

**SENECA KNIT
DEVELOPMENT CORPORATION**

**Financial Statements
as of December 31, 2011 and 2010
Together with
Independent Auditors' Report**

Bonadio & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

November 29, 2012

To the Board of Directors of
Seneca Knit Development Corporation:

We have audited the accompanying balance sheet of Seneca Knit Development Corporation (the Corporation) (a New York non-profit corporation) as of December 31, 2011, and the related statements of activities and change in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our 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, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

The 2010 financial statements were reviewed by us, and our report thereon, dated November 28, 2012, stated we were not aware of any material modifications that should be made to those statements for them to be in conformity with accounting principles generally accepted in the United States. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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SENECA KNIT DEVELOPMENT CORPORATION

BALANCE SHEETS DECEMBER 31, 2011 AND 2010

	<u>2011</u> (Audited)	<u>2010</u> (Reviewed)
ASSETS		
CURRENT ASSETS:		
Cash	\$ <u>7,865</u>	\$ <u>10,189</u>
Total current assets	<u>7,865</u>	<u>10,189</u>
NON-CURRENT ASSETS:		
Historical property development	<u>821,780</u>	<u>816,190</u>
Total assets	<u>\$ 829,645</u>	<u>\$ 826,379</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Line-of-credit	\$ <u>34,000</u>	\$ <u>34,000</u>
Total current liabilities	<u>34,000</u>	<u>34,000</u>
Total liabilities	34,000	34,000
UNRESTRICTED NET ASSETS	<u>795,645</u>	<u>792,379</u>
Total liabilities and net assets	<u>\$ 829,645</u>	<u>\$ 826,379</u>

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, 2011 AND 2010

	2011 (Audited)	2010 (Reviewed)
OPERATING REVENUE:		
Donations	\$ 7,345	\$ 22,935
Contributed services	<u>8,478</u>	<u>1,567</u>
Total operating revenue	<u>15,823</u>	<u>24,502</u>
OPERATING EXPENSES:		
Program -		
Loan interest	1,457	414
Other	<u>9,620</u>	<u>2,810</u>
Total program expenses	<u>11,077</u>	<u>3,224</u>
Management and general -		
Professional services	<u>1,480</u>	<u>7,293</u>
Total management and general expenses	<u>1,480</u>	<u>7,293</u>
Total operating expenses	<u>12,557</u>	<u>10,517</u>
OPERATING INCOME	<u>3,266</u>	<u>13,985</u>
NON-OPERATING INCOME:		
Interest income	<u>-</u>	<u>1,103</u>
Total non-operating income	<u>-</u>	<u>1,103</u>
CHANGE IN NET ASSETS	3,266	15,088
NET ASSETS - beginning of year	<u>792,379</u>	<u>777,291</u>
NET ASSETS - end of year	<u>\$ 795,645</u>	<u>\$ 792,379</u>

The accompanying notes are an integral part of these statements.

SENECA KNIT DEVELOPMENT CORPORATION

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u> (Audited)	<u>2010</u> (Reviewed)
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ <u>3,266</u>	\$ <u>15,088</u>
Net cash flow from operating activities	<u>3,266</u>	<u>15,088</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of historical property development	<u>(5,590)</u>	<u>(216,214)</u>
Net cash flow from investing activities	<u>(5,590)</u>	<u>(216,214)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Net borrowings on line-of-credit	<u>-</u>	<u>34,000</u>
Net cash flow from financing activities	<u>-</u>	<u>34,000</u>
CHANGE IN CASH	(2,324)	(167,126)
CASH - beginning of year	<u>10,189</u>	<u>177,315</u>
CASH - end of year	<u>\$ 7,865</u>	<u>\$ 10,189</u>

The accompanying notes are an integral part of these statements.

SENECA KNIT DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011 (AUDITED) AND 2010 (REVIEWED)

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 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, 2011 and 2010, 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, 2011 and 2010, 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 2007.

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, 2011 and 2010:

<u>Balance at 12/31/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2011</u>
\$ <u>816,190</u>	\$ <u>5,590</u>	\$ <u>-</u>	\$ <u>821,780</u>
<u>Balance at 1/1/2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 12/31/2010</u>
\$ <u>599,976</u>	\$ <u>216,214</u>	\$ <u>-</u>	\$ <u>816,190</u>

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, 2011 and 2010). The line-of-credit also requires that no amounts will be outstanding for at least one 30-day period during the fiscal year. There was \$34,000 outstanding under the terms of this line-of-credit arrangement at December 31, 2011 and 2010, respectively.

The bank has 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
2. 14 East Bayard Street, Seneca Falls
3. 11 Bridge Street, Seneca Falls

Cash Paid for Interest

The Corporation paid \$1,457 and \$414 for interest during the years ended December 31, 2011 and 2010, respectively.

5. CONCENTRATIONS AND RELATED PARTY TRANSACTIONS

In 2011 and 2010, 32% and 82% of the Corporation's total operating revenue was donated by the President of the Corporation.

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 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 November 29, 2012, which is the date the financial statements were available to be issued.

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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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 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