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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(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.

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