

LAS VEGAS MONORAIL COMPANY

**FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007
AND INDEPENDENT AUDITOR'S REPORT**

LAS VEGAS MONORAIL COMPANY

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KAFOURY, ARMSTRONG & CO.
A PROFESSIONAL CORPORATION
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Las Vegas Monorail Company
Las Vegas, Nevada

We have audited the accompanying balance sheets of the Las Vegas Monorail Company (the "Company") as of December 31, 2008 and 2007, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Las Vegas Monorail Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 11, the Company is in default with certain payment covenants on their 1st and 2nd tier revenue bonds and will not be able to fund the full debt service payments due in July 2009. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2009 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 2 through 14 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Las Vegas, Nevada
April 24, 2009

Kafoury, Armstrong & Co.

LAS VEGAS MONORAIL COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

The Las Vegas Monorail Company ("LVMC" or the "Company") was incorporated in May 2000 as a Nevada not-for-profit corporation. LVMC was established to finance, acquire, develop, operate and maintain the Las Vegas Monorail System. In September 2000 the State of Nevada Department of Business and Industry issued tax-exempt Monorail Revenue Bonds through the Company. Having secured the financing, the Company set out to accomplish its objective.

In 2004 the Company commenced operations of the Las Vegas Monorail System. The first revenue riders were carried in July of 2004. However, there were difficulties sustaining the operations of the Monorail and, accordingly, the operations were halted for a period of time to make modifications and adjustments to the Monorail vehicles. Revenue operations resumed December 29, 2004. Since that time, the Monorail System has operated in a reliable manner.

When considering the past three years, the activities of the Company can be summarized as follows:

1. 2006: The second year of revenue operations and first fare increase and ridership decrease.
2. 2007: The third year of revenue operations and adjustment of the day pass fare and a ridership increase.
3. 2008: The fourth year of revenue operations and adjustment of the fare structure and price, along with national 4th quarter economic downturn that impacted ridership and revenue.

This discussion and analysis should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2008.

GENERAL FINANCIAL ISSUES

- The Monorail System carried 7,602,599, 7,917,613, and 7,015,109 riders during 2008, 2007 and 2006, respectively.
- Fare revenues were \$29,678,753, \$29,446,783 and \$32,212,653 during 2008, 2007 and 2006, respectively.
- Fares were decreased in June 2007.
- A portion of core cash reserves were used in 2008, 2007 and 2006.
- In 2008, 2007 and 2006, the Company generated revenues sufficient to pay operating and administrative costs.

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

- In 2007, operating revenues contributed \$7,061,000 in cash towards total debt service of \$34,142,694.
- On February 11, 2008, the Trustee notified the Company that it was in default pursuant to the debt coverage covenant.
- In 2008, operating revenues contributed \$6,632,574 in cash towards total debt service of \$34,142,694.
- In 2008, especially the last quarter, a severe national economic downturn affected ridership and revenue.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the Company's financial statements.

The comparative balance sheet presents information on the Company's assets and liabilities with the difference between the two reported as net assets (deficit). Over time, increases or decreases in the net assets (deficit) may serve as a useful indicator of whether the financial position of the Company is improving or deteriorating.

The statements of revenues, expenses and changes in net assets provide a summary of the operating activities of the Company. Also included are the non-operating activities. The results of the operating activities, together with the non-operating revenues and expenses, provide the net asset change for the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in the statement for some items whose cash flow will occur in other fiscal years.

The primary purpose of the statements of cash flows is to provide relevant information about the cash receipts and cash payments of the Company, segregated between operating, capital and related financing and investing activities.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the Company's financial statements.

LAS VEGAS MONORAIL COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

CONDENSED BALANCE SHEET

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$ 76,101,940	\$ 105,773,000	\$ 127,661,000
Capital assets, net	<u>400,367,815</u>	<u>423,120,000</u>	<u>446,084,000</u>
Total assets	<u>476,469,755</u>	<u>528,893,000</u>	<u>573,745,000</u>
Current liabilities	648,869,204	646,800,000	24,053,000
Long-term liabilities	<u>89,281,793</u>	<u>81,601,000</u>	<u>691,072,000</u>
Total liabilities	<u>738,150,997</u>	<u>728,401,000</u>	<u>715,125,000</u>

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net assets (deficit):			
Invested in capital assets,			
Net of related debt	(248,343,633)	(186,276,000)	(147,416,000)
Restricted	21,398,303	47,602,000	46,626,000
Unrestricted	<u>(34,735,912)</u>	<u>(60,834,000)</u>	<u>(40,590,000)</u>
Total net assets (deficit)	<u>\$ (261,681,242)</u>	<u>\$ (199,508,000)</u>	<u>\$ (141,380,000)</u>

CHANGE IN NET DEFICIT

The revenue and expense discussed in this management discussion, along with the related analysis, result in the following net deficit and related yearly changes:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net deficit, beginning of period	\$ (199,508,000)	\$ (141,380,000)	\$ (90,497,000)
Prior period adjustment	-	-	(7,168,000)
Yearly changes	<u>(62,173,476)</u>	<u>(58,128,000)</u>	<u>(43,715,000)</u>
Net deficit, end of period	<u>\$ (261,681,242)</u>	<u>\$ (199,508,000)</u>	<u>\$ (141,380,000)</u>

The net deficit represents the accumulation of pre-opening expenses incurred from inception of the Company to the commencement of revenue service in July 2004 (\$14,902,000), plus the subsequent operating and non-operating losses incurred by the Company.

CASH POSITION

During 2006, a Certificate of Final Acceptance was issued. At that time, \$29,000,000 of unspent bond proceeds was transferred from the construction and contingency funds to the "General Funds", pursuant to provisions of the financing documents.

The general funds ultimately became the emergency reserves for the Company and, under the appropriate circumstances, were used to pay operation and maintenance costs and debt service on the 1st and 2nd tier Monorail Revenue Bonds.

LAS VEGAS MONORAIL COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

During 2007, operating revenues were not sufficient to cover the debt service requirements. As a consequence, all General Fund reserves were used to pay 1st and 2nd tier debt service. In addition to using all available General Funds, a draw from the 1st and 2nd tier Debt Service Reserve Funds was made in January 2008 in order to make the required debt service payments. The draws were \$1,620,907 and \$762,896, respectively. In July 2008, operating revenues were not sufficient to cover the debt service requirements and 1st and 2nd tier Debt Service Reserves. Draws were \$5,856,910 and \$5,493,807 respectively. In January 2009 draws of \$11,073,120 and \$5,493,875 from 1st and 2nd tier Debt Service Reserve Funds were made in order to make the required debt service payments. Net operating revenues and interest income available for debt service was \$8,144,454 in 2008, \$11,712,169 in 2007, and \$15,531,000 in 2006.

CAPITAL ASSETS

At December 31, 2008, the Company had approximately \$505,080,000 invested in Monorail capital assets. Accumulated depreciation based on the estimated useful lives as disclosed in the notes to financial statements totals \$105,039,010. \$300,296 for E-ticket kiosks was invested in capital assets during 2008, but the kiosk program was temporarily halted.

DEBT ADMINISTRATION

The Monorail project has been financed with the proceeds and related investment earnings from tax-exempt Monorail Revenue Bonds issued through the State of Nevada Department of Business and Industry, which were issued in September 2000. The aggregate balances of these bonds are as follows:

	Principal Outstanding	Unamortized Discounts & Accreted Interest	Net Book Value
1 st Tier Current Interest Bonds	\$ 352,705,000	\$ 15,446,523	\$ 337,258,477
1 st Tier Capital Appreciation Bonds	285,070,000	135,638,599	149,431,401
2 nd Tier Current Interest Bonds	149,200,000	5,957,838	143,242,162
3 rd Tier Subordinate Capital Appreciation Bonds	<u>335,059,662</u>	<u>245,777,869</u>	<u>89,281,793</u>
Total	<u>\$ 1,122,034,662</u>	<u>\$ 402,820,829</u>	<u>\$ 719,213,833</u>

See Note 6 to the financial statements for specific details regarding these bonds.

The Company's 1st Tier revenue bonds are insured and the various tiers of bonds carry the following ratings as of December 31, 2008:

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

	<u>Moody's</u>	<u>S & P</u>	<u>Fitch</u>
1 st Tier Stand Alone Rating	Caa2	---	CCC
1 st Tier Insured Rating	Baa1	A	---
2 nd Tier	No Ratings Requested		
3 rd Tier	No Ratings Requested		

In January 2008, Moody's downgraded the 1st tier bonds to a stand-alone rating of Caa2. In October 2006 Fitch downgraded the 1st tier bonds to a CCC stand-alone rating. The rating agencies will periodically re-evaluate their respective ratings based on the operating results at the time of the evaluation.

The 1st tier bonds are insured by Ambac Assurance Corporation (Ambac). Ambac carries a Moody's rating of Baa1 and an S & P rating of A. As of December 31, 2005, the Company was in compliance with all covenants required under the financing agreements. The Company was not able to comply with the debt coverage covenants for 2006, 2007 and 2008. During 2008 the Company worked closely with the Trustee and the Bond Insurer to determine the appropriate consultant to evaluate which methods might increase revenue and ridership. All operating cash is under the control of the Trustee who, upon request, releases funds to meet operating and debt service requirements.

If the Company is unable to generate sufficient positive cash flow in excess of its operating expenses to pay the full amount of its 1st tier bond payment obligations, all or a portion of the cash deficiencies will be paid from the 1st tier debt service reserve fund. If the Company continues to generate insufficient cash flow to pay the full amount of its 1st tier bond payment obligations after the 1st tier debt service reserve fund has been fully depleted, the cash deficiencies will be paid by Ambac.

If the Company is able to generate positive cash flow that is in excess of the sum of its operating expenses and the full amount of its 1st tier bond payment obligations, the excess cash will be applied toward the payment of its 2nd tier bond payment obligations. If, however, the amount of such excess cash is insufficient to pay the full amount of the 2nd tier bond payment obligations, all or a portion of the cash deficiencies will be paid from cash held in the 2nd tier debt service reserve fund. The 2nd tier bonds are not insured and, as a consequence, if the 2nd tier debt service reserve fund has been fully depleted and the Company's positive cash flow does not exceed the sum of its operating expenses and its 1st tier bond payment obligations, the Company will not be able to fulfill its payment obligations to 2nd tier bond holders.

The 3rd tier bonds are not insured and no amount of funds has been set aside in a reserve fund to pay interest and principal on the bonds. Any positive net cash flow generated by the Company must be applied toward satisfaction of the 1st and 2nd tier bond payment obligations before any cash may be applied toward the 3rd tier bond payment obligations. The first payment of interest and principal due on these bonds become due on January 1, 2013.

LAS VEGAS MONORAIL COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

Pursuant to the bond covenants, there are debt service reserve fund requirements. These requirements are currently fully funded as follows:

	<u>Requirement</u>	<u>Funded by Cash</u>	<u>Surety Bond</u>
1 st Tier Bonds	\$ 41,984,000	\$ 14,612,481	\$ 20,992,000
2 nd Tier Bonds	14,284,000	8,793,850	N/A

There were draws of \$11,073,120 and \$5,493,875, respectively, from the 1st and 2nd tier debt service reserve funds on January 2, 2009. The current company budget projections indicate that the cash funded portions of the 1st and 2nd tier debt service reserve funds will be exhausted upon making the July 2009 bond payments.

Any excess cash, which may accrue in the debt service funds, is available to be used to meet current debt service requirements.

The debt service reserve funds are held in an investment program, which extends through the period of time in which they will be used. The funds earn interest at approximately 5.5%.

In February 2008, the holders of the Monorail Revenue Bonds were notified by the Trustee that the Company was in default on the Monorail Revenue Bonds due to not fulfilling the terms of certain debt service covenants.

Pursuant to the provisions of the financing documents, the Company used portions of its cash reserves. A draw down on the 1st Tier and 2nd tier debt service reserve funds was needed to meet the 2007 debt service requirement.

In 2008 operating revenue was not sufficient to meet the debt service requirement for 2008. However, there are cash reserves in the debt service reserve funds to cover the anticipated cash flow deficiencies in operating revenue available for debt service.

Because the Company did not meet its debt service coverage requirements, it must undertake some specific steps pursuant to the Financing Agreement. Accordingly, during 2008, the Company engaged a consultant to analyze revenue and ridership policies and make recommendations for improvements to both. Further, all operating cash continues to be under the control of the Trustee. Upon request by the Company, the Trustee releases funds the Company needs to pay its operating expenses.

FORBEARANCE AGREEMENT

Additionally, at the request of Ambac, the Company signed a Forbearance Agreement with both the Trustee and Ambac. A condition of the Agreement was to hire a chief restructuring officer. Conway Del Genio Gries (CDG) was hired in May 2008. CDG completed their Report of Findings and Recommendations and delivered their report to the Company's Board of Directors in September 2008. All material recommendations were implemented, including fare adjustments, awareness signage and sponsorship advertising. Expense-related material recommendations included the elimination of

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

ticket booths, reduce employee count, cancel the Wholesale/Bulk/Direct sales programs with tour operators and conventions, cancel the Magazine advertising programs and reductions in board fees, sublease extra office space, reduce employee benefits (health, vision, dental, etc. and paid-time-off).

The Company closely monitors its yield (revenue divided by riders) and market share so that it can focus on increasing its yield and its market share of the Las Vegas tourist.

The Company paid CDG \$1,159,196 for their services 2008 and has retained them for further recommendations in 2009. An incentive fee, estimated to be \$600,000 will be paid mid-2009.

REVENUE, EXPENSES AND CHANGES IN NET ASSETS

The following discussion will deal with the operations for 2008, 2007, and 2006. The following is a summary of the past three years:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
<u>Revenues:</u>			
Farebox revenue	\$ 29,678,753	\$ 29,446,783	\$ 32,212,653
Advertising & other revenue	1,418,844	2,303,799	2,997,406
Investment income	2,208,294	4,203,774	5,011,780
Liquidated damages	-	-	11,230,630
Non-operating revenue	75,775	630,333	-
Total Revenues	<u>33,381,666</u>	<u>36,584,689</u>	<u>51,452,469</u>
<u>Expenses:</u>			
Operating & maintenance	\$ 13,049,088	\$ 11,454,761	\$ 11,334,776
General & administrative	12,112,349	12,787,424	13,355,978
Depreciation & amortization	23,132,700	23,523,250	23,855,194
Interest and financing costs	47,261,002	46,946,398	46,621,905
Total Expenses	<u>95,555,139</u>	<u>94,711,833</u>	<u>95,167,853</u>
Change in Net Assets	<u>\$ (62,173,475)</u>	<u>\$ (58,127,144)</u>	<u>\$ (43,715,384)</u>

FAREBOX REVENUE AND RIDERSHIP

During 2008, 2007 and 2006, farebox revenue was \$29,678,753, \$29,446,783 and \$32,212,653 respectively.

The following table shows the historical fare structure of the Las Vegas Monorail. The table also sets forth the ridership and revenue for the years ended December 31, 2008, 2007, and 2006 and the figures set forth in the Company's 2009 budget.

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

In 2008 the fare structure was simplified as recommended by CDG. Only 3 ticket choices are now available: Single ride, One-day pass and the Three-day pass. Local residents may still purchase a single ride ticket for \$1. Fare prices at each year end were:

	Budget			
	2009	2008	2007	2006
Local One Ride	\$1	\$1	\$1	-
Single Ride	\$5	\$5	\$5	\$5
Two Ride	-	-	\$9	\$9
Ten Ride	-	-	\$35	\$35
Six Ride	-	-	\$20	-
One Day Pass - Unlimited	\$13	\$12	\$9	\$15
Three Day Pass - Unlimited	\$28	\$28	\$40	\$40

Revenue and Ridership for 2008, 2007, 2006 and 2009 budget are presented below.

	Budget 2009	Actual 2008	Actual 2007	Actual 2006
Total Rides	7,549,683	7,602,599	7,917,613	7,015,109
Average Rides Per Day	20,684	20,772	21,692	19,219

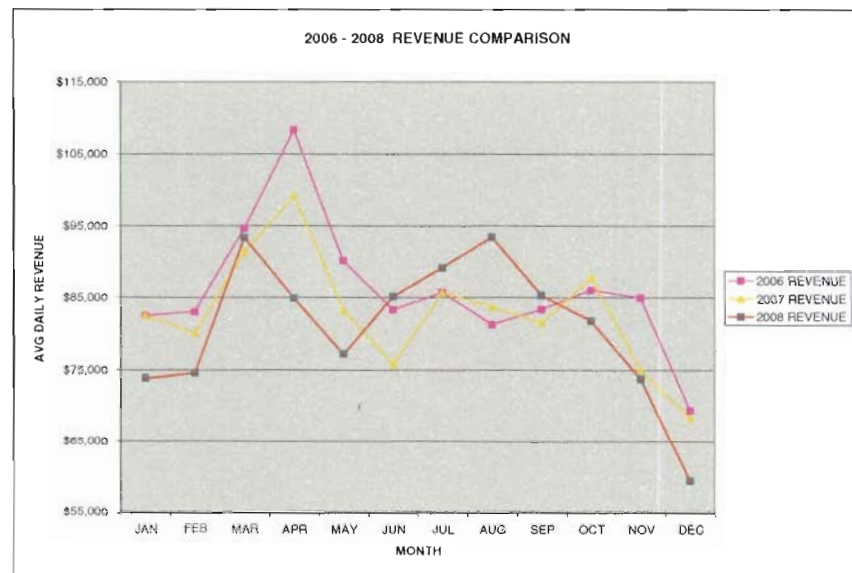
Total Farebox Revenue	\$32,851,240	\$29,678,753	\$29,446,783	\$32,212,653
Average Revenue Per Day	\$90,003	\$81,201	\$80,676	\$88,254

Average Yield	\$4.35	\$3.91	\$3.72	\$4.59
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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

The following graphs show average daily ridership and average daily revenue for 2006, 2007 and 2008:



It should be noted that the seasonality of both revenue and ridership from month-to-month tracks fairly consistently from year-to-year.

LAS VEGAS MONORAIL COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

The Company is focused on increasing yield and revenue. Monitoring of visitor volume and related market share occurs weekly with updates to forecasts.

ADVERTISING REVENUES AND RELATED COMMISSIONS

Advertising and other revenues for 2008, 2007 and 2006 are as follows:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Advertising & other revenue	\$ 2,304,949	\$ 3,927,000	\$ 5,360,000
Less: related commissions	<u>(886,105)</u>	<u>(1,623,000)</u>	<u>(2,363,000)</u>
Net to Company	<u>\$ 1,418,844</u>	<u>\$ 2,304,000</u>	<u>\$ 2,997,000</u>

Advertisers pay for the privilege of wrapping the trains in vinyl covering, as well as static and video displays in the train interior that promotes their product. Advertisers who contract for a station have the opportunity to display a theme on an entire train to convey their particular message.

The Company contracts with an advertising company to attract advertisers. Advertising revenue has declined over the three year period. Due to lower than expected ridership, some advertisers have not renewed their contracts or have renegotiated lower rates for the advertising.

OPERATING AND MAINTENANCE EXPENSE

Actual direct costs of operating the Monorail system are paid monthly under the terms of an Operations and Maintenance Agreement with Bombardier Transportation, (the manufacturer of the Monorail vehicles and systems). The Company pays a fee to Bombardier, which covers all costs associated with the actual direct operating costs of the Monorail system, including labor, materials and utilities. These costs are shown as operations and maintenance expenses in the financial statements.

For 2008, 2007 and 2006, these costs totaled \$13,049,088, \$11,454,761 and \$11,334,776 respectively. During 2008 and 2007, the Company was able to reduce the monthly escalated costs by \$75,773 and \$300,000 respectively due to contractual arrangements affecting the first 36 months of operations. This arrangement ended in January 2008. The current O&M Agreement expires July 2009. The Company has executed the option for a 5 year renewal.

Bombardier is also responsible to procure the liability insurance for the monorail system at the Company's direction; liability insurance costs are shown as a separate item in the following table of general and administrative expenses.

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

GENERAL AND ADMINISTRATIVE EXPENSES

The following table compares the general and administrative expenses for 2008, 2007, and 2006 and the budget for 2008:

	Actual 2008	Budget 2008	Actual 2007	Actual 2006
Monorail system insurance	\$ 3,462,837	\$ 4,563,000	\$ 3,867,476	\$ 4,941,098
Salaries & related costs	\$ 1,860,480	\$ 2,535,000	\$ 2,017,043	\$ 2,053,712
Fare collection costs	\$ 568,824	\$ 739,000	\$ 562,565	\$ 602,104
Other operating costs	\$ 1,261,811	\$ 1,727,000	\$ 1,160,128	\$ 1,193,824
Legal & professional fees*	\$ 1,672,147	\$ 872,000	\$ 458,967	\$ 418,688
Security services	\$ 1,305,836	\$ 1,411,000	\$ 1,316,811	\$ 1,442,742
Marketing & promotion	\$ 1,980,415	\$ 4,000,000	\$ 3,404,436	\$ 2,663,812
Total	<u>\$ 12,112,349</u>	<u>\$ 15,847,000</u>	<u>\$ 12,787,427</u>	<u>\$ 13,315,978</u>

*For 2008, restructuring fees of \$1,569,196 were included in legal & professional fees

MONORAIL SYSTEM INSURANCE

Pursuant to the Monorail operations and maintenance agreements, Bombardier negotiates and places the Monorail system's insurance. The insurance year runs from July to June each year. Accordingly, each year includes half the costs of the previous year, plus half the cost of the next contract year. The insurance market has significantly improved during the years for which insurance has been placed. The 2008 actual cost is likely to be more representative of the costs on an ongoing basis, assuming no changes in the insurance market. It also reflects the emphasis by the Company and Bombardier to achieve the contractually agreed coverage at competitive market costs. The Company has had no significant insurance claims to date.

SALARIES AND RELATED COSTS

The salaries and related costs for 2008 and 2007 are less than 2006 and are almost \$675,000 less than the 2008 budgeted amount. As a cost containment measure, there were positions that were budgeted but not filled during the year and several positions were eliminated.

FARE COLLECTION COSTS

Fare collection costs are a function of the ticket sales involving debit/credit cards. Revenue charged on debit or credit cards is a cost to the Company. Collection and maintenance of cash/coin plus the number of collection cycles from the ticket vending machines are also included as fare collection costs. These costs are considered reasonable.

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MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

OTHER OPERATING COSTS

Ongoing cost containment measures implemented in 2007 and 2006 resulted in an overall reduction in this expense category. The 2008 costs increased primarily due to rent increases.

LEGAL AND PROFESSIONAL SERVICES

As the Monorail has moved into revenue operations and the reliability of the system has matured, there has been a decreased need to call for outside professional services. The notice of default and related documents caused an increase in legal fees from \$273,188 in 2007 to \$344,271 in 2008. Restructuring fees of \$1,159,196 incurred in 2008 are also charged to professional services.

SECURITY SERVICES

As the operating patterns of the Monorail system has matured, the Company has made adjustments to the scheduling of security services. These adjustments have resulted in a savings for this cost category. During 2007, the Company assumed this service "in house" and achieved further savings during 2007. Fine-tuning of staffing levels during 2008 resulted in additional savings.

MARKETING AND PROMOTION

During 2006 and 2007 and half of 2008, Marketing and Promotion included wholesale, bulk, direct and convention sales. As a result of the restructuring, these sales programs were eliminated. Advertising during this same time period included various in-room and other tourist-oriented publications. Advertising was also reduced during the last half of 2008. This resulted in considerable savings year over year.

INVESTMENT INCOME

Investment income reflects interest earned through the investment of the various pools of money the Company maintains (see Note 4 in the financial statements). The 2006 increase in investment earnings reflects the improvement in the short-term interest rates during 2006. During 2007, the investment earnings decreased \$800,000 because there were lesser amounts invested during the year 2007 as compared to the 2006 year. As the balances in debt service and debt service reserve accounts decreased during 2008, so did investment income from \$4,203,774 in 2007 to \$2,208,294 in 2008.

INTEREST AND FINANCING COSTS

Interest and financing costs represent interest paid or accrued on the 1st, 2nd and 3rd tier bonds, plus the amortization of bond issuance costs and original issue discounts.

LAS VEGAS MONORAIL COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2008 AND 2007

FUTURE OUTLOOK

In February 2008, the holders of the Monorail Revenue Bonds were notified by the Trustee that the Company was in default on the Monorail Revenue Bonds due to not fulfilling the terms of certain debt service covenants.

During 2007 and 2006, the Company's operating revenue was sufficient to pay the costs of operating the Monorail but it was insufficient to also pay the full amount of the required debt service. Pursuant to the provisions of the financing documents, the Company used portions of its cash reserves. During 2008, operating revenue was also not sufficient to meet the debt service requirement. However, cash reserves have enabled the Company to meet all of its obligations in 2008 by using the debt service reserve funds to cover the anticipated cash flow deficiencies in operating revenue available for debt service.

Because the Company did not meet its debt service coverage requirements, it must undertake some specific steps pursuant to the Financing Agreement. Accordingly, during 2008, the Company engaged a consultant to analyze revenue and ridership policies. Conway Del Genio Gries (CDG) was also hired as the restructuring officer. Material recommendations made by CDG have been implemented.

Further, all operating cash will continue to be under the control of the Trustee. Upon request by the Company, the Trustee releases funds the Company needs to pay its operating expenses.

During the last portion of 2008, the entire country experienced various economic downturns. Las Vegas, the tourist destination, and the Company were not exempt from these downturns. Starting in June, visitor volume experienced negative growth. December was the highest month with a 10.9% decrease. Overall, 2008 visitor volume was down 4.4% for the entire year over 2007.

Although 2009 visitor volume numbers are not yet available, this trend is expected to continue into 2009, as experienced by decreases in airline passenger count and hotel occupancy.

During the coming year, the Company will be focused on increasing the yield per ride, which in-turn increases revenue. Cost containments will continue to be important. During the first part of 2009, the Company reduced its employee health benefits, reduced its security staff and reduced the marketing budget by over 25%.

Indeed the task is significant, but the vision of the directors and staff of the Las Vegas Monorail Company will be the impetus to helping the Monorail become an integral service in helping the community meet the transportation demands of the tourism and convention industries in Las Vegas.

LAS VEGAS MONORAIL COMPANY

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,394,561	\$ 3,872,806
Miscellaneous accounts receivable	37,427	1,945,899
Prepaid expenses	1,182,151	219,821
	<u>3,614,139</u>	<u>6,038,526</u>
Total current assets		
	<u>3,614,139</u>	<u>6,038,526</u>
RESTRICTED ASSETS:		
Investments	30,812,483	64,803,431
Cash	7,803,847	93,213
	<u>38,616,330</u>	<u>64,896,644</u>
Total restricted assets		
	<u>38,616,330</u>	<u>64,896,644</u>
LONG TERM ASSETS:		
Refundable security deposit	306,516	383,145
Property and equipment, net of accumulated depreciation of \$105,039,010 and \$81,959,566	400,367,815	423,120,340
Deferred financing costs, net of accumulated amortization of \$5,817,221 and \$4,967,011	31,896,056	32,746,267
Prepaid land lease, net of accumulated amortization of \$ 331,100 and \$291,100	1,668,900	1,708,900
	<u>434,239,287</u>	<u>457,958,652</u>
Total long term assets		
	<u>434,239,287</u>	<u>457,958,652</u>
TOTAL	<u>\$ 476,469,755</u>	<u>\$ 528,893,822</u>

The accompanying notes are an integral part of these financial statements

LAS VEGAS MONORAIL COMPANY

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,395,292	\$ 2,190,744
Deferred advertising and other revenue	-	1,970,654
Accrued Liabilities	323,846	-
Current maturities of long-term debt	<u>629,932,040</u>	<u>625,345,154</u>
Total current liabilities partially payable from unrestricted assets	<u>631,651,177</u>	<u>629,506,552</u>
Current liabilities payable from restricted assets:		
Construction payable	2,089,180	2,089,180
Accrued interest payable	15,128,847	15,128,847
Availability liability	<u>-</u>	<u>75,775</u>
Total current liabilities payable form restricted assets	<u>17,218,027</u>	<u>17,293,802</u>
LONG TERM DEBT:		
Net of current maturities and net of unamortized discounts of \$ 245,777,869 and \$253,458,427	<u>89,281,793</u>	<u>81,601,235</u>
Total liabilities	<u>738,150,997</u>	<u>728,401,589</u>
NET DEFICIT:		
Invested in capital assets-net of related debt	(248,343,633)	(186,276,352)
Restricted	21,398,303	47,602,842
Unrestricted	<u>(34,735,912)</u>	<u>(60,834,257)</u>
Total net deficit	<u>(261,681,242)</u>	<u>(199,507,767)</u>
TOTAL	<u>\$ 476,469,755</u>	<u>\$ 528,893,822</u>

The accompanying notes are an integral part of these financial statements

LAS VEGAS MONORAIL COMPANY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING REVENUES:		
Farebox revenue	\$ 29,678,753	\$ 29,446,783
Advertising and other revenue	2,304,949	3,927,069
Less related commissions	<u>(886,105)</u>	<u>(1,623,270)</u>
Total revenue	<u>31,097,597</u>	<u>31,750,582</u>
OPERATING EXPENSES:		
Operation and maintenance expense	13,049,088	11,454,761
General and administrative expense	12,112,349	12,787,424
Depreciation and amortization	<u>23,132,700</u>	<u>23,523,250</u>
Total operating expenses	<u>48,294,137</u>	<u>47,765,435</u>
OPERATING LOSS	<u>(17,196,540)</u>	<u>(16,014,853)</u>
NON-OPERATING REVENUES (EXPENSE):		
Investment income	2,208,294	4,203,774
Interest and financing costs	(47,261,002)	(46,946,398)
Lease termination payment	-	250,000
Recovery of availability penalties	<u>75,773</u>	<u>380,332</u>
Total non-operating revenues (expense)	<u>(44,976,935)</u>	<u>(42,112,291)</u>
EXCESS OF EXPENSES OVER REVENUES	(62,173,475)	(58,127,144)
NET DEFICIT:		
Beginning of period	<u>(199,507,767)</u>	<u>(141,380,623)</u>
End of period	<u>\$ (261,681,242)</u>	<u>\$ (199,507,767)</u>

The accompanying notes are an integral part of these financial statements

LAS VEGAS MONORAIL COMPANY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from customers	\$ 31,921,520	\$ 34,219,107
Cash receipts from other sources	-	250,000
Cash payments to employees for services	(2,365,934)	(1,958,914)
Cash payments to suppliers for goods or services	<u>(25,038,914)</u>	<u>(26,367,308)</u>
Net cash provided by operating activities	<u>4,516,672</u>	<u>6,142,885</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payment debt service	(3,885,000)	-
Transfers from restricted cash	83,213	983,381
Project costs	(340,175)	(519,712)
Interest paid on long-term debt	<u>(30,257,694)</u>	<u>(30,257,694)</u>
Net cash used in capital and related financing activities	<u>(34,399,656)</u>	<u>(29,794,025)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	34,142,694	36,822,751
Purchase of investments	(5,766,976)	(33,876,591)
Interest received	<u>29,021</u>	<u>463,239</u>
Net cash provided by investing activities	<u>28,404,739</u>	<u>3,409,399</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(1,478,245)	(20,241,741)
CASH AND CASH EQUIVALENTS		
Beginning of period	<u>3,872,806</u>	<u>24,114,547</u>
End of period	<u>\$ 2,394,561</u>	<u>\$ 3,872,806</u>

The accompanying notes are an integral part of these financial statements

LAS VEGAS MONORAIL COMPANY

STATEMENTS OF CASH FLOWS (CONTINUED) YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
RECONCILIATION OF OPERATING LOSS		
TO NET CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES:		
Operating loss	\$ (17,196,540)	\$ (16,014,853)
Add back depreciation and amortization	23,132,700	23,523,250
Decrease accounts receivable	1,908,472	1,086,328
Increase in prepaid expenses	(962,330)	(100,780)
(Increase) decrease in refundable security deposit	76,629	(383,145)
Decrease in accounts payable	(795,451)	(1,191,335)
Decrease in deferred revenue	(1,970,654)	(241,071)
Increase in accrued liabilities	323,846	-
Decrease in availability liability	-	(785,509)
Lease termination buy-out	-	250,000
	<hr/>	<hr/>
Net cash provided by operating activities	<u>\$ 4,516,672</u>	<u>\$ 6,142,885</u>

The accompanying notes are an integral part of these financial statements

LAS VEGAS MONORAIL COMPANY

(A Nevada Not-for-Profit Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

1. ORGANIZATION AND BASIS OF PRESENTATION

The Las Vegas Monorail Company ("LVMC" or the "Company") was incorporated on May 12, 2000, as a Nevada not-for-profit corporation. The purposes of the Company are to acquire, develop, operate and maintain the public improvements and related equipment known as the Las Vegas Monorail, to obtain financing for these purposes, and to take any and all other actions necessary and appropriate to accomplish these purposes. The Las Vegas Monorail extends for four miles along the east side of the Las Vegas strip between the MGM Grand Hotel and Casino and the Sahara Hotel and Casino with stations at several casino-hotels along the route and at the Las Vegas Convention Center.

LVMC's purpose is to promote public transportation consistent with Nevada and Clark County's overall transportation objectives. In addition, LVMC's Board of Directors is approved by the governor of the State of Nevada and LVMC's net assets, upon dissolution of the Company, revert to the State of Nevada. Therefore, the financial statements of LVMC have been prepared pursuant to statements issued by the Government Accounting Standards Board ("GASB"). In addition, LVMC has elected, under GASB Statement No. 20, "*Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*" to apply Financial Accounting Standards Board ("FASB") statements and interpretations issued after November 30, 1989, unless they contradict GASB Statements.

The Company reports fund equity in three components: 1) invested in capital assets, net of related debt, 2) restricted, and 3) unrestricted.

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Company distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing ridership services on the Las Vegas Monorail as well as advertising revenues. Operating expenses include operation and maintenance expense, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Company's policy to use restricted resources first, then unrestricted resources as they are needed.

LAS VEGAS MONORAIL COMPANY
(A Nevada Not-for-Profit Company)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents—For purposes of the statement of cash flows, cash and cash equivalents include unrestricted cash on hand and unrestricted cash held at financial institutions, including time deposits with a maturity of three months or less at the date of purchase. The Company maintains its cash accounts with established commercial banks. Cash deposits are insured up to the Federal Deposit Insurance Corporation limit of \$250,000 per financial institution.

Investments—Investments are accounted for under GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", ("GASB No. 31"). Under GASB No. 31, investments with maturities in excess of one year are recorded at fair value while investments with maturities of less than one year may be recorded at fair value or amortized cost. The Company has elected to record all investments at fair value.

At December 31, 2008 and 2007, all of the Monorail's investments are unspent bond proceeds which are governed by a senior indenture agreement. This agreement authorizes the Monorail to invest in obligations of the U.S. Treasury, obligations of other political subdivisions with ratings in the two highest rating categories, repurchase agreements rated in the two highest rating categories, money market funds rated as "AAA", deposit accounts, and commercial paper rated "Prime-1" by Moody's and "A-1+" or better by S&P, maturing in not more than 270 days.

Debt Discount and Debt Issuance Costs—Debt discounts are presented as a reduction of the face amount of the related debt instruments. Debt issuance costs are capitalized as assets. Both debt discounts on the 1st and 2nd tier debt and debt issuance costs are amortized to interest expense over the terms of the related debt agreements using the effective interest method. Debt discounts on the 3rd tier debt is amortized to interest expense over the term of debt agreement using the straight-line method.

Capital Assets—Capital assets, which include property, plant and equipment, are stated at cost, and consist of expenditures and capitalized interest related to the acquisition and development of the Las Vegas Monorail. At December 31, 2008, and 2007, the project costs have been allocated to the various project cost elements, and depreciation was commenced effective July 15, 2004, using the straight-line method and at the following estimated useful lives:

LAS VEGAS MONORAIL COMPANY
(A Nevada Not-for-Profit Company)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

<u>Description</u>	<u>Years</u>
Property rights-of-way	40
Utility relocation	40
Guideway and structures	40
Monorail vehicles	20
Train control systems	15
Traction power systems	15
Communication systems	15
Guideway Elements	15
Platform doors	10
Fare collection equipment	7
Workshop equipment	7
Spare parts and equipment	3
Special tools and equipment	3

The Company capitalized interest costs in accordance with the FASB's Statement of Financial Accounting Standards No. 62, "Capitalization of Interest Cost in Situations Involving Certain Tax-Exempt Borrowings and Certain Gifts and Grants (an amendment of FASB Statement No. 34)". Interest expense in excess of interest income associated with construction debt was capitalized.

The cost of the existing Monorail guideway and stations acquired from MGM Grand-Bally's Monorail LLC has been included in the costs of guideway and structures. These elements were re-engineered, reconstructed and refurbished to the standards of the new guideway and structures.

Improvements and equipment costing in excess of \$1,000 are capitalized.

Prepaid Land Lease—As part of the acquisition of MGM Grand-Bally's Monorail LLC, the Company assumed a long-term land lease for land near the Sahara Hotel & Casino. The land will be used for the maintenance facility for the Monorail. The lease term is 50 years, with ten-year renewal options thereafter. Base rent for the 50-year period is being recognized evenly over the 50 years.

Arbitrage Compliance—The Internal Revenue Service ("IRS") has established rules and regulations related to investment income on funds from tax-exempt bonds. Under Internal Revenue Code ("IRC") section 148, the Company is precluded from earning investment income on tax-exempt bond proceeds in excess of interest

LAS VEGAS MONORAIL COMPANY

(A Nevada Not-for-Profit Company)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

expense ("Arbitrage"). To the extent the Company has arbitrage, it may be required to rebate funds to the IRS. Because of the complex nature of the rules, the Company is required to obtain an arbitrage compliance report from a specialist. At December 31, 2008 and 2007, based on the work of an arbitrage compliance specialist, the Company concluded that it did not have an arbitrage liability.

Federal Income and Excise Taxes—The Company is qualified as a tax-exempt social welfare organization under Section 501(c)(4) of the IRC and is exempt from federal income and excise taxes. The Company files tax returns with the IRS for informational purposes only. Additionally, the Company was structured in such a manner that all income, including otherwise nonexempt income under Section 501(c)(4), is exempt under Section 115 of the IRC.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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. Actual results could differ from those estimates.

Revenue Recognition—Farebox revenues from the sale of tickets are recognized when tickets are sold. Revenues from advertising contracts are recognized over the period of the respective advertising contract.

Impairment of Long-Lived Assets—Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows, undiscounted and without interest, expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Management believes no material impairment in long-lived assets exists at December 31, 2008 and 2007 with the exception of the E-Ticket Kiosk program which was placed on hold in the fall of 2008. The E-Ticket Kiosk program has expended \$329,096, of which \$300,096 was in 2008. This impairment is considered temporary. As such, no impairment loss has been recognized and the total cost of \$329,096 is included in the balance of capital assets not being depreciated in Note 5.

LAS VEGAS MONORAIL COMPANY
(A Nevada Not-for-Profit Company)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

3. RESTRICTED ASSETS

Certain balances of cash, cash equivalents and investments have been restricted by bond indentures, financing and operating and maintenance agreements. These restrictions relate to the use of the cash for specific purposes. A summary of these restricted assets at December 31 is as follows:

	<u>2008</u>	<u>2007</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Restricted for current debt service:		
1st Tier Current Debt Service	\$ 2,741,348	\$ 11,894,098
2nd Tier Current Debt Service	-	4,728,689
	<u>2,741,348</u>	<u>16,622,787</u>
Restricted for monorail construction:		
Construction Funds	<u>3,402,655</u>	<u>3,334,619</u>
Restricted for debt service reserve:		
1st Tier Debt Service Reserve	14,694,112	21,731,405
2nd Tier Debt Service Reserve	8,793,851	14,414,405
	<u>23,487,963</u>	<u>36,145,810</u>
Other restricted assets:		
Removal Costs Escrow Fund	7,881,354	7,640,845
Indemnification Account	1,093,010	1,059,370
Availability Contingency	-	75,775
Other	10,000	17,438
	<u>8,984,364</u>	<u>8,793,428</u>
Total Restricted Assets	<u>\$ 38,616,330</u>	<u>\$ 64,896,644</u>

4. DEPOSITS AND INVESTMENTS

Deposits and investments are included in the following components of the balance sheets as of December 31:

	<u>2008</u>	<u>2007</u>
Unrestricted cash and cash equivalents	\$ 2,394,561	\$ 3,872,806
Restricted investments	30,812,483	64,803,431
Restricted cash	7,803,847	93,213
	<u>\$ 41,010,891</u>	<u>\$ 68,769,450</u>

LAS VEGAS MONORAIL COMPANY
(A Nevada Not-for-Profit Company)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

The above totals consist of both deposits and investments as follows:

	<u>2008</u>	<u>2007</u>
Cash (deposits)	\$ 10,039,253	\$ 1,996,388
Investments	30,971,638	66,773,062
	<u>\$ 41,010,891</u>	<u>\$ 68,769,450</u>

As of December 31, 2008, LVMC had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Federal Home Loan Bank	15 days average	\$ 12,375,891
Money Market Mutual Funds	Immediately available	3,908,797
Eureka Securtzn Inc. Corporate Notes	01/02/2009	<u>14,687,000</u>
Total		<u>\$ 30,971,638</u>

As of December 31, 2007, LVMC had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Federal Home Loan Bank	49 days average	\$ 3,699,704
Federal National Mortgage Association	8 days average	18,817,813
Money Market Mutual Funds	Immediately available	8,878,493
Crimson Commercial Paper	07/01/2008	13,519,215
General Electric Capital Corporate Notes	07/11/2008	129,837
Eureka Securtzn Inc. Corporate Notes	01/02/2008	<u>21,728,000</u>
Total		<u>\$ 66,773,062</u>

Interest Rate Risk – LVMC does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Company does follow the senior indenture agreement's requirements.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. LVMC has no formal investment policy that limits its investment choices, with the exception of the requirements outlined in the senior indenture agreement. As of December 31, 2008 and 2007, LVMC's investment in money market mutual funds was rated AAA by Standard and Poor's and Aaa by Moody's Investors Services. All other investments were rated P-1 by Standard and Poor's, and A-1 or higher by Moody's Investors Service.

LAS VEGAS MONORAIL COMPANY
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

Concentration of Credit Risk – LVMC places no limit on the amount the Company may invest in any one issuer. As of December 31, 2008, more than 5 percent of LVMC's investments are in Federal Home Loan Bank and Eureka Securtzn Inc. corporate notes. These investments were 39.96% and 47.42% respectively, of LVMC's total investments. As of December 31, 2007, more than 5 percent of LVMC's investments are in Federal Home Loan Bank, Federal National Mortgage Association, Crimson commercial paper and Eureka Securtzn Inc. corporate notes. These investments were 5.54%, 28.18%, 20.25% and 32.54%, respectively, of LVMC's total investments.

Custodial Credit Risk – Investments – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, LVMC will not be able to recover the value of its investments that are in the possession of an outside party. LVMC does not have an investment policy for custodial credit risk. All of LVMC's investment securities are uninsured, not registered in the name of LVMC, and are held by the investments' counterparty.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, LVMC's deposits may not be returned to it. LVMC does not have a deposit policy for custodial credit risk. As of December 31, 2008, \$1,363,516 of LVMC's bank balance of \$1,613,516 was uninsured and uncollateralized, and was, therefore, exposed to custodial credit risk. As of December 31, 2007, \$1,106,754 of LVMC's bank balance of \$1,316,754 was uninsured and uncollateralized, and was, therefore, exposed to custodial credit risk.

Investments are comprised of corporate debt securities with maturities of less than one year and money-market funds. Investments are held in the Company's name at major financial institutions, and a trustee manages the funds discussed above. Investments are designed to yield fixed rates of return to match interest incurred in order to minimize any Arbitrage. The corporate debt securities are primarily bonds and commercial paper discounted to yield a fixed rate of return, which accrete interest to maturity. Unrealized gains represent accreted interest on the discounted amounts of the debt securities.

Investments in the removal costs escrow fund are restricted for use by Clark County to remove partially completed structures should the project not continue. The County controls how the fund is invested in accordance with statutes governing investments by the County.

LAS VEGAS MONORAIL COMPANY
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NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	Balance 12/31/06	Additions	Balance 12/31/07	Additions / (Deletions)	Balance 12/31/08
Capital assets not being depreciated:					
Future Projects	\$ 998,046	\$ 445,247	\$ 1,443,293	\$ 366,392	\$ 1,809,685
Capital assets being depreciated:					
Guideway and structures	223,634,844	-	223,634,844	-	223,634,844
Property right-of-way	9,609,175	-	9,609,175	-	9,609,175
Utility Relocation	13,758,185	-	13,758,185	-	13,758,185
Monorail vehicles	124,531,784	-	124,531,784	-	124,531,784
Train control systems	39,711,092	-	39,711,092	-	39,711,092
Traction power systems	37,367,484	-	37,367,484	-	37,367,484
Communication systems	13,717,872	-	13,717,872	-	13,717,872
Guideway elements	7,055,573	-	7,055,573	-	7,055,573
Platform doors	9,829,923	-	9,829,923	-	9,829,923
Fare collection system	15,990,269	-	15,990,269	-	15,990,269
Workshop equipment	6,163,768	-	6,163,768	-	6,163,768
Spares	1,609,115	-	1,609,115	-	1,609,115
Special tools and test equipment	519,392	-	519,392	-	519,392
Furniture, fixtures, and other	63,672	74,465	138,137	(39,473)	98,664
Total capital assets being depreciated	503,562,148	74,465	503,636,613	(39,473)	503,597,140
Less accumulated depreciation for:					
Guideway and structures	13,744,225	5,590,871	19,335,096	5,590,871	24,925,967
Property right-of-way	590,564	240,229	830,793	240,229	1,071,023
Utility Relocation	845,555	343,955	1,189,510	343,955	1,533,464
Monorail vehicles	15,307,032	6,226,589	21,533,621	6,226,589	27,760,210
Train control systems	6,508,207	2,647,406	9,155,613	2,647,406	11,803,019
Traction power systems	6,124,115	2,491,166	8,615,281	2,491,166	11,106,447
Communication systems	2,248,207	914,525	3,162,732	914,525	4,077,256
Guideway elements	1,156,330	470,372	1,626,702	470,372	2,097,073
Platform doors	2,416,523	982,992	3,399,515	982,992	4,382,507
Fare collection system	5,615,630	2,284,324	7,899,954	2,284,324	10,184,279
Workshop equipment	2,164,657	880,538	3,045,195	880,538	3,925,733
Spares	1,318,581	290,534	1,609,115	-	1,609,115
Special tools and test equipment	425,613	93,780	519,392	-	519,392
Furniture, fixtures, and other	11,077	25,970	37,047	6,477	43,524
Total accumulated depreciation	58,476,315	23,483,251	81,959,566	23,079,444	105,039,010
Total capital assets being depreciated, net	445,085,833	(23,408,786)	421,677,047	(23,118,917)	398,558,130
Total capital assets, net	\$ 446,083,879	\$ (22,963,539)	\$ 423,120,340	\$ (22,752,525)	\$ 400,367,815

LAS VEGAS MONORAIL COMPANY
(A Nevada Not-for-Profit Company)

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007

6. BONDS PAYABLE – REVENUE BONDS

At December 31, revenue bonds consisted of the following:

	<u>2008</u>	<u>2007</u>
1st and 2nd Tier Bonds Payable:		
Current Interest Bonds, 1st Tier Series 2000	\$ 352,705,000	\$ 352,705,000
Capital Appreciation Bonds, 1st Tier Series 2000 - Maturity Value	285,070,000	288,955,000
Current Interest Bonds, 2nd Tier Series 2000	149,200,000	149,200,000
Less Unamortized Items:		
Unamortized Discount - 1st Tier Current Interest Bonds	(15,446,523)	(15,637,363)
Unaccreted Interest - 1st Tier Capital Appreciation Bonds	(135,638,599)	(143,855,925)
Unamortized Discount - 2nd Tier Current Interest Bonds	<u>(5,957,838)</u>	<u>(6,021,558)</u>
Net Total of 1st and 2nd Tier Bonds Payable	<u>629,932,040</u>	<u>625,345,154</u>
3rd Tier Bonds Payable:		
Subordinate Capital Appreciation Bonds, 3rd Tier Series 2000 A-1	335,059,662	335,059,662
Unaccreted Interest - Subordinate Capital Appreciation Bonds, 3rd Tier Series 2000	<u>(245,777,869)</u>	<u>(253,458,427)</u>
Net Total 3rd Tier Bonds Payable	<u>89,281,793</u>	<u>81,601,235</u>
Total Revenue Bonds Net of Unamortized Items	<u><u>\$ 719,213,833</u></u>	<u><u>\$ 706,946,389</u></u>

In September 2000, the Director of the State of Nevada Department of Business and Industry issued the following Las Vegas Monorail Project Revenue Bonds to finance the development and construction of the Las Vegas Monorail. The bonds are payable from and secured by a pledge of revenues generated by the operation of the Las Vegas Monorail System.

\$352,705,000 of Project Revenue Current Interest Bonds, 1st Tier Series 2000 were issued in September 2000 at a discount of \$16,712,610 with interest ranging from 5.375% to 5.625% payable January 1 and July 1 each year. Principal is due in annual installments ranging from \$10,145,000 to \$48,570,000 beginning January 1, 2030 through January 1, 2040. Annual requirements for principal and interest range from \$19,270,000 to \$51,181,000.

\$292,325,000 maturity value of Project Revenue Capital Appreciation Bonds, 1st Tier Series 2000 were issued in September 2000. The bonds were issued as zero coupon bonds, and accordingly provided proceeds of \$98,743,000 after a discount of \$193,582,000. Interest accretes at 5.01% to 5.97% (average rate of 5.46%).

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Installments of principal and interest range from \$3,885,000 to \$21,095,000 beginning January 1, 2008, through January 1, 2029.

In December 2005, the Company defeased the payment of \$3,370,000 on the 1st Tier Capital Appreciation Bonds which would have become due January 1, 2007.

\$149,200,000 of Project Revenue Current Interest Bonds, 2nd Tier Series 2000 were issued in September 2000 at a discount of \$6,355,993 with interest ranging from 7.25% to 7.375% payable January 1 and July 1 each year. Principal is due in annual installments ranging from \$600,000 to \$17,400,000 beginning January 1, 2016, through January 1, 2040. Annual requirements for principal and interest range from \$10,988,000 to \$18,683,000.

For 2008 and 2007, the balances of the above bonds payable have been classified as two current liabilities. See further discussion in the Covenants section of this note.

In September 2000, the Director of the State of Nevada Department of Business and Industry agreed to issue subordinate Project Revenue Capital Appreciation Bonds, 3rd Tier Series 2000 A-1. These bonds were only issued to the resort properties, which have stations on the Las Vegas Monorail route and to the prime contractors who built the Monorail system and provided the trains. The maturity value of these bonds is \$355,059,662. The bonds were issued as zero coupon bonds and, accordingly, provided proceeds of \$48,500,000 after a discount of \$286,559,662. Interest accretes at 9%, and principal and interest payments are due January 1 of each year beginning 2013 through 2040. The annual installments of principal and interest range from \$5,515,000 to \$16,815,000. At the option of the issuer, the subordinate bonds are subject to early redemption only if certain levels of revenue are achieved.

Covenants—The Indenture and financing agreement, governing the 1st and 2nd tier bonds, contains several customary financial and non-financial covenants, including, among others, insurance requirements, limitations on issuance of additional debt, and covenants requiring audited financial statements and certain debt service coverage requirements. At December 31, 2005, the Company was in compliance with the covenants of the Indenture and financing agreements. Because the Company did not meet the debt service coverage requirement for the years ended December 31, 2006, 2007 and 2008, it must undertake some specific steps to enable it to maintain compliance to debt covenants. Accordingly, during 2008, the Company engaged a consultant to analyze revenue and ridership policies. Further, all operating cash is under the control of the Trustee. Upon request by the Company, the Trustee releases funds the company needs to meet its financial obligations.

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Additionally, the Company received a Notice of Events of Default from the Trustee in February 2008 for non-compliance with payment covenants during the year-ended December 31, 2007. At its option, the Trustee may declare the outstanding interest and principal of the 1st and 2nd tier bonds, immediately due and payable. Accordingly the 1st and 2nd tier bonds have been classified as current liabilities in the balance sheets for the years ended December 31, 2007 and 2008. Currently, the Company is working closely with the Trustee and the bond insurer (Ambac), who have required that a Chief Restructuring Officer be hired to identify ways to improve financial performance. Conway Del Genio Gries & Co. was hired in May 2008.

Debt Service Requirements—The following table indicates the annual requirements for debt service, if the 1st and 2nd tier bonds are not called:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2009	\$ 4,180,000	\$ 30,257,694	\$ 34,437,694
2010	7,130,000	30,257,694	37,387,694
2011	7,590,000	30,257,694	37,847,694
2012	7,450,000	30,257,694	37,707,694
2013	17,349,335	30,257,694	47,607,029
2014-2018	103,737,958	151,092,720	254,830,678
2019-2023	136,501,008	148,982,970	285,483,978
2024-2028	178,748,969	143,586,686	322,335,655
2029-2033	210,964,866	123,947,787	334,912,653
2034-2038	298,190,049	69,326,812	367,516,861
2039-2040	150,192,477	7,384,069	157,576,546
	<u>\$ 1,122,034,662</u>	<u>\$ 795,609,514</u>	<u>\$ 1,917,644,176</u>

Changes in long-term debt:

Long-term debt activity for the years ended December 31, 2008 and 2007 was as follows:

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2008 Activity

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 1,125,919,622	\$ -	\$ 3,885,000	\$ 1,122,034,622	\$ 786,975,000
Less deferred amounts for issuance discounts	(418,973,273)	-	16,152,484	(402,820,789)	(157,042,960)
Total	<u>\$ 706,946,349</u>	<u>\$ -</u>	<u>\$ 20,037,484</u>	<u>\$ 719,213,833</u>	<u>\$ 629,932,040</u>

2007 Activity

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds	\$ 1,125,919,622	\$ -	\$ -	\$ 1,125,919,622	\$ 790,860,000
Less deferred amounts for issuance discounts	(434,847,813)	-	15,874,540	(418,973,273)	(165,514,846)
Total	<u>\$ 691,071,809</u>	<u>\$ -</u>	<u>\$ 15,874,540</u>	<u>\$ 706,946,349</u>	<u>\$ 625,345,154</u>

7. DEFERRED INCOME

Payments for certain advertising is received in advance and is recorded as deferred income to be recognized during the contract period for which it is actually earned.

8. RISK MANAGEMENT

The Company is exposed to risks of loss related to various aspects of its business. The Company has implemented the following insurance program:

	<u>Coverage</u>	<u>Deductible</u>
General Liability	\$200,000,000	\$ 2,000,000
Property Damage	\$500,000,000	\$ 250,000

In addition, the Company carries insurance covering risks related to directors and officers, business owner, excess liability, automobile, security liability, commercial umbrella and the typical employee related insurance.

During the past three years, there have been no significant claims.

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9. 401k DEFINED CONTRIBUTION PLAN

The Company provides a 401k defined contribution plan for its employees. This plan is administered by Hartford, however, the funds are self-directed by each plan participant. Under the provisions of a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees may contribute any amount up to the Internal Revenue Code mandated maximum of \$15,500 annually. In addition, under the "safe harbor" provisions, the Company contributes 3% of employees' salaries for all eligible employees. Eligible employees are those who have been employed by the Company for more than one year. The Company's contribution for each employee is fully vested immediately. The Company matching contribution to the 401k plan was \$48,641 and \$44,136 in 2008 and 2007, respectively. Employees contributed \$143,307 and \$125,817 in 2008 and 2007, respectively.

10. COMMITMENTS AND CONTINGENCIES

Operating Lease— Due to a change in location, the company entered into a lease for office space in November 2007.

The lease is effective through October 2012 and contains a 3% annual escalation clause. Future minimum lease payments for each of the succeeding years ending December 31 are as follows:

2009	\$	374,594
2010		385,822
2011		397,424
2012		339,424
		<u>\$ 1,497,264</u>

Rent expenses for operating leases for the years ended December 31, 2008 and 2007 were \$418,686 and \$254,114, respectively.

Franchise Agreement—In 1997, the Nevada State Legislature enacted legislation permitting cities and counties to award franchises to private entities for the development of fixed guideway transit systems. MGM Grand-Bally's Monorail LLC was awarded a franchise by Clark County in 1998 (the "Franchise Agreement") giving it the exclusive right through 2048 to install and operate a monorail within the territory defined by the Franchise Agreement, roughly the east side of the Las Vegas Strip, behind the main resort corridor. In 2000 the Clark County Commissioners conditionally approved assignment of the Franchise Agreement to LVMC upon the acquisition of the existing monorail, subject to County-imposed conditions. Under the terms of the Franchise Agreement, the Company is

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obligated to undertake the defense of the County if it is named in a legal suit related to the Las Vegas Monorail. Additionally, the Company will pay the County a minimum of \$50,000 per year for the franchise until the Franchise Agreement expires. In 2006, the Franchise Agreement was conditionally amended to include access to McCarran International Airport, as part of the "territory" and the term of the Franchise Agreement was extended to 2081, subject to financial close and construction starting on the airport extension within two years. In 2008, the Franchise Agreement was further amended to extend the agreement to 2107 without condition.

Operating Agreement—The Company has entered into an agreement with Bombardier Transit Corporation ("Bombardier") for the operation and maintenance of the Las Vegas Monorail (the "O&M Agreement"). Under the terms of the O&M Agreement, the Company is committed to make cumulative payments totaling \$55,874,000 to Bombardier for services rendered during the initial five-year term. During the initial term, the O&M Agreement also requires the Company to contribute \$3,034,000 to a capital asset replacement program. The O&M Agreement has an option to extend the term for two additional five-year periods, which would require the payment of additional fees and contributions to the capital asset replacement program. In January 2009, the Company notified Bombardier of its intent to exercise its option to extend the term for the first additional five-year period, which will start in July 2009.

Tax Agreement—The Company must comply with the requirements of the Tax Agreement with the Director of the State of Nevada Department of Business and Industry (the "Issuer") in order to maintain the tax-exempt status of the bonds. Under the terms of the Tax Agreement, the bond proceeds must be used to finance the construction and development of the Las Vegas Monorail and certain other costs associated with the issuance of the bonds. Facilities of the Las Vegas Monorail cannot be sold or otherwise disposed of prior to January 1, 2040. The Tax Agreement also stipulates that management and other professional services contracts must generally provide for compensation based on a fixed periodic fee and must not be for a period of more than 15 years.

In accordance with the terms of the Tax Agreement, the Company is obligated to pay a \$50,000 annual fee to the Issuer as long as the bonds are outstanding, beginning when construction is complete. Additionally, the Company must have an arbitrage compliance report prepared by a specialist (see Note 2) and to the extent the Company has a liability to the IRS for arbitrage, sufficient funds must be placed into a restricted fund and held until payment is required. Payments must be made to the IRS no later than 60 days after each five-year period.

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Litigation—The Company is occasionally subject to legal and other matters arising in the ordinary course of business. In the opinion of management, these matters will not have a material adverse effect on the Company's future financial position or results of operations.

11. GOING CONCERN

As outlined in Note 6, the Company is in default with the payment covenants on their 1st and 2nd tier revenue bonds. As a result, the outstanding interest and principal is due on demand. The Company does not have the resources to pay the outstanding interest and principal should the bonds be called. The current company budget projections indicate that the cash funded portions of the 1st and 2nd tier debt service reserve funds will be exhausted before making the July 2009 bond payments. These events create an uncertainty about the Company's ability to continue as a going concern.

Management is working with the Trustee and the bond insurer (Ambac) to work through the default situation. Pursuant to the financing agreements, the Trustee and insurer have rights that include "entering the project for the purpose of operating the project". The Company entered into a Forbearance Agreement with both the Trustee and Ambac. The current agreement expires April 30, 2009. A condition of the Agreement was to hire a chief restructuring officer. Conway Del Genio Gries (CDG) was hired in May 2008. CDG completed their Report of Findings and Recommendations and reported to the Company's Board of Directors in September 2008.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.



KAFOURY, ARMSTRONG & CO.
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of the
Las Vegas Monorail Company

We have audited the financial statements of the Las Vegas Monorail Company as of and for the year ended December 31, 2008, and have issued our report thereon dated April 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Las Vegas Monorail Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Las Vegas Monorail Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Las Vegas Monorail Company's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Las Vegas Monorail Company's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Las Vegas Monorail Company in a separate letter dated April 24, 2009.

This report is intended solely for the information and use of management, the Board of Directors, and the audit committee, and is not intended to be and should not be used by anyone other than these specified parties.

Kafoury, Armstrong & Co.

Las Vegas, Nevada
April 24, 2009