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 29, 2019

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, as amended by the First Amendment to Amended and Restated Chicago Metered Parking System Concession Agreement, dated as of August 2, 2017 (the ***Concession Agreement***), by and 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, 2018, 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, 2018, all in accordance with generally accepted accounting principles in the United States consistently applied.

Sincerely,

Jean R. Chidley

Jean Ratty Chidley
Chief Financial Officer

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

Financial Statements

December 31, 2018 and 2017

(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

The Members
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, 2018 and 2017, and the related statements of comprehensive 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, 2018 and 2017, 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 26, 2019

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

Balance Sheets

December 31, 2018 and 2017

Assets		**2018**	**2017**
Current assets:			
Cash and cash equivalents	$	23,112,527	17,469,604
Accounts receivable		5,022,920	6,161,874
Other current assets		1,117,823	1,381,882
Total current assets		29,253,270	25,013,360
Fixed assets (net of accumulated depreciation of $48,323,302 and $46,571,524, respectively)		27,752,385	3,870,478
Intangible assets (net of accumulated amortization of $150,923,595 and $135,640,193, respectively)		995,331,591	1,010,614,993
Prepaid rent		352,008	789,723
Total assets	$	1,052,689,254	1,040,288,554
Liabilities and Members' Equity			
Liabilities:			
Current liabilities:			
Accounts payable	$	5,812,118	1,293,081
Accrued interest payable		71,901	—
Due to affiliate		404,839	338,820
Capital lease obligation		98,856	91,976
Other current liabilities		13,214,676	13,394,383
Total current liabilities		19,602,390	15,118,260
Other liabilities:			
Capital lease obligation		213,477	312,332
Long-term debt, net		819,629,145	795,419,390
Total other liabilities		819,842,622	795,731,722
Total liabilities		839,445,012	810,849,982
Members' equity		213,244,242	229,438,572
Total liabilities and members' equity	$	1,052,689,254	1,040,288,554

See accompanying notes to financial statements.

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

Statements of Comprehensive Income

Years ended December 31, 2018 and 2017

		2018	2017
Income:			
Parking revenues	$	132,784,765	134,232,920
Total income		132,784,765	134,232,920
Cost of parking services:			
Credit card and other fees		6,497,310	6,283,903
Total cost of parking services		6,497,310	6,283,903
Gross profit		126,287,455	127,949,017
Expenses:			
Administrative management costs		3,795,065	2,981,040
General administrative costs		3,061,871	3,204,472
Operating expenses		9,122,679	8,565,313
Amortization of intangible assets		15,283,402	15,283,402
Depreciation		1,751,778	2,088,764
Management fees – affiliate		3,910,364	3,418,785
Total expenses		36,925,159	35,541,776
Net operating income		89,362,296	92,407,241
Other income (expense):			
Interest expense		(44,451,195)	(43,900,435)
Other income		261,125	429
Total other expense, net		(44,190,070)	(43,900,006)
Net income		45,172,226	48,507,235
Other comprehensive loss:			
Loss on cash flow hedges		(11,866,556)	—
Comprehensive income	$	33,305,670	48,507,235

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, 2018 and 2017

	Deeside Investments Inc.	MS Infrastructure Investors LP	North Haven Infrastructure Partners LP	North Haven Infrastructure Partners A Sub LP	Accumulated Other Comprehensive Loss	Total
Members' equity – January 1, 2017	$ 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	24,225,072	316,492	5,532,552	18,433,119	—	48,507,235
Members' equity – December 31, 2017	116,072,889	1,478,098	25,827,600	86,059,985	—	229,438,572
Distributions	(24,855,589)	(321,104)	(5,615,557)	(18,707,750)	—	(49,500,000)
Net income	22,696,030	292,954	5,121,070	17,062,172	—	45,172,226
Other comprehensive loss	—	—	—	—	(11,866,556)	(11,866,556)
Members' equity – December 31, 2018	$ 113,913,330	1,449,948	25,333,113	84,414,407	(11,866,556)	213,244,242

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Net income	$	45,172,226	48,507,235
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation		1,751,778	2,088,764
Amortization of intangible assets		15,283,402	15,283,402
Amortization of deferred financing costs		1,320,233	1,298,751
Amortization of interest rate derivatives		383,444	—
Changes in assets and liabilities:			
Accounts receivable		1,138,954	(995,725)
Prepaid rent		437,715	455,634
Other current assets		264,059	(56,761)
Due to affiliate		66,019	62,925
Accounts payable		102,557	(76,741)
Accrued interest payable		71,901	—
Other current liabilities		(179,707)	2,377,194
Net cash provided by operating activities		65,812,581	68,944,678
Cash flows from investing activities:			
Purchase of fixed assets		(21,309,180)	(1,964,531)
Cash used in investing activities		(21,309,180)	(1,964,531)
Cash flows from financing activities:			
Long-term debt proceeds		23,000,000	—
Payment for settlement of interest rate derivatives		(12,250,000)	—
Payment of debt issuance costs		(110,478)	—
Distributions to members		(49,500,000)	(64,000,000)
Net cash used in financing activities		(38,860,478)	(64,000,000)
Net cash increase for year		5,642,923	2,980,147
Cash and cash equivalents at beginning of year		17,469,604	14,489,457
Cash and cash equivalents at end of year	$	23,112,527	17,469,604
Supplemental disclosure of cash flow information:			
Cash paid for interest	$	42,789,256	42,603,351
Noncash activity:			
Capital expenditures incurred but not yet paid	$	4,644,393	227,913

See accompanying notes to financial statements.

(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	1,146,255,186
Purchase price	$ 1,151,355,186

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, 2018 and 2017.

(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, 2018 and 2017.

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 values will be charged to operations. No intangible asset impairment losses were recognized for the years ended December 31, 2018 and 2017.

(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 $12,099,874 and $12,920,357 are included in cash and cash equivalents and other current liabilities as of December 31, 2018 and 2017, 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, 2018 and 2017 includes $4,925,024 and $6,108,854, respectively, of True-up Revenue due from the City. No unapplied settlement credits were outstanding as of December 31, 2018 and 2017.

For the years ended December 31, 2018 and 2017, the Company recognized True-up Revenue of $17,371,527 and $21,736,219, respectively. These amounts are included in parking revenues on the accompanying statements of comprehensive income.

(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, 2015 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, 2018 (2015-2018). 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, 2018 and 2017.

(j) Derivative Instruments

The Company accounts for derivatives in accordance with applicable accounting literature, which requires that all derivatives be recognized as either an asset or liability in the balance sheets and be measured at fair value. The accounting for changes in the fair value of derivative instruments is dependent upon whether the applicable instrument has been formally designated as a hedging instrument. Derivative instruments that are designated and qualify as hedging instruments must be designated, based upon the exposure being hedged, as a fair value or a cash flow hedge. The Company has designated its derivatives as cash flow hedging instruments. When an effective hedge is terminated and the forecasted/hedged transactions remain probable of occurring, the amounts the Company previously recorded to other comprehensive income/loss in members' equity will be reclassified into income as the forecasted transactions occur. Subsequent changes in the fair value of the derivative will be recorded into income.

(k) 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." In 2015, the FASB provided for a one-year deferral of the effective date for ASU 2014-09 which is now effective as of January 1, 2019. The Company is currently evaluating this guidance and its impact on the financial statements.

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) Interest Rate Derivatives

On June 20, 2018, the Company entered into (1) a 10 year interest rate swaption collar with a third party for a notional amount of $300,000,000 and (2) a 15 year interest rate swaption collar with the same third party for a notional amount of $300,000,000, each with an effective date of December 31, 2020.

The Company's risk management objective and strategy with respect to these interest rate swaption collars is to protect the Company against adverse fluctuations in interest rates by reducing its exposure to variability in cash flows relating to interest payments on a forecasted issuance of long-term debt (see Notes 6 and 9). The Company is meeting its objective by entering into swaption collars to hedge the risk of changes in its cash flows (interest payments) attributable to changes in the 3 month USD-LIBOR swap rate, the designated benchmark interest rate being hedged, above the purchased swaption fixed rate of 3.54% and below the sold receiver swaption fixed rate of 2.75%.

The Company has designated the derivatives as cash flow hedges of interest rate risk. On December 24, 2018, the Company settled the derivatives for $12,250,000. Because the tenor of the debt issuance that the derivatives were meant to hedge (see Note 9) did not match the derivatives, only $11,866,556 of the related loss on cash flow hedges is recorded in accumulated other comprehensive loss in members' equity. The remaining $383,444 is recorded in interest expense on the accompanying statements of comprehensive income.

(4) Operating Agreement

The System is managed by LAZ Parking Chicago, LLC (LAZ) pursuant to the terms of a management agreement. Effective March 1, 2016, management fees paid to LAZ under the 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, 2018 and 2017 were $456,446 and $452,917, respectively, and are recorded in administrative management costs on the accompanying statements of comprehensive income.

(5) 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 $3,910,364 and $3,418,785 during the years ended December 31, 2018 and 2017, respectively, and owed AMI $404,839 and $338,820 at

December 31, 2018 and 2017, respectively. This amount is included as due to affiliate on the accompanying balance sheets.

(6) 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.

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.

On September 17, 2018, the Company entered into an unsecured credit agreement with Bank of America, N.A., (the Credit Facility) whereby the Company can borrow up to $23,000,000 with a maximum of five draws no later than January 17, 2019. As of December 31, 2018, the Company has borrowed $23,000,000 under the Credit Facility which bears interest at 1-month LIBOR plus 2.75%. Interest is payable monthly with equal monthly principal payments due beginning on January 31, 2019 and on the last day of each month thereafter with the final principal payment due on the maturity date of March 17, 2020.

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 $3,370,855 and $4,580,610 at December 31, 2018 and 2017, 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 $9,727,140 and $8,406,907, respectively. Amortization expense related to debt issuance costs and included in interest expense within the accompanying statements of comprehensive income was $1,320,233 and $1,298,751 for the years ended December 31, 2018 and 2017, respectively.

(7) 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, 2018 and 2017 was $1,052,954 and is recorded in general administrative costs on the accompanying statements of comprehensive income. Rent paid by the Company and deferred until future periods is $352,008 and $789,723 as of December 31, 2018 and 2017, respectively, and is included as prepaid rent on the accompanying balance sheets.

Minimum future rental payments under the noncancelable operating lease as of December 31, 2018 are as follows:

2019	$	525,453

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:

		December 31, 2018	December 31, 2017
Asset class:			
Vehicles	$	546,536	546,536
Less accumulated amortization		(218,614)	(109,307)
Total	$	327,922	437,229

Future rental payments under the capital lease as of December 31, 2018 are as follows:

2019	$	118,129
2020		118,129
2021		113,700
	$	349,958

(8) 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.

(9) Subsequent Events

The Company has evaluated events subsequent to December 31, 2018 through April 26, 2019, the date of the financial statement issuance.

On January 30, 2019, the Company issued $900,000,000 of debt consisting of $353,000,000 of Senior Secured Notes due December 30, 2025 (the 2025 Notes), $389,000,000 of Senior Secured Notes due December 30, 2033 (the 2033 Notes), and $158,000,000 of Senior Secured Notes due December 30, 2038 (the 2038 Notes). The proceeds from the offering were used to prepay the 2020 Notes, the 2024 Notes, and the Credit Facility. In addition, the proceeds were used to pay expenses associated with the transaction and fund a distribution to the Members.