SENECA KNIT DEVELOPMENT CORPORATION

Financial Statements
as of December 31, 2012 and 2011
Together with
Independent Auditor's Report

Bonadio & Co., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

September 9, 2013

To the Board of Directors of
Seneca Knit Development Corporation:

Report on the Financial Statements
We have audited the accompanying financial statements of Seneca Knit Development Corporation (the Corporation) (a New York non-profit corporation), which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of activities and change in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2013 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Bonadio & Co., LLP

SENECA KNIT DEVELOPMENT CORPORATION

BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash	$ 2,339	$ 7,865
Total current assets	2,339	7,865
NON-CURRENT ASSETS:		
Historical property development	821,780	821,780
Total assets	$ 824,119	$ 829,645
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 11,451	$ -
Line-of-credit	34,000	34,000
Total current liabilities	45,451	34,000
Total liabilities	45,451	34,000
UNRESTRICTED NET ASSETS	778,668	795,645
Total liabilities and net assets	$ 824,119	$ 829,645

The accompanying notes are an integral part of these statements.

SENECA KNIT DEVELOPMENT CORPORATION

STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
OPERATING REVENUE:		
Donations	$ 97,110	$ 7,345
Contributed services	9,594	8,478
Total operating revenue	106,704	15,823
OPERATING EXPENSES:		
Program -		
Site development	103,726	-
Loan interest	1,445	1,457
Other	1,984	9,620
Total program expenses	107,155	11,077
Management and general -		
Professional services	16,526	1,480
Total management and general expenses	16,526	1,480
Total operating expenses	123,681	12,557
CHANGE IN NET ASSETS	(16,977)	3,266
NET ASSETS - beginning of year	795,645	792,379
NET ASSETS - end of year	$ 778,668	$ 795,645

The accompanying notes are an integral part of these statements.

SENECA KNIT DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

		2012		2011
CASH FLOW FROM OPERATING ACTIVITIES:				
Change in net assets	$	(16,977)	$	3,266
Adjustments to reconcile change in net assets to net cash flow from operating activities:				
Accounts payable		11,451		-
Net cash flow from operating activities		(5,526)		3,266
CASH FLOW FROM INVESTING ACTIVITIES:				
Purchases of historical property development		-		(5,590)
Net cash flow from investing activities		-		(5,590)
CHANGE IN CASH		(5,526)		(2,324)
CASH - beginning of year		7,865		10,189
CASH - end of year	$	2,339	$	7,865

The accompanying notes are an integral part of these statements.

1. THE CORPORATION

Seneca Knit Development Corporation (the Corporation) was created as a New York non-profit local development corporation on June 29, 2000. The purpose for which the corporation was formed and operates is exclusively for charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code. The Corporation's purpose is to relieve and reduce unemployment, promote and provide for additional and maximum employment, better maintain job opportunities, and lessen the burdens of government and act in the public interest.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting
The Corporation reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Temporarily restricted contributions that are used in the same period they are received are recorded as unrestricted support. At December 31, 2012 and 2011, all of the Corporation's net assets were unrestricted.

Cash
Cash consists of bank demand deposit accounts which, at times, may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk with respect to cash.

Historical Property Development
The Corporation maintains certain historical property which has been contributed to the organization for future development and enhancement of that property as historical landmarks within the Seneca County area. Any improvements which have been made to this property will be capitalized as part of the investment and used to calculate any gain or loss on the ultimate sale or disposition.

Income Taxes
The Corporation is a not-for-profit corporation exempt from income taxes as an organization qualified under section 501(c)(3) of the internal revenue code. The Corporation has also been classified by the Internal Revenue Service as an entity that is not a private foundation.

For tax-exempt entities, their tax-exempt status itself is deemed to be an uncertainty, since events could potentially occur to jeopardize their tax-exempt status. As of December 31, 2012 and 2011, the Corporation does not have a liability for unrecognized tax benefits. The Corporation is subject to U.S. federal and state tax examinations by tax authorities for all years after 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions
Contributions are recorded at the time the cash is received, or when the Corporation receives unconditional promises to give.

Contributed Services
The Corporation records contributions of services as both revenue and expense to the extent that services require skills and would have been purchased by the organization if not donated.

Estimates
The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. HISTORICAL PROPERTY DEVELOPMENT

The following is a summary of the historical property development at December 31, 2012 and 2011:

Balance at 1/1/2012	Additions	Deletions	Balance at 12/31/2012
$ 821,780	$ -	$ -	$ 821,780

Balance at 1/1/2011	Additions	Deletions	Balance at 12/31/2011
$ 816,190	$ 5,590	$ -	$ 821,780

4. FINANCING ARRANGEMENTS

Line-of-Credit

The Corporation has a $100,000 revolving line-of-credit dated July 6, 2010 from a bank to help finance the renovation of the 14 East Bayard Street property. This line is collateralized by commercial real estate and interest is payable monthly on outstanding balances using a variable interest rate as obtained from the Wall Street Journal published prime rate daily (3.25% at December 31, 2012 and 2011). The line-of-credit also requires that no amounts will be outstanding for at least one 30-day period during the fiscal year. The Corporation was not in compliance with this covenant for the years ended December 31, 2012 and 2011, and has obtained a bank waiver for both years. There was $34,000 outstanding under the terms of this line-of-credit arrangement at December 31, 2012 and 2011, respectively.

The bank has a First Position Blanket Collateral Real Estate Mortgage in the amount of $100,000 on the following New York properties:

1. 1 Canal Street, Seneca Falls, New York
2. 14 East Bayard Street, Seneca Falls, New York
3. 11 Bridge Street, Seneca Falls, New York

Cash Paid for Interest

The Corporation paid $1,445 and $1,457 for interest during the years ended December 31, 2012 and 2011, respectively.

5. CONCENTRATIONS AND RELATED PARTY TRANSACTIONS

In 2012 and 2011, 79% and 32% of the Corporation's total operating revenue was donated by the President of the Corporation.

In 2012, 78% of the Corporation's total purchases were from two vendors. In addition, 100% of accounts payable at December 31, 2012 was from one of these vendors.

6. COMMITMENTS

Leaseback

On November 1, 2003, the Corporation entered into a leaseback arrangement with the Seneca County Industrial development Agency (the Agency) which expires December 31, 2014. The Corporation requested the assistance of the Agency in order to acquire and renovate certain parcels within the limits of the former Village of Seneca Falls, as well as the former Seneca Knitting Mill Facility into public and private mixed use office, commercial, and a museum facility. The Agency has taken title to the properties and subsequently leased them back to the Corporation at $1.00 per annum rent. To the extent incurred, the Corporation also agrees to pay, as additional rent, amounts related to costs of ownership or leasing of the facility, and in connection with carrying out the duties and obligations under the agreement.

PILOT

Simultaneously with entering into the leaseback arrangement described previously, the Agency and the Corporation entered into a Payment-in-lieu-of-taxes (PILOT) agreement for covering the same parcels. The PILOT agreement is in effect through December 31, 2014 and requires the Corporation to pay $1.00 annually in lieu of actual tax payments.

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 9, 2013, which is the date the financial statements were available to be issued.

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S 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*

September 9, 2013

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Seneca Knit Development Corporation (the Corporation) (a New York not-for-profit corporation), which comprise the balance sheet as of December 31, 2012, and the related statements of activities and change in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 9, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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INDEPENDENT AUDITOR'S 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*
(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 matter that is required to be reported under *Government Auditing Standards* and which is described below as Finding 2012-1.

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 2012-1
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, 2012. 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 subject themselves to 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.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bonadio & Co., LLP