PCAOB
Public Company Accounting Oversight Board

1666 K Street, N.W.
Washington, DC 20006
Telephone: (202) 207-9100
Facsimile: (202) 862-8435
www.pcaobus.org

Report on

2014 Inspection of Somerset CPAs, P.C.
(Headquartered in Indianapolis, Indiana)

Issued by the

Public Company Accounting Oversight Board

February 26, 2015

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT

PORTIONS OF THE COMPLETE REPORT ARE OMITTED FROM THIS DOCUMENT IN ORDER TO COMPLY WITH SECTIONS 104(g)(2) AND 105(b)(5)(A) OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2015-092

PCAOB

Public Company Accounting Oversight Board

PCAOB Release No. 104-2015-092

2014 INSPECTION OF SOMERSET CPAS, P.C.

Preface

In 2014, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Somerset CPAs, P.C. ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.C of this report (which also contains additional information concerning PCAOB inspections generally). Overall, the inspection process included a review of portions of an issuer audit completed by the Firm. This review was intended to identify whether deficiencies existed in those portions of the inspected audit, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. The Board is releasing to the public Part I of the report and portions of Part IV of the report. Part IV of the report consists of the Firm's comments, if any, on a draft of the report. If the nonpublic portions of the report discuss criticisms of or potential defects in the firm's system of quality control, those discussions also could eventually be made public, but only to the extent the firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report.

PROFILE OF THE FIRM[1]

Number of offices	1 (Indianapolis, Indiana)
Ownership structure	Professional corporation
Number of partners	28
Number of professional staff[2]	116
Number of issuer audit clients	1

[1] The information presented here is as understood by the inspection team, generally as of the outset of the inspection, based on the Firm's self-reporting and the inspection team's review of certain information. Additional information, including additional detail on audit reports issued by the Firm, is available in the Firm's filings with the Board, available at http://pcaobus.org/Registration/rasr/Pages/RASR_Search.aspx.

[2] The number of partners and professional staff is provided here as an indication of the size of the Firm, and does not necessarily represent the number of the Firm's professionals who participate in audits of issuers.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's inspection staff ("the inspection team") conducted primary procedures for the inspection from April 21, 2014 to April 25, 2014.[3]

A. Review of Audit Engagement

The inspection procedures included a review of portions of one issuer audit performed by the firm. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix A to this report. The references in this sub-Part include only standards that primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in any references to the auditing standards in this sub-Part, unless the lack of compliance with these standards is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain of the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements

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[3] For this purpose, "primary procedure" includes field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. Primary procedures does not include (1) inspection planning, which is generally performed prior to primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

were presented fairly, in all material respects, in accordance with applicable financial reporting framework. In other words, in this audit, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are misstated. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.[4]

The audit deficiencies that reached this level of significance are described below–

Issuer A

(1) The Firm's failure to identify, or to address appropriately, a departure from Generally Accepted Accounting Principles ("GAAP") that related to a potentially material misstatement in the audited financial statements concerning the accounting for and disclosure of discontinued operations (AS No. 14, paragraphs 30 and 31) and

(2) the failure to perform sufficient procedures to test the valuation of deferred tax assets. (AU 342, paragraphs .04 and .09)

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[4] Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the Firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the Firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and the inspections staff may include in its procedures monitoring or assessing a firm's compliance.

B. Auditing Standards

Each deficiency described above could relate to several applicable provisions of the standards that govern the conduct of audits, including both the paragraphs of the standards that are cited at the end of each description of the deficiency included in Part I.A of this report and one or more of the specific paragraphs discussed below.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work* ("AU 230"), paragraphs .02, .05, and .06, requires the independent auditor to plan and perform his or her work with due professional care and set forth aspects of that requirement. AU 230, paragraphs .07 through .09, and Auditing Standard (AS") No. 13, *The Auditor's Responses to the Risks of Material Misstatement* ("AS No. 13"), paragraph 7, specify that due professional care requires the exercise of professional skepticism. These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13, paragraphs 3, 5, and 8, requires the auditor to design and implement audit responses that address the risks of material misstatement, and AS No. 15, *Audit Evidence* ("AS No. 15"), paragraph 4, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in support of the related conclusions.

The table below lists the specific auditing standards that are referenced for each deficiency included in Part I.A of this report. See the descriptions of the deficiencies in Part I.A for identification of the specific paragraphs, in addition to those noted above, that relate to the individual deficiencies.

PCAOB Auditing Standards	Issuer
AS No. 14, *Evaluating Audit Results*	A
AU 342, *Auditing Accounting Estimates*	A

C. Information Concerning PCAOB Inspections Generally Applicable to Triennially Inspected Firms

Board inspections include reviews of certain portions of selected audit work performed by the inspected firm and reviews of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audits and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

C.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of internal control over financial reporting ("ICFR"). For these audits, the inspection team selects certain portions of the audits for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,[5] as well as a

[5] When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with applicable accounting principles, the Board's practice is to report that information to the Securities

firm's failures to perform, or to perform sufficiently, certain necessary audit procedures. The inspection may not involve the review of all of a firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS No. 3, *Audit Documentation* ("AS No. 3") provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion, must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. In reaching its conclusions, the inspection team considers whether audit documentation or any persuasive other evidence that a firm might provide to the inspection team supports a firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.[6]

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and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

[6] The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process. In addition, any references in this report to violations or potential violations of law, rules, or

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing deficiencies are present, rather than through a process intended to identify a representative sample.

C.2. Review of a Firm's Quality Control System

QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion may indicate a defect or potential defect in a firm's quality control system.[7] If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the

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professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

[7] Not every audit deficiency suggests a defect or potential defect in a firm's quality control system.

nature, significance, and frequency of deficiencies;[8] related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. This review addresses practices, policies, and procedures concerning audit performance, training, compliance with independence standards, client acceptance and retention, and the establishment of policies and procedures.

END OF PART I

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[8] An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.

PARTS II AND III OF THIS REPORT ARE NONPUBLIC
AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

PART IV

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.[9]

[9] The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.

SOMERSET
CPAs

3925 River Crossing Parkway, Third Floor
Post Office Box 40368
Indianapolis, Indiana 46240-0368

Tel: 317.472.2200 - 800.469.7206
Fax: 317.208.1200
www.somersetcpas.com

January 2, 2015

PUBLIC RESPONSE

Public Company Accounting Oversight Board ("PCAOB" or "your")
1666 K Street, N.W.
Washington, DC 20006

Thank you for the opportunity for allowing Somerset CPAs, P.C., ("Somerset", "Firm", "we" or "us") to respond to the PCAOB concerns outlined below related to your inspection conducted in April 2014. This letter dated January 2, 2015, serves as our response to your Draft Report on the 2014 Inspection of Somerset dated December 2, 2014.

Somerset respectfully disagrees with the deficiencies identified by the PCAOB for the reasons described in this letter. The letter contains a combination of a) items documented during the audit, b) additional "facts" noted during the audit; however, added to the audit file subsequent to the audit and c) general research added to this letter supporting our conclusion. We believe our response will assist the PCAOB in understanding the positions taken by Somerset for the year ending December 31, 2013. Please note the bold print represents the PCAOB concerns regarding Issuer A's ("issuer" or "management") consolidated financial statements as included in the PCAOB Draft Report on the 2014 Inspection of Somerset dated December 2, 2014.

In summary, we believe the procedures performed demonstrate that Somerset complied with audit standards and/or accounting principles generally accepted in the United States of America in conjunction with our audit testing in the aforementioned areas outlined by the PCAOB and the related documentation provides an acceptable level of sufficient evidential matter to support Somerset's conclusions. The inspection process has provided our firm with documentation improvement suggestions which we genuinely value and appreciate. The inspectors were courteous, professional and very helpful in these suggestions, and from their guidance, our public company audit process will be greatly enriched in the future. We believe the PCAOB inspection comments outlined in this letter accurately highlight areas in which our firm's *audit documentation* can be improved, however, strongly disagree that Somerset failed to perform sufficient *audit procedures* in the areas of discontinued operations and deferred tax assets in the audit engagement of Issuer A for the year ended December 31, 2013.

Discontinued Operations: The issuer recognized a loss from discontinued operations in an amount that equaled approximately 857 percent of net income for the year under audit. The loss from discontinued operations related to the issuer's decisions to discontinue operations of two of its business activities more than five years prior to the year under audit. During the decision to discontinue one of the two business activities, management identified marketing materials to be used in continuing operations. Prior to disposing of the marketing materials, the issuer reported the marketing materials as a current asset, but not as assets held for sale. Approximately 22 percent of the reported loss from discontinued operations related to the disposal of these marketing materials ("write-off").

The Firm's procedures to test the write-off consisted of obtaining an issuer-prepared listing of the marketing materials and having discussions with management. Management noted that the marketing materials were used in the issuer's continuing operations prior to write-off.

FASB ASC Subtopic 205-20, *Presentation of Financial Statements – Discontinued Operations*, states that an issuer shall report the results of operations of a component of an entity that either has been disposed of, or is classified as held for sale under FASB ASC Topic 360, *Property, Plant, and Equipment*, in discontinued operations. As the issuer was holding the marketing materials in current assets and the issuer planned to use the marketing materials in continuing operations up to the date of the disposal, the issuer's accounting for the marketing materials was not in accordance with FASB ASC Subtopic 205-20. The Firm failed to identify and appropriately address this departure from GAAP in the issuer's audited financial statements. (AS No. 14, paragraphs 30 and 31)

During the eight-month period leading up to our response to the draft inspection report, Somerset notes this represents the first time we have been invited to engage in a conversation regarding a potential departure from accounting principles generally accepted in the United States of America as it relates to discontinued operations.

The issuer has held marketing inventory specifically designed for the disposed activities, namely traditional restaurant units, since 2008. The amounts were not previously written off because management's plan was to market these materials to its continuing, non-traditional units at cost, thereby reducing each franchisee's individual investment. The lack of a markup was also intended to be an additional incentive to acquire these traditional store materials instead of the more expensive standard materials designed for non-traditional units. During the year ended December 31, 2013, management made the determination that these particular marketing materials were a mismatch for the current, ongoing activities of the non-traditional franchisees. Due to decreasing and minimal sales of these marketing materials, management elected to write-off the remaining inventory balance of approximately $289 thousand through discontinued operations as the nature of the product related specifically to traditional units.

Prior to the decision to write off the marketing materials for traditional restaurant units as a loss from discontinued operations, management presented these costs as a current asset within inventories. These marketing materials were less than 2% of total assets for each quarterly and annual report filed with the U.S. Securities and Exchange Commission between December 31, 2008 and September 30, 2014. As such, the balance sheet classification of these costs between current and long-lived assets was not considered material from a quantitative perspective. Furthermore, from a qualitative perspective, the balance sheet classification has no effect on financial loan covenants with financial institutions, no effect on net income, and no effect on earnings per share as a calculation of net income. Thus, management concluded and Somerset concurred, the effect on the balance sheet presentation for prior periods was immaterial, and the decision to write-off marketing materials designed for traditional units as a loss from discontinued operations was appropriate considering the facts and circumstances.

Deferred Tax Assets: Deferred tax assets represented approximately 65 percent of the issuer's total assets for the year under audit. The deferred tax assets were created primarily from net operating losses ("NOLs") incurred by the issuer.

The Firm identified fraud risks related to the valuation of deferred tax assets. The Firm developed two projections of the deferred tax asset realization. In the first projection, the Firm estimated utilization of the deferred tax assets based on the issuer's average pretax income from continuing operations for the last five years. The pretax income from continuing operations for the latest two years included adjustments to add back certain "one time" charges that had the effect of increasing the average earnings by approximately 17 percent. The Firm noted that the issuer would "potentially have issues" with approximately three percent of the deferred tax assets resulting from NOLs that would expire prior to realization of the tax benefit by the issuer. An increase in the valuation allowance for not recognizing the tax benefits for three percent of deferred tax assets would increase tax expense and reduce earnings by approximately 807 percent. In the second projection, the Firm developed an expectation by replacing the pretax income used for the year under audit in the first projection with an average of (1) pretax income for the year under audit used in the first projection and (2) pretax income based upon the annualized quarterly income projection of a recently developed business activity, which was in operation for approximately one year, to calculate a new five-year average of pretax income from continuing operations. The average pretax income for the year under audit used in the second projection had the effect of increasing the average historical earnings by approximately four percent. Under this projection, the Firm noted that it was more likely than not the issuer would use the NOLs, before their expiration, except for an amount the Firm considered immaterial.

The Firm failed to perform sufficient procedures to test the valuation of deferred tax assets. Specifically, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed procedures to test the issuer's quarterly income projection used in the second projection to estimate realization of the deferred tax asset. In addition, there was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had performed procedures to support the assumptions that (1) the quarterly income projection provided by the issuer for one quarter and (2) the pretax income for the year under audit used by the Firm, would likely recur during the ten-year period used in the Firm's projection. (AU 342, paragraphs .04 and .09)

Somerset previously submitted a letter dated May 14, 2014, providing numerous additional projections, consideration of assumptions used and a discussion of substantive detail testing performed by the audit team which supported assumptions used in the various projections. The aforementioned concerns outlined by the PCAOB inspection team do not include consideration of the contents contained within our letter dated May 14, 2014. Our position is substantially the same as that described within this prior letter and we respectfully request the PCAOB to reconsider their position.

Historically, Issuer A has always utilized its net operating losses before expiring. Of the six remaining net operating loss years, only one is in question per our original analysis, originating in 2000 and expiring in 2020. Please understand that the two projections referenced by the inspection team are overly simple and conservative, omitting a number of assumptions that would be ordinary and customary in a projection model that extends to 2020 and beyond. For instance, the first projection utilizes taxable income of $2.6 million for all years between 2014 and 2020. However, this theoretically projects a decline in taxable income for future years as the time value of money concept time value of money concept was not included as Somerset originally decided to perform a high level, simple analysis first, before building more elaborate projection models, to determine if such calculations were necessary. Thus, Somerset provided a revised estimate assuming actual growth to be flat (meaning no change in number of franchisees or licensees, or amount of product sold by franchisees or licensees), but that today's $2.6 million of taxable income will escalate in future years by normal inflation (as vendor price increases over time will be passed on to franchisees and licensees, who will in turn raise their prices, resulting in increased royalties due to Issuer A). As a result, Issuer A is projected to utilize all of its net operating losses generated in 2020 before expiration, considering only an inflationary factor. Our May 14, 2014, letter to the PCAOB, described this analysis in more detail along with other assumptions that should be considered and the related substantive detail testing performed. Somerset did not develop a full estimate range regarding annual, future taxable income, instead preferring to remain conservative in our independent assessment of management's calculations. Our conclusion at the end of this narrative response presents a range of taxable income and summarizes which assumptions were or were not utilized for each calculation. If all assumptions were utilized within one calculation, then the high end of the taxable income estimate range could be established, but was not considered necessary to assess and conclude on the valuation of deferred tax assets. For your convenience, we are providing below in its entirety, and through the end of this letter, our previous discussion regarding the valuation of deferred tax assets.

AU Section 342.10 states "In evaluating reasonableness, the auditor should obtain an understanding of how management developed the estimate. Based on that understanding, the auditor should use one or a combination of the following approaches:

a. Review and test the process used by management to develop the estimate.
b. Develop an independent expectation of the estimate to corroborate the reasonableness of management's estimate.
c. Review subsequent events or transactions occurring prior to the date of the auditor's report."

Management of the issuer develops its estimate of future taxable income and consideration of a valuation allowance based upon its knowledge and experience of past and current events and its assumptions about conditions it expects to exist and courses of action it expects to take. To assess the realization of the issuer's deferred tax asset, generated from net operating losses ("NOLs") originating in 1998 through 2001, 2008 and 2013, Somerset developed a range of projected future annual taxable income of $2.6 million to $3.28 million, considering both subjective and objective factors and with an attitude of professional skepticism. These estimates were primarily based upon growth related to the stand-alone take-n-bake franchise product line ("TNB") alone, and conservatively assumed no growth to the other major product lines in future periods (i.e. non-traditional units and grocery store take-n-bake license agreements). The 2013 royalty revenues and related initial franchise fees and equipment commissions were subjected to other substantive audit procedures (i.e. revenue to deposit test that compared recognized revenues to cash receipts after accounting for certain reconciling items) and substantive analytical procedures throughout the four quarterly reviews.

Somerset also considered both positive and negative evidence to develop its independent estimates. Negative evidence consists of the following:

- Attrition – The issuer does have attrition; however, historically the issuer has had net gains in terms of number of units in each of the product lines it actively promotes (i.e. non-traditional units, grocery store license agreements and TNB). One of the following scenarios does include an assumption of growth in terms of number of TNB units added primarily/conservatively based on a historical trend (twelve additional units from April to December 2014) rather than the total number of agreements signed for which franchisee operations have not yet commenced (thirty-one units within the backlog at May 5, 2014). Any possible attrition within the existing stores would be at a minimum, offset against the additional signed units (nineteen) not considered in Somerset's estimate below. Somerset could have projected attrition, but could have also projected the additional new units based upon signed agreements, which would most likely far exceed any possible attrition. As such, Somerset's conservative approach of twelve net additions was determined to be a reasonable assumption.

- Discontinued operations – The issuer made the decision in late 2008 to discontinue certain aspects of its traditional unit product line that is more fully described within previous Form 10-K filings with the Securities and Exchange Commission ("SEC"). The issuer recognized additional expenses related to these same discontinued operations from 2010 to 2013. Somerset discussed the potential for future losses from these discontinued operations with management, who represented no significant amounts were expected. Somerset corroborated management's representation through extensive, substantive detail testing of the balance sheet noting no significant asset balances or potential for unrecorded liabilities related to traditional franchise units. Thus, the losses from discontinued operations were not included in the historical pre-tax earnings used as a baseline for the analysis of deferred tax assets and corresponding realization of NOLs.

- Bad debt write-offs specifically related to traditional franchisees involved in the Heyser class action lawsuit – This particular lawsuit originated in June of 2008, and is more fully described within previous Form 10-K filings with the SEC. Receivables from these specific, unique franchisees were recorded in prior years for amounts due under terms of the traditional franchise agreements, and portions thereof were written off in 2012 and 2013 as new facts and circumstances were discovered. The most recent event was a jury determination of the amount due to the issuer. Although the issuer believes it is entitled to and can collect additional amounts from the former franchisees based upon the due diligence it has performed, it has reduced the receivable to $1.3 million in accordance with the court ruling. Management does not expect any further amounts to be written off. Although the issuer has had a history with write-offs related to traditional franchisee receivables, it has not experienced similar losses with respect to the product lines it is actively promoting (i.e. non-traditional units, grocery store license agreements and TNB). This is primarily because traditional units are much more capital intensive to sustain a full stand-alone restaurant (e.g. franchisee is responsible for full kitchen, restrooms, seating area, signage and other leasehold improvements), and its costs of operation do not translate to non-traditional settings (small floor space carved out of existing revenue source such as a convenience store, bowling alley, entertainment center, etc.), grocery stores (floor space within deli section) or TNB (assembly line only). Per extensive, substantive detail testing, there are no material, outstanding receivables from traditional franchisees, except for those involved in the Heyser class action lawsuit. Thus, the unusual bad debt write-offs related to these specific traditional franchisees were not included in the historical pre-tax earnings used as a baseline for the analysis of deferred tax assets and corresponding realization of NOLs.

Positive evidence consists of the following:

- TNB product line – The issuer developed a new product line in October 2012. This product line does not compete with the issuer's other product lines, even if located within the same geographical territory as it markets/attracts a different consumer base. Revenues were $10 thousand and $310 thousand for the years ended December 31, 2012 and 2013, respectively. At December 31, 2013, only two units operated for a full year, while another twenty units operated for various partial periods when considering each store's opening date. On average, the issuer has steadily added four such units per quarter from October 2012 through March 2014. Each unit provides approximately $7,500 of royalties per quarter on average. Each additional unit also provides $15 thousand of initial, one-time franchise fees and approximately $5 thousand of commissions from approved vendors that franchisees purchase the requisite equipment from.

- Market perception of future earnings power and management's projections for 2014 – With the PCAOB's focus on the negative evidence, all of which was considered by Somerset as previously discussed, the significance of the recent TNB product development was largely overlooked. The product was introduced late in 2012 and as expected with any start-up enterprise, started slowly but has steadily gained momentum and traction with investors in the stock market, franchisees and consumers. The following table sets forth for the periods indicated, the high and low bid prices per share of common stock as reported by Nasdaq. The table clearly indicates that there is a direct correlation between stock price and TNB units reported within the quarterly and annual filings with the SEC.

	Stock Price		Reported TNB Units		
Quarter Ended	Low	High	Operating	Backlog	Total
12/31/11	$ 0.55	$ 0.92	0	0	0
03/31/12	$ 0.50	$ 0.80	0	0	0
06/30/12	$ 0.51	$ 0.65	0	0	0
09/30/12	$ 0.61	$ 0.79	0	2	2
12/31/12	$ 0.63	$ 0.82	2	9	11
03/31/13	$ 0.72	$ 1.07	3	8	11
06/30/13	$ 0.78	$ 1.17	8	13	21
09/30/13	$ 1.22	$ 1.71	16	21	37
12/31/14	$ 1.40	$ 1.99	22	33	55
03/31/14	$ 1.36	$ 2.25	26	31	57

As such, both the market and management anticipate significant growth within the TNB product line. Accordingly, management provided the following internal business plan for 2014 which it believes is the realistic outlook for 2014 with pre-tax earnings of $4.9 million, with anticipated results for 2015 and beyond to continue building upon the success of 2014. However, for financial reporting purposes, management maintained a conservative approach using $2.9 million pre-tax earnings (Analysis #1) to assess the realization of current and long-term deferred tax assets, which is discussed more fully later in this memo.

ISSUER A
BUSINESS PLAN FOR 2014 BASED ON ASSUMPTIONS

Royalties and fees from non-traditional franchises other than grocery stores	$ 4,515,000
Royalties and fees from grocery store take-n-bake locations	1,460,275
Royalties and fees from traditional locations	313,000
Royalties and fees from stand-alone locations	1,548,000
Restaurant revenue	421,000
Upfront fees and commissions	1,580,000
Total revenue	9,837,275
Total operating expenses	4,720,000
Operating income	5,117,275
Interest and other expense	183,900
Net income before taxes	4,933,375
Income taxes	1,954,110
Net income	$ 2,979,265
Earnings per share	$ 0.15
Earnings per share before taxes	$ 0.25

Management's Assumptions:

- Royalties and fees from non-traditional locations other than grocery stores will grow modestly in 2014 at approximately 5% in volume.
- For royalties and fees from grocery store take-n-bake locations based on the new upgrades to packaging and additional products, management is assuming a 12% growth rate although, based on recent interest from a number of large distributors that could go up dramatically.

- Royalties and fees from traditional locations are assumed to be the same thing in 2014 as they were in 2013. Management is not aware of anything that would be a significant change barring a major change in the economy.
- Royalties and fees from stand-alone take-n-bake locations is the hardest to project because of the limited number in operation. As of year-end, there were approximately 20 and management expects, based on already sold units and current flow of new leads, to open 50 during the course of the year weighted more heavily in the last half, therefore, management is assuming an average of 36 open for the full year. Management is also assuming revenue to Issuer A from the stand-alone take-n-bakes equal to the average revenue per unit in the third and fourth quarter of 2013, although if the test of adding ovens is successful, as management thinks it will be, that revenue per unit could be significantly higher.
- Revenue and expense for the two Company test units is projected to be the same in 2014 as it was in 2013 as there is no reason that management knows of to expect any different results.
- Upfront fees and commissions are based on the following assumptions: The Company signs 75 agreements for new stand-alone locations in 2014 and opens 50 new stand-alone locations. The Company gets a $15,000 upfront fee for signing a new agreement and earns approximately $3,000 in commissions each time one opens. In upfront fees from non-traditional management is assuming the Company signs agreements for 50 non-traditional locations with 35 of those being licenses and 15 being franchises and opens 50 locations based on the fact that the Company had a backlog of agreements signed but not opened at the end of 2013 and assuming the Company will have about the same number of those at the end of 2014. The Company also averages approximately $2,200 in commissions on each non-traditional location that opens.
- Total operating expenses in 2013 were $4.68 million. Management is assuming operating expenses of $4.72 million in 2014. Included in the 2013 operating expenses was amortization of the value of stock options of $117,118, which should only be approximately $35,614 in 2014. This means all other operating expenses could increase by approximately $121,500 and still be $4.72 million.
- Interest expense is assumed to be $153,000 cash interest plus amortization of loan closing cost of $30,900, or a total expense of $183,900 based on the assumption that interest rates will remain the same and the Company continues to make only the required monthly principal payments on both loans.

- Management time and resources – As previously discussed, the Heyser lawsuit originated in June 2008 and has necessitated a significant investment of time and resources by management to successfully defend the issuer's position. With the aforementioned court ruling, the lawsuit is nearing its conclusion and management will have the capacity to refocus their available time and resources into business development.

<u>Analysis #2 (original $2.6 million annual taxable income estimate):</u>

The low-end of Somerset's developed range was designed to only account for an average of the five most recent periods' pre-tax income, adjusted for the negative evidence previously discussed which is not expected to continue into future periods. The results indicated that approximately $765 thousand of NOLs, or approximately $300 thousand of deferred tax assets, generated in 2000 may expire before the issuer could utilize in 2021. However, this calculation is very simplistic and does not account for historical trends (growth and/or inflation), time value of money or changes in facts or circumstances that could have an impact upon future earnings. Therefore, additional analysis was done, and this considered one end of a range of several estimates that were completed.

Original schedule of future utilization of existing NOLs (simple calculation):

			NOL's to be utilized in year:										
Year Originated	Year Expires	Federal NOL	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1998	2018	3,319,435		(2,600,000)	(719,435)	-	-	-					
1999	2019	7,616,302		-	(1,880,565)	(2,600,000)	(2,600,000)	(335,737)	-				
2000	2020	7,999,348		-	-	-	-	(2,064,263)	(2,600,000)	(2,600,000)	(735,085)		
2001	2021	1,609,718		-	-	-	-	-	-	-	(1,609,718)		
2008	2028	4,176,416		-	-	-	-	-	-	-	(255,197)	(2,600,000)	(1,321,219)
2013	2033	352,390		-	-	-	-	-	-	-	-	-	(352,390)
		23,073,609		(2,600,000)	(2,600,000)	(2,600,000)	(2,600,000)	(2,600,000)	(2,600,000)	(2,600,000)	(2,600,000)	(2,600,000)	(1,673,609)

<u>Analysis #3 (original $2.6 million annual taxable income estimate revised for inflation):</u>

Since the potential for expired NOLs occurs eight years after 2013, a reasonable assumption would be to include an inflation factor to normalize earnings relative to the overall economy as $2.6 million of taxable income generated in 2021 would represent fewer earnings than $2.6 million generated in today's dollars. Average annual inflation from 2010 through March 2014 has ranged from 1.5% to 3.2% per www.usinflationcalculator.com/inflation/current-inflation-rates/.

Revised schedule of future utilization of existing NOLs (with 1.5% annual inflation):

			NOL's to be utilized in year:										
Year Originated	Year Expires	Federal NOL	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
1998	2018	3,319,435		(2,640,000)	(679,435)	-	-	-					
1999	2019	7,616,302		-	(2,000,565)	(2,720,000)	(2,760,000)	(135,737)	-				
2000	2020	7,999,348		-	-	-	-	(2,664,263)	(2,840,000)	(2,495,085)	-		
2001	2021	1,609,718		-	-	-	-	-	-	(384,915)	(1,224,803)		
2008	2028	4,176,416		-	-	-	-	-	-	-	(1,695,197)	(2,481,219)	-
2013	2033	352,390		-	-	-	-	-	-	-	-	(352,390)	-
		23,073,609		(2,640,000)	(2,680,000)	(2,720,000)	(2,760,000)	(2,800,000)	(2,840,000)	(2,880,000)	(2,920,000)	(2,833,609)	

Utilizing a conservative inflation factor at the low-end of the range discussed above, the revised analysis indicates that more likely than not, the issuer should generate enough taxable income to utilize existing NOLs before they expire.

In addition, the issuer's recent trend analysis from 2010 through 2013 further supports a 1.5% annual growth in pre-tax earnings as presented in the following table. This schedule assumes no changes to 2010 pre-tax income in future years, except for a 1.5% annual increase for inflation and compares to actual results for the 2011 through 2013 calendar year-ends, resulting in an immaterial variance, supporting the reasonableness of this approach and future income estimates.

	Actual	2010 Results Adjusted for Inflation of 1.50%	Variance
2010 Pre-Tax Income	2,502,000	2,502,000	
2011 Pre-Tax Income	2,532,000	2,540,000	
2012 Pre-Tax Income	2,402,000	2,578,000	
2013 Pre-Tax Income	2,648,000	2,617,000	31,000

Analysis #4 (original $2.6 million annual taxable income estimate revised for changes in borrowing costs):

Finally, the low-end of Somerset's developed range does not factor a significant event that occurred in 2012 that affects the comparable results of prior years in consideration of future earnings. In May 2012, the issuer refinanced its then current debt obligations owed to Wells Fargo Bank and an executive officer of the Company, with BMO Harris Bank, which resulted in significantly reducing the Company's borrowing costs. For 2012 and prior years, interest expense approximated $400 thousand or more, while interest expense in 2013 was approximately $200 thousand. Thus, the adjusted average pre-tax income for 2010 to 2013 would approximate $2.7 million instead of $2.6 million as originally portrayed (or $2.8 million if also including 2009). As noted above, if the Company generates at least $2.7 million annually in income, the NOL's more likely than not would be utilized.

Analysis #5 (original $2.7 million annual taxable income estimates) and
Analysis #6 (original $3.28 million annual taxable income estimate):

The second amount independently developed by Somerset only accounted for a modest or conservative amount of growth over the baseline of $2.6 million previously discussed. This calculation also did not factor inflation or the prior years' heavily weighted borrowing costs that have been significantly reduced under current debt terms with a bank. The $2.7 million figure was derived by projecting 2014 earnings of $3.28 million (the third original, independent estimate and high-end of range which addressed management's 2014 estimate of $2.9 million) and re-averaged the projected 2014 with the prior four years. As a result, the estimate was still heavily weighted on historical results.

Analysis #7 (revised estimate projecting growth for existing TNB franchisees only) and
Analysis #8 (Analysis #7 plus projected growth in number of TNB units):

Furthermore, the $932 thousand of "additional revenues" referenced by the PCAOB's (previously communicated) comments actually represent same store sales for TNB franchisees existing at December 31, 2013, but for a full year. For example, a franchisee introduced on October 1, 2013, would generate approximately $7,500 of royalties for the year ended December 31, 2013, but would generate $30 thousand of royalties for the year ended December 31, 2014, under an assumption that the franchisee operates as normally expected under the terms of the signed franchise agreement. Through other substantive procedures (e.g. cash receipts) and substantive analytical procedures during our quarterly reviews and year-end audit, Somerset assessed the $310 thousand of TNB revenues and determined to be materially reasonable with respect to existence, accuracy and collectability, which is the underlying basis for the projected 2014 results. The projected growth primarily represents static revenues per franchisee, but over a full year rather than partial period, and does not represent growth in terms of new units or franchisees. To more clearly present the projected TNB revenues and overall pre-tax earnings, Somerset prepared the following analysis. Also of note and key to the assumptions is that additional revenues do not normally necessitate any increase in expenditures. The issuer's operating costs are primarily fixed as majority of revenues are generally passive rights to receive royalties, distributor or manufacturer rebates or equipment commissions. The majority of costs related to a franchisor is primarily related to revenue lead generation or are administrative in nature, neither of which is dependent upon the number of existing franchisee relationships.

Per Forms 10-Q and 10-K					Somerset Calculation				
					EXISTING STORES	PROJECTED 2014 ADDITIONS			PROJECTED
Period	Revenues Quarterly	Revenues Cumulative	Units	Average TNB Units Opened per Quarter	Average Quarterly Royalties per Unit	Q2	Q3	Q4	Annual
2012 Q4	$ 10,000	$ 10,000	2		$ 10,000				
2013 Q1	$ 24,000	$ 24,000	3		$ 9,600				
2013 Q2	$ 53,000	$ 77,000	8		$ 9,636				
2013 Q3	$ 87,000	$ 164,000	16		$ 7,250				
2013 Q4	$ 146,000	$ 310,000	22		$ 7,684				
2014 Q1	$ 179,000	$ 179,000	26 (A)	4	$ 7,458				
Average TNB Royalties per Unit [using only three most recent quarters for conservatism]					$ 7,500	$ 7,500	$ 7,500	$ 7,500	
Annualize Quarterly Results				(A)	4	3	2	1	
2014 Annual TNB Royalties Projected per Indvidual Store					$ 30,000	$ 22,500	$ 15,000	$ 7,500	
Amount of TNB Units					26	4	4	4	38
2014 Annual TNB Royalties Projected for All Stores					$ 780,000	$ 90,000	$ 60,000	$ 30,000	$ 960,000
+ Initial Franchise Fee of $15K per new TNB unit [four in 2014 Q1]					$ 60,000	$ 60,000	$ 60,000	$ 60,000	$ 240,000
+ Equipment Commissions on four new TNB units in 2014 Q1 [historically approximates $5K per new TNB unit]					$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 80,000
2014 TNB Revenues (based upon historical results)					$ 860,000 (B)	$ 170,000	$ 140,000	$ 110,000	$ 1,280,000 (C)
2013 Pre-Tax Income [normalized]					$ 2,648,000				$ 2,648,000
- 2013 TNB Royalties					$ (310,000)				$ (310,000)
- Initial Franchise Fee of 15K per New TNB Unit [twenty in 2013]					$ (300,000)				$ (300,000)
- Equipment Commissions on twenty new TNB units					$ (100,000)				$ (100,000)
2013 Pre-Tax Income, excluding TNB revenues					$ 1,938,000				$ 1,938,000
+ 2014 TNB Revenues				(B)	$ 860,000				(C) $ 1,280,000
					$ 2,798,000				$ 3,218,000
Rounding									
2014 Projected Pre-Tax Income with TNB					$ 2,800,000				$ 3,200,000

The above analysis begins with a determination of quarterly revenues by TNB franchisee using historical results from inception of product line in October 2012 through March of 2014. All of the quarterly royalties and number of units are disclosed within the 10-Q and 10-K filings with the SEC and have been subjected to Somerset's review and audit procedures as previously described, including the $310 thousand of royalty revenues for the year ended December 31, 2013. As presented in the table, the same twenty-two stores that generated $310 thousand of royalty revenues over a partial period in 2013, plus four additional units that began in 2014, should provide $780 thousand of 2014 revenues assuming same store franchisee sales and corresponding royalties to the issuer remain consistent for a full twelve months. This scenario assumes no growth within the franchisees' operations which would benefit the issuer, no growth in terms of new units and no growth within the issuer's other product lines (i.e. non-traditional units and grocery store license agreements). In addition, the four new units which began in

2014 would also contribute $15 thousand of initial franchisee fees and approximately $5 thousand of equipment commissions received by the issuer for each signed franchise agreement. In total, revenues for the year ended December 31, 2014 should approximate $860K related to TNB stores existing at December 31, 2013 and March 31, 2014. Furthermore, this table reflects a historical average increase of four new units per quarter. Assuming this trend continues, the issuer will have thirty-eight TNB units at December 31, 2014. As of May 5, 2014, the issuer has fifty-seven sign agreements with twenty-six operating units and thirty-one units in its backlog, so assumption of twelve additional units (based on historical trends) is reasonable and conservative. Under the assumption that revenues will be consistent with existing stores, and for partial years only, 2014 revenues related only to TNB should approximate $1.28 million. The $932 thousand figure referenced by the PCAOB and calculated by Somerset using a slightly different methodology would fall in the range of $860 thousand (existing units) to $1.28 million (projected units) discussed above.

The above analysis also projects pre-tax income for 2014 by removing all TNB revenues from 2013 earnings and adding 2014 TNB revenues as discussed above. The $2.9 million figure referenced by the PCAOB and calculated by the issuer using a slightly different methodology would fall in Somerset's independently calculated range of $2.8 million (assumption that royalties are consistent on a weekly basis for twelve months for existing stores, and no growth in franchisee revenues or in terms of new units to the issuer) to $3.2 million discussed above (assumes new units for April 2014 through December 2014 follows trend of prior six quarters).

Conclusion:

A minimum of $2.7 million annual taxable earnings in future years is necessary to fully utilize the NOLs and deferred tax asset recorded at December 31, 2013. Somerset developed a range of taxable earnings as follows:

- Analysis #2 (original estimate of $2.6 million) is the result of a very simplistic approach that does not account for historical trends (growth and/or inflation), time value of money or changes in facts or circumstances that could have an impact upon future earnings (e.g. changes in borrowing costs). This approach resulted in potential lost NOLs of approximately $735 thousand, or $300 thousand of deferred tax assets. Because a simplistic approach was taken for this particular analysis, more in depth analysis was completed. All subsequent analysis resulted with materially all NOLs and corresponding deferred tax assets being fully utilized.

- Analysis #3 (revised estimate of $2.6 million) adjusted annually only for a conservative inflation rate of 1.5% (taxable income escalating to approximately $2.9 million in 2021), which was supported both by recent inflation studies and recent trends by the issuer. This approach does not consider additional assumptions for growth, changes in borrowing costs or other factors.

- Analysis #4 (revised estimate of $2.6 million) adjusted for only for changes in borrowing costs during the historical period being averaged would result in adjusted pre-tax earnings of $2.7 million. This approach does not consider additional assumptions for inflation, growth or other factors.

- Analysis #5 (original estimate of $2.7 million) which projected $3.28 million for 2014 and re-averaged with prior four years to conservatively project $2.7 million of taxable income annually and consistently in future years. This approach does not consider additional assumptions for inflation, changes in borrowing costs and is more heavily weighted towards historical results rather than projections.

- Analysis #7 (revised estimate of $2.8 million) which projects taxable earnings for 2014 for existing franchisees only. This approach assumes no growth in terms of number of units or franchisee operations (which yield royalties), inflation or other factors.

- Analysis #1 (original management estimate of $2.9 million), and assessed with the two following independent calculations by Somerset.

- Analysis #8 (revised estimate of $3.2 million) which projects taxable earnings for 2014 similar to the immediately preceding $2.8 million revised estimate, except it includes growth in the number of units similar to the prior six quarters. This approach assumes no growth in terms of number of units beyond 2014, no growth in franchisee operations, inflation or other factors.

- Analysis #6 (original estimate of $3.28 million) which projects taxable earnings for 2014 only. This approach does not consider growth beyond 2014, inflation, changes in borrowing costs or other factors.

The estimated range of future taxable income has been conservatively developed and other than instances considering inflationary projections, does not project any growth beyond 2014 or within its various other product lines despite management's additional capacity for business development with a significant event (lawsuit) nearing conclusion. The single estimate within the range that indicates a possible valuation allowance is devoid of many facts and circumstances necessary to understand historical results and project into the future (e.g. changes in borrowing costs and revenue momentum from new product line), which is considered in subsequent and additional analysis noted above.

As such, Somerset concludes that it has complied with AU 342, *Auditing Accounting Estimates* by developing an independent expectation of the estimate to corroborate the reasonableness of management's estimate as specifically stated in AU 342.10b. Furthermore, the baseline of the projections was historical in nature subject to both substantive analytical procedures and other substantive procedures, and was adjusted after consideration of both negative and positive evidence (although conservatively limited).

Thank you for reviewing our response and please contact us if you have any questions or concerns.

Sincerely,

Somerset CPAs, P.C.

SOMERSET CPAs, P.C.
Certified Public Accountants

APPENDIX A

AUDITING STANDARDS REFERENCED IN PART I

This Appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this Appendix, and any other Notes, are from the original auditing standards that are referenced. While this Appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at http://pcaobus.org/STANDARDS/Pages/default.aspx.

AS No. 14, Evaluating Audit Results		
EVALUATING THE RESULTS OF THE AUDIT OF FINANCIAL STATEMENTS		
Evaluating the Presentation of the Financial Statements, Including the Disclosures		
AS No. 14.30	The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework. Note: AU sec. 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles,* establishes requirements for evaluating the presentation of the financial statements. Auditing Standard No. 6, *Evaluating Consistency of Financial Statements,* establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements. Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.	Issuer A

AS No 14.31	As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth. Note: According to AU sec. 508, if the financial statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing standard.	Issuer A

AU Section 342, Auditing Accounting Estimates		
EVALUATING ACCOUNTING ESTIMATES		
Evaluating Reasonableness		
AU 342.04	The auditor is responsible for evaluating the reasonableness of accounting estimates made by management in the context of the financial statements taken as a whole. As estimates are based on subjective as well as objective factors, it may be difficult for management to establish controls over them. Even when management's estimation process involves competent personnel using relevant and reliable data, there is potential for bias in the subjective factors. Accordingly, when planning and performing procedures to evaluate accounting estimates, the auditor should consider, with an attitude of professional skepticism, both the subjective and objective factors.	Issuer A
AU 342.09	In evaluating the reasonableness of an estimate, the auditor normally concentrates on key factors and assumptions that are— a. Significant to the accounting estimate. b. Sensitive to variations. c. Deviations from historical patterns. d. Subjective and susceptible to misstatement and bias. The auditor normally should consider the historical experience of the entity in making past estimates as well as the auditor's experience in the industry. However, changes in facts, circumstances, or entity's procedures	Issuer A

	may cause factors different from those considered in the past to become significant to the accounting estimate.	