedule included the name, hire date, compensation rate, and number of hours compensated during the year ended December 31, 2011 for each employee. We confirmed the schedule included 166 full-time Hanger employees. No exceptions were noted as a result of the foregoing procedures.
- b. Using the schedule obtained in Procedure 3a, we selected a sample of 17 items representing 10% of the employees listed in the schedule. For the sample selected, we inspected the paystub or other supporting documentation for the payroll period ended December 31, 2011 and confirmed 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 in Procedure 3a, we recalculated the average annual salary, including bonuses but excluding benefits, of the 166 full-time Hanger employees. We confirmed the recalculated average annual salary was at least \$97,343. No exceptions were noted as a result of the foregoing procedures.

4. 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, 2011. We inspected and confirmed the schedule included the name, hire date, and number of hours compensated during the year ended December 31, 2011 for each employee. We confirmed the schedule included 20 full-time Innovative Neurotronics employees. No exceptions were noted as a result of the foregoing procedures.

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- b. Using the schedule obtained in Procedure 4a, we selected a sample of two items representing 10% of the employees listed in the schedule. For the sample selected, we inspected the paystub or other supporting documentation for the payroll period ended December 31, 2011 and confirmed each paystub or other supporting documentation agreed to the report provided by Hanger. No exceptions were noted as a result of the foregoing procedures.

5. 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 provides each new headquarters employee with an employee handbook, interactive new hire orientation, and compliance training. We also verbally confirmed with Mr. Phelan that each new employee signs an Acknowledgement of Employment Policies, a Harassment Policy Acknowledgement, and a Compliance Information Acknowledgement. No exceptions were noted as a result of the foregoing procedures.
- b. We obtained from Hanger a copy of a sales receipt dated May 23, 2011, inspected such documentation for payment of membership dues, and confirmed Hanger's membership with the Austin Asian Chamber of Commerce was shown on the sales receipt. No exceptions were found as a result of the foregoing procedures.
- c. We obtained from Hanger a copy of the online member directory of the Capital City African American Chamber of Commerce printed on May 23, 2011 and confirmed Hanger was listed as a business member. No exceptions were found as a result of the foregoing procedures.
- d. We obtained from Hanger a copy of the online member directory of the Greater Austin Hispanic Chamber of Commerce printed on May 23, 2011 and confirmed Hanger was listed as a member. No exceptions were found as a result of the foregoing procedures.
- e. We obtained from Hanger a list of Recruiting and Sourcing Firms dated May 30, 2012 that included information about three firms. We inspected this list and supporting information, and confirmed the information provided by Mr. Phelan about each of the firms:
 - i. One of the firms posts openings to various state and local job agencies.
 - ii. Another of the firms posts openings to sites that recruit minority and/or disabled individuals and/or veterans seeking jobs.
 - iii. The third firm uses resources to recruit individuals of diverse races, genders, orientations, and abilities.

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

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

- a. We obtained from Hanger a report showing the names and addresses of 51 individuals hired in 2011 by Hanger for its headquarters. We inspected the report and confirmed that 47 of the 51 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 in Procedure 6a, we selected a sample of 5 of the 47 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 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.

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

- a. We obtained from Hanger a report noting Hanger's 2011 expenditures paid to nine local vendors. We inspected the report and confirmed Hanger's expenditures with these businesses totaled \$57,415.52 in 2011. No exceptions were found as a result of the foregoing procedures.
- b. Using the report obtained in Procedure 7a, we selected four 2011 invoices or other supporting documentation from one of the nine vendors. We confirmed the sample selected represented 6% of Hanger's reported 2011 expenditures with these nine local vendors. For the sample selected, we inspected the invoice or other supporting documentation and confirmed 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 from the City and inspected reports printed from each of the nine vendors' websites and confirmed each of the nine vendors has an Austin location. No exceptions were found as a result of the foregoing procedures.
- d. We obtained verbal confirmation from Hanger's John Hathaway on May 30, 2012, that before making a purchase for its headquarters, Hanger checks the City of Austin Small and Minority Business Resources database to identify any certified vendors that could provide those goods or services, then obtains three bids, including from 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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8. 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 from January 1, 2011 through February 1, 2012. We inspected the report and confirmed the report produced by the query of the database contained no record of any site plan or subdivision application or amendment filed by Hanger during that period. No exceptions were found as a result of the foregoing procedures.
9. With reference to Section 2.07 of the Agreement, we obtained from the City Hanger's 2011 Economic Development Reporting Form, received by the City on March 31, 2012. We inspected the report and confirmed Hanger provided the completed and signed Economic Development Reporting Form to the City on March 31, 2012. No exceptions were found as a result of the foregoing procedures.
10. With reference to Section 2.08 of the Agreement, we obtained from the City, Hanger's acknowledgement to the Economic Growth and Redevelopment Services Office regarding the stipulation that Hanger has not employed undocumented workers. We inspected the acknowledgement and confirmed that, according to the acknowledgement, during the term of the 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 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.

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