

# **TATA TEA EXTRACTIONS, INC.**

**PLANT CITY, FL**

**Financial Statements**

**For the years ended March 31, 2017 and 2016**

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**Baggett, Reutimann & Associates, CPAs, PA**  
**Certified Public Accountants**

**TATA TEA EXTRACTIONS, INC.  
PLANT CITY, FL. 33566**

**TABLE OF CONTENTS**

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT.....</b>	<b>1</b>
 <b>COMPARATIVE FINANCIAL STATEMENTS</b>	
<b>Balance Sheet.....</b>	<b>3</b>
<b>Statement of Earnings and Retained Earnings.....</b>	<b>4</b>
<b>Statement of Cash Flows.....</b>	<b>5</b>
<b>Notes to the Financial Statements.....</b>	<b>6-10</b>



Judson B. Baggett | 6815 Dairy Road  
MBA, CPA, CVA, Partner | Zephyrhills, FL 33542  
Marci Reutimann | (813) 788-2155  
CPA, Partner | (813) 782-8606

## INDEPENDENT AUDITORS' REPORT

May 5, 2017

Board of Directors and Stockholders  
of Tata Tea Extraction, Inc.  
Plant City, FL

We have audited the accompanying financial statements of Tata Tea Extractions, Inc., a Florida corporation, which comprises the balance sheets as of March 31, 2017 and 2016, and the related statements of income, retained earnings, 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.

### AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with standards generally accepted in the United States of America. 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 Tata Tea Extractions, Inc., as of March 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Respectfully submitted

  
Baggett Reutimann, & Associates, CPAs, PA  
Certified Public Accountants

## TATA TEA EXTRACTIONS, INC.

## BALANCE SHEETS

MARCH 31,ASSETS

	<u>2017</u>	<u>2016</u>
<b>CURRENT ASSETS</b>		
Cash	\$ 124,135	\$ 833,280
Accounts Receivable - Trade	2,793,908	1,115,355
Inventory	3,902,852	4,157,515
Deferred Tax Asset	61,356	65,910
Total Current Assets	<u>6,882,251</u>	<u>6,172,060</u>
<b>PROPERTY, PLANT, AND EQUIPMENT, Net of</b>		
Accumulated Depreciation of		
\$2,216,752 (2017) and \$2,156,300 (2016)	750,009	602,949
<b>OTHER ASSETS</b>		
Loan Closing Cost - Net of		
Accumulated Amortization	15,061	30,736
Investment in Affiliated Company	43,574,877	43,574,877
Total Other Assets	<u>43,589,938</u>	<u>43,605,613</u>
<b>TOTAL ASSETS</b>	<u>\$ 51,222,198</u>	<u>\$ 50,380,622</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	\$ 127,500	\$ 812,656
Accounts Payable and Accrued Liabilities	2,079,070	2,248,187
Income Taxes Payable	42,815	110,866
Total Current Liabilities	<u>2,249,385</u>	<u>3,171,709</u>
<b>LONG-TERM DEBT, Net of Current Portion</b>	<u>1,498,125</u>	<u>1,625,625</u>
Total Liabilities	<u>3,747,510</u>	<u>4,797,334</u>
<b>STOCKHOLDER'S EQUITY</b>		
Common Stock, \$1 Par Value; 50,000,000		
Shares Authorized, 14,000,000 Shares		
Issued and Outstanding	14,000,000	14,000,000
Retained Earnings	33,474,688	31,583,288
Total Stockholder's Equity	<u>47,474,688</u>	<u>45,583,288</u>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S</b>		
<b>EQUITY</b>	<u>\$ 51,222,198</u>	<u>\$ 50,380,622</u>

The Accompanying Notes are an Integral Part of These Financial Statements

TATA TEA EXTRACTIONS, INC.  
STATEMENTS OF EARNINGS AND RETAINED EARNINGS  
FOR THE YEARS ENDED MARCH 31,

	<u>2017</u>	<u>2016</u>
<b>INCOME</b>		
Sales	\$ 15,333,939	\$ 14,427,264
<b>EXPENSES</b>		
Cost of Goods Sold	11,488,761	11,197,898
Operating Expenses, General and Administrative and Marketing Expenses	<u>893,137</u>	<u>973,841</u>
Total Expenses	<u>12,381,898</u>	<u>12,171,739</u>
<b>EARNINGS FROM OPERATIONS</b>	2,952,041	2,255,525
<b>OTHER INCOME AND EXPENSE</b>		
Dividends	-	1,000,035
Interest Expense	<u>(56,774)</u>	<u>(89,450)</u>
Total Other Income and Expense	<u>(56,774)</u>	<u>910,585</u>
<b>EARNINGS BEFORE PROVISION FOR INCOME TAXES</b>	2,895,267	3,166,110
<b>LESS PROVISION FOR INCOME TAXES</b>	<u>1,003,867</u>	<u>887,002</u>
<b>NET EARNINGS</b>	1,891,400	2,279,108
Retained Earnings, April 1	31,583,288	30,194,180
Dividends Paid	<u>-</u>	<u>(890,000)</u>
Retained Earnings, March 31	<u>\$ 33,474,688</u>	<u>\$ 31,583,288</u>

The Accompanying Notes are an Integral Part of These Financial Statements

TATA TEA EXTRACTIONS, INC.  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED MARCH 31,

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Earnings	\$ 1,891,400	\$ 2,279,108
Adjustments to Reconcile Net Earnings to Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	90,234	57,675
Decrease (Increase) In:		
Accounts Receivable - Trade	(1,678,553)	243,422
Inventory	254,663	(283,013)
Deferred Tax Asset	4,554	21,336
Increase (Decrease) In:		
Accounts Payable	(169,117)	1,358,333
Income Taxes Payable	(68,051)	15,374
Net Cash Provided by Operating Activities	325,130	3,692,235
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Property Plant and Equipment	(221,619)	(206,038)
Net Cash (Used) By Investing Activities	(221,619)	(206,038)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net Increase (Decrease) in Short-Term Debt	-	(363,721)
Repayment of Long-Term Debt	(812,656)	(1,399,196)
Payment of Cash Dividends	-	(890,000)
Net Cash Provided (Used) by Financing Activities	(812,656)	(2,652,917)
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>(709,145)</b>	<b>833,280</b>
<b>CASH, APRIL 1</b>	<b>833,280</b>	<b>-</b>
<b>CASH, MARCH 31</b>	<b>\$ 124,135</b>	<b>\$ 833,280</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash Paid During the Year For:		
Income Taxes	\$ 1,071,918	\$ 871,628
Interest Expense	\$ 56,774	\$ 89,450

The Accompanying Notes are an Integral Part of These Financial Statements

TATA TEA EXTRACTIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Line of Business

The company was formed on May 29, 1987, as a wholly owned subsidiary of Tata Tea, Limited (a corporation of India). The company imports instant tea powders from the parent company for distribution in the U.S. These powders will be sold both in the condition received or further processed in the company's facilities.

Cash and Cash Equivalents

For the purposes of reporting cash flows, cash and cash equivalents included cash on hand, amounts due from banks, and overnight time deposits.

Inventory

Inventory is valued at the lower of cost or net realizable value, with cost being determined on the first-in first-out basis. Inventory may be sold in the condition in which it is imported or processed further.

Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from balances outstanding. Based on management's assessment of the credit history with customers having outstanding balances and current relationships with them, it has concluded that realization losses on balances outstanding will be immaterial.

Depreciation

Property, plant, and equipment are depreciated on the straight-line basis over estimated useful lives ranging from three to thirty years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

The significant estimates used are estimated useful lives of assets and inventory valuation.

Income Taxes

The Company has adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". The asset and liability approach requires the recognition of deferred tax assets and liabilities for expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes.



TATA TEA EXTRACTIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

NOTE 2: SIGNIFICANT CUSTOMERS

As of March 31, three customers accounted for approximately 94.48% (2017) and 87.6% (2016), of the total outstanding accounts receivable. One customer accounted for 63.5% of the receivables in 2017.

NOTE 3: PROPERTY, PLANT, AND EQUIPMENT

The property, plant, and equipment are recorded at cost and consisted of the following as of March 31:

	<u>2017</u>	<u>2016</u>
Buildings	\$ 765,288	\$ 592,786
Machinery and Equipment	1,646,529	1,611,519
Autos	122,773	122,773
Furniture and Fixtures	159,688	159,688
Non-Factory Building	<u>167,238</u>	<u>167,238</u>
 Total Depreciable Assets	 2,861,516	 2,654,004
Less, Accumulated		
Depreciation	<u>2,216,752</u>	<u>2,156,300</u>
Net Depreciable Assets	644,764	497,704
Land	<u>105,245</u>	<u>105,245</u>
Net Property, Plant and		
Equipment	<u>\$ 750,009</u>	<u>\$ 602,949</u>
 Depreciation Expense	 <u>\$ 74,559</u>	 <u>\$ 48,261</u>

NOTE 4: INVESTMENT IN AFFILIATED COMPANY

The company acquired an approximate 14% ownership in an affiliated holding company that acquired a world-wide tea distribution company during the year ended March 31, 2000. The cost of this acquisition was \$15,797,000.

During the year ended March 31, 2007, the investment company had the opportunity to invest in several additional beverage companies. Due to these acquisitions, the company invested an additional \$27,777,877 in the investment company. This additional investment was funded by a capital contribution from the shareholder of \$13,000,000 and new debt of \$14,000,000. Due to the size of the acquisitions and other investors purchasing additional shares in the holding company, the company's ownership percentage decreased to approximately 11%.

The company did not receive any dividend payment in 2017; in 2016 the company did receive \$1,000,035 as a dividend payment after foreign exchange.

Management does not believe there has been any impairment to the carrying value of the investment.

TATA TEA EXTRACTIONS, INC.  
 NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

NOTE 5: SHORT-TERM DEBT

During the year ended March 31, 2010, the company entered into a revolving working capital note with a regional bank. During December 2015, this note was amended to change the due date to December 9, 2017 and made available to the company \$2,500,000. The note is secured by the company's accounts receivables and inventory. The security on this note is cross collateralized with the term debt detailed in Note 6. Interest is due monthly at the rate of one month LIBOR plus 2.15%. As of March 31, 2017 and 2016 the company did not have an outstanding balance on the line.

NOTE 6: LONG-TERM DEBT

Long-Term Debt consists of the following as of March 31,:

	2017	2016
Note Payable Regional Bank secured by accounts receivable and inventory, interest is payable month at the rate of one month LIBOR plus 2.35%, quarterly principal payments of \$130,648, beginning March 11, 2015 and a final balloon Payment December 11, 2016	\$	\$ 685,156
Mortgage Payable Regional Bank, secured by the company's real estate, interest is payable monthly at the rate of one month LIBOR plus 2.425%, monthly principal payments of \$10,625, beginning January 9, 2015 and a final balloon payment December 9, 2019	<u>1,625,625</u>	<u>1,753,125</u>
Total Long-Term Debt	1,625,625	2,438,281
Less, Current Portion	<u>127,500</u>	<u>812,656</u>
Net Long-Term Debt	<u>\$1,498,125</u>	<u>\$1,625,625</u>

The required principle payments are as follows:

2017	\$	127,500
2018		127,500
2019		1,370,625

The company incurred loan costs for the two term debts that were closed in December 2014, in the amount of \$43,030. These loan costs are being amortized over four years, the expected life of the note and mortgage. Amortization for the year was \$15,675 (2017) and \$9,414 (2016).

TATA TEA EXTRACTIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

NOTE 7: TRANSACTIONS WITH RELATED PARTY

The company purchases substantially all of its tea powders from its parent company and an affiliated company. Accounts payable at March 31, includes amounts due to the parent company Tata Global Beverages, LTD of \$1,423,200 (2017) and \$1,616,650 (2016). All amounts are for the purchase of inventory.

NOTE 8: PENSION PLAN

During the year ended March 31, 1989, the company established a Simplified Employee Pension Plan, whereby the company's Board of Directors will on an annual basis, determine the percentage of eligible employee compensation to be contributed to the plan. All employees with over two years of continuous service after obtaining the age of 21 years old are eligible. For the years ended March 31, the company's directors elected to contribute 5% of eligible compensation or approximately \$55,000 (2017) and \$55,000 (2016) to the plan.

Under a Simplified Employee Pension Plan all funds are invested in individual retirement accounts for the employees. These accounts are 100% vested by the employee as of the date of the contribution.

NOTE 9: INCOME TAXES

Using the applicable federal tax rate of 34% and state tax rate of 5.5% each year for operating profit and a special tax rate of approximately 6% for the dividend received, the tax liabilities are as follows:

	<u>2017</u>	<u>2016</u>
Income tax reconciliation is as follows:		
Expected Federal Tax	\$ 984,391	\$1,076,477
Expected Florida Tax	156,490	116,384
Federal Income Tax Benefit		
For Florida Tax	( 53,207)	( 39,571)
Timing Differences	( 83,807)	( 66,288)
Federal Income Tax Benefit		
For Foreign Tax Assumed Paid on		
Dividends Received		( 200,000)
Net Federal and Florida Income Tax	<u>\$1,003,867</u>	<u>\$ 887,002</u>
Deferred Tax Asset		
Florida Tax	\$ 8,691	\$ 9,357
Federal Tax	52,665	56,553
Total Deferred Tax Asset	<u>\$ 61,356</u>	<u>\$ 65,910</u>

The company has open tax years for the periods ended March 31, 2013, 2014, 2015 and 2016. The company has not been notified by the Internal Revenue Service that its returns are under audit or review. The Florida Department of Revenue has reviewed and closed the years ended March 31, 2013, thereby leaving years 2014, 2015 and 2016 open for review.

TATA TEA EXTRACTIONS, INC.  
NOTES TO THE FINANCIAL STATEMENTS  
MARCH 31, 2017 AND 2016

NOTE 10: FAIR VALUE MEASUREMENTS

The Fair Value Measurements Topic of the FASB Accounting Standards Codification defines fair value, establishes a consistent framework for measuring fair value and expands disclosure requirements for fair value measurements.

The Company measures the fair value of assets and liabilities as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. The fair value hierarchy distinguishes between independent observable inputs used to measure fair values as follows:

*Level 1:* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

*Level 2:* Inputs other than quoted market prices included within Level 1 that are observable for an asset or liability, either directly or indirectly.

*Level 3:* Unobservable inputs for an asset or liability. Level 3 inputs should be used to measure fair value to the extent that observable Level 1 or 2 inputs are not available.

Generally accepted accounting principles require disclosure of an estimate of fair value of certain financial instruments. With the exception of the Investment in Affiliated Company shown in other assets, which is shown at cost, the Company's significant financial instruments are cash, accounts receivable, accounts payable, short-term borrowings and other short-term assets and liabilities. For these financial instruments (Level 1), carrying value approximates fair value because of the short term maturity of these instruments.

NOTE 11: SUBSEQUENT EVENT

Management has evaluated subsequent events through May 5, 2017, the date the financial statements were available to be issued and did not discover any events that should be disclosed.