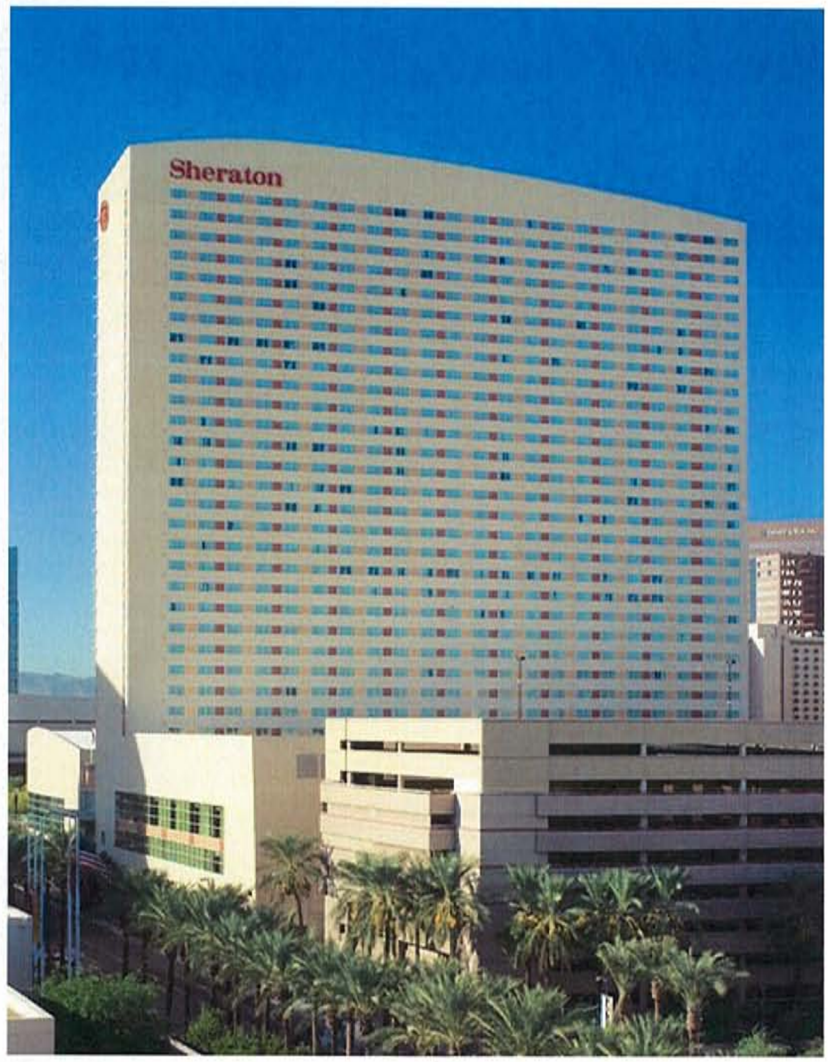
DOWNTOWN PHOENIX HOTEL CORPORATION
AN ARIZONA NONPROFIT CORPORATION

A Component Unit of the City of Phoenix, Arizona



2010 ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended December 31, 2010 and 2009

Downtown Phoenix Hotel Corporation
An Arizona Nonprofit Corporation
(A Component Unit of the City of Phoenix, Arizona)

Annual Financial Report
For the Fiscal Years Ended December 31, 2010 and 2009

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An Arizona Nonprofit Corporation
(A Component Unit of the City of Phoenix, Arizona)

ADMINISTRATIVE ORGANIZATION

Board Members

David Krietor
President

Gary Verburg
Vice President

John Chan
Secretary

Dick Snell
Director

Jeff DeWitt
Treasurer

City of Phoenix Administrative Staff

David Cavazos
City Manager

Jeff DeWitt
Finance Director

Jerry Harper III
Project Manager

Clifton Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Downtown Phoenix Hotel Corporation
Phoenix, Arizona

We have audited the accompanying basic financial statements of Downtown Phoenix Hotel Corporation (a Component Unit of the City of Phoenix, Arizona) as of and for the years ended December 31, 2010 and 2009, as listed in the table of contents. These basic financial statements are the responsibility of the Downtown Phoenix Hotel Corporation's management. Our responsibility is to express opinions on these basic 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 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 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 basic financial statements referred to above present fairly, in all material respects, the financial position of Downtown Phoenix Hotel Corporation as of December 31, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 9 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.

Clifton Gunderson LLP

Phoenix, Arizona
June 10, 2011

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Management's Discussion and Analysis

As management of the Downtown Phoenix Hotel Corporation (the Corporation), a component unit of the City of Phoenix, Arizona (the City) we offer the readers of the Corporation's basic financial statements this narrative overview and analysis of the financial activities of the Corporation for the fiscal years ended December 31, 2010 and 2009.

Downtown Phoenix Hotel Corporation

The Downtown Phoenix Hotel Corporation is an Arizona nonprofit corporation duly organized and existing under the laws of the State. The Corporation was formed in January 2005 for the sole purpose of owning, acquiring, constructing, equipping, operating, financing and taking any other actions that an Arizona nonprofit corporation may take with respect to a full-service downtown hotel.

The City Council of the City of Phoenix appoints the Corporation's Board of Directors. Although the Corporation is legally separate from the City, governmental accounting standards require the Corporation to be reported as a discretely presented component unit of the City for financial reporting purposes because of the City Council's relationship to the Corporation.

The Downtown Phoenix Hotel (the Hotel) is an approximately 1 million square foot, 1,000 room full service, first class, downtown hotel located at the northwest corner of 3rd Street and Van Buren Street approximately one block north of the Phoenix Convention Center. The Hotel primarily serves the Convention Center and opened October 1, 2008.

Corporation Revenue Bonds

In December of 2005, the Corporation issued $350,000,000 in revenue bonds to finance the planning, design, engineering, construction, equipping, furnishing and opening of the Hotel. The bonds are special revenue obligations of the Corporation, payable from gross operating revenues from the operation of the Hotel. The Corporation issued both Senior and Subordinate Revenue Bonds. The Senior Bonds in the amount of $156,710,000 are payable solely from gross revenues, while the Subordinate Bonds in the amount of $193,290,000 are also secured by a portion of non-general fund City hotel excise (sales) taxes and rental car sales taxes. Principal payments on the Bonds are not scheduled to begin until 2012. The bonds are insured by the Financial Guaranty Insurance Company (FGIC). In 2008, Standard & Poor's, Moody's, and Fitch all withdrew their ratings from FGIC. In September, 2008, FGIC entered into a reinsurance agreement with National Public Finance Guaranty Corporation (formerly MBIA Insurance Corporation) with respect to the Corporation's Subordinate Bonds. Detailed information on the bonds is presented in Note 4 to the basic financial statements.

Corporation Contracts for Hotel Development

To act on behalf of the Corporation in the management and operations of the Hotel, the Corporation entered into a Hotel Operating Agreement with Starwood Hotels & Resorts Management Company, Inc. (Hotel Operator), a Delaware company and a direct subsidiary of Starwood Hotels & Resorts Worldwide, Inc., (Starwood), a Maryland corporation. The Hotel Operating Agreement is for a term of fifteen years, subject to certain occurrences, including performance standards by the Hotel Operator.

Warnick & Company, LLC, (Warnick), an Arizona Limited Liability Company, acts as the consultant to the Corporation to assist staff with efforts to facilitate the development of the Hotel and general support to the Corporation. Warnick also acts as the asset manager on behalf of the Corporation.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an introduction to the Corporation's separate basic financial statements. The Corporation's basic financial statements are comprised of the following two components:

- Financial statements

- Notes to the financial statements

Financial statements. The *financial statements* are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business. These statements are presented on pages 10-13 of this report. Summarized versions of the Statements of Net Assets and the Statements of Revenues, Expenses and Changes in Net Assets are included in this Management's Discussion and Analysis (MD&A).

The *Statements of Net Assets* present information on all of the Corporation's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of changes in the Corporation's financial position.

The *Statements of Revenues, Expenses and Changes in Net Assets* present information showing how the Corporation's net assets changed during the most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods e.g., accounts payable. This is the accrual method of accounting.

The *Statements of Cash Flows* provide information about the receipts and payments of the Corporation that result in changes to Cash and Cash Equivalents. The cash flows are classified as operating activities, capital and related financing activities, or investing activities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 14-24 of this report.

Condensed Financial Information and Analysis of Overall Financial Position

The following tables and analysis discuss the financial position and changes to the financial position for the Corporation as a whole, as of and for the years ended December 31, (in thousands).

Net Assets

Summary of net assets (in thousands):

	2010	2009	2008
Current and other assets	$ 67,802	$ 72,995	$ 79,013
Capital assets	265,136	269,661	274,332
Total assets	332,938	342,656	353,345
Current liabilities	24,271	23,323	23,529
Long-term liabilities	338,088	337,737	337,374
Total liabilities	362,359	361,060	360,903
Net assets			
Invested in capital assets, net of related debt	(18,603)	(8,919)	(1,729)
Restricted for debt service	38,062	23,421	37,379
Restricted for capital projects	3,709	23,878	25,868
Unrestricted	(52,589)	(56,784)	(69,076)
Total net deficit	$ (29,421)	$ (18,404)	$ (7,558)

The current assets are comprised primarily of bond proceeds held by the trustee bank for operating and debt service reserves. As of December 31, 2010, all of the Corporation's reserve accounts were fully funded. The Operating Reserve ($10 million), The Senior Debt Service Reserve ($12.2 million) and the Senior Special Debt Service Reserve ($10.3 million) are all available for senior debt service payments. The City Lease Payments Account ($12.9 million) is available for subordinate debt service payments. Additionally, the City has a balance of $35 million in its Sports Facilities Fund which is available for subordinate debt service payments.

Current and other assets decreased in 2010 due, primarily, to the use of approximately $6.1 million of unspent bond proceeds for current year debt service payments. Capital assets decreased in 2010 due to $7.2 million in depreciation. This was partially offset by the acquisition of $2.5 million of land and other capital assets.

The decrease in total assets for 2009 is primarily due to the payment of debt service using bond proceeds that had been set aside to pay the debt service (Capitalized Interest Account) until the Hotel became operational. The final payment from these proceeds occurred in fiscal year 2009.

The long-term liabilities are comprised of bonds payable net of unamortized issuance costs and premiums and will not change significantly until 2012, which is the first year that principle is due on the bonds.

Capital Assets

The Corporation's investment in capital assets as of December 31, 2010, amounts to $265,136,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, and equipment. The total decrease in the Corporation's investment in capital assets for the current fiscal year was 1.68 percent, and is due to the year's depreciation of Hotel assets.

The Corporation's investment in capital assets as of December 31, 2009, amounts to $269,661,000 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements, and equipment. The total decrease in the Corporation's investment in capital assets for the current fiscal year was 1.70 percent, and is primarily due to the year's depreciation of Hotel assets.

Changes in Net Assets

Summary of changes in net assets (in thousands):

	2010	2009	2008
Hotel operating revenues	$ 52,657	$ 49,378	$ 7,866
Investment income	110	507	1,123
Other	-	-	18
Total revenues	52,767	49,885	9,007
Hotel operating expenses	46,014	42,941	8,822
Pre-opening expenses	-	-	5,527
Debt issuance costs	626	626	626
Trustee fees	8	16	300
Interest on long-term debt	17,136	17,148	4,406
Total expenses	63,784	60,731	19,681
Decrease in net assets	(11,017)	(10,846)	(10,674)
Ending net deficit	$ (29,421)	$ (18,404)	$ (7,558)

Hotel operating revenues increased by $3.3 million, or 6.6%, during 2010. The increase is primarily due to a 6.3% increase in the room occupancy percentage and increased food and beverage sales.

Hotel operating expenses increased by $3.1 million during 2010. The increase includes an increase of $830 thousand in management fees as well as $225 thousand paid to the City of Phoenix for administrative costs. The remaining increase corresponds to the increase in revenues.

The decrease in ending net assets as of December 31, 2010, is primarily due to interest expense on long-term debt and the depreciation of capital assets.

The decrease in ending net assets as of December 31, 2009 is primarily due to interest expense on long-term debt and the depreciation of capital assets.

Requests for Financial Information

This financial report is designed to provide a general overview of the Downtown Phoenix Hotel Corporation's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Phoenix, Calvin C. Goode Municipal Building, Ninth Floor, 251 West Washington, Phoenix, Arizona, 85003.

Downtown Phoenix Hotel Corporation
Statements of Net Assets
December 31, 2010 and 2009
(in thousands)

		2010		2009
ASSETS				
Current Assets				
Cash and Cash Equivalents	$	2,298	$	2,605
Accounts Receivable, Net of Allowance for Doubtful Accounts (2010, $7 and 2009, $20)		1,029		1,058
Inventories		244		247
Prepaid Expenses		315		232
Total Current Assets		3,886		4,142
Current Restricted Assets				
Debt Service				
Cash and Cash Equivalents		10,991		8,707
Investments		35,497		23,128
Receivables				
Accrued Interest		280		292
Operating Reserve				
Cash and Cash Equivalents		3,355		2,655
Receivables				
Accrued Interest		7		-
Investments		9,967		10,002
Capital Projects				
Cash and Cash Equivalents		1,882		10,411
Receivables				
Accrued Interest		1		-
Investments		1,833		13,560
Total Current Restricted Assets		63,813		68,755
Noncurrent Assets				
Other		103		98
Capital Assets				
Land		1,150		-
Buildings		275,819		275,786
Improvements Other Than Buildings		537		537
Equipment		3,554		2,257
Intangible		126		-
Construction in Progress		99		-
Less: Accumulated Depreciation		(16,149)		(8,919)
Total Capital Assets, Net		265,136		269,661
Total Noncurrent Assets		265,239		269,759
Total Assets		332,938		342,656

The accompanying notes are an integral part of these financial statements.

	2010	2009
LIABILITIES		
Current Liabilities Payable from Current Assets		
Accounts Payable	1,175	1,250
Accrued Expenses	2,784	2,445
Advance Deposits	884	352
Total Current Liabilities Payable from Current Assets	4,843	4,047
Current Liabilities Payable from Restricted Assets		
Debt Service		
Interest Payable	8,706	8,706
Operating Reserve		
Accounts Payable	397	176
Capital Projects		
Accounts Payable	7	92
Deposits in Trust	10,318	10,302
Total Current Liabilities Payable from Restricted Assets	19,428	19,276
Noncurrent Liabilities		
Bonds Payable	350,000	350,000
Unamortized Debt Issuance Costs	(18,464)	(19,090)
Unamortized Premium	6,552	6,827
Total Noncurrent Liabilities	338,088	337,737
Total Liabilities	362,359	361,060
NET ASSETS (DEFICIT)		
Invested In Capital Assets, Net of Related Debt	(18,603)	(8,919)
Restricted for Debt Service	38,062	23,421
Restricted for Capital Projects	3,709	23,878
Unrestricted	(52,589)	(56,784)
Net Deficit	$ (29,421)	$ (18,404)

Downtown Phoenix Hotel Corporation
Statements of Revenues, Expenses and Changes in Net Assets

For the Fiscal Years Ended December 31, 2010 and 2009
(in thousands)

	2010	2009
Operating Revenues		
Rooms	$ 30,330	$ 29,567
Food and Beverage	18,834	16,603
Other	3,493	3,208
Total Operating Revenues	52,657	49,378
Operating Expenses		
Rooms	7,301	7,248
Food and Beverage	13,590	12,386
General and Administrative Costs	16,326	14,559
Depreciation	7,230	7,190
Amortization of Debt Issuance Costs	626	626
Trustee Fees	8	16
Other	1,567	1,558
Total Operating Expenses	46,648	43,583
Operating Income	6,009	5,795
Non-Operating Revenues (Expenses)		
Investment Income		
Net Decrease in Fair Value of Investments	(546)	(456)
Interest	656	963
Interest on Capital Debt	(17,136)	(17,148)
Total Non-Operating Expenses	(17,026)	(16,641)
Change in Net Assets	(11,017)	(10,846)
Net Deficit, January 1	(18,404)	(7,558)
Net Deficit, December 31	$ (29,421)	$ (18,404)

The accompanying notes are an integral part of these financial statements.

Downtown Phoenix Hotel Corporation
Statements of Cash Flows

For the Fiscal Years Ended December 31, 2010 and 2009
(in thousands)

	2010	2009
Cash Flows from Operating Activities		
Cash Received from Customers	$ 53,218	$ 50,321
Payments to Suppliers	(22,066)	(20,149)
Payment of Staff and Administrative Expenses	(16,326)	(14,559)
Net Cash Provided by Operating Activities	14,826	15,613
Cash Flows from Capital and Related Financing Activities		
Interest Paid on Capital Debt	(17,412)	(17,412)
Receipt of Deposits Held in Trust	44	3
Return of Deposits Held in Trust	(13)	(48)
Acquisition and Construction of Capital Assets	(2,790)	(3,649)
Net Cash Used by Capital and Related Financing Activities	(20,171)	(21,106)
Cash Flows from Investing Activities		
Purchases of Investments	(35,055)	(33,856)
Proceeds from Sales and Maturities of Investments	33,880	17,217
Interest on Investments	668	1,014
Net Cash Used by Investing Activities	(507)	(15,625)
Net Decrease in Cash and Cash Equivalents	(5,852)	(21,118)
Cash and Cash Equivalents, January 1	24,378	45,496
Cash and Cash Equivalents, December 31	$ 18,526	$ 24,378
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating Income	$ 6,009	$ 5,795
Adjustments		
Depreciation	7,230	7,190
Amortization of Debt Issuance Costs	626	626
(Increase) Decrease in Assets		
Accounts Receivable	29	1,012
Inventories	3	4
Prepaid Expenses	(83)	15
Other Non-Current Assets	(5)	1
Increase (Decrease) in Liabilities		
Accounts Payable	146	635
Accrued Expenses	339	403
Advance Deposits	532	(68)
Net Cash Provided by Operating Activities	$ 14,826	$ 15,613
Noncash Transactions Affecting Financial Position		
Decrease in Fair Value of Investments	$ (546)	$ (456)
Total Noncash Transactions Affecting Financial Position	$ (546)	$ (456)

The accompanying notes are an integral part of these financial statements.

The Downtown Phoenix Hotel Corporation (the Corporation) is a non-profit corporation established in January 2005 to facilitate the financing, development, construction, and operation of a full-service hotel in downtown Phoenix. The hotel began operations in October 2008.

1. Summary of Significant Accounting Policies

The accompanying financial statements of the Corporation have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The following is a summary of the significant policies:

a. Reporting Entity

The City Council of the City of Phoenix (the City) appoints the Corporation's Board of Directors, approves the annual budget, and approves amendments to the Articles of Incorporation and Bylaws. Upon future dissolution of the Corporation, remaining assets will revert to the City. Accordingly, the Corporation is considered to be a governmental unit for financial reporting purposes. Although the Corporation is legally separate from the City, governmental accounting standards require the Corporation to be reported as a discretely presented component unit of the City for financial reporting purposes because of the City Council's relationship to the Corporation. The Corporation prepares financial statements for use by the Board of Directors and other interested parties.

b. Basic Financial Statements

The basic financial statements constitute the core of the financial section of the Corporation's Annual Financial Report. The basic financial statements include the financial statements and the accompanying notes to these financial statements.

The financial statements (Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; and Statements of Cash Flows) report on the Corporation as a whole. All activities are reported in the financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The financial statements focus more on the sustainability of the Corporation as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The Statements of Net Assets report all financial resources of the entity and are displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity. Net assets are displayed in three components: 1) invested in capital assets, net of related debt, 2) restricted and 3) unrestricted. Invested in capital assets, net of related debt, are capital assets net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Restricted net assets are those with constraints placed on their use. Those constraints are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions or enabling legislation. All net assets not otherwise classified as restricted are shown as unrestricted. Generally, the Corporation would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Reservations or designations of net assets imposed by the reporting entity, whether by administrative policy or legislative actions of the reporting entity, are not shown on the accompanying financial statements.

The Statements of Revenues, Expenses and Changes in Net Assets present information showing how the Corporation's net assets changed during the most recent fiscal 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods e.g., accounts payable. This is the accrual method of accounting.

The Statements of Cash Flows provide information about the receipts and payments of the Corporation that result in changes to Cash and Cash Equivalents. The cash flows are classified as operating activities, capital and related financing activities, or investing activities.

c. Basis of Accounting

The Corporation's activities are accounted for as an enterprise fund and the accounting records are maintained on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred. The Corporation applies applicable Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, and all Governmental Accounting Standards Board pronouncements in accounting and reporting for its proprietary operations.

The Corporation distinguishes operating revenues and expenses from non-operating items. Operating revenues are primarily derived from hotel operations including the rental of rooms and food and beverage sales. Revenue is recognized when rooms are occupied and services have been rendered. Operating expenses for the Corporation include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

d. Investments

The Corporation's investments are governed by the underlying bond documents. The corporation reports all investments, deposits and associated risks in accordance with Governmental Accounting Standards Board Statements No. 31, "*Accounting and Financial Reporting for Certain Investments and for External Investment Pools*" and No. 40, "*Deposit and Investment Risk Disclosures.*"

e. Cash and Cash Equivalents

Cash and cash equivalents are defined as highly liquid investments (including restricted cash and investments) with a maturity of three months or less from the date of purchase.

f. Accounts Receivable

Accounts receivable are reported net of an allowance for doubtful accounts. The allowance for doubtful accounts is based on management's assessment of the potential for losses, taking into account historical experience and currently available information.

g. Inventories

Inventory includes food and beverage inventory items which are generally valued at the lower of FIFO cost (first-in, first-out) or market.

h. Capital Assets

Capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life greater than two years. Capital assets are recorded at cost if purchased or constructed.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciable capital assets are depreciated or amortized using the straight-line method and the following estimated useful lives:

Buildings and improvements	5 to 40 years
Equipment	5 to 25 years
Intangible assets	5 to 20 years

Gain or loss is recognized when assets are retired from service or are otherwise disposed of.

i. Long-Term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the interest method. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method.

j. 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 a number of 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 reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

k. Income Taxes

The Corporation is an Arizona nonprofit corporation and a component unit of the City of Phoenix, a governmental agency, and is exempt from federal and state income taxes.

2. Cash and Investments

Operating cash is maintained in a separate bank account. All other cash and investments of the Corporation are held by the trustee. The contract with the trustee calls for these deposits to be fully covered by collateral held in the trustee's trust department but not in the Corporation's name. The trust department pledges a pool of collateral against all trust deposits.

Cash and cash equivalents at December 31, was comprised of the following (in thousands).

	2010	2009
Cash	$ 2,298	$ 2,605
Short-term money market accounts	16,228	21,773
Total Cash and Cash Equivalents	$ 18,526	$ 24,378

Investments at December 31, was comprised of the following (in thousands).

2010

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury Securities	N/A (1)	$ 34,978	0.419
U.S. Government Agency Securities			
FHLMC Notes	AAA	12,319	0.050
Total U.S. Government Agency Securities		12,319	
Total Investments		47,297	0.323
Less: Short-Term Investments		-	
Net Investments		$ 47,297	

2009

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
U.S. Government Agency Securities			
FHLMC Notes	AAA	$ 46,690	0.625
Total U.S. Government Agency Securities		46,690	
Total Investments		46,690	0.625
Less: Short-Term Investments		-	
Net Investments		$ 46,690	

(1) U.S. Government Guaranteed

Interest Rate Risk
The Corporation manages its exposure to interest rate risk by attempting to match investment maturities with anticipated expenses, and by limiting maturities in reserve funds to five years or less.

Credit Risk
The Corporation limits its investments to the top ratings issued by nationally recognized statistical rating organizations such as Standard & Poor's "S&P" and Moody's Investors Service "Moody's". The portfolio is invested in securities issued by the U.S. Government Agency Securities which carry long-term AAA ratings from both rating organizations.

Concentration of Credit Risk
Investments in any one issuer that represent 5% or more of total Corporation investments at fair value as of December 31 are as follows (in thousands).

Issuer	Investment Type	2010	2009
FHLMC	U.S. Government Agency Securities	$ 12,319	$ 46,690

3. Capital Assets

A summary of changes in capital assets for the years ended December 31, is as follows (in thousands).

	Beginning Balance	Increases	Decreases	Ending Balance
2010				
Non-depreciable assets:				
Land	$ -	$ 1,150	$ -	$ 1,150
Construction in Progress	-	99	-	99
Total non-depreciable assets	-	1,249	-	1,249
Depreciable assets:				
Buildings	275,786	33	-	275,819
Improvements	537	-	-	537
Equipment	2,257	1,297	-	3,554
Intangible assets	-	126	-	126
Total depreciable assets	278,580	1,456	-	280,036
Less accumulated depreciation for:				
Buildings	(8,614)	(6,896)	-	(15,510)
Improvements	(45)	(36)	-	(81)
Equipment	(260)	(298)	-	(558)
Total accumulated depreciation	(8,919)	(7,230)	-	(16,149)
Total depreciable assets, net	269,661	(5,774)	-	263,887
Capital assets, at cost, net	$ 269,661	$ (4,525)	$ -	$ 265,136

	Beginning Balance	Increases	Decreases	Ending Balance
2009				
Depreciable assets:				
Buildings	$ 274,953	$ 833	$ -	$ 275,786
Improvements	537	-	-	537
Equipment	571	1,686	-	2,257
Total depreciable assets	276,061	2,519	-	278,580
Less accumulated depreciation for:				
Buildings	(1,711)	(6,903)	-	(8,614)
Improvements	(9)	(36)	-	(45)
Equipment	(9)	(251)	-	(260)
Total accumulated depreciation	(1,729)	(7,190)	-	(8,919)
Total depreciable assets, net	274,332	(4,671)	-	269,661
Capital assets, at cost, net	$ 274,332	$ (4,671)	$ -	$ 269,661

There was no interest capitalized in fiscal years 2010 and 2009.

4. Bonds Payable

On December 20, 2005, the Corporation issued $156,710,000 in Senior Revenue Bonds (Series 2005A), $164,425,000 in Subordinate Revenue Bonds (Series 2005B), and $28,865,000 in Subordinate Revenue Bonds Taxable (Series 2005C). The proceeds of the bonds were used to finance the planning, design, engineering, development, construction, equipping, furnishing and opening of an approximately 1,000 room, full-service, first-class downtown hotel. Series 2005A and 2005B bonds maturing on or after July 1, 2016 are subject to redemption at the option of the Corporation, in whole or in part on any date on or after January 1, 2016. The Series 2005C bonds are subject to redemption at the option of the Corporation, in whole or in part on any date.

Debt service requirements, including principal and interest are as follows (in thousands).

Fiscal Year Ending December 31	Principal	Interest	Total
Senior Revenue Bonds, Series 2005A			
2011	$ -	$ 7,800,075	$ 7,800,075
2012	1,470,000	7,763,325	9,233,325
2013	1,635,000	7,685,700	9,320,700
2014	1,810,000	7,599,575	9,409,575
2015	1,995,000	7,504,450	9,499,450
2016-2020	13,090,000	35,812,175	48,902,175
2021-2025	19,120,000	32,101,850	51,221,850
2026-2030	27,490,000	26,154,950	53,644,950
2031-2035	38,170,000	17,995,500	56,165,500
2036-2040	51,930,000	6,802,750	58,732,750
	$ 156,710,000	$ 157,220,350	$ 313,930,350
Coupon rates		4.0 - 5.25%	
Effective interest rate		5.29%	

DOWNTOWN PHOENIX HOTEL CORPORATION
An Arizona Nonprofit Corporation
(A Component Unit of the City of Phoenix, Arizona)

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended December 31, 2010 and 2009

Fiscal Year Ending December 31	Principal	Interest	Total
Subordinate Revenue Bonds, Series 2005B			
2011	$ -	$ 8,102,069	$ 8,102,069
2012	-	8,102,069	8,102,069
2013	-	8,102,069	8,102,069
2014	-	8,102,069	8,102,069
2015	-	8,102,069	8,102,069
2016-2020	5,550,000	40,355,640	45,905,640
2021-2025	26,755,000	36,122,749	62,877,749
2026-2030	33,990,000	28,743,400	62,733,400
2031-2035	43,105,000	19,354,875	62,459,875
2036-2040	55,025,000	7,146,125	62,171,125
	$ 164,425,000	$ 172,233,134	$ 336,658,134
Coupon rates		4.125 - 5.0%	
Effective interest rate		5.09%	
Subordinate Revenue Bonds, Taxable Series 2005C			
2011	$ -	$ 1,509,485	$ 1,509,485
2012	3,095,000	1,430,098	4,525,098
2013	3,255,000	1,266,733	4,521,733
2014	3,420,000	1,094,005	4,514,005
2015	3,600,000	911,476	4,511,476
2016-2020	15,495,000	1,623,419	17,118,419
	$ 28,865,000	$ 7,835,216	$ 36,700,216
Coupon rates		5.13 - 5.31%	
Effective interest rate		5.67%	
Total Debt Service Requirements			
2011	$ -	$ 17,411,629	$ 17,411,629
2012	4,565,000	17,295,492	21,860,492
2013	4,890,000	17,054,501	21,944,501
2014	5,230,000	16,795,648	22,025,648
2015	5,595,000	16,517,994	22,112,994
2016-2020	34,135,000	77,791,236	111,926,236
2021-2025	45,875,000	68,224,600	114,099,600
2026-2030	61,480,000	54,898,350	116,378,350
2031-2035	81,275,000	37,350,375	118,625,375
2036-2040	106,955,000	13,948,875	120,903,875
	$ 350,000,000	$ 337,288,700	$ 687,288,700

In December 2010, Moody's Investors Service (Moody's) lowered its rating on the Senior Revenue Bonds, Series 2005A, to Ba1 from Baa3 and revised the outlook to negative from stable. Moody's also lowered its rating on the Subordinate Revenue Bonds, Series 2005B and Series 2005C, to A2 from A1, but maintained its stable outlook.

Moody's rationale for the downgrade on the Senior Revenue Bonds was that the occupancy rate and the average daily rate of the hotel fell significantly below expectations due to the economic conditions at the time of the hotel's initial operating period. The Subordinate Revenue Bonds' downgrade was due to decreased sports facility taxes which consist of rental car and hotel activities.

The report mentioned several strengths of the credit. The hotel is located within walking distance of the Phoenix Convention Center and the City's downtown entertainment districts. Strong management provided by Starwood Hotels and marketing of the facility by the Greater Phoenix Convention and Visitor's Bureau help the hotel to compete. The hotel has ample reserves for both the Senior and the Subordinate Revenue Bonds and the Subordinate Revenue Bonds are supported by a pledge of sports facilities taxes which are projected to exceed the subordinated debt service requirements.

5. Related Party Transactions

The City of Phoenix (the "City") acquired the land (the "Site") upon which the Hotel is located in March 2005. Pursuant to a ground lease dated as of December 1, 2005, between the City and the Corporation, the City will lease the Site and the Hotel to be constructed thereon to the Corporation. The term of the ground lease commenced as of the date of issuance of the Series 2005 Bonds and will terminate on December 1, 2040, or such later date as of which no Series 2005 Bonds or additional bonds maturing on or prior to December 1, 2040, are outstanding. The City may not terminate the ground lease for any reason prior to the end of the term of the ground lease. Under the ground lease, the Corporation will make lease payments to the City in the aggregate amount of $3,600,000 (for amounts paid to acquire the Site and other related expenditures made by the City prior to the issuance of the Series 2005 Bonds) at the times and solely from amounts available for such purpose in the City Payments Account of the Excess Revenue Fund.

The Corporation paid the City $1,805 in fiscal year 2010 for permits, plan reviews and other construction related work performed by the City's Engineering and Architectural Services staff. The Corporation also paid the City $226,888 for administrative services in fiscal year 2010. There were no monies paid to the City in fiscal year 2009 for construction related work. The City performed and absorbed significantly all administrative functions and costs on behalf of the Corporation in fiscal year 2009.

In February 2010, the City and the Corporation jointly purchased the property bounded by 1st and 2nd Streets and Polk and Taylor Streets. The Corporation paid $1,150,000 of the $6,268,800 total purchase price and holds an 18% ownership interest in the property.

6. Deposit in Trust

On the date of issuance of the Series 2005A Bonds, the City deposited $10,300,000 to the Senior Special Debt Service Reserve Fund. The City will be repaid by the Corporation from the first amounts deposited to the Excess Revenue Fund.

7. Commitments and Contingencies

The Corporation has entered into a contract with Starwood Hotels and Resorts Management Company to operate the Hotel. The Operating Agreement covers the first fifteen years of operations and includes a base management fee of $1.2 million in the initial year of operations and increasing to $3.16 million by the fifteenth year. Per the Operating Agreement all hotel personnel are employees of Starwood, and not the Corporation. Certain hotel personnel are members of the UNITE HERE union and have entered into a collective bargaining agreement with Starwood.

The Hotel is involved in various claims arising in the ordinary course of business, none of which, in the opinion of management, if determined adversely against the Hotel, will have a material adverse effect on the financial condition, results of operations, or liquidity of the Downtown Phoenix Hotel.

8. Employee Benefit Plan

Starwood sponsors various defined contribution plans, including the Starwood Hotels & Resorts Worldwide, Inc. Savings and Retirement Plan (the plan), which is a voluntary defined contribution plan allowing participation by employees on U.S. payroll who meet certain age and service requirements. Hotel employees participate in the Starwood Plan.

Each participant may contribute on a pretax basis between 1% and 50% of his or her compensation to the plan subject to certain maximum limits. The plan also contains provisions for matching contributions to be made by the Hotel, which are based on a portion of a participant's eligible compensation. The Hotel contributions totaled $193,534 in 2010 and 2009.

9. Net Assets

To the extent that they are not used for capital project expenditures, the net assets restricted for capital projects will be moved to other restricted categories per the indenture of trust agreement.

10. Subsequent Events

Bond Rating Agency Update

On March 24, 2011, Standard & Poor's Ratings Services (S&P) lowered its rating on the Senior Revenue Bonds, Series 2005A, to 'BB+' from 'BBB-' and revised the outlook to stable from negative. S&P's rating on the Series 2005B Subordinate Revenue Bonds is A- with a stable outlook, based on the security from a second lien on a portion of the city's excise taxes from the citywide hotel and car rental taxes.

The S&P report stated that the downgrade to the Senior Revenue Bonds reflects a slower-than-expected ramp-up over the past two years caused by the recession's impact on downtown Phoenix's hospitality sector. The stable outlook is based on S&P's expectation that the Phoenix market will continue to rebound, potentially gaining some growth in average daily room rate over the next three years.