

# CHICAGO PARKING METERS 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

April 30, 2013

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


Ladies and Gentlemen:

Reference is made to the Chicago Metered Parking System Concession Agreement dated December 4, 2008 (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 the amended 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, 2012, 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, 2012, all in accordance with generally accepted accounting principles in the United States consistently applied.

Sincerely,

  
Jean R. Chidley  
Chief Financial Officer

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

Financial Statements

December 31, 2012 and 2011

(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 East Randolph Drive  
Chicago, IL 60601-6436

## Independent Auditors' Report

The Board of Directors  
Chicago Parking Meters, LLC:

### Report on the Financial Statements

We have audited the accompanying financial statements of Chicago Parking Meters, LLC, which comprise the balance sheets as of December 31, 2012 and 2011, 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, 2012 and 2011, 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 30, 2013

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

Balance Sheets

December 31, 2012 and 2011

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Current assets:		
Cash and cash equivalents	\$ 3,489,793	2,549,966
Accounts receivable	30,355,201	27,794,806
Other current assets	1,165,601	1,171,755
Total current assets	35,010,595	31,516,527
Fixed assets (net of accumulated depreciation of \$17,640,383 and \$11,860,592, respectively)	24,005,366	28,504,291
Intangible assets (net of accumulated amortization of \$59,223,183 and \$43,939,781, respectively)	1,087,032,003	1,102,315,405
Deferred financing costs, net	8,350,765	9,413,537
Prepaid rent	3,236,877	3,774,615
Total assets	\$ 1,157,635,606	1,175,524,375
<b>Liabilities and Members' Equity</b>		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 1,922,127	2,763,500
Due to affiliate	295,987	379,462
Other current liabilities	1,886,239	2,175,554
Total current liabilities	4,104,353	5,318,516
Other liabilities:		
Long-term debt	600,000,000	600,000,000
Total other liabilities	600,000,000	600,000,000
Total liabilities	604,104,353	605,318,516
Members' equity	553,531,253	570,205,859
Total liabilities and members' equity	\$ 1,157,635,606	1,175,524,375

See accompanying notes to financial statements.

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

Statements of Income

Years ended December 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Income:		
Parking meter revenues	\$ 139,540,819	108,506,142
Total income	139,540,819	108,506,142
Cost of goods sold:		
Credit card and other fees	4,750,760	3,402,981
Parking tax	418,545	317,612
Total cost of goods sold	5,169,305	3,720,593
Gross profit	134,371,514	104,785,549
Expenses:		
Administrative management costs	2,759,065	3,818,748
General administrative costs	9,499,126	5,739,893
Operating expenses	9,923,925	9,289,100
Amortization of intangible assets	15,283,402	15,283,402
Depreciation	5,779,791	6,331,822
Management fees – affiliate	2,665,156	2,692,219
Loss on settlement of accounts receivable	33,684,870	—
Total expenses	79,595,335	43,155,184
Net operating income	54,776,179	61,630,365
Other income (expense):		
Interest expense	(34,389,799)	(34,245,212)
Other income	179,014	23,425
Total other expense	(34,210,785)	(34,221,787)
Net income	\$ 20,565,394	27,408,578

See accompanying notes to financial statements.

**CHICAGO PARKING METERS, LLC**  
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Statements of Changes in Members' Equity

Years ended December 31, 2012 and 2011

	<b>Deeside Investments Inc.</b>	<b>MS Infrastructure Investors LP</b>	<b>MS Infrastructure Partners LP</b>	<b>MS Infrastructure Partners A Sub LP</b>	<b>Total</b>
Members' equity – January 1, 2011	\$ 291,400,888	3,771,973	65,937,321	219,687,099	580,797,281
Distributions	(19,072,194)	(246,704)	(4,312,593)	(14,368,509)	(38,000,000)
Net income	<u>13,787,074</u>	<u>177,542</u>	<u>3,103,582</u>	<u>10,340,380</u>	<u>27,408,578</u>
Members' equity – December 31, 2011	286,115,768	3,702,811	64,728,310	215,658,970	570,205,859
Distributions	(18,704,889)	(241,585)	(4,223,120)	(14,070,406)	(37,240,000)
Net income	<u>10,384,260</u>	<u>132,700</u>	<u>2,319,714</u>	<u>7,728,720</u>	<u>20,565,394</u>
Members' equity – December 31, 2012	<u>\$ 277,795,139</u>	<u>3,593,926</u>	<u>62,824,904</u>	<u>209,317,284</u>	<u>553,531,253</u>

See accompanying notes to financial statements.

**CHICAGO PARKING METERS, LLC**  
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Statements of Cash Flows

Years ended December 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Cash flows from operating activities:		
Net income	\$ 20,565,394	27,408,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,779,791	6,331,822
Amortization of intangible assets	15,283,402	15,283,402
Amortization of deferred financing costs	1,062,772	1,063,351
Changes in assets and liabilities:		
Accounts receivable	(2,560,395)	(25,691,864)
Prepaid rent	537,738	552,438
Other current assets	6,154	(383,917)
Due to affiliate	(83,475)	(41,273)
Accounts payable	(870,807)	948,641
Other current liabilities	63,715	1,266,028
Net cash provided by operating activities	39,784,289	26,737,206
Cash flows from investing activities:		
Release of restricted cash deposit	—	15,000,000
Purchase of fixed assets	(1,604,462)	(4,950,465)
Net cash (used in) provided by investing activities	(1,604,462)	10,049,535
Cash flows from financing activities:		
Payment of debt issuance costs	—	(40,650)
Distributions to members	(37,240,000)	(38,000,000)
Cash used in financing activities	(37,240,000)	(38,040,650)
Net cash increase (decrease) for year	939,827	(1,253,909)
Cash and cash equivalents at beginning of year	2,549,966	3,803,875
Cash and cash equivalents at end of year	\$ 3,489,793	2,549,966
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 33,394,999	33,221,957
Noncash activity:		
Capital expenditures incurred but not yet paid	\$ 109,815	433,411

See accompanying notes to financial statements.



**CHICAGO PARKING METERS, LLC**  
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Notes to Financial Statements

December 31, 2012 and 2011

**(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 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), Morgan Stanley Infrastructure Partners LP (MSIP), Morgan Stanley Infrastructure Partners A Sub LP (MS A Sub), (collectively with MSII and MSIP, 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 accounting principles generally accepted in the United States of America (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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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, 2012 and 2011.

**(d) Cost of Goods Sold**

Cost of goods sold consists primarily of costs associated with interchange and assessment fees for credit cards and parking taxes.

**(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.

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, 2012 and 2011.

**(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. Parking revenues from credit card transactions are recognized as the transaction is authorized.

The Company has an agreement with the City, whereby, 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 Company or 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, 2012 and 2011 includes \$8,900,000 and \$14,134,842 of True-up Revenue due from the City. No unapplied settlement credits were outstanding as of December 31, 2012 and 2011.

For the True-up Revenue calculation period ended February 29, 2012, the Company recognized as True-up Revenue, amounts related to adjustments to the expected utilization rate of the System that occurred due to the City making certain changes to the System (Revenue Value Adjustment). For the years ended December 31, 2012 and 2011, the Company recognized True-up Revenue of \$26,738,664 and \$14,134,842, respectively. These amounts are recorded in parking meter revenues on the accompanying statements of income.

On April 5, 2012, the City notified the Company that it disputes invoices for the True-up Revenue due under the Agreements in the total amount of approximately \$9.3 million recognized in the first, second and third calendar quarters of 2011. The Company also invoiced the City for \$4.8 million in True-up Revenue recognized in the fourth calendar quarter of 2011 that has not been paid. The City

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has also notified the Company that it disputes the fourth calendar quarter of 2011 billing. The parties were unable to resolve the dispute pursuant to the informal dispute resolution procedures provided for in the Agreements. As a result, the parties participated in a mediation of the dispute on September 13, 2012. The mediation process did not result in a resolution of the dispute; therefore, on October 16, 2012, the Company filed an arbitration demand against the City for failure to perform its obligations under the Agreements and for failure to make payment of True-up Revenue, pursuant to the Agreements and before the American Arbitration Association. On April 27, 2013, as part of the settlement agreement discussed in Note 8, the City agreed to make a payment to the Company of \$8,900,000 in settlement of the claims and interest totaling \$40,997,848 at December 31, 2012. As a result, a loss on settlement of accounts receivable of \$32,097,848 has been recorded by the Company for the year ended December 31, 2012 on the accompanying statements of income.

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 106% of the Company's annual parking meter revenue (determined as of the end of February each year). The Company is required to perform surveys to determine the usage of the System by exempt parkers. Additionally, under the Agreements, prior to the Company receiving EPAEL revenue from the City, the City must approve – in a process governed by the Agreements – the Company's determination of EPAEL. The Company has concluded that all revenue recognition criteria have been met prior to the City providing final approval of payment. However, since the amount of the EPAEL revenue is dependent on the annual parking meter revenue for the year ended February 28 or February 29, the revenue is contingent until such time that the revenue for the associated year is known. As a result, based on the annual parking meter revenues for the years ended February 29, 2012 and February 28, 2011, the Company has recognized \$21,442,837 and \$13,548,299 of EPAEL revenue for the years ended December 31, 2012 and 2011, respectively, which represents revenue from the Agreement's reporting years ended February 29, 2012 and February 28, 2011. The revenue is included in parking meter revenues on the accompanying statements of income with a corresponding amount included in accounts receivable on the accompanying balance sheets.

The Company submitted its determination of EPAEL from the Agreement's reporting year ended February 28, 2011, for the City's approval on April 27, 2011. The City subsequently withheld its approval of the Company's determination of EPAEL, citing certain purported concerns regarding the survey data. Due to the City's withholding of its approval, in October 2011, the Company declared a dispute under the Agreements regarding the determination and approval of EPAEL. The parties were unable to resolve the dispute pursuant to the informal dispute resolution procedures provided for in the Agreements. As a result, on March 7, 2012, the Company filed an arbitration demand against the City for breach of contract, pursuant to the Agreements and before the American Arbitration Association, seeking recovery of the EPAEL determination. On March 27, 2012, the City filed its answering statement to the arbitration demand, asserting that the Company's claim was excessive. The arbitration hearings were held in November 2012. On November 20, 2012, based on the decision of the arbitrators, the City agreed to make a payment to the Company in the amount of \$12,000,000 in settlement of the claim plus interest. The payment from the City was received by the

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Company on November 29, 2012. As a result, a loss on settlement of accounts receivable of \$1,548,299 has been recorded by the Company for the year ended December 31, 2012 on the accompanying statements of income.

Using the calculation methodology from the decision of the arbitrators for the 2011 EPAEL, the Company submitted its determination of EPAEL from the Agreement's reporting year ended February 29, 2012, for the City's approval. On April 27, 2013, as part of the settlement agreement discussed in Note 8, the City agreed to make a payment to the Company of \$21,404,114 in settlement of the 2012 EPAEL. As a result, a loss on settlement of accounts receivable of \$38,723 has been recorded by the Company for the year ended December 31, 2012 on the accompanying statements of income.

**(i) 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. No uncertain tax positions were identified as of December 31, 2012 and 2011.

**(j) 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.

In some instances, certain of the Company's assets and liabilities are required to be measured or disclosed at fair value according to a fair value hierarchy pursuant to relevant accounting literature. This hierarchy ranks the quality and reliability of the inputs used to determine fair values, which are then classified and disclosed in one of three categories. The three levels of the fair value hierarchy are:

Level 1 – quoted prices in active markets for identical assets or liabilities;

Level 2 – quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable; and

Level 3 – model-derived valuations with unobservable inputs that are supported by little or no market activity.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their classifications within the fair value hierarchy levels.

At December 31, 2012 and 2011, the fair value of the Company's long-term debt was \$638 million and \$609 million, respectively, as determined by market prices of the Notes (see Note 5) which is classified as Level 2 in the fair value hierarchy.

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**(k) Risks and Uncertainties**

The economy in the City, as in most other domestic and foreign economies, has continued to experience significant challenges. Such conditions could have a negative impact on the Company's parking customers, and as a result, the Company may experience declines in revenues collected at the meters and cash flows from operations if economic conditions do not improve.

**(l) Deferred Financing Costs**

Deferred financing costs associated with obtaining debt (Note 5) have been capitalized and are amortized over the term of the debt as a component of interest expense.

**(m) Reclassifications**

Certain prior year amounts have been reclassified to conform to the current year classifications.

**(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 (Base Management Fee) over the entire term of the management agreement, as defined in the Operations and Maintenance Agreement between LAZ and the Company (the LAZ Agreement). The Base Management Fees incurred for the years ended December 31, 2012 and 2011 were \$459,523 and \$472,728, respectively, and are recorded in administrative management costs on the accompanying statements of income. In addition, LAZ earned an additional incentive fee equal to its Base Management Fee for the period February 13, 2009 through February 29, 2012 as cumulative net operating income exceeded the base case model, as defined, for that time period. The Company has recorded an additional incentive fee of \$165,649 and \$1,072,344 for the years ended December 31, 2012 and 2011, respectively, 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 \$2,665,156 and \$2,692,219 during the years ended December 31, 2012 and 2011, respectively, and owed AMI \$294,591 and \$363,149 at December 31, 2012 and 2011, respectively. This amount is included as due to affiliate on the accompanying balance sheets.

At December 31, 2012 and 2011, the Company owed Morgan Stanley \$1,396 and \$16,313, respectively, for costs Morgan Stanley paid on behalf of the Company. This amount is included as due to affiliate on the accompanying balance sheets.

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

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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. 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, 2012 and 2011 was \$1,053,322 and \$1,050,750, respectively. Rent paid by the Company and deferred until future periods is \$3,236,877 and \$3,774,615 as of December 31, 2012 and 2011, respectively, and is included as prepaid rent on the accompanying balance sheets.

Minimum future rentals under the noncancelable operating lease as of December 31, 2012 are as follows:

2013	\$	530,711
2014		546,632
2015		563,031
2016		579,922
2017		597,320
Thereafter		1,140,693
	\$	<u>3,958,309</u>

**(5) Long-Term Debt**

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

The 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 Notes are secured by a first priority security interest in all the limited liability company interests.

Pursuant to the terms of the Notes, the Company is required to maintain a \$15,000,000 liquidity reserve deposit account or letter of credit of equal amount. On April 29, 2011, the Company's \$15,000,000 liquidity reserve deposit account was replaced with a \$15,000,000 letter of credit. The funds released from the liquidity reserve were distributed to the Members on May 3, 2011. There have been no drawdowns on the \$15,000,000 letter of credit.

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**(6) Leases**

The Company entered into a vehicle lease agreement with Enterprise Fleet Management on August 27, 2009 with a lease term of 60 months. At the expiration of the lease term, the Company shall receive title to the applicable vehicles. 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:

	<b>2012</b>	<b>2011</b>
Asset class:		
Vehicles	\$ 750,786	750,786
Less: accumulated amortization	(469,241)	(319,084)
Total	\$ 281,545	431,702

The Company paid for the full cost of the lease upfront at the execution date.

**(7) Commitments and Contingencies**

**(a) *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.

A complaint was filed on August 19, 2009 (and subsequently amended on September 17, 2009, April 30, 2010, November 5, 2010, September 16, 2011, October 29, 2011 and November 18, 2011) by the Independent Voters of Illinois Independent Precinct Organization and a private citizen of the State against the Comptroller of the City and the Comptroller of the State (the Secretary of State was named in the original complaint, but has since been dismissed as a party). The Company was named as a defendant beginning with the fourth amended complaint filed on September 16, 2011. The amended complaint alleges that the City, through the Agreements, has, among other things, illegally or unconstitutionally (i) required the expenditure of public funds for purely private benefit and (ii) delegated the City's police powers. The plaintiffs seek (i) a finding and declaration that the provisions of the Agreements related to the foregoing allegations are illegal and unconstitutional and (ii) injunctive relief preventing the City from expending funds to enforce the City's obligations under the Agreements. The Company and the City have contested each claim. In addition, the plaintiffs seek an order that the Company reimburse the City for amounts previously provided to it by the City pursuant to the Agreements. The Company has contested this claim. In accordance with the court's scheduling order, on February 7, 2012, the plaintiffs moved for summary judgment in their favor on their outstanding claims. On March 22, 2012, the Company and the City each filed cross motions for



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

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summary judgment, seeking dismissal of the action, and also filed their respective responses to the plaintiffs' motion for summary judgment. The plaintiffs filed their summary judgment responses and reply on July 11, 2012 and the Company and the City filed their summary judgment replies on August 9, 2012 and August 10, 2012, respectively. Oral argument for the summary judgment motions was heard on November 7, 2012 and on November 13, 2012 the judge ruled in favor of the Company's motion for summary judgment and denied the plaintiff's motion for summary judgment. The plaintiff filed a notice of appeal in December 2012. The timing of oral arguments and the subsequent rendering of a decision are at the discretion of the appellate court; this appeal is not likely to be resolved prior to the first quarter of 2014. The Company intends to vigorously defend the appeal. The Company notes that should the plaintiffs be granted the relief sought through such an appeal, this would constitute a City default and entitle the Company to certain remedies under the Agreements. However, there is no assurance that the Company will be able to enforce the contractual remedies provided under the Agreements and collect damages from the City.

**(b) Insurance Reserves**

The Company purchases property insurance for damage to its meters and for claims that may occur at the office and warehouse facility the Company operates. The Company's property insurance policies have deductibles that must be met before the insurance companies are required to reimburse the Company for costs incurred relating to covered claims. All liability insurance is purchased by LAZ.

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 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 and 2011.

**(8) Subsequent Events**

The Company has evaluated events subsequent to December 31, 2012 through April 30, 2013, the date of the financial statement issuance, for disclosure.

On April 27, 2013, the Company entered into a settlement agreement with the City pursuant to which, among other things, the parties agreed to certain payments in settlement of the True-up Revenue and EPAEL claims discussed in Note 2(h). Concurrently, the Company and the City agreed to amend the Agreements for various operating changes to the System. The settlement agreement and amended Agreements require City Council approval before they are effective.