

CHICAGO PARKING METERS LLC

Corporation Counsel
City of Chicago
121 North LaSalle Street, Room 600
Chicago, Illinois 60602
Attention: Finance and Economic Development Division

City of Chicago
Department of Finance
121 North LaSalle Street, Room 700
Chicago, Illinois 60602
Attention: Chief Financial Officer

April 30, 2018

RE: Concessionaire's Financial Reports due under the Chicago Metered Parking System Concession Agreement

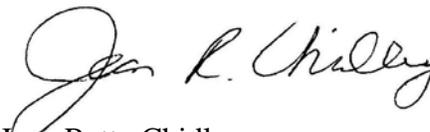
Ladies and Gentlemen:

Reference is made to the Amended and Restated Chicago Metered Parking System Concession Agreement dated June 5, 2013 (the *Concession Agreement*) between the City of Chicago (the *City*) and Chicago Parking Meters, LLC (*CPM*). Capitalized terms not otherwise defined herein have the meanings provided for in the Concession Agreement.

Reference is also made to Section 8.1(c) of the Concession Agreement pursuant to which the Concessionaire's audited financial reports shall be delivered to the City following the end of each calendar year, along with a certification from the Concessionaire's chief financial officer. Enclosed herewith are CPM's audited balance sheet, statement of income, changes in equity and cash flows for the calendar year ended December 31, 2017, along with the notes thereto and the report from CPM's independent certified public accountants (the *Financial Statements*).

I, in my capacity as Chief Financial Officer of CPM, certify that the enclosed Financial Statements fairly present the financial condition and the results of operations, changes in equity and cash flows of CPM as of and for the calendar year ending December 31, 2017, all in accordance with generally accepted accounting principles in the United States consistently applied.

Sincerely,



Jean Ratty Chidley
Chief Financial Officer

CHICAGO PARKING METERS, LLC
(A Delaware Limited Liability Company)

Financial Statements

December 31, 2017 and 2016

(With Independent Auditors' Report Thereon)

CHICAGO PARKING METERS, LLC
(A Delaware Limited Liability Company)

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KPMG LLP
Aon Center
Suite 5500
200 E. Randolph Street
Chicago, IL 60601-6436

Independent Auditors' Report

To the Board of Directors
Chicago Parking Meters, LLC:

We have audited the accompanying financial statements of Chicago Parking Meters, LLC, which comprise the balance sheets as of December 31, 2017 and 2016, and the related statements of income, changes in members' equity, 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 U.S. generally accepted accounting principles; 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 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 the auditors' 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 Chicago Parking Meters, 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 U.S. generally accepted accounting principles.

KPMG LLP

Chicago, Illinois
April 25, 2018

CHICAGO PARKING METERS, LLC
(A Delaware Limited Liability Company)

Balance Sheets

December 31, 2017 and 2016

Assets	2017	2016
Current assets:		
Cash and cash equivalents	\$ 17,469,604	14,489,457
Accounts receivable	6,161,874	5,166,149
Other current assets	1,381,882	1,325,121
Total current assets	25,013,360	20,980,727
Fixed assets (net of accumulated depreciation of \$46,571,524 and \$44,482,760, respectively)	3,870,478	4,080,016
Intangible assets (net of accumulated amortization of \$135,640,193 and \$120,356,791, respectively)	1,010,614,993	1,025,898,395
Prepaid rent	789,723	1,245,357
Total assets	\$ 1,040,288,554	1,052,204,495
Liabilities and Members' Equity		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,293,081	1,367,758
Due to affiliate	338,820	275,895
Capital lease obligation	91,976	87,369
Other current liabilities	13,394,383	11,017,189
Total current liabilities	15,118,260	12,748,211
Other liabilities:		
Capital lease obligation	312,332	404,308
Long-term debt, net	795,419,390	794,120,639
Total other liabilities	795,731,722	794,524,947
Total liabilities	810,849,982	807,273,158
Members' equity	229,438,572	244,931,337
Total liabilities and members' equity	\$ 1,040,288,554	1,052,204,495

See accompanying notes to financial statements.

CHICAGO PARKING METERS, LLC
(A Delaware Limited Liability Company)

Statements of Income

Years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Income:		
Parking revenues	\$ 134,232,920	131,686,225
Total income	<u>134,232,920</u>	<u>131,686,225</u>
Cost of parking services:		
Credit card and other fees	6,283,903	6,247,470
Total cost of parking services	<u>6,283,903</u>	<u>6,247,470</u>
Gross profit	<u>127,949,017</u>	<u>125,438,755</u>
Expenses:		
Administrative management costs	2,981,040	2,644,467
General administrative costs	3,204,472	2,638,192
Operating expenses	8,565,313	8,081,590
Amortization of intangible assets	15,283,402	15,283,402
Depreciation	2,088,764	5,572,170
Management fees – affiliate	3,418,785	3,297,155
Total expenses	<u>35,541,776</u>	<u>37,516,976</u>
Net operating income	<u>92,407,241</u>	<u>87,921,779</u>
Other income (expense):		
Interest expense	(43,900,435)	(43,895,696)
Other income	429	136
Total other expense	<u>(43,900,006)</u>	<u>(43,895,560)</u>
Net income	<u>\$ 48,507,235</u>	<u>44,026,219</u>

See accompanying notes to financial statements.

CHICAGO PARKING METERS, LLC
(A Delaware Limited Liability Company)

Statements of Changes in Members' Equity

Years ended December 31, 2017 and 2016

	Deeside Investments Inc.	MS Infrastructure Investors LP	North Haven Infrastructure Partners LP	North Haven Infrastructure Partners A Sub LP	Total
Members' equity – January 1, 2016	\$ 133,271,696	1,702,882	29,763,169	99,167,371	263,905,118
Distributions	(31,584,267)	(409,331)	(7,158,495)	(23,847,907)	(63,000,000)
Net income	<u>22,116,350</u>	<u>285,572</u>	<u>4,992,036</u>	<u>16,632,261</u>	<u>44,026,219</u>
Members' equity – December 31, 2016	123,803,779	1,579,123	27,596,710	91,951,725	244,931,337
Distributions	(31,955,962)	(417,517)	(7,301,662)	(24,324,859)	(64,000,000)
Net income	<u>24,225,072</u>	<u>316,492</u>	<u>5,532,552</u>	<u>18,433,119</u>	<u>48,507,235</u>
Members' equity – December 31, 2017	<u>\$ 116,072,889</u>	<u>1,478,098</u>	<u>25,827,600</u>	<u>86,059,985</u>	<u>229,438,572</u>

See accompanying notes to financial statements.

CHICAGO PARKING METERS, LLC
(A Delaware Limited Liability Company)

Statements of Cash Flows

Years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Net income	\$ 48,507,235	44,026,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,088,764	5,572,170
Amortization of intangible assets	15,283,402	15,283,402
Amortization of deferred financing costs	1,298,751	1,298,751
Changes in assets and liabilities:		
Accounts receivable	(995,725)	(2,489,587)
Prepaid rent	455,634	473,032
Other current assets	(56,761)	(280,619)
Due to affiliate	62,925	(66,328)
Accounts payable	(76,741)	51,164
Other current liabilities	2,377,194	3,730,489
Net cash provided by operating activities	68,944,678	67,598,693
Cash flows from investing activities:		
Purchase of fixed assets	(1,964,531)	(897,103)
Cash used in investing activities	(1,964,531)	(897,103)
Cash flows from financing activities:		
Distributions to members	(64,000,000)	(63,000,000)
Cash used in financing activities	(64,000,000)	(63,000,000)
Net cash increase for year	2,980,147	3,701,590
Cash and cash equivalents at beginning of year	14,489,457	10,787,867
Cash and cash equivalents at end of year	\$ 17,469,604	14,489,457
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 42,603,351	42,489,388
Noncash activity:		
Capital expenditures incurred but not yet paid	\$ 227,913	717,526

See accompanying notes to financial statements.

CHICAGO PARKING METERS, LLC
(A Delaware Limited Liability Company)

Notes to Financial Statements

December 31, 2017 and 2016

(1) Organization

Chicago Parking Meters, LLC (the Company) was formed on November 18, 2008, for the purpose of owning the concession right for the Chicago Metered Parking System (the System) in Chicago, Illinois. On December 4, 2008 and February 3, 2009, the Company entered into a concession agreement (as amended and restated on June 5, 2013) and a side letter (collectively, the Agreements), respectively, pursuant to which, effective February 13, 2009 (the Concession Start Date), it leased the System for a 75-year term from the City of Chicago (the City) for a purchase price of \$1,151,355,186. The Company has an exclusive right and franchise during the lease term to operate and collect revenues from the System (Rights).

The members of the Company (Members) are Morgan Stanley Infrastructure Investors LP (MSII), North Haven Infrastructure Partners LP (NHIP) (formerly known as Morgan Stanley Infrastructure Partners LP), North Haven Infrastructure Partners A Sub LP (formerly known as Morgan Stanley Infrastructure Partners A Sub LP), (collectively with MSII and NHIP, the MSIP Partnerships), and Deeside Investments, Inc. (Deeside); the Members own 0.653%, 11.415%, 38.032%, and 49.900%, respectively, of the Company. The General Partner of the MSIP Partnerships (which own 50.100% of the Company in total) is Morgan Stanley Infrastructure GP LP, an affiliate of Morgan Stanley & Co Inc. (Morgan Stanley). Deeside is owned by two infrastructure investors who are not related to the MSIP Partnerships.

The Company's net income or net loss and each item of income, gain, loss, deduction, or expense included in the determination of such net income or net loss shall generally be allocated among the Members in proportion to each Member's percentage interest. The Company does not have a defined dissolution date.

(2) Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP).

(a) Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions 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 reporting period. Significant estimates and assumptions have been made with respect to the initial purchase price allocation and useful lives of assets. Actual results could differ from those estimates.

(b) Acquisition of Parking Meters

The fair values of the assets acquired pursuant to the Agreements were recorded as follows:

Equipment	\$ 5,100,000
Intangible assets	<u>1,146,255,186</u>
Purchase price	<u><u>\$ 1,151,355,186</u></u>

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December 31, 2017 and 2016

The Company used an income method, specifically the excess earnings method, to value the Agreements, which are recorded as intangible assets. Under the excess earnings method, the Company examined the expected economic returns contributed by the System's fixed assets and the Rights obtained under the Agreements, and then isolated the excess return, which were attributable to the Rights. The cost approach was used in the valuation of the equipment.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all cash and liquid investments with an initial maturity of three months or less. Throughout the period, the Company may have cash balances in excess of federally insured amounts on deposit with various financial institutions.

Amounts received by parking meters but not yet deposited into the bank account are treated as cash (deposits in transit) and are included in the cash and cash equivalents balance as of December 31, 2017 and 2016.

(d) Cost of Parking Services

Cost of parking services consists of interchange, assessment, and processing fees for credit card sales and transaction fees paid to the Company's mobile payment provider.

(e) Fixed Assets

Fixed assets are stated at cost and primarily consist of parking meters. The Company's fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values of such assets may not be recoverable. The Company's fixed assets are considered impaired when their estimated future undiscounted operating cash flows are less than the carrying values of such assets. To the extent impairment has occurred, the excess of carrying values of the Company's fixed assets over their estimated fair values will be charged to operations. No fixed assets impairment losses were recognized for the years ended December 31, 2017 and 2016.

Depreciation is provided on a straight-line basis over two years for computer software, three years for computer equipment, five years for land improvements, and seven years for equipment including parking meters. Maintenance and repairs are charged to expense when incurred. Expenditures for significant betterments and improvements that extend the economic lives of the fixed assets are capitalized.

(f) Intangible Assets

Intangible assets are stated at cost and consist of the Rights (\$1,146,255,186), which are amortized on a straight-line basis over 75 years, resulting in annual amortization of \$15,283,402 each year. The Company's definite-lived intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying values of such assets may not be recoverable. The Company's intangible assets are considered impaired when their estimated future undiscounted operating cash flows are less than the carrying values of such assets. To the extent impairment has occurred, the excess of carrying values of the Company's intangible assets over their estimated fair

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values will be charged to operations. No intangible asset impairment losses were recognized for the years ended December 31, 2017 and 2016.

(g) Leases

Base rent associated with operating leases is recorded monthly on a straight line basis over the term of the respective lease. Leased property and equipment meeting capital lease criteria are capitalized at the lower of the present value of the related lease payments or the fair value of the leased asset at the inception of the lease and are recorded as a component of fixed assets on the accompanying balance sheets. Depreciation is calculated on the straight-line method based on the shorter of the estimated economic useful life of the assets or lease term.

(h) Revenue Recognition

Parking revenues from transient parking at the Company's parking meters are recognized as cash is received for coin sales and as transactions are authorized for credit card sales. In May 2014, the Company implemented a mobile phone parking application. Parking revenues from customers using the Company's mobile phone parking application are recognized as parking transactions are authorized using customers' prepaid balances. Customers' prepaid balances of \$12,920,357 and \$10,710,999 are included in cash and cash equivalents and other current liabilities as of December 31, 2017 and 2016, respectively.

The Company is entitled to compensation from the City in accordance with the Agreements in the event that the City implements changes to the System, which reduces the Company's revenues (True-up Revenue). In addition, if the City implements certain changes to the System in accordance with the Agreements that result in an increase to the Company's revenue, the City has a right to a settlement credit, which results in a reduction of the Company's revenue. A settlement credit amount can only be used by the City as an offset against future True-up Revenue owed by the City to the Company, unless the Agreements are terminated prior to February 29, 2084. True-up Revenue and settlement credits are calculated and recognized when earned or incurred at the end of each quarter for the reporting year defined in the Agreements (May 31, August 31, November 30, and February 28). True-up Revenue amounts due from the City are recorded in accounts receivable on the accompanying balance sheets. Settlement credit amounts the City has not utilized to offset future True-up Revenue are recorded as other current liabilities on the accompanying balance sheets. Accounts receivable as of December 31, 2017 and 2016 includes \$6,108,854 and \$5,153,783, respectively, of True-up Revenue due from the City. No unapplied settlement credits were outstanding as of December 31, 2017 and 2016.

For the years ended December 31, 2017 and 2016, the Company recognized True-up Revenue of \$21,736,219 and \$15,740,662, respectively. These amounts are included in parking revenues on the accompanying statements of income.

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Based on the Agreements, the Company is entitled to receive exempt parkers annual excess loss revenue (EPAEL), equal to the loss of revenue to the Company due to exempt parkers utilizing the System free of charge that exceeds 6% of the Company's annual parking meter revenue (determined as of the end of February each year). Based on the annual parking meter revenues for the Agreement's reporting year ended February 29, 2016, the Company has recognized \$171,456 of EPAEL revenue for the year ended December 31, 2016. This amount is included in parking revenues on the accompanying statements of income.

Because the usage of the System by exempt parkers was not in excess of 6% of the annual parking meter revenues for the Agreement's reporting year ended February 28, 2017, no EPAEL revenue for the year ended December 31, 2017 has been recognized by the Company.

(i) *Income Taxes*

The Company is organized as a Limited Liability Company, treated as a disregarded entity for U.S. income tax purposes, and has no federal or state tax liability. No provision has been made for federal or state income taxes, as the liability for such taxes, if any, is that of the Members rather than the Company.

New tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the Act), was enacted on December 22, 2017. The Act, generally effective for taxable years beginning after December 31, 2017, makes significant changes to the U.S. federal income tax rules impacting businesses and their owners. While the Act is a complex revision to the U.S. federal income tax laws requiring subsequent rulemaking in a number of areas and in the interim may lead to some uncertainty, the Act will not impact the pass-through classification of the Company.

The Company's income tax returns are subject to examination by taxing authorities. Generally, the Company is subject to audit under the statute of limitations by taxing authorities for the year ended December 31, 2014 and subsequent years. As the application of tax laws and regulations related to many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the taxing authorities. The Company has assessed its tax position for all open tax years as of December 31, 2017 (2014-2017). There are no uncertain tax positions which require recognition in accordance with the provisions of FASB Accounting Standards Codification (ASC) 740, *Income Taxes*, as of December 31, 2017 and 2016.

(j) *Recently Issued or Adopted Accounting Standards*

In 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which outlines a comprehensive model for entities to use in accounting for revenue arising from contracts with customers. ASU 2014-09 states that "an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services." ASU 2014-09 is effective for nonpublic entities for annual reporting periods beginning after December 15, 2018. The Company is continuing to evaluate this guidance (and related clarifying guidance issued by the FASB) and its impact on the financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. ASU 2015-03 requires retrospective application and represents a change in accounting principle. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015. The Company adopted ASU 2015-03 for the year ended December 31, 2016 on a retrospective basis and reclassified debt issuance costs from deferred financing costs to a direct reduction from the carrying amount of long-term debt (note 5).

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which makes certain changes to the existing leasing standard including changes to (1) require lessees to recognize lease assets and lease liabilities, including operating leases, on the balance sheet, and (2) increase disclosure requirements for key information about lease transactions. ASU 2016-02 is effective for the Company beginning January 1, 2020, with early adoption permitted, and mandates a modified retrospective transition method for all entities. The Company is continuing to evaluate this guidance and its impact on the financial statements.

(3) Operating Agreement

The System is managed by LAZ Parking Chicago, LLC (LAZ) pursuant to the terms of a management agreement. LAZ is paid a management fee equal to 0.5% of net operating income, as defined in the Operations and Maintenance Agreement between LAZ and the Company (the LAZ Agreement), and is reduced by \$12,939 each month beginning in April 2012 through February 2016. Effective March 1, 2016, management fees under the LAZ Agreement are \$350,000 annually, increasing at a rate of 1% each year. In addition, in the Company's sole and absolute discretion, LAZ can earn an annual incentive management fee of up to \$100,000. The management fees incurred for the years ended December 31, 2017 and 2016 were \$452,917 and \$434,429, respectively, and are recorded in administrative management costs on the accompanying statements of income.

(4) Transactions with Related Parties

The Company is managed by AMI Group, LLC, f/k/a Chicago Parking Services, LLC (AMI), an entity which is also owned by the MSIP Partnerships. AMI charges the Company for the costs of its services plus a fee equal to 10% of such costs. The Company incurred costs and fees totaling \$3,418,785 and \$3,297,155 during the years ended December 31, 2017 and 2016, respectively, and owed AMI \$338,820 and \$275,895 at December 31, 2017 and 2016, respectively. This amount is included as due to affiliate on the accompanying balance sheets.

(5) Long-Term Debt

On November 9, 2010, the Company issued \$600,000,000 of debt through a Senior Secured Notes (the 2020 Notes) offering. The 2020 Notes bear interest at 5.489%, and require payments of interest semiannually on June 30 and December 30, commencing on December 30, 2010. The 2020 Notes mature on December 30, 2020. As of the date of this report, the Company is in compliance with all covenants under this offering.

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Notes to Financial Statements

December 31, 2017 and 2016

On July 17, 2014, the Company issued \$200,000,000 of debt through a Senior Secured Notes (the 2024 Notes) offering. The 2024 Notes bear interest at 4.52%, and require payments of interest semiannually on June 30 and December 30, commencing on December 30, 2014. The 2024 Notes mature on July 15, 2024. An affiliate of one of the Deeside investors purchased \$65,000,000 of the 2024 Notes. As of the date of this report, the Company is in compliance with all covenants under this offering.

The 2020 Notes and 2024 Notes are secured by a first priority lien on substantially all of the Company's tangible and intangible assets, including, without limitation, those assets related to the operation, maintenance, and rehabilitation of the System, the Company's interests in the Agreements, and a lien on substantially all of the Company's accounts, including the liquidity reserve account. In addition, the 2020 Notes and 2024 Notes are secured by a first priority security interest in all the limited liability company interests.

Pursuant to the terms of the 2020 Notes and 2024 Notes, the Company is required to maintain a \$25,000,000 liquidity reserve deposit account or letter of credit of equal amount. The Company has obtained a \$25,000,000 letter of credit to satisfy this requirement. There have been no drawdowns on the \$25,000,000 letter of credit.

Financing costs associated with obtaining debt have been capitalized and are amortized over the term of the debt as a component of interest expense. Debt issuance costs of \$4,580,610 and \$5,879,361 at December 31, 2017 and 2016, respectively, are recorded as a direct deduction from the carrying amount of the Company's debt balance within the accompanying balance sheets and are reflected net of accumulated amortization of \$8,406,907 and \$7,108,156 respectively. Amortization expense related to debt issuance costs and included in interest expense within the accompanying statements of income was \$1,298,751 for the years ended December 31, 2017 and 2016.

(6) Leases

On July 17, 2009, the Company entered into a sublease (the Sublease) with Chicago Loop Parking, LLC (Loop), a company wholly owned by the MSIP Partnerships, in which the Company rents a warehouse with related office space on 17,417 square feet of the Loop's property (the Rental Space) for a ten-year period beginning with the Company's initial occupancy of the Rental Space on November 1, 2009 (the Commencement Date). The construction of the Rental Space was paid by Loop. Effective January 31, 2014, Loop assigned its interest in the Sublease to a third party. The Sublease is for a ten-year term subject to two extension options of five years each. Rent payments are as follows: (i) \$2,500,000 in sublease rent was paid by the Company upon execution of the Sublease, (ii) \$481,390 of annual base rent is payable by the Company in monthly installments starting on the Commencement Date, (iii) \$2,500,000 of additional sublease rent was paid by the Company on the first anniversary of the Commencement Date, and (iv) starting on the first anniversary of the Commencement Date, the annual base rent (including base rent during the extended lease term, if the options are exercised) increases in accordance with the U.S. Consumer Price Index, but in no event by less than 3%.

Rent expense for the years ended December 31, 2017 and 2016 was \$1,052,954. Rent paid by the Company and deferred until future periods is \$789,723 and \$1,245,357 as of December 31, 2017 and 2016, respectively, and is included as prepaid rent on the accompanying balance sheets.

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December 31, 2017 and 2016

Minimum future rental payments under the noncancelable operating lease as of December 31, 2017 are as follows:

	2018		\$	615,240
	2019			525,453
				<u>525,453</u>
			\$	<u><u>1,140,693</u></u>

In 2016, the Company entered into a vehicle lease agreement with Enterprise FM Trust with a lease term of 60 months. This lease agreement is accounted for as a capital lease in the financial statements. Property under capital leases are included in fixed assets as follows:

	<u>December 31, 2017</u>		<u>December 31, 2016</u>
Asset class:			
Vehicles	\$ 546,536		546,536
Less accumulated amortization	<u>(109,307)</u>		<u>—</u>
Total	<u>\$ 437,229</u>		<u><u>546,536</u></u>

Future rental payments under the capital lease as of December 31, 2017 are as follows:

	2018		\$	118,129
	2019			118,129
	2020			118,129
	2021			113,700
				<u>113,700</u>
			\$	<u><u>468,087</u></u>

(7) Commitments and Contingencies

Litigation

The Company may be subject to litigation in the normal course of business. Management uses guidance from legal counsel relating to the potential outcome of any litigation when determining the need to record liabilities for potential losses and the disclosure of pending legal claims. In management's opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a materially adverse effect on the Company's financial position, results of operations, or liquidity.

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(8) Subsequent Events

The Company has evaluated events subsequent to December 31, 2017 through April 25, 2018, the date of the financial statement issuance, and no additional events required disclosure.