

# CHICAGO LOOP PARKING, LLC

Corporation Counsel  
City of Chicago  
6th Floor, City Hall  
121 North LaSalle Street  
Chicago, Illinois 60602  
Attention: Finance and Economic Development Division

City of Chicago  
Department of Finance  
33 North LaSalle Street, 6th Floor  
Chicago, Illinois 60602  
Attention: Chief Financial Officer

July 19, 2013

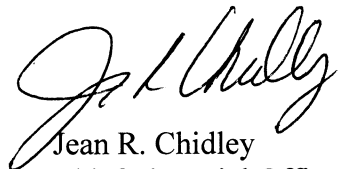
**RE: Concessionaire's Financial Reports due under the Chicago Downtown Public Parking System Concession and Lease Agreement**

Ladies and Gentlemen:

Reference is made to the Chicago Downtown Public Parking System Concession and Lease Agreement dated November 3, 2006 (the *Concession Agreement*) between the City of Chicago (the *City*) and Chicago Loop Parking, LLC (*CLP*). 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 Reporting Year. Enclosed herewith are CLP's audited balance sheet, statement of income, changes in equity and cash flows for the Reporting Year ended December 31, 2012, along with the notes thereto and the report from CLP's independent certified public accountants (the *Financial Statements*).

Sincerely,

  
Jean R. Chidley  
Chief Financial Officer

# Chicago Loop Parking, LLC

(A Delaware Limited Liability Company)

Financial Statements as of and for the  
Year Ended December 31, 2012, and  
Independent Auditors' Report

**CHICAGO LOOP PARKING, LLC**  
**(A Delaware Limited Liability Company)**

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## INDEPENDENT AUDITORS' REPORT

To the Members of  
Chicago Loop Parking, LLC:

We were engaged to audit the accompanying financial statements of Chicago Loop Parking, LLC (a Delaware limited liability company) (the "Company"), which comprise the balance sheet as of December 31, 2012, and the related statements of operations, changes in members' equity and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with auditing standards generally accepted in the United States of America. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### Basis for Disclaimer of Opinion

The Company's fixed assets and intangible assets related to the parking facilities are carried at \$374,968,119 and \$195,525,300, respectively, on the balance sheet as of December 31, 2012. The Company did not determine the fair value of the parking facilities (including intangible assets) for purposes of assessing impairment under Accounting Standards Codification (ASC) 360 *Property, Plant and Equipment* and ASC 350 *Intangibles — Goodwill and Other*. In addition, the Company did not estimate the fair value of the interest rate swaps used to manage interest rate risk on the Company's variable-rate credit facility. As a result of these matters, we were unable to (1) determine whether any adjustments might have been found necessary relating to the Company's fixed assets, intangible assets, and interest rate swaps, and the elements making up the statements of operations, changes in members' equity and cash flows and (2) assess the impact on adoption of the new accounting pronouncement regarding the disclosure of Level 3 fair value measurements.

### Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on these financial statements.

**Emphasis of Matter Regarding Going Concern**

The accompanying financial statements for the year ended December 31, 2012 have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the Company is not in compliance with certain restrictive covenants required as part of its Credit Facility, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to this matter are also described in Note 3. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

July 16, 2013

**CHICAGO LOOP PARKING, LLC**  
**(A Delaware Limited Liability Company)**

**BALANCE SHEET**  
**AS OF DECEMBER 31, 2012**

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**ASSETS**

CURRENT ASSETS:

Cash and cash equivalents	\$ 3,958,279
Restricted cash	3,057,517
Accounts receivable	63,136
Other current assets	<u>863,333</u>

Total current assets 7,942,265

FIXED ASSETS (Net of accumulated depreciation and  
amortization of \$41,900,143) 374,968,119

INTANGIBLE AND OTHER ASSETS (Net of accumulated  
amortization of \$15,812,322) 198,384,362

TOTAL \$581,294,746

**LIABILITIES AND MEMBERS' EQUITY**

CURRENT LIABILITIES:

Accounts payable	\$ 491,215
Accrued construction costs	1,470,399
Credit facility	378,160,227
Interest rate swaps	108,673,837
Other current liabilities	<u>2,703,623</u>

Total current liabilities 491,499,301

LONG-TERM LIABILITIES:

Long-term liabilities 2,714,634

Total long-term liabilities 2,714,634

Total liabilities 494,213,935

MEMBERS' EQUITY 87,080,811

TOTAL \$581,294,746

See notes to financial statements.

**CHICAGO LOOP PARKING, LLC**  
**(A Delaware Limited Liability Company)**

**STATEMENT OF OPERATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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INCOME:	
Transient parkers	\$ 21,911,495
Monthly parking	6,822,200
Subtenant revenue	1,811,471
Other	<u>33,398</u>
Total income	<u>30,578,564</u>
COST OF PARKING SERVICES:	
Parking tax	5,893,727
Credit card fees	<u>512,098</u>
Total cost of parking services	<u>6,405,825</u>
GROSS PROFIT	<u>24,172,739</u>
EXPENSES:	
Operating	4,517,818
Salaries and benefits	1,879,479
Management fees	892,629
General and administrative	6,893,175
Depreciation	7,682,590
Amortization	<u>2,109,675</u>
Total expenses	<u>23,975,366</u>
OPERATING INCOME	<u>197,373</u>
OTHER INCOME (EXPENSES):	
Dividend income	11
Interest income	1,424
Interest expense	(6,415,433)
Swap-related losses	<u>(5,674,240)</u>
Total other expenses	<u>(12,088,238)</u>
NET LOSS	<u>\$ (11,890,865)</u>

See notes to financial statements.

**CHICAGO LOOP PARKING, LLC**  
**(A Delaware Limited Liability Company)**

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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	<b>CMP A</b> <b>Holdings, LLC</b>	<b>CMP B</b> <b>Holdings, LLC</b>	<b>Total</b>
MEMBERS' EQUITY — January 1, 2012	\$ 38,518,808	\$ 38,518,809	\$ 77,037,617
Contributions	10,967,030	10,967,029	21,934,059
Net loss	<u>(5,945,433)</u>	<u>(5,945,432)</u>	<u>(11,890,865)</u>
MEMBERS' EQUITY — December 31, 2012	<u>\$ 43,540,405</u>	<u>\$ 43,540,406</u>	<u>\$ 87,080,811</u>

See notes to financial statements.



**CHICAGO LOOP PARKING, LLC**  
**(A Delaware Limited Liability Company)**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

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OPERATING ACTIVITIES:	
Net loss	\$(11,890,865)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	7,682,590
Amortization of intangible and other assets	2,109,675
Amortization of deferred financing fees	587,329
Deferred rent — long-term portion	(522,491)
Changes in assets and liabilities:	
Accounts receivable	30,028
Other current assets	(734,305)
Accounts payable	261,893
Other current liabilities	<u>(1,129,364)</u>
Net cash used in operating activities	<u>(3,605,510)</u>
INVESTING ACTIVITIES:	
Restricted cash	5,420,597
Additions to fixed assets	<u>(37,216,751)</u>
Net cash used in investing activities	<u>(31,796,154)</u>
FINANCING ACTIVITIES	
Borrowings on credit facility	14,622,411
Principal payments on credit facility	(610,990)
Financing costs	(38,841)
Contributions	<u>21,934,059</u>
Net cash provided by financing activities	<u>35,906,639</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	504,975
CASH AND CASH EQUIVALENTS — Beginning of year	<u>3,453,304</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 3,958,279</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW	
ACTIVITY — Cash paid for interest	<u>\$ 5,828,104</u>
NONCASH INVESTING ACTIVITY — Capital expenditures incurred but not yet paid	<u>\$ 1,470,399</u>

See notes to financial statements.

**CHICAGO LOOP PARKING, LLC**  
**(A Delaware Limited Liability Company)**

**NOTES TO FINANCIAL STATEMENTS**  
**AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012**

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**1. ORGANIZATION**

Chicago Loop Parking, LLC (the “Company”) was formed on September 29, 2006, for the purpose of operating four underground parking facilities, which comprise the Chicago Downtown Parking System (the “System”) in Chicago, Illinois. On December 15, 2006, the Company entered into a concession and lease agreement (the “C&L Agreement”) pursuant to which it leased the System for a 99-year term from the City of Chicago for a purchase price of \$563 million. The Company has an exclusive right and franchise for and during the lease term to use, possess, operate, manage, maintain, rehabilitate, and charge and collect parking fee revenues and other revenues in connection with using the assets of the System for parking garage purposes.

The members of the Company are CMP A Holdings, LLC (“CMP A”) and CMP B Holdings, LLC (“CMP B”), both of which own a 50% member interest in the Company. CMP A and CMP B are owned by Morgan Stanley Infrastructure Partners LP, Morgan Stanley Infrastructure Partners A Sub LP, and Morgan Stanley Infrastructure Investors LP (collectively, the “MSIP Partnerships”). The general partner of the MSIP Partnerships is Morgan Stanley Infrastructure GP LP, an affiliate of Morgan Stanley & Co. Inc. (“Morgan Stanley”).

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** — The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, except that the Company (1) did not determine the fair value of the parking facilities for purposes of assessing impairment under Accounting Standards Codification (ASC) 360 *Property, Plant, and Equipment* and ASC 350 *Intangibles — Goodwill and Other* and (2) did not estimate the fair value of the interest rate swaps used to manage interest rate risk on the Company’s variable-rate credit facility. As a result, the Company’s financial statements do not reflect any adjustments that might have been determined.

**Use of Estimates** — The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America 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 include the initial purchase price allocation, useful lives of assets, and fair values of financial instruments, including credit valuation adjustments. Actual results could differ from those estimates.

**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 year, the Company may have cash balances in excess of federally insured amounts on deposit with various financial institutions.

**Restricted Cash** — Restricted cash includes an amount on deposit with a third-party lender under the credit facility (the “Credit Facility”) (see Note 4) for the payment of future construction costs.

Restricted cash on deposit with a third-party lender at January 1, 2012 that was borrowed under the Credit Facility for the payment of construction costs, was disbursed on January 11, 2012 to the contractor, architect, and construction manager, as well as to the Company for reimbursement of construction costs.

**Fixed Assets** — Fixed assets are recorded at cost less accumulated depreciation.

Depreciation is provided on a straight-line basis over 99 years for the ground lease, 40 years for buildings and improvements, and up to five years for furniture, fixtures, and equipment. 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.

As of December 31, 2012, fixed-asset balances consist of the following:

Ground lease	\$ 159,800,492
Buildings and improvements	253,870,232
Furniture, fixtures, and equipment	<u>3,197,538</u>
	416,868,262
Accumulated depreciation	<u>(41,900,143)</u>
Total fixed assets — net	<u>\$ 374,968,119</u>

The System'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 System'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 System's fixed assets over their estimated fair values will be charged to operations.

During 2012, the Company determined that an indicator of impairment existed pursuant to ASC 360, however, the Company did not estimate the fair value of the parking facilities (including intangible assets) for purposes of assessing and recording an impairment charge, if any, as of December 31, 2012.

Under the terms of the C&L Agreement, the Company is required to rehabilitate the East Monroe Street Garage (the "Required Capital Improvements"). On April 4, 2011, as a condition precedent to begin drawing on Tranche B (see Note 4), the Company submitted a draft construction contract for the Required Capital Improvements to the Lender for review and approval. The draft construction contract was approved by the Lender on April 29, 2011. The contractor was given a notice to proceed with the Required Capital Improvements on May 3, 2011. On July 30, 2012, with the issuance of a temporary certificate of occupancy by the City, the first phase of the Required Capital Improvements was substantially completed. The Company expects to incur approximately \$8.5 million of additional costs to complete the final phase of the Required Capital Improvements.

**Intangible and Other Assets** — Intangible and other assets are stated at cost less accumulated amortization and consist of the C&L Agreement which is amortized on a straight-line basis over 99 years and deferred financing fees which are amortized on a straight-line basis over 10 years, the life of the Credit Facility included in current liabilities on the balance sheet (see Note 4). The Company expects the annual amortization of the C&L Agreement for the next five years to be \$2,103,397. The

straight-line amortization of deferred financing fees is recorded as a component of interest expense and approximates the effective interest method.

As of December 31, 2012, intangible and other assets balances consist of the following:

C&L Agreement	\$ 208,236,325
Deferred financing fees	5,920,085
Other	<u>40,274</u>
	214,196,684
Accumulated amortization	<u>(15,812,322)</u>
Total intangible and other assets — net	<u>\$ 198,384,362</u>

**Derivatives** — The Company holds derivative contracts for the benefit of the Company to minimize the effect of fluctuations in interest rates. By entering into these transactions, the Company intends to economically hedge a significant portion of the Company's exposure to adverse movements in interest rates.

The counterparties to these contracts are major financial institutions. The exposure to each counterparty is reported as either an asset or liability on the balance sheet. At December 31, 2012, the Company's exposure was a liability to three major financial institutions. Derivative transactions give rise to varying degrees of market and credit risk dependent upon the counterparties used, strategies employed and fluctuations in the underlying market conditions. The credit risk associated with derivative instruments arises from possible counterparty nonperformance and is limited to the aggregate unrealized loss of instruments in an unrealized loss position. The Company seeks to mitigate these risks by executing these transactions with major financial institutions.

An interest rate swap involves an agreement to pay the counterparty to the agreement a fixed or floating interest rate on a predetermined notional amount and to receive a fixed or floating interest rate on the same notional amount. Net cash payments are made at certain agreed-upon points during the life of the swap agreement and at termination, with the difference between the two interest calculations being paid by one party to the other on each payment date. Unrealized gains or losses on the swap contract are calculated as the difference between the present value of the future cash flows to be received and to be paid pursuant to the agreement. Such unrealized gains and losses are reported as an asset or liability on the balance sheet. As cash is received and paid under the swap, the net differential in cash flows is recognized over the life of the agreement as a gain or loss on derivative instruments.

The interest rate swaps do not qualify as cash flow hedges for accounting purposes, however, the Company did not enter into these derivative instruments for any purpose other than cash flow hedging purposes. At December 31, 2012, the Company did not estimate or record the fair value of the interest rate swaps and, therefore, no unrealized gain or loss was recorded for the year ended December 31, 2012.

**Fair Value of Financial Instruments** — The carrying values of cash and cash equivalents, accounts receivable, and accounts payable approximate their fair values due to the short-term nature of these financial instruments. Based on borrowing rates available to the Company at the end of 2012 and for

notes with similar terms, collateral, maturities, and credit risk, the estimated fair value of the Credit Facility was \$379,134,746 at December 31, 2012.

Other than derivative instruments as of December 31, 2012 as discussed above, the Company has utilized market information as available or present value techniques to estimate the fair values of financial instruments required to be disclosed. Since such values are estimates, there can be no assurance the fair value of any financial instrument would be realized upon immediate settlement of the instrument.

**Other Long-Term Liabilities** — Rent collected from subtenants in excess of subtenant revenue recognized is recorded as deferred rent; the portion of deferred rent that will not be recognized in subtenant revenue in the next 12 months is recorded within other long-term liabilities. The long-term portion of deferred rent recorded as long-term liabilities was \$2,714,634 at December 31, 2012 (see Note 6).

**Revenue Recognition** — Parking revenues from transient parking are recognized as cash is received. Parking revenues from monthly parking customers are recognized on a monthly basis, based on the terms of the underlying contracts. To the extent that the Company has received cash from customers during the year for parking periods in subsequent fiscal periods, the Company classifies such receipts as deferred revenues. Recoveries from customers for parking taxes are recognized as income in the periods the related costs are incurred and aggregated \$5,893,727 during the year ended December 31, 2012.

**Subtenant Revenue** — Rent from subtenants is recognized as subtenant revenue on a monthly basis based on the terms of the underlying contracts for those subtenants that do not have long-term sublease obligations to the Company. For subtenants with long-term sublease obligations to the Company, the Company recognizes as monthly subtenant revenue the total amount of rent due under the sublease agreement, including minimum rent escalation, divided by the number of months of the sublease agreement.

**Income Taxes** — 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. Open tax years under the applicable statutory limitations for federal and all state jurisdictions include tax years for 2012, 2011, 2010, 2009 and 2008.

**Recent Pronouncement** — In May 2011, the Financial Accounting Standards Board issued new guidance which expands the qualitative and quantitative fair value disclosure requirements for Level 3 fair value measurements. This guidance was effective for the year ended December 31, 2012. However the Company did not estimate the fair value of its derivatives or parking facilities (including intangible assets), which are generally Level 3 instruments. Therefore, the Company was not able to implement this guidance in the financial statements.

### 3. GOING CONCERN

The Company's ability to continue as a going concern is dependent on its ability to refinance or modify its Credit Facility. The Company was not in compliance with certain restrictive covenants as of December 31, 2012 (see Note 4). In order to refinance or modify the Credit Facility, certain restrictive covenants must be met, or waived by the Lender, the most restrictive of which requires that as of any calculation date, the interest coverage ratio and the projected interest coverage ratio must exceed a ratio of 1.05 to 1. Given the operating performance of the Company, management's ability to refinance or modify the Credit Facility is in question. In the event the Credit Facility cannot be refinanced or modified, management will consider all available options, however, there is a risk that such transactions

may not materialize or be completed. If the Company is unable to refinance or modify the Credit Facility, the Lender could trigger foreclosure or other remedies legally available to them, which could significantly impact the Company's operations, liquidity and cash flows. Under the terms of the C&L Agreement, the Company can transfer its interest in the C&L Agreement to the Lender as a leasehold mortgagee without the City's prior consent and without triggering a default of the C&L Agreement.

Due to the uncertainties described above, there is substantial doubt about whether the Company will be able to continue as a going concern. The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classifications of liability amounts that may be necessary if the Company is unable to continue as a going concern.

#### **4. CREDIT FACILITY AND DERIVATIVE INSTRUMENT**

**Credit Facility** — On December 15, 2006, as amended, the Company entered into a 10-year term loan agreement with a third-party lender (the "Lender") consisting of Tranche A and Tranche B. The total principal amounts available for borrowing under Tranche A and Tranche B are \$350 million and \$53,119,263, respectively. On December 15, 2006, the Company borrowed the entire Tranche A principal amount.

Under the terms of the C&L Agreement, the Company is required to make the Required Capital Improvements. The Tranche B portion of the Credit Facility is available to fund the Required Capital Improvements through February 29, 2012, the end of the Tranche B commitment period. On July 11, 2011, the Lender funded the Company's initial loan advance request under Tranche B, in the amount of \$5 million. As of the end of the Tranche B commitment period, the Lender had funded total loan advance requests under Tranche B in the amount of \$41,759,074.

The Credit Facility interest rate is based on a British Bankers Association London InterBank Offered Rate (LIBOR) plus an applicable margin of 1.05% through December 14, 2011, and an applicable margin of 1.15% from December 15, 2011, to maturity on December 15, 2016. With the funding of each loan advance, the Company has the option of choosing an interest payment due date of one, two, three, or six months. The interest payment period chosen determines the LIBOR rate on which the interest rate is based. The Tranche A and Tranche B interest rate in effect at December 31, 2012 was approximately 1.461%.

On June 25, 2009, the Credit Facility was amended so that, effective July 1, 2009, 90% of applicable cash flow, as defined, would be used to pay down principal. During the year ended December 31, 2012, the Company paid Tranche A principal of \$543,826 and Tranche B principal of \$67,164.

The remaining balance of unpaid Tranche A principal as of December 31, 2012 was \$336,590,358. As of December 31, 2012, the outstanding Tranche B principal balance was \$41,569,869. The balance of the Credit Facility was scheduled to mature on December 15, 2016.

There are restrictive covenants on the Credit Facility requiring certain financial ratios to be maintained by the Company. As of December 31, 2012, the Company was not in compliance with the interest coverage ratio. The Credit Facility has been classified within current liabilities on the balance sheet as a result of such noncompliance which is an event of default.

The Credit Facility is secured by the Company's (i) rights, title, and interests in, to, and under the C&L Agreement; (ii) CMP A's and CMP B's interests in the Company; and (iii) the leasehold interests in the System and the improvements thereto.

**Derivative Financial Instruments** — As required by the Credit Facility, on December 15, 2006, the Company entered into a 20-year interest rate swap with the Lender to manage fluctuations in cash flows resulting from interest rate risk related to the Credit Facility. Interest rate swaps involve an agreement to exchange periodic interest payment streams calculated on predetermined notional principal amounts. Under these interest rate swaps, the Company will receive or make quarterly payments under the swaps in order to convert its Credit Facility variable interest payments to a fixed-rate payment schedule. On June 30, 2009, the Company restructured the fixed-rate payment schedule of the interest rate swap. The swap still matures on December 15, 2026, but effective June 30, 2009, the quarterly scheduled notional amounts and agreed-upon interest rates were changed over the remaining term of the swap. At December 31, 2012, the Company's combined notional amounts under the swap were \$379,554,911. Under the swap agreements, the Company paid \$5,674,240 during the year ended December 31, 2012. This amount is included in swap-related losses in the statement of operations.

During March 2013, the Company failed to make a required interest rate swap payment, and as a result of this event of default, the interest rate swap has been classified within current liabilities on the balance sheet as of December 31, 2012.

## 5. OPERATING AGREEMENT

The parking facilities are managed by LAZ Parking Chicago, LLC (LAZ) pursuant to the terms of a management agreement. LAZ is paid a base management fee equal to 2.5% of net operating income, as defined in the operations and maintenance agreement between LAZ and the Company, and is reduced by \$7,708 each month beginning in April 2012. The base management fee for the year ended December 31, 2012 was \$195,431.

## 6. TRANSACTIONS WITH RELATED PARTIES

Effective June 1, 2009, the Company entered into a services agreement with AMI Group, LLC (f/k/a Chicago Parking Services, LLC (AMI)), an entity which is also owned by the MSIP Partnerships, for the provision of management personnel and related services. AMI charges the Company for the costs of its services plus a fee equal to 10% of such costs. The costs and fees during the year ended December 31, 2012 was \$697,198. At December 31, 2012, the Company owed AMI \$70,340. Also, at December 31, 2012, the Company owed Morgan Stanley \$75,826, for costs Morgan Stanley paid on behalf of the Company. These balances are included as components of other current liabilities on the balance sheet.

On July 17, 2009, the Company entered into a sublease (the "Sublease") with Chicago Parking Meters, LLC ("Meters"), a company which is 50.1% owned by the MSIP Partnerships, in which Meters rents a warehouse with related office space on 17,417 square feet (unaudited) of the System's property (the "Rental Space") for a 10-year period beginning with Meters' initial occupancy of the Rental Space (the "Commencement Date"). The construction of the Rental Space was paid by the Company; the total cost of construction of the Rental Space was \$1,422,528; the construction cost was recorded as buildings and improvements, a component of fixed assets, on the balance sheets, and is depreciated over 40 years. The sublease is for a 10-year term subject to two extension options of five years each. Rent is payable as follows: i) \$2.5 million in additional sublease rent is payable by Meters upon execution of the Sublease; ii) \$481,390 of annual basic rent is payable by Meters in monthly installments starting on the Commencement Date; iii) \$2.5 million of additional sublease rent is payable by Meters upon the first anniversary of the Commencement Date; and iv) starting upon the first anniversary of the

Commencement Date, the annual basic rent (including basic rent during the extended lease term, if the options are exercised) increases in accordance with the United States Consumer Price Index, but in no event by less than 3%. On November 1, 2009, the Company notified Meters that the Rental Space was available for Meters' use, thereby establishing the Commencement Date as of November 1, 2009. Rental income from Meters, reported as subtenant revenue, for the year ended December 31, 2012, was \$1,052,605. Rent received from Meters and deferred until 2013 is \$522,243 and included as a component of other current liabilities on the balance sheet. Rent received from Meters and deferred for future years past 2013 is \$2,714,634 and included as a component of long-term liabilities on the balance sheet.

As of December 31, 2012, the deferred rent to be recognized by the Company in the future on a straight-line basis is as follows:

2013	\$ 522,243
2014	506,322
2015	489,923
2016	473,032
2017	455,634
Subsequent to 2017	<u>789,723</u>
Total	<u>\$3,236,877</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 material effect on the Company's financial position, results of operations, or liquidity.

In May 2009, the City of Chicago (the "City") granted a public garage license to the garage in the Aqua building, a commercial and residential building located within one-half mile of the System ("Aqua"). On August 20, 2009, the Company provided a notice and claim to the City of a competing parking action pursuant to the C&L Agreement with respect to the City's grant of the public license to Aqua and the operation of Aqua. In February 2010, the City notified the Company that it had revoked Aqua's public garage license and replaced it with an accessory garage license; however, Aqua continued to operate as a public garage despite the revocation of its public garage license. On March 15, 2010, the Company provided notice to the City formally declaring a dispute with respect to Aqua and commencing the dispute resolution procedures under the C&L Agreement. The dispute remained unresolved subsequent to the informal dispute resolution measures under the C&L Agreement. On April 28, 2010, the Company provided notice to the City that it would proceed with nonbinding mediation, as provided in the C&L Agreement. Following such nonbinding mediation on September 28, 2010, the dispute remained unresolved. On March 1, 2011, the Company submitted the Aqua dispute for binding arbitration and provided notice to the City. The arbitration hearing and closing arguments took place in October 2012 and November 2012, respectively. The arbitrators issued their ruling on January 14, 2013, and awarded the Company \$50.1 million in damages and an additional \$7.1 million in pre-judgment interest. This judgment has not been reflected in the financial statements for the year ended December 31, 2012.

On February 25, 2013, the arbitrators issued a Clarification of Award, correcting certain clerical and computational errors. On May 23, 2013, the City filed in the Circuit Court of Cook County, Illinois, a



“Verified Petition to Enter Judgment on Arbitration Award, to Stay the Judgment, and to Modify the Judgment.” According to the Petition, the City has an agreement to pay the owner of the Aqua, Magellan Development Group, between \$23 million and \$28.5 million in exchange for Magellan agreeing to stop taking public parking at the Aqua. The City seeks to have the Illinois court vacate or modify the Arbitration Award to provide the Company with past damages only, which the City believes to be approximately \$4 million. The Company intends to vigorously contest the City’s Petition.

On February 13, 2013, a complaint was filed against the Company and the City in the Circuit Court of Cook County, Illinois, by the Independent Voters of Illinois – Independent Precinct Organization and Aviva Patt (an individual). The complaint alleges that the C&L Agreement unconstitutionally restricts the City’s legislative and police powers and requires the illegal expenditure of public funds. Plaintiffs also allege that the C&L Agreement is anti-competitive.

The Company has filed a motion to dismiss the complaint. Plaintiffs are to respond by June 27, 2013 and the Company is to reply by July 18, 2013. A status hearing has been scheduled for July 18, 2013, at which it is likely that arguments on the matter will be scheduled.

**Insurance Reserves** — The Company purchases property insurance for claims that may occur at the garages the Company operates. The Company’s property insurance policy has deductibles that must be met before the insurance companies are required to reimburse the Company for costs incurred relating to covered claims. As a result, the Company is, in effect, self-insured for all claims up to the deductible levels.

The Company estimates the timing and amount of expense recognition associated with any claims that may be filed against the Company. The expense recognition is based upon the Company’s determination of an unfavorable outcome of a claim being deemed as probable and capable of being reasonably estimated. This determination requires the use of judgment in both the estimation of probability and the amount to be recognized as an expense. The Company utilizes regular input from third-party insurance advisors in determining the required level of insurance reserves, if any. Management is not aware of any outstanding or potential liability against the Company as of December 31, 2012.

**Construction** — The Company has contracts with various parties for construction services related to the Required Capital Improvements. At December 31, 2012, the Company has approximately \$0.5 million in future commitments related to these contracts.

## 8. SUBSEQUENT EVENTS

The Company evaluated activity through July 16, 2013, the date the financial statements were available to be issued.

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