CHICAGO PARKING METERS LLC

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

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

April 30, 2015

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

Ladies and Gentlemen:

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

Reference is also made to Section 8.1(c) of the Concession Agreement pursuant to which the Concessionaire's audited financial reports shall be delivered to the City following the end of each calendar year, along with a certification from the Concessionaire's chief financial officer. Enclosed herewith are CPM's audited balance sheet, statement of income, changes in equity and cash flows for the calendar year ended December 31, 2014, 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, 2014, all in accordance with generally accepted accounting principles in the United States consistently applied.

Sincerely,

Jean Ratty Chidley
Chief Financial Officer

205 North Michigan Avenue | Suite 1910 | Chicago, Illinois 60601 | 312-262-6840

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

Financial Statements

December 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

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

Table of Contents

KPMG
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, 2014 and 2013, 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, 2014 and 2013, 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 29, 2015

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

Balance Sheets

December 31, 2014 and 2013

Assets		**2014**	**2013**
Current assets:			
Cash and cash equivalents	$	7,885,665	3,414,387
Accounts receivable		1,599,511	1,840,141
Other current assets		1,182,091	1,080,283
Total current assets		10,667,267	6,334,811
Fixed assets (net of accumulated depreciation of $31,660,761 and $24,248,546, respectively)		13,474,122	18,827,538
Intangible assets (net of accumulated amortization of $89,789,987 and $74,506,585, respectively)		1,056,465,199	1,071,748,601
Deferred financing costs, net		8,476,863	7,287,993
Prepaid rent		2,208,312	2,714,634
Total assets	$	1,091,291,763	1,106,913,577
Liabilities and Members' Equity			
Liabilities:			
Current liabilities:			
Accounts payable	$	1,474,643	1,397,566
Due to affiliate		301,142	316,161
Other current liabilities		3,106,677	414,775
Total current liabilities		4,882,462	2,128,502
Other liabilities:			
Long-term debt		800,000,000	600,000,000
Total other liabilities		800,000,000	600,000,000
Total liabilities		804,882,462	602,128,502
Members' equity		286,409,301	504,785,075
Total liabilities and members' equity	$	1,091,291,763	1,106,913,577

See accompanying notes to financial statements.

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

Statements of Income

Years ended December 31, 2014 and 2013

	2014	2013
Income:		
Parking meter revenues	$ 130,508,353	135,640,357
Total income	130,508,353	135,640,357
Cost of goods sold:		
Credit card and other fees	5,208,750	4,866,131
Parking tax	—	219,420
Total cost of goods sold	5,208,750	5,085,551
Gross profit	125,299,603	130,554,806
Expenses:		
Administrative management costs	2,555,531	2,360,924
General administrative costs	4,065,151	5,906,176
Operating expenses	9,136,232	9,734,309
Amortization of intangible assets	15,283,402	15,283,402
Depreciation	7,412,215	6,608,163
Management fees – affiliate	3,301,083	2,978,074
Loss on settlement of accounts receivable	—	9,776,417
Total expenses	41,753,614	52,647,465
Net operating income	83,545,989	77,907,341
Other income (expense):		
Interest expense	(38,699,060)	(34,384,393)
Other income	12	30,874
Total other expense	(38,699,048)	(34,353,519)
Net income	$ 44,846,941	43,553,822

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, 2014 and 2013

	Deeside Investments Inc.	MS Infrastructure Investors LP	MS Infrastructure Partners LP	MS Infrastructure Partners A Sub LP	Total
Members' equity – January 1, 2013	$ 277,795,139	3,593,926	62,824,904	209,317,284	553,531,253
Distributions	(46,178,601)	(601,144)	(10,508,498)	(35,011,757)	(92,300,000)
Net income	21,854,258	282,831	4,944,122	16,472,611	43,553,822
Members' equity – December 31, 2013	253,470,796	3,275,613	57,260,528	190,778,138	504,785,075
Distributions	(131,483,231)	(1,716,993)	(30,016,482)	(100,006,009)	(263,222,715)
Net income	22,513,719	291,091	5,088,497	16,953,634	44,846,941
Members' equity – December 31, 2014	$ 144,501,284	1,849,711	32,332,543	107,725,763	286,409,301

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Net income	$ 44,846,941	43,553,822
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,412,215	6,608,163
Amortization of intangible assets	15,283,402	15,283,402
Amortization of deferred financing costs	1,170,929	1,062,772
Changes in assets and liabilities:		
Accounts receivable	240,630	28,515,060
Prepaid rent	506,322	522,243
Other current assets	(101,808)	85,318
Due to affiliate	(15,019)	20,174
Accounts payable	27,818	(584,239)
Other current liabilities	2,813,675	(1,579,237)
Net cash provided by operating activities	72,185,105	93,487,478
Cash flows from investing activities:		
Purchase of fixed assets	(2,131,313)	(1,262,884)
Cash used in investing activities	(2,131,313)	(1,262,884)
Cash flows from financing activities:		
Long-term debt proceeds	200,000,000	—
Payment of debt issuance costs	(2,359,799)	—
Distributions to members	(263,222,715)	(92,300,000)
Net cash used in financing activities	(65,582,514)	(92,300,000)
Net cash increase (decrease) for year	4,471,278	(75,406)
Cash and cash equivalents at beginning of year	3,414,387	3,489,793
Cash and cash equivalents at end of year	$ 7,885,665	3,414,387
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 37,537,798	33,321,621
Noncash activity:		
Capital expenditures incurred but not yet paid	$ 204,752	277,266

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 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).

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. On June 5, 2013, the settlement agreement and amended Agreements were approved by the City Council.

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 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, 2014 and 2013.

(d) Cost of Goods Sold

Cost of goods sold consists of interchange, assessment, and processing fees for credit card sales, transaction fees paid to the Company's mobile payment provider, 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 values will be charged to operations. No intangible asset impairment losses were recognized for the years ended December 31, 2014 and 2013.

(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 $2,991,894 are included in cash and cash equivalents and other current liabilities as of December 31, 2014.

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, 2014 and 2013 includes $1,593,077 and $1,797,321, respectively, of True-up Revenue due from the City. No unapplied settlement credits were outstanding as of December 31, 2014 and 2013.

For the years ended December 31, 2014 and 2013, the Company recognized True-up Revenue of $6,481,150 and $14,617,084, 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 disputed 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, which was also disputed by the City. 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 1, the City agreed to make a payment to the Company of $8,900,000 in settlement of the claims and interest totaling $50,774,265 at March 31, 2013 and $40,997,848 at December 31, 2012. As a result, a loss on settlement of accounts receivable of $9,776,417 has been recorded by the Company for the year ended December 31, 2013 on the accompanying statements of income. The settlement payment from the City was received by the Company on June 7, 2013.

Based on the Agreements, the Company is entitled to receive exempt parkers annual excess loss revenue (EPAEL), equal to the loss of revenue to the Company due to exempt parkers utilizing the System free of charge that exceeds 6% of the Company’s annual parking meter revenue (determined as of the end of February each year). 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 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. Based on the annual parking meter revenues for the Agreement’s reporting years ended February 28, 2014 and 2013, the Company has recognized $18,476,590 and $21,476,831 of EPAEL revenue for the years ended December 31, 2014 and 2013, respectively, which represents revenue from the Agreement’s reporting years ended February 28, 2014 and 2013. The revenue is included in parking meter revenues on the accompanying statements of income.

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 1, the City agreed to make a payment to the Company of $21,404,114 in settlement of the 2012 EPAEL. The 2012 EPAEL payment from the City was received by the Company on June 7, 2013.

The Company submitted its determination of EPAEL from the Agreement’s reporting year ended February 28, 2013, for the City’s approval. On April 27, 2013, as part of the settlement agreement discussed in note 1, the City agreed to pay the 2013 EPAEL in full. The 2013 EPAEL payment from the City was received by the Company on June 7, 2013.

(Continued)

The Company submitted its determination of EPAEL from the Agreement's reporting year ended February 28, 2014, for the City's approval. The 2014 EPAEL payment from the City was received by the Company on September 10, 2014.

(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, 2014 and 2013.

The Company's income tax returns are subject to examination by taxing authorities. 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, 2014 (2010-2013). 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, 2014 or 2013.

(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, 2014 and 2013, the fair value of the Company's long-term debt was $839 million and $625 million, respectively, as determined by market prices of the 2020 Notes and 2024 Notes (see note 5) which is classified as Level 2 in the fair value hierarchy.

(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.

(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), and is reduced by $12,939 each month beginning in April 2012. The Base Management Fees incurred for the years ended December 31, 2014 and 2013 were $392,087 and $193,559, respectively, and are recorded in administrative management costs on the accompanying statements of income. In addition, LAZ was entitled to, and 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 adjustment to the additional incentive fee of $(41,597) for the year ended December 31, 2013 in administrative management costs on the accompanying statements of income.

(4) Transactions with Related Parties

The Company is managed by AMI Group, LLC, f/k/a Chicago Parking Services, LLC (AMI), an entity which is also owned by the MSIP Partnerships. AMI charges the Company for the costs of its services plus a fee equal to 10% of such costs. The Company incurred costs and fees totaling $3,301,083 and $2,978,074 during the years ended December 31, 2014 and 2013, respectively, and owed AMI $301,142 and $302,829 at December 31, 2014 and 2013, respectively. This amount is included as due to affiliate on the accompanying balance sheets.

At December 31, 2013, the Company owed Morgan Stanley $13,332 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 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, 2014 and 2013 was $1,052,954. Rent paid by the Company and deferred until future periods is $2,208,312 and $2,714,634 as of December 31, 2014 and 2013, respectively, and is included as prepaid rent on the accompanying balance sheets.

Minimum future rentals under the noncancelable operating lease as of December 31, 2014 are as follows:

2015	$	563,031
2016		579,922
2017		597,320
2018		615,240
2019		525,453
	$	2,880,966

(5) Long-Term Debt

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

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.

(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:

		December 31	
		2014	**2013**
Asset class:			
Vehicles	$	750,786	750,786
Less accumulated amortization		(750,786)	(619,399)
Total	$	—	131,387

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

(7) Commitments and Contingencies

Litigation

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

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 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, and the Illinois Appellate Court heard oral arguments on May 29, 2014. The appellate court unanimously affirmed the lower court's ruling in the Company's favor in a written opinion issued on June 20, 2014. On August 8, 2014, the plaintiff's filed a petition with the Illinois Supreme Court asking for leave to appeal the case to that court. On September 24, 2014, the Illinois Supreme Court denied the plaintiff's motion for review. On October 24, 2014, the plaintiff's filed a motion with the Illinois Supreme Court to reconsider their petition for review. On November 12, 2014, the Illinois Supreme Court denied the plaintiff's motion to reconsider. The Company does not believe that there is any basis for further appeal.

(8) Subsequent Events

The Company has evaluated events subsequent to December 31, 2014 through April 29, 2015, the date of the financial statement issuance, for disclosure.