

**TMT International
Observatory, LLC**

Financial Statements

For the Years Ended December 31, 2017 and 2016

TMT International Observatory, LLC

Index

December 31, 2017 and 2016

	Page(s)
Report of Independent Auditors	1–2
Financial Statements	
Balance Sheets	3
Statements of Activities	4
Statements of Changes in Members' Equity (Deficit)	5
Statements of Cash Flows	6
Notes to Financial Statements	7–16



Report of Independent Auditors

To the Board of Directors of
TMT International Observatory, LLC

We have audited the accompanying financial statements of TMT International Observatory, LLC (the "Organization"), which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of activities, changes in members' equity (deficit), and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 the financial statements based on our audits. We conducted our audits in accordance with auditing 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 our 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, we consider internal control relevant to the Organization'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 Organization'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 TMT International Observatory, LLC as of December 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.

PricewaterhouseCoopers LLP

Los Angeles, CA
May 25, 2018

TMT International Observatory, LLC
Balance Sheets
For the Years December 31, 2017 and 2016

	FY2017	FY2016
Assets		
Cash and cash equivalents	\$ 36,613,167	\$ 44,312,743
Accounts receivable, net	-	42,459
Due from TMT Observatory Corporation	1,920	259,471
Prepaid expenses and other assets	537,263	478,306
Advance - personnel and administrative agreement	-	1,000,000
Property, plant, and equipment, net	64,668,307	48,641,295
Goodwill, net	355,792	472,285
Total assets	<u>\$ 102,176,449</u>	<u>\$ 95,206,559</u>
Liabilities and Members' Equity (Deficit)		
Accounts payable		
Trade creditors	\$ 3,005,115	\$ 2,462,472
Due to TMT Observatory Corporation	1,546	720,941
Due to Caltech	422,792	-
Accrued expenses	1,517	13,336
Community benefits payable	1,081,835	1,056,995
Payroll liabilities	882,793	834,402
Total current liabilities	<u>5,395,598</u>	<u>5,088,146</u>
Long term liabilities		
Community benefits payable	7,912,455	8,870,732
Asset retirement obligations	3,053,270	2,126,189
Deferred lease liabilities	1,824,478	1,481,067
Lease incentive obligation	120,351	158,357
Total liabilities	<u>18,306,152</u>	<u>17,724,491</u>
Commitments and contingencies (Note 3 and 4)		
Members' equity (deficit)		
Contributed capital	150,014,907	125,535,096
In-kind contribution	2,631,040	-
Accumulated deficit	(68,775,650)	(48,053,028)
Members' equity	<u>83,870,297</u>	<u>77,482,068</u>
Total liabilities and members' equity	<u>\$ 102,176,449</u>	<u>\$ 95,206,559</u>

The accompanying notes are an integral part of these financial statements.

TMT International Observatory, LLC
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	FY2017	FY2016
Income		
Contribution revenue	\$ -	\$ 115,205
Interest income	507,491	26,971
Other income	<u>12,782</u>	<u>-</u>
Total Income	<u>520,273</u>	<u>142,176</u>
Expenses		
Program services	17,645,693	14,902,377
Supporting services	<u>3,597,202</u>	<u>3,799,759</u>
Total expenses	<u>21,242,895</u>	<u>18,702,136</u>
Net deficit	(20,722,622)	(18,559,960)
Net deficit		
Beginning of year	<u>(48,053,028)</u>	<u>(29,493,068)</u>
End of year	<u>\$ (68,775,650)</u>	<u>\$ (48,053,028)</u>

The accompanying notes are an integral part of these financial statements.

TMT International Observatory, LLC
Statements of Changes in Members' Equity (Deficit)
For the Years Ended December 31, 2017 and 2016

	Contributed Capital	Accumulated Deficit	In-kind Contributions	Members' Equity (Deficit)
Balances at December 31, 2015	<u>\$ 68,056,909</u>	<u>\$ (29,493,068)</u>	<u>\$ -</u>	<u>\$ 38,563,841</u>
Contributions	57,478,187	-	-	57,478,187
Net deficit	-	(18,559,960)	-	(18,559,960)
Balances at December 31, 2016	<u>\$125,535,096</u>	<u>\$ (48,053,028)</u>	<u>\$ -</u>	<u>\$ 77,482,068</u>
Contributions	24,479,811	-	2,631,040	27,110,851
Net deficit	-	(20,722,622)	-	(20,722,622)
Balances at December 31, 2017	<u>\$150,014,907</u>	<u>\$ (68,775,650)</u>	<u>\$ 2,631,040</u>	<u>\$ 83,870,297</u>

The accompanying notes are an integral part of these financial statements.

TMT International Observatory, LLC
Statements of Cash Flows
For the Years Ended December 31, 2017 and 2016

	FY2017	FY2016
Cash flows from operating activities		
Net deficit	\$ (20,722,622)	\$ (18,559,960)
Adjustments to reconcile net deficit to net cash used in operating activities		
Depreciation, amortization, and accretion	1,986,693	1,661,131
Goodwill impairment	74,535	-
Changes in assets and liabilities:		
Accounts receivable, net	300,010	56,454
Advance - personnel and administrative agreement	1,000,000	-
Prepaid expense and other assets	(58,957)	241,476
Accounts payable and other liabilities	297,451	567,658
Payroll liabilities	48,391	256,980
Short term liabilities - community benefits payable	24,839	56,995
Long term liabilities	(652,872)	(1,341,896)
Net cash used in operating activities	<u>(17,702,532)</u>	<u>(17,061,162)</u>
Cash flows from investing activities		
Capital expenditures	<u>(14,476,855)</u>	<u>(21,408,823)</u>
Net cash used in investing activities	<u>(14,476,855)</u>	<u>(21,408,823)</u>
Cash flows from financing activities		
Contributions from members	<u>24,479,811</u>	<u>57,478,187</u>
Net cash provided by financing activities	<u>24,479,811</u>	<u>57,478,187</u>
Net increase (decrease) in cash and cash equivalents	<u>(7,699,576)</u>	<u>19,008,202</u>
Cash and cash equivalents		
Beginning of period	<u>44,312,743</u>	<u>25,304,541</u>
End of period	<u>\$ 36,613,167</u>	<u>\$ 44,312,743</u>
Supplement Disclose of non-cash investing and financing activities:		
Accrued purchases for capital expenditures	\$ 1,944,269	\$ 2,007,498
Member in-kind contribution	\$ 2,631,040	\$ -

The accompanying notes are an integral part of these financial statements.

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2017 and 2016

1. Description of the TMT International Observatory, LLC

TMT International Observatory, LLC (TIO), was incorporated in the state of Delaware in May 2014 by the California Institute of Technology (Caltech), the Department of Science and Technology, Government of India (DST), the National Astronomical Observatories of China, Chinese Academy of Sciences (NAOC), the National Institute of Natural Sciences (NINS of Japan), the National Research Council of Canada (NRC), and the University of California (UC), hereinafter each individually called a "Member" and collectively called "the Members" for the purpose of the execution of the Thirty Meter Telescope Project hereinafter called the "TIO Project" through the construction, commissioning and operation of an observatory. Each of the Members have signed the Limited Liability Company Agreement of TIO (Company Agreement) and a Contribution Agreement with TIO.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of TIO have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The significant accounting policies are described below to enhance the usefulness of the financial statements.

Project Funding

Construction of the TIO Project is dependent upon funding from the Members of TIO, who have committed to funding the project in the form of cash and in-kind contributions according to the member contribution agreement. During the construction phase, which began in April 2014, the Members make cash and in-kind contributions which are reflected as increases in their respective Member equity account. A Member's equity interest may be transferable if approved by TIO. TIO will reflect revenue when the telescope is operational and providing access to the Members and others for viewing time. As a result, TIO has and will continue to incur losses and negative cash flows from operations and investing activities until the facility is operational. For the year ended December 31, 2017, TIO incurred a net deficit of \$20.7 million, negative cash flows from operations of \$17.7 million and negative cash flow of \$14.5 million from investing activities. To offset these negative cash flows, TIO will continue to rely upon Member equity contributions in accordance with the agreed-upon project funding schedule.

Revenue Recognition

Contribution revenue of \$115,205 was recognized for the year ended December 31, 2016. This gift was specifically conditioned to provide support for TIO's communications efforts in Hawaii.

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2017 and 2016

Members' Equity

All Member equity contributions are considered to be available for unrestricted use. Liability of the Members under the Company Agreement is limited so that no Member is directly obligated to any third party for any debt, obligations or liabilities of TIO. However, each Member indirectly shares responsibility for the debts, obligations or liabilities of TIO by agreeing to make Contributions according to its Member Participation Percentage. "Contribution" includes any assets such as cash (excluding loans), in-kind contributions accepted by TIO, and services rendered by a Member or agreement to provide the same that are reflected in the various agreements between TIO and the Members. As discussed in Note 8, TIO's income, expenses, deductions and other tax and accounting items are allocated to the Members based upon the respective Member Participation Percentages.

Cash and Cash Equivalents

TIO considers cash on deposit, investments, and all highly liquid financial instruments with original maturities of three months or less at the time of purchase to be cash equivalents. Included in cash equivalents are amounts in the UC Regents Short Term Investment Pool (STIP) of \$14.3 million and \$17.0 million as of December 31, 2017 and 2016, respectively, and in a savings account at the Caltech Employees Federal Credit Union of \$17.2 million and \$17.0 million at December 31, 2017 and 2016, respectively.

Goodwill

Goodwill is amortized on a straight-line basis over its useful life of 10 years. TIO recorded \$41,958 and \$12,110 of goodwill amortization for the year ended December 31, 2017 and 2016, respectively. TIO tests for impairment if an event occurs or circumstances change that indicate the fair value of goodwill may be below its carrying amount. TIO recorded an impairment of \$74,535 for the year ended December 31, 2017 for the portion of certain paid leave balances transferred back to TMT Observatory Corporation (TMT) as discussed in Note 6.

Concentration of Credit Risk

Cash and cash equivalents include bank account balances and direct short-term investments that have remaining maturities of three months or less when invested. While these deposits exceed the amount of insurance provided by the FDIC, they may be redeemed upon demand and are maintained by a financial institution with reputable credit; therefore management believes the deposits bear minimal risk.

Prepaid Expenses and Other Assets

Prepaid expenses and other assets relate to expenses paid for which the related services or goods have not yet been performed or received as of the balance sheet date.

Property, Plant, and Equipment

Property, plant, and equipment is recorded at cost, except for donated property that is valued at fair market value at the date of the gift. There is no donated equipment received or recorded by TIO.

Depreciation of the telescope and equipment is recorded using a straight-line method over the estimated useful lives the assets, which are estimated to be lower of remaining lease term or 50 years for the telescope and a range of 3 to 10 years for equipment. No depreciation is reflected until the assets are placed in service.

Direct labor, travel, subcontract costs and the present value of the asset retirement obligation costs are capitalized as part of Construction in Progress. They remain in such an account until the assets are placed into service, at which time the costs of the assets are transferred into respective

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2017 and 2016

property, plant and equipment accounts to be depreciated over their estimated respective periods of operation.

When assets are retired or sold, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss arising from such disposition is recorded in the Statement of Activities. Expenditures for repairs and maintenance are charged to expenses as incurred.

TIO reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment charge is recognized when the fair value of the asset or group of assets is less than the carrying value. For the years ending December 31, 2017 and 2016, there were no impairments recognized.

Asset Retirement Obligation

Asset retirement obligations (AROs) represent legal or contractual obligations associated with the retirement of certain tangible long-lived assets and are recorded at the present value of the projected costs for the future retirement of specific assets. AROs are recognized in the period in which the liability is incurred if a reasonable estimate of the fair value can be made. As part of TIO's lease with the University of Hawaii, TIO has an obligation to decommission its observatory at the end of the lease agreement and therefore has recognized a corresponding ARO. TIO re-evaluates this obligation on an annual basis.

Management Estimates and Uncertainties

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenditures at the date of the financial statements. Actual results could differ from those estimates.

In 2015, TIO's construction permit for the site of the planned observatory in Mauna Kea, Hawaii was revoked by the Supreme Court of the State of Hawaii. The Supreme Court remanded the decision regarding the issuance of the permit back to the Board of Land and Natural Resources (BLNR) for reconsideration in accordance with an appropriate procedure (see Note 10). If TIO were to conclude that the TMT project will not proceed in Hawaii, certain costs that have been included in construction in progress would be impaired.

Member In-Kind Contributions

TIO measures in-kind contributions under the Accounting Standard Codification (ASC) 820, *Fair Value Measurements and Disclosures*. The objective of a fair value measurement is to determine the price at which an orderly transaction would take place between market participants under the market conditions that exist at the measurement date. Valuation techniques include three approaches; the market approach, which is based on information from market transactions, the income approach, which is based on future income utilizing present value techniques; and the cost approach, which is based on current replacement cost. The fair value hierarchy prioritizes the inputs used to measure fair value into three broad Levels (Levels 1, 2 and 3), moving from quoted prices in active markets in Level 1 to unobservable inputs in Level 3.

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2017 and 2016

Level 1 inputs are observable, quoted prices for identical assets or liabilities in active markets. Level 2 inputs are quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets in markets that are not active; and inputs other than quoted prices e.g. interest rates and yield curves. Level 3 inputs are unobservable inputs for the asset or liability.

During the year ended December 31, 2017, TIO accepted in-kind contributions from NINS of Japan for the 43 M1 Meniscus Blanks (glass material for the M1 mirrors). The fair market value of the in-kind contribution was determined utilizing the cost approach with level 3 inputs at the measurement date. The fair market value was derived from comparing the actual costs incurred including administrative costs, warehousing costs and estimated or reasonable profit margin as these costs would be part of a transaction costs with a third party vendor to quotes from third party vendors.

Income Taxes

TIO is generally exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. TIO is also generally exempt from payment of state income, gift, estate, and inheritance taxes. TIO has no reporting requirements for uncertain tax provisions for the years ended December 31, 2017 and 2016. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

3. THINK Fund

Community Benefits Payable

TIO launched THINK (The Hawaii Island New Knowledge) fund to help enable Hawaiian Island students to undertake STEM (Science, Technology, Engineering and Math) curricula and to become the future workforce for science and technology positions in Hawaii.

TIO's promise to give to THINK includes an annual payment of \$750,000 to the Hawaii Community Foundation until January 2033 and \$250,000 to the Ke-Ali'i Pauahi Foundation annually through February 2019:

	Current	Long Term	Total
Ke Ali'i Pauahi Foundation	\$ 270,654	\$ 66,678	\$ 337,332
Hawaii Community Foundation	811,181	7,845,777	8,656,958
	<u>\$ 1,081,835</u>	<u>\$ 7,912,455</u>	<u>\$ 8,994,290</u>

Amounts are payable as follows at December 31 and are based upon the present value of estimated future cash flows, using a discount rate of 5.35%. The commitment amounts are adjusted for inflation.

TMT International Observatory, LLC
Notes to Financial Statements
December 31, 2017 and 2016

	2017	2016
Payable in less than one year	\$ 1,081,835	\$ 1,056,995
Payable in less than five years	4,488,667	4,659,421
Payable in more than five years	9,829,613	10,740,695
Total promise to give	<u>15,400,115</u>	<u>16,457,111</u>
Less: Discounts to net present value	<u>(6,405,825)</u>	<u>(6,529,384)</u>
Total net present value of promises to give	<u>\$ 8,994,290</u>	<u>\$ 9,927,727</u>

TIO has committed funding from the Members in the future to meet the future liabilities. TIO expects to meet these liabilities as and when they fall due for payment.

4. Commitments and Contingencies

Asset Retirement Obligations

Decommissioning of the observatory is expected to begin after the expiration of its sublease. Based on site-specific studies conducted in 2013, TIO developed an estimate of ultimate asset retirement cost with an original present value of \$15.6 million. As the telescope is constructed, TIO accrues a portion of this asset retirement cost in construction in progress and a corresponding ARO liability on its balance sheets. The liability is accreted to present value each year. Changes to the ARO liability during the years ended December 31, 2017 and 2016 were as follows:

Balances at January 1, 2016	\$ 1,246,188
Accretion expense	880,001
Balances at December 31, 2016	<u>2,126,189</u>
Accretion expense	927,081
Balances at December 31, 2017	<u>\$ 3,053,270</u>

There were no increases to asset retirement costs in construction in progress during the year ended December 31, 2017 and 2016.

Beginning with its first year of operations, TIO will initiate a sinking fund to finance the cost of decommissioning the observatory. At that time, payments to the sinking fund will commence at \$1 million per year for the life of the observatory.

Leases

TIO's lease agreements consist of an agreement for the lease of land and agreements for office and lab facility space. TIO's sublease agreement with the University of Hawaii was executed on July 28, 2014 and extends until 2033 for the construction and operation of the observatory on Mauna Kea, Hawaii. TIO's office lease agreement with Parsons Service Company, executed in 2015, extends until February 2021. TIO also entered into a laboratory space lease agreement with The Pilot Group effective January 1, 2017 which extends until December 31, 2021.

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2017 and 2016

Lease expense for the years ended December 31, 2017 and 2016 was \$1,431,672 and \$1,306,339, respectively. As the agreements have scheduled changes in the annual lease payments, the leases have been expensed on a straight-line basis over the term of the leases, with deferred liabilities of \$1,824,478 and \$1,481,066 as of December 31, 2017 and 2016, respectively, on the balance sheet for the difference between lease expense and cash outlay. TIO has recognized a lease incentive obligation of \$120,352 and \$158,357 as of December 31, 2017 and 2016, respectively under the sublease agreement with Parson's Service Company for tenant improvement allowances.

As of December 31, 2017, future minimum payments related to the lease agreements are as follows:

Years Ending December 31,

2018	\$	1,048,919
2019		1,267,828
2020		1,287,234
2021		914,905
2022		700,000
Thereafter		11,700,000

Contingencies

Constructing the observatory at Mauna Kea was permitted under a Conservation District Use Permit (CDUP) granted by the Hawaiian Board of Land and Natural Resources (BLNR) to the University of Hawaii (UH) on April 12, 2013. On December 2, 2015, the Supreme Court of the State of Hawaii (HSCt) ruled that the procedure leading to the issuance of the CDUP was inappropriate and remanded the decision regarding the issuance of the CDUP back to the BLNR for reconsideration in accordance with an appropriate procedure. A new contested case proceeding began in May 2016 with the evidentiary hearing concluding in March 2017. On July 26, 2017, the hearing officer issued a decision recommending that the BLNR approve the CDUA and the TMT Management Plan and issue a new CDUP. The BLNR heard arguments on the hearing officer's recommendations on September 20, 2017; and on September 28, 2017, the BLNR rendered its Decision and Order (D&O) granting the new CDUP. Several parties then timely appealed the D&O to the HSCt. Four separate appeals are pending before the HSCt and the appellants' opening briefs were filed. The appellees include TIO, the UH, the BLNR, and a community group called Perpetuating Unique Educational Opportunities, Inc. (PUEO). The appellees answering briefs were filed by April 9, 2018. Once the legal briefing has concluded, the HSfCt will set a date to hear oral arguments, which is anticipated to occur in the latter half of 2018.

TIO had the rights to build on and use the land in Mauna Kea for the observatory by virtue of a sublease with the UH. In January 2017, the Third Circuit Court of the State of Hawaii (Circuit Court) found that the BLNR's consent of TIO's sublease was approved by BLNR in an inappropriate procedure and ordered that a new process be conducted for the sublease consent to be approved appropriately. In February 2017, TIO and the UH agreed to delay the sublease payments to UH pending resolution of the approval process and/or the outcome of an appeal by UH and the BLNR to overturn the decision of the Hawaii Circuit Court. TIO continues to accrue sublease expense in accordance to the sublease agreement with the UH. This appeal was heard by the HSCt on March 15, 2018 and a decision will likely be forthcoming in the latter half of 2018. TIO is unable to predict the outcome of this appeal. Should this appeal be unsuccessful, certain costs related to the construction could be impaired and liabilities reversed.

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2017 and 2016

On March 29, 2017, TIO and the Instituto de Astrofísica de Canarias (IAC) of the Kingdom of Spain entered into a Hosting Agreement whereby TIO can give notice to IAC to trigger (among other things) an obligation for IAC to grant TIO the right to build its observatory at IAC's Roque de los Muchachos Observatory (hereinafter ORM), La Palma, Canary Islands, Spain. TIO is also pursuing the grant of the necessary permits, and undertaking other ancillary activities, so that it will be in a position to construct the observatory at ORM instead of Hawaii if TIO decides that doing so is the appropriate course of action. If notice is not given by April 30, 2018, IAC has the right to re-negotiate the terms. IAC sent TIO a letter dated February 20, 2018, in which it agreed not to re-negotiate the terms before a construction permit is issued and the periods for appeal of such permit is expired.

On December 19, 2017, TIO was advised that the Consejo de Gobierno Insular Del Cabildo de La Palma ("Cabildo") had approved the concession of the land grant on which TIO would be granted the right to build its observatory at ORM. A contentious-administrative appeal against the concession of the land has been filed by the Ecologist Association "Ben Magec." The appeal has been filed with a lower contentious-administrative Court against the Cabildo as the Authority which granted the Land Concession. IAC and TIO have elected to appear in the dispute as co-defendants. At the present stage, the grounds for the appeal are not known, since the merits of the case are only disclosed in an appellant filing which is not yet due.

TIO filed an environmental impact assessment on January 9, 2018, which was published on March 2, 2018, starting a comment period of 45 business days. If the environmental assessment is favorable, which is expected in the next few months, a construction permit for the telescope would be subsequently issued by Puntagorda City Council.

5. Property, Plant and Equipment, Net

Property, plant, and equipment at December 31, 2017 and 2016 consists of the following:

	2017	2016
Construction in progress	\$ 61,780,038	\$ 44,832,358
Equipment	1,884,851	1,787,865
Leasehold improvements	2,893,562	2,893,562
	<u>66,558,451</u>	<u>49,513,785</u>
Less: Accumulated depreciation and amortization	(1,890,144)	(872,490)
Property, plant and equipment, net	<u>\$ 64,668,307</u>	<u>\$ 48,641,295</u>

Depreciation expense for the years ended December 31, 2017 and 2016 was \$460,080 and \$262,360, respectively. Amortization of leasehold improvements for the years ended December 31, 2017 and 2016 was \$557,575 and \$506,661, respectively.

6. Business Combination

On October 1, 2016, TIO entered into an Employee and Asset Transfer Agreement with TMT which was a non-cash agreement to transfer the employees of TMT and certain TMT equipment to TIO. The agreement was accounted for as a business combination in accordance with ASC 805 *Business Combinations*. Goodwill represents the excess between the acquisition date fair value of

TMT International Observatory, LLC
Notes to Financial Statements
December 31, 2017 and 2016

the property, plant and equipment TIO obtained and the paid time leave liabilities TIO assumed as part of the agreement with TMT.

In February 2017, TMT hired several TIO employees to manage its NSF Cooperative Agreement. Goodwill recognized from the business combination in 2016 was impaired for the portion of the paid leave balances transferred back to TMT.

	Acquisition Date
Recognized amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	\$ 93,027
Assumed paid time leave liabilities	<u>(577,422)</u>
Total identifiable net assets	(484,395)
Goodwill	<u>\$ 484,395</u>

TIO accounts for goodwill and other intangible assets in accordance with ASC 350 *Intangibles-Goodwill and Other*. As discussed in Note 2 to the financial statements, TIO follows the private company accounting alternative for accounting for goodwill.

	2017	2016
Goodwill		
Gross carrying amount	\$ 472,285	\$ 484,395
Impairment	(74,535)	-
Accumulated amortization	<u>(41,958)</u>	<u>(12,110)</u>
Net carrying amount	<u>\$ 355,792</u>	<u>\$ 472,285</u>

Amortization expense for goodwill for each of the next five years is estimated to be:

2018	\$ 40,662
2019	40,662
2020	40,662
2021	40,662
2022	40,662
Thereafter	152,482

7. Retirement Plans

Effective October 1, 2016, TIO established defined contribution retirement plans which cover all of its employees who transferred over from TMT. Contributions were immediately vested. Under the plans, TIO contributes a percentage of compensation as defined by the plan document provisions.

TMT International Observatory, LLC
Notes to Financial Statements
December 31, 2017 and 2016

TIO contributed \$1,019,667 and \$243,697 to these plans for the year ended December 31, 2017 and 2016, respectively. TIO has no assets or liabilities related to these plans.

8. Members' Equity

The Members of TIO made the following cash and in-kind contributions during the years ended December 31, 2017 and 2016, respectively:

	2017 Contributions						Total
	Caltech	NRC	DST	NAOC	NINS	UC	
Cash contributions	\$ 5,000,000	\$ -	\$ 4,000,000	\$ 1,499,985	\$ 8,838,929	\$ 5,140,897	\$ 24,479,811
In-kind contribution	-	-	-	-	2,631,040	-	\$ 2,631,040
Total received	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ 4,000,000</u>	<u>\$ 1,499,985</u>	<u>\$ 11,469,969</u>	<u>\$ 5,140,897</u>	<u>\$ 27,110,851</u>

	2016 Contributions						Total
	Caltech	NRC	DST	NAOC	NINS	UC	
Cash contributions	\$ 16,972,198	\$ -	\$ 2,147,025	\$ 2,999,970	\$ 8,386,796	\$ 26,972,198	\$ 57,478,187
In-kind contribution	-	-	-	-	-	-	-
Total received	<u>\$ 16,972,198</u>	<u>\$ -</u>	<u>\$ 2,147,025</u>	<u>\$ 2,999,970</u>	<u>\$ 8,386,796</u>	<u>\$ 26,972,198</u>	<u>\$ 57,478,187</u>

Membership Interests

In accordance with the Company agreement, the Members' rights in TIO, including their respective economic interests and rights to participate in management, are represented by the Membership Participation Percentages (MPP) listed below at December 31, 2017:

	Membership Participation Percentage
Caltech	16.60 %
DST	11.80 %
NAOC	11.20 %
NINS	24.60 %
NRC	19.50 %
UC	16.30 %

MPPs were determined based on the planned amounts and timing of Member contributions of cash and in-kind contributions.

9. Related Party Transactions

Prior to the establishment of TIO in May 2014, pre-construction activities of the planned observatory were managed by TMT, which is owned by Caltech and UC. From May 2014 until March 2015, TMT managed the in-kind construction contributions of Caltech and UC to TIO. TIO has a Personnel Administrative Agreement (PAA) with TMT under which TMT provides some labor and support services to TIO. The level of labor and support services performed by TMT declined

TMT International Observatory, LLC

Notes to Financial Statements

December 31, 2017 and 2016

significantly in 2016 due to the Asset and Employee Transfer Agreement executed on October 1, 2016 between TMT and TIO (see Note 6).

Expenses, on behalf of TIO, were incurred by TMT under the PAA and by Caltech for the authorized labor costs, program services and purchase of goods and services for the years ended December 31, 2017 and 2016 as follows:

TMT	2017	2016
Capitalized to Construction in progress	\$ -	\$ 8,555,974
Program Services	-	4,638,834
Supporting Services	710,190	1,661,740
	<u>\$ 710,190</u>	<u>\$ 14,856,548</u>

Caltech	2017	2016
Capitalized to Construction in progress	\$ 3,605,427	\$ -
Program Services	1,287,733	-
Supporting Services	241,424	-
	<u>\$ 5,134,584</u>	<u>\$ -</u>

Amounts payable to TMT were \$1,546 and \$720,941, respectively, as of December 31, 2017 and 2016. Amounts payable to Caltech were \$422,792 and \$0, respectively, as of December 31, 2017 and 2016. Amounts due under this agreement are non-interest bearing and due within 30 days.

Amounts receivable from TMT under the PAA were \$1,920 and \$259,471, respectively, as of December 31, 2017 and 2016.

TIO provided an advance to TMT for \$1,000,000 as of December 31, 2015 for costs to be incurred by TMT and reimbursed by TIO under the PAA. The advance amount was repaid in January of 2017.

10. Subsequent Events

Subsequent events were evaluated through May 25, 2018, which was the date the financial statements were available to be issued. There are no subsequent events.