Bonadio & Co., LLP
Certified Public Accountants

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

November 29, 2012

To the Board of Directors of the
Seneca Knit Development Corporation:

We have audited the financial statements of the Seneca Knit Development Corporation (the Corporation) (a New York nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated November 29, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting
Management of the Corporation is responsible for establishing and maintaining internal control over financial reporting. In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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(Continued)

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described below as Finding 2011-1.

The Corporation's response to the finding identified in our audit is described below. We did not audit the Corporation's response and, accordingly, we express no opinion on it.

Finding 2011-1
Condition: Management was not in compliance with the Public Authorities Accountability Act (PAAA) and Public Authorities Reform Act (PARA) which is enforced by the New York State Authorities Budget Office (ABO) through the year ended December 31, 2011. The ABO has made a determination that the Corporation meets the definition of a public authority under the PAAA and PARA through an initial notice to the Corporation dated October 7, 2008.

Criteria: As a public authority, the Corporation is required to follow the regulations of the PAAA and PARA, which includes certain reporting and disclosure requirements.

Effect: As a result of its failure to file with the ABO, the Corporation was considered a delinquent organization and was deemed out of compliance with significant New York State regulations.

Cause: Management has vehemently disagreed with the ABO determination that the Corporation should be considered a public authority. Despite several written communications, the ABO continues to consider the Corporation a public authority under the PAAA and PARA.

Recommendation: Management and the Board of Directors must take steps to ensure that its PAAA and PARA compliance requirements are met.

Response: Management maintains its determination that PAAA and PARA are not relevant to the Corporation; however, until such time as a mutual understanding can be reached with the ABO, has elected to comply with the requirements of the PAAA and PARA. As such, management will review its internal controls over compliance requirements to ensure that the Corporation is in compliance with its requirements going forward.

This report is intended solely for the information and use of management, others within the entity, Board of Directors, New York State Authorities Budget Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bonadio & Co., LLP