

**TMT International  
Observatory, LLC**

**Financial Statements**

**For the Years Ended December 31, 2016 and 2015**



## **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 sheet as of December 31, 2016 and 2015, 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, 2016 and 2015, 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*

July 21, 2017

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**TMT International Observatory, LLC**  
**Balance Sheets**  
**December 31, 2016 and 2015**

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	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 44,312,743	\$ 25,304,541
Accounts receivable, net	42,459	205,864
Due from TMT observatory corporation	259,471	152,520
Prepaid expenses and other assets	478,306	719,782
Advance - personnel and administrative agreement	1,000,000	1,000,000
Property, plant, and equipment, net		
Construction in progress	44,832,358	28,234,891
Equipment	1,485,710	327,056
Leasehold improvement	2,323,227	1,311,888
Goodwill, net	472,285	-
Total assets	<u>\$ 95,206,559</u>	<u>\$ 57,256,542</u>
<b>Liabilities and Members' Equity</b>		
Accounts payable		
Trade creditors	\$ 2,462,472	\$ 2,832,877
Due to TMT observatory corporation	720,941	2,228,831
Deferred contribution income	-	115,205
Accrued expenses	13,336	3,748
Community benefits payable	1,056,995	1,000,000
Payroll liabilities	834,402	-
Total current liabilities	<u>5,088,146</u>	<u>6,180,660</u>
Long term liabilities		
Community benefits payable	8,870,732	10,212,628
Asset retirement obligations	2,126,189	1,246,188
Deferred lease liabilities	1,481,067	856,863
Lease incentive obligation	158,357	196,363
Total liabilities	<u>17,724,491</u>	<u>18,692,702</u>
Commitments and contingencies (Note 3 and 4)		
Members' equity		
Contributed capital	125,535,096	68,056,909
Accumulated deficit	<u>(48,053,028)</u>	<u>(29,493,068)</u>
Members' equity	<u>77,482,068</u>	<u>38,563,841</u>
Total liabilities and members' equity	<u>\$ 95,206,559</u>	<u>\$ 57,256,542</u>

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

**TMT International Observatory, LLC**  
**Statements of Activities**  
**Years Ended December 31, 2016 and 2015**

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	2016	2015
<b>Revenues</b>		
Gifts income	\$ 115,205	\$ 890,677
Interest income	<u>26,971</u>	<u>212</u>
Total income	<u>142,176</u>	<u>890,889</u>
<b>Expenses</b>		
Program services	14,902,377	12,619,242
Supporting services	<u>3,799,759</u>	<u>2,068,370</u>
Total expenses	<u>18,702,136</u>	<u>14,687,612</u>
Net deficit	(18,559,960)	(13,796,723)
Net deficit		
Beginning of year	<u>(29,493,068)</u>	<u>(15,696,345)</u>
End of year	<u>\$ (48,053,028)</u>	<u>\$ (29,493,068)</u>

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

**TMT International Observatory, LLC**  
**Statements of Changes in Members' Equity (Deficit)**  
**Years Ended December 31, 2016 and 2015**

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	<b>Contributed Capital</b>	<b>Accumulated Deficit</b>	<b>Members' Equity (Deficit)</b>
<b>Balances at December 31, 2014</b>	\$ 12,198,719	\$ (15,696,345)	\$ (3,497,626)
Contributions	55,858,190	-	55,858,190
Net deficit	<u>-</u>	<u>(13,796,723)</u>	<u>(13,796,723)</u>
<b>Balances at December 31, 2015</b>	68,056,909	(29,493,068)	38,563,841
Contributions	57,478,187	-	57,478,187
Net deficit	<u>-</u>	<u>(18,559,960)</u>	<u>(18,559,960)</u>
<b>Balances at December 31, 2016</b>	<u>\$ 125,535,096</u>	<u>\$ (48,053,028)</u>	<u>\$ 77,482,068</u>

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

**TMT International Observatory, LLC**  
**Statements of Cash Flows**  
**Years Ended December 31, 2016 and 2015**

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	2016	2015
<b>Cash flows from operating activities</b>		
Net deficit	\$ (18,559,960)	\$ (13,796,723)
Adjustments to reconcile net deficit to net cash used in operating activities		
Depreciation and amortization	781,130	103,470
Changes in assets and liabilities		
Accounts payable and other liabilities	567,658	(1,178,771)
Other payables and accrued salaries	256,980	-
Asset retirement obligation	880,001	835,312
Short term liabilities - charity	56,995	-
Long term liabilities - charity	(1,341,896)	(643,172)
Accounts receivable	56,454	(358,384)
Advance - personnel and administrative agreement	-	(1,000,000)
Prepaid expense and other assets	241,476	(719,782)
Net cash used in operating activities	<u>(17,061,162)</u>	<u>(16,758,051)</u>
<b>Cash flows from investing activities</b>		
Capital expenditures	<u>(21,408,823)</u>	<u>(18,964,989)</u>
Net cash used in investing activities	<u>(21,408,823)</u>	<u>(18,964,989)</u>
<b>Cash flows from financing activities</b>		
Contributions from members	<u>57,478,187</u>	<u>55,858,190</u>
Net cash provided by financing activities	<u>57,478,187</u>	<u>55,858,190</u>
Net increase in cash and cash equivalents	19,008,202	20,135,149
<b>Cash and cash equivalents</b>		
Beginning of year	<u>25,304,541</u>	<u>5,169,392</u>
End of year	<u>\$ 44,312,743</u>	<u>\$ 25,304,541</u>

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



# **TMT International Observatory, LLC**

## **Notes to Financial Statements**

### **December 31, 2016 and 2015**

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#### **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), 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), 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.

Prior to establishment of TIO in May 2014, the pre-construction activities were managed by TMT Observatory Corporation (TMT). From May 2014 until March 2015, TMT managed the in-kind construction contributions of Caltech and UC to TIO. TIO also has a Personnel Administrative Agreement (PAA) with TMT executed in 2014, under which TMT provides labor and support services to TIO. The level of labor and support services performed by TMT declined significantly in 2016 due to the Asset and Employee Transfer Agreement executed on October 1, 2016 between TMT and TIO (see footnote 6).

#### **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 collectively committed \$0.7 billion in funding toward construction costs at December 30, 2016. During the construction phase, the Members make equity contributions which are reflected as increases in their Members' equity. Such Members' equity interests may be transferable by any of the Members if approved by TIO. TIO will not reflect revenue until the telescope is operational and providing access to the Members and others for viewing time. As such, TIO has and will continue to incur losses and negative cash flows from operations until the facility is operational. For the year ended December 31, 2016, the Organization incurred a net deficit and negative cash flows from operations of \$18.6 million and \$17.1 million respectively. 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**

TIO recognizes revenue from contracts to perform services as allowable expenditures under such agreements are incurred. Advances on contracts to perform services are deferred until the related expenses are incurred at which time revenue is recognized.

TIO received a conditional gift in the amount of \$1,005,882 from the Gordon and Betty Moore Foundation during the year ended December 31, 2015. Gift revenues of \$115,205 and \$890,677 were recognized for the years ended December 31, 2016 and 2015, respectively. This gift is specifically conditioned to provide support for TIO's communications efforts in Hawaii.

# **TMT International Observatory, LLC**

## **Notes to Financial Statements**

### **December 31, 2016 and 2015**

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#### **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 shall be individually obligated to any third party for any debt, obligations or liabilities of TIO. Each Member's liability for the debts, obligations or liabilities of TIO is limited to the maximum extent of the respective Member's Contributions. "Contribution" means any transfer of financial assets including cash and excluding loans, transfers of property accepted by TIO, and services rendered by a Member that are permitted by the various agreements which have been made between TIO and the Members. As discussed in note 7 of the footnotes, an allocation of TIO's income, expenses, deductions and other tax and accounting items is allocated to the Members for the purposes of updating the respective membership participation percentages.

#### **Cash and Cash Equivalents**

TIO considers cash on deposit, temporary investments, and all highly liquid financial instruments with original maturities of three months or less to be cash equivalents. Included in cash equivalents are amounts in the UC Regents Short Term Investment Pool (STIP) for \$17M and in a savings account at the Caltech Employees Federal Credit Union for \$17M.

#### **Goodwill**

Goodwill is amortized on a straight-line basis over its useful life of 10 years. TIO recorded \$12,110 of goodwill amortization for the year ended December 31, 2016. TIO tests for impairment if an event occurs or circumstances change that indicate that the fair value may be below its carrying amount. There were no such events or circumstances during 2016.

#### **Concentration of Credit Risk**

Cash and cash equivalents are maintained in an account with a bank. 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.

#### **Construction in Progress**

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

#### **Property and Equipment**

Property 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. One-half year's depreciation is recorded in the year of an asset's placement into service, and one-half year's depreciation is recorded in the year of disposal.

# **TMT International Observatory, LLC**

## **Notes to Financial Statements**

### **December 31, 2016 and 2015**

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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.

#### **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.

#### **Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed**

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 footnote 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.

#### **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, 2016 and 2015. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

#### **Accounting Pronouncements**

On January 1, 2016, the Organization adopted Accounting Standard Codification (ASC) 205-40, *Presentation of Financial Statements – Going Concern: Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. There were no material impact to the financial statements as a result of adoption.

In February 2016, the Financial Accounting Standards Board (FASB) issued ASU No. 2016-2, *Leases Subtopic 842*. This new standard amends the Financial Accounting Standards Board's Accounting Standards Codification and creates Topic 842, *Leases*. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from their leases. The new pronouncement requires recognition for both financing and operating leases a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. For income statement purposes, the FASB retained a dual model, requiring

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leases to be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The standard is effective for private companies (i.e., those not meeting the FASB's definition of a public business entity), for fiscal years beginning after December 15, 2019 and interim periods beginning the following year. Early adoption is permitted. The new standard must be adopted using a modified retrospective transition, and provides for certain practical expedients. Transition will require application of the new guidance at the beginning of the earliest comparative period presented. TIO is currently evaluating the impact of this new guidance on its financial statements.

In May 2014, the FASB issued Accounting Standard Update (ASU) No. 2014-09, *Revenue from Contracts with Customers*. This new standard provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition," and most industry-specific guidance. The core principle of the new guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. Adoption of ASU 2014-09 could potentially result in changes in the amount and timing of revenue recognition for certain transactions. The new guidance allows for either a "full retrospective" or a "modified retrospective" method of application and also requires significantly expanded disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in those judgments regarding the amount and timing of revenue recognition. The new standard is effective for nonpublic companies for annual reporting periods beginning after December 15, 2017 and permits some options for early adoption, the earliest of which is for annual reporting periods beginning after December 15, 2016. TIO is currently evaluating the impact of this new guidance on its financial statements.

**3. THINK Fund**

**Community Benefits Payable**

TIO launched THINK (The Hawaii Island New Knowledge) fund to better prepare Hawaiian Island students to master STEM (Science, Technology, Engineering and Math) and to become the workforce for science and technology jobs in Hawaii's 21<sup>st</sup>-century economy.

TIO's unconditional 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	\$ 264,439	\$ 306,039	\$ 570,478
Hawaii Community Foundation	792,556	8,564,693	9,357,249
	<u>\$ 1,056,995</u>	<u>\$ 8,870,732</u>	<u>\$ 9,927,727</u>

Amounts are payable as follows 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.

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	2016	2015
Payable in less than one year	\$ 1,056,995	\$ 1,000,000
Payable in less than five years	4,659,421	4,826,254
Payable in more than five years	<u>10,740,695</u>	<u>11,630,857</u>
Total unconditional promise to give	16,457,111	17,457,111
Less: Discounts to net present value	<u>(6,529,384)</u>	<u>(6,244,483)</u>
Total net present value of unconditional promises to give	<u>\$ 9,927,727</u>	<u>\$ 11,212,628</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 the lease agreement in 2033. Based on site-specific studies conducted in 2013, TIO developed an estimate of ultimate asset retirement cost with a 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, 2016 and 2015 were as follows:

<b>Balance at December 31, 2014</b>	\$ 410,876
Accretion expense	835,312
Liabilities incurred	-
Liabilities settled	-
Revision in estimated cash flows	<u>-</u>
<b>Balance at December 31, 2015</b>	1,246,188
Accretion expense	880,001
Liabilities incurred	-
Liabilities settled	-
Revision in estimated cash flows	<u>-</u>
<b>Balance at December 31, 2016</b>	<u>\$ 2,126,189</u>

There were no increases to asset retirement costs in construction in progress during the year ended December 31, 2016 and 2015.

TIO also will establish a sinking fund to finance the cost of decommissioning the observatory. Payments to this sinking fund will commence with \$1 million per year beginning the first year of operations and will be maintained for the life of the observatory.

**Leases**

TIO's lease agreements consist of an agreement for the lease of land and an agreement for office and lab facility space. TIO's lease 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

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Mauna Kea, Hawaii. TIO's office lease agreement with Parsons Service Company, executed in 2015, extends until February 2021.

Lease expense for the years ended December 31, 2016 and 2015 were \$1,306,339 and \$937,669, 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 \$1,481,066 and \$856,863 as of December 31, 2016 and 2015, respectively, on the balance sheet for the difference between lease expense and cash outlay. TIO has recognized lease incentive obligation of \$158,357 and \$196,363 as of December 31, 2016 and 2015, respectively under the sublease agreement with Parson's Service Company for tenant improvement allowances.

TIO also entered into a building lease agreement with The Pilot Group effective January 1, 2017.

As of December 31, 2016, future minimum payments related to the lease agreements are as follows:

<b>Year Ending December 31,</b>	
2017	\$ 1,088,261
2018	1,048,919
2019	1,267,828
2020	1,287,234
2021	914,905
Thereafter	12,400,000

**5. Property, Plant and Equipment, Net**

Property and equipment at December 31, 2016 and 2015 consists of the following:

	<b>2016</b>	<b>2015</b>
Construction in progress	\$ 44,832,358	\$ 28,234,891
Equipment	1,787,865	367,048
Leasehold improvements	<u>2,893,562</u>	<u>1,375,366</u>
	49,513,785	29,977,305
Less: Accumulated depreciation and amortization	<u>(872,490)</u>	<u>(103,470)</u>
Property and equipment, net	<u>\$ 48,641,295</u>	<u>\$ 29,873,835</u>

Depreciation expense for the years ended December 31, 2016 and 2015 was \$262,360 and \$39,991, respectively. Amortization of leasehold improvements for the years ended December 31, 2016 and 2015 was \$506,661 and \$63,478, 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

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(*Business Combinations*). Goodwill represents the excess between the acquisition date fair value of the property, plant and equipment TIO obtained and the paid time leave liabilities TIO assumed as part of the agreement with TMT.

	<b>Acquisition Date</b>
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Property, plant and equipment	\$ 93,027
Assumed paid time leave liabilities	<u>(577,422)</u>
Total identifiable net assets	(484,395)
<b>Goodwill</b>	<u>484,395</u>
	<u>\$ -</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 adopted the private company accounting alternative for accounting for goodwill.

	<b>2016</b>	<b>2015</b>
<b>Goodwill</b>		
Gross carrying amount	\$ 484,395	\$ -
Accumulated amortization	<u>(12,110)</u>	<u>-</u>
Net carrying amount	<u>\$ 472,285</u>	<u>\$ -</u>

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

<b>Year Ending December 31,</b>	
2017	\$ 48,440
2018	48,440
2019	48,440
2020	48,440
2021	48,440
Thereafter	230,085

**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 are immediately vested. Under the plans, TIO contributes a percentage of compensation as defined by the Plan Document provisions.

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

**8. Members' Equity**

The Members of TIO made the following Contributions during the years ended December 31, 2016 and 2015, respectively:

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

  

	2015 Contributions						
	Caltech	NRC	DST	NAOC	NINS	UC	Total
Cash contributions	\$ 13,588,528	\$ 20,777,926	\$ 3,020,142	\$ 3,623,976	\$ 11,259,090	\$ 3,588,528	\$ 55,858,190
Total received	\$ 13,588,528	\$ 20,777,926	\$ 3,020,142	\$ 3,623,976	\$ 11,259,090	\$ 3,588,528	\$ 55,858,190

**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 listed below:

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

**9. Related Party Transactions**

Expenses were incurred by TMT on behalf of TIO for the authorized labor costs, program services and purchase of goods and services under the PAA for the years ended December 31, 2016 and 2015 as follows:

	2016	2015
Capitalized to construction in progress	\$ 8,555,974	\$ 13,099,631
Program services	4,638,834	1,903,066
Supporting services	1,661,740	1,325,266
	<u>\$ 14,856,548</u>	<u>\$ 16,327,963</u>



# TMT International Observatory, LLC

## Notes to Financial Statements

### December 31, 2016 and 2015

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Amounts payable to TMT were \$720,941 and \$2,228,831, respectively, as of December 31, 2016 and 2015. Amounts due under this agreement are non-interest bearing and due within 30 days.

Amounts receivable from TMT under the PAA were \$259,471 and \$152,520 as of December 31, 2016 and 2015.

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 subsequent to December 31, 2016.

#### 10. Supplemental Cash Flow Information

The following are additional supplemental disclosures related to the statement of cash flows:

	2016	2015
Accrued purchases for capital expenditures	\$ 2,007,498	\$ 3,972,868

#### 11. Subsequent Events

Subsequent events were evaluated through July 21, 2017, which was the date the financial statements were available to be issued.

On October 1, 2016, an Asset and Employee Transfer Agreement was executed between TMT and TIO and all assets and employees of TMT were transferred to TIO. However on February 20, 2017, five employees from TIO were transferred back to TMT to manage the cooperative agreement with the National Science Foundation.

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 on April 12, 2013. On December 2, 2015, the Supreme Court of the State of Hawaii 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 began in May 2016, an evidentiary hearing concluded in March 2017, and a decision by the hearing officer, and subsequently by the BLNR on a new CDUP is now pending.

TIO's had the rights to build on and use the land in Mauna Kea for the observatory by virtue of a sublease with the University of Hawaii. In January 2017, the Hawaii Circuit Court found that TIO's sublease was approved by BLNR in an inappropriate procedure and ordered that a new process be conducted for the sublease to be approved appropriately. In February 2017, TIO and University of Hawaii agreed to defer the sublease payments to University of Hawaii pending resolution of the approval process and/or the outcome of an appeal against the decision of the Hawaii Circuit Court. TIO is unable to predict the outcome of this appeal. Should this appeal be unsuccessful, certain costs related to the construction could be impaired.

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, by April 30 2018, to trigger (among other things) an obligation for IAC to grant TIO the right to build its observatory at IAC's

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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.