DOWNTOWN PHOENIX HOTEL CORPORATION
AN ARIZONA NONPROFIT CORPORATION

A Component Unit of the City of Phoenix, Arizona

2011 ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended December 31, 2011 and 2010

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, 2011 and 2010

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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

CliftonLarsonAllen

CliftonLarsonAllen LLP
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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, 2011 and 2010, 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, 2011 and 2010, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 9 be presented to supplement the basic financial statements, such information although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical content, We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during out audit of basic financial statements. However, we did not audit the information and express no opinion on it.

CliftonLarsonAllen LLP

Phoenix, Arizona
May 11, 2012

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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, 2011 and 2010.

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 Operations and 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 S*tatements 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 S*tatements 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 14-23 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):

	2011	2010	2009
Current and other assets	$ 60,868	$ 67,802	$ 72,995
Capital assets	258,386	265,136	269,661
Total assets	319,254	332,938	342,656
Current liabilities	28,165	24,271	23,323
Long-term liabilities	333,861	338,088	337,737
Total liabilities	362,026	362,359	361,060
Net assets			
Invested in capital assets, net of related debt	(25,353)	(18,603)	(8,919)
Restricted for debt service	32,338	38,062	23,421
Restricted for capital projects	4,642	3,709	23,878
Unrestricted	(54,399)	(52,589)	(56,784)
Total net deficit	$ (42,772)	$ (29,421)	$ (18,404)

The current assets are comprised primarily of bond proceeds held by the trustee bank for operating and debt service reserves. As of December 31, 2011, the Operating Reserve ($10 million), the Senior Debt Service Reserve ($12.2 million) and the Senior Special Debt Service Reserve ($10.3 million), which are all available for senior debt service payments were fully funded. $3.4 million of the City Lease Payments Account ($9.5 million) was used to pay the January 1, 2012 subordinate debt service payment. Per the indenture, the balance will be restored to $12.6 million from the City's Sports Facilities Fund in 2012. 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 2011 due, primarily, to the use of the City Lease Payments Account, balances in the Cash Trap Fund, and remaining unspent bond proceeds to pay approximately $7.1 million of current year debt service payments. Capital assets decreased in 2011 primarily due to depreciation.

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 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, 2011, amounts to $258,386,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, and intangible assets. The total decrease in the Corporation's investment in capital assets for the current fiscal year was 2.55 percent, and is due to the year's depreciation of Hotel 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.

Changes in Net Assets
Summary of changes in net assets (in thousands):

	2011	2010	2009
Hotel operating revenues	$ 49,984	$ 52,657	$ 49,378
Investment income	93	110	507
Total revenues	50,077	52,767	49,885
Hotel operating expenses	45,653	46,014	42,941
Pre-opening expenses	-	-	-
Debt issuance costs	626	626	626
Trustee fees	8	8	16
Interest on long-term debt	17,124	17,136	17,148
Loss on disposal of assets	17	-	-
Total expenses	63,428	63,784	60,731
Decrease in net assets	(13,351)	(11,017)	(10,846)
Ending net deficit	$ (42,772)	$ (29,421)	$ (18,404)

Hotel operating revenues decreased by $2.7 million, or 5.1%, during 2011. The decrease is primarily due to a 3.6% decrease in the room occupancy percentage and a 1.1% decrease in the average daily rate for the rooms.

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 decreased by $867 thousand during 2011. Decreases corresponding to the decreased revenues were partially offset by a $255 thousand increase in the management fees.

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 decreases in ending net assets as of December 31, 2011 and 2010, are 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, 2011 and 2010
(in thousands)

	2011	2010
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 3,035	$ 2,298
Accounts Receivable, Net of Allowance for		
Doubtful Accounts (2011, $12 and 2010, $7)	988	1,029
Inventories	229	244
Prepaid Expenses	569	315
Total Current Assets	4,821	3,886
Current Restricted Assets		
Debt Service		
Cash and Cash Equivalents	13,567	10,991
Investments	27,426	35,497
Receivables		
Accrued Interest	51	280
Operating Reserve		
Cash and Cash Equivalents	263	3,355
Receivables		
Accrued Interest	6	7
Investments	9,987	9,967
Capital Projects		
Cash and Cash Equivalents	4,642	1,882
Receivables		
Accrued Interest	-	1
Investments	-	1,833
Total Current Restricted Assets	55,942	63,813
Noncurrent Assets		
Other	105	103
Capital Assets		
Land	1,150	1,150
Buildings	276,143	275,819
Improvements Other Than Buildings	537	537
Equipment	3,567	3,554
Intangible	177	126
Construction in Progress	247	99
Less: Accumulated Depreciation	(23,435)	(16,149)
Total Capital Assets, Net	258,386	265,136
Total Noncurrent Assets	258,491	265,239
Total Assets	319,254	332,938

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

	2011	2010
LIABILITIES		
Current Liabilities Payable from Current Assets		
Accounts Payable	898	1,175
Accrued Expenses	2,331	2,784
Advance Deposits	737	884
Total Current Liabilities Payable from Current Assets	3,966	4,843
Current Liabilities Payable from Restricted Assets		
Debt Service		
Bonds Payable	4,565	-
Interest Payable	8,706	8,706
Operating Reserve		
Accounts Payable	555	397
Capital Projects		
Accounts Payable	-	7
Deposits in Trust	10,373	10,318
Total Current Liabilities Payable from Restricted Assets	24,199	19,428
Noncurrent Liabilities		
Bonds Payable	345,435	350,000
Unamortized Debt Issuance Costs	(17,838)	(18,464)
Unamortized Premium	6,264	6,552
Total Noncurrent Liabilities	333,861	338,088
Total Liabilities	362,026	362,359
NET ASSETS (DEFICIT)		
Invested In Capital Assets, Net of Related Debt	(25,353)	(18,603)
Restricted for Debt Service	32,338	38,062
Restricted for Capital Projects	4,642	3,709
Unrestricted	(54,399)	(52,589)
Net Deficit	$ (42,772)	$ (29,421)

Downtown Phoenix Hotel Corporation
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended December 31, 2011 and 2010
(in thousands)

	2011	2010
Operating Revenues		
Rooms	$ 28,888	$ 30,330
Food and Beverage	18,407	18,834
Other	2,689	3,493
Total Operating Revenues	49,984	52,657
Operating Expenses		
Rooms	7,217	7,301
Food and Beverage	12,959	13,590
General and Administrative Costs	17,091	16,326
Depreciation	7,295	7,230
Debt Issuance Costs	626	626
Trustee Fees	8	8
Other	1,091	1,567
Total Operating Expenses	46,287	46,648
Operating Income	3,697	6,009
Non-Operating Revenues (Expenses)		
Investment Income		
Net Decrease in Fair Value of Investments	(214)	(546)
Interest	307	656
Interest on Capital Debt	(17,124)	(17,136)
Gain (Loss) on Disposal of Capital Assets	(17)	-
Total Non-Operating Expenses	(17,048)	(17,026)
Change in Net Assets	(13,351)	(11,017)
Net Assets (Deficit), January 1	(29,421)	(18,404)
Net Deficit, December 31	$ (42,772)	$ (29,421)

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, 2011 and 2010
(in thousands)

	2011	2010
Cash Flows from Operating Activities		
Cash Received from Customers	$ 49,878	$ 53,218
Payments to Suppliers	(22,088)	(22,066)
Payment of Staff and Administrative Expenses	(17,091)	(16,326)
Net Cash Provided by Operating Activities	10,699	14,826
Cash Flows from Capital and Related Financing Activities		
Interest Paid on Capital Debt	(17,412)	(17,412)
Receipt of Deposits Held in Trust	70	44
Return of Deposits Held in Trust	(18)	(13)
Acquisition and Construction of Capital Assets	(569)	(2,790)
Net Cash Used by Capital and Related Financing Activities	(17,929)	(20,171)
Cash Flows from Investing Activities		
Purchases of Investment Securities	(45,339)	(35,055)
Proceeds from Sales and Maturities of Investment Securities	55,015	33,880
Interest on Investments	535	668
Net Cash Used by Investing Activities	10,211	(507)
Net Decrease in Cash and Cash Equivalents	2,981	(5,852)
Cash and Cash Equivalents, January 1	18,526	24,378
Cash and Cash Equivalents, December 31	$ 21,507	$ 18,526
Reconciliation of Operating Loss to		
Net Cash Provided (Used) by Operating Activities		
Operating Income	$ 3,697	$ 6,009
Adjustments		
Depreciation	7,295	7,230
Amortization of Debt Issuance Costs	626	626
(Increase) Decrease in Assets		
Accounts Receivable	41	29
Inventories	15	3
Prepaid Expenses	(254)	(83)
Other Non-Current Assets	(2)	(5)
Increase (Decrease) in Liabilities		
Accounts Payable	(119)	146
Accrued Expenses	(453)	339
Advance Deposits	(147)	532
Net Cash Provided by Operating Activities	$ 10,699	$ 14,826
Noncash Transactions Affecting Financial Position		
Decrease in Fair Value of Investments	$ (214)	$ (546)
Total Noncash Transactions Affecting Financial Position	$ (214)	$ (546)

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

NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended December 31, 2011 and 2010

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).

	2011	2010
Cash	$ 3,035	$ 2,298
Short-term money market accounts	18,472	16,228
Total Cash and Cash Equivalents	$ 21,507	$ 18,526

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

2011

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury Securities	N/A (1)	$ 37,413	0.608
Total Investments		37,413	0.608
Less: Short-Term Investments		-	
Net Investments		$ 37,413	

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	

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 U.S. Treasury securities.

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	2011	2010
FHLMC	U.S. Government Agency Securities	$ -	$ 12,319

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
2011				
Non-depreciable assets:				
Land	$ 1,150	$ -	$ -	$ 1,150
Construction in Progress	99	500	(352)	247
Intangible assets	94	1	-	95
Total non-depreciable assets	1,343	501	(352)	1,492
Depreciable assets:				
Buildings	275,819	324	-	276,143
Improvements	537	-	-	537
Equipment	3,554	39	(26)	3,567
Intangible assets	32	50	-	82
Total depreciable assets	279,942	413	(26)	280,329
Less accumulated depreciation for:				
Buildings	(15,509)	(6,903)	-	(22,412)
Improvements	(81)	(36)	-	(117)
Equipment	(559)	(340)	9	(890)
Intangible assets	-	(16)	-	(16)
Total accumulated depreciation	(16,149)	(7,295)	9	(23,435)
Total depreciable assets, net	263,793	(6,882)	(17)	256,894
Capital assets, at cost, net	$ 265,136	$ (6,381)	$ (17)	$ 258,386

	Beginning Balance	Increases	Decreases	Ending Balance
2010				
Non-depreciable assets:				
Land	$ -	$ 1,150	$ -	$ 1,150
Construction in Progress	-	99	-	99
Intangible assets	-	94	-	94
Total non-depreciable assets	-	1,343	-	1,343
Depreciable assets:				
Buildings	275,786	33	-	275,819
Improvements	537	-	-	537
Equipment	2,257	1,297	-	3,554
Intangible assets	-	32	-	32
Total depreciable assets	278,580	1,362	-	279,942
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	(5,868)	-	263,793
Capital assets, at cost, net	$ 269,661	$ (4,525)	$ -	$ 265,136

There was no interest capitalized in fiscal years 2011 and 2010.

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			
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	2,190,000	7,397,088	9,587,088
2017-2021	14,175,000	35,207,944	49,382,944
2022-2026	20,605,000	31,075,444	51,680,444
2027-2031	29,420,000	24,726,250	54,146,250
2032-2036	40,650,000	16,025,000	56,675,000
2037-2040	42,760,000	4,435,500	47,195,500
	$ 156,710,000	$ 149,420,275	$ 306,130,275
Coupon rates		4.0 - 5.25%	
Effective interest rate		5.29%	
Subordinate Revenue Bonds, Series 2005B			
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	-	8,102,069	8,102,069
2017-2021	10,390,000	39,999,897	50,389,897
2022-2026	28,095,000	34,751,499	62,846,499
2027-2031	35,610,000	27,079,825	62,689,825
2032-2036	45,265,000	17,145,625	62,410,625
2037-2040	45,065,000	4,643,875	49,708,875
	$ 164,425,000	$ 164,131,065	$ 328,556,065
Coupon rates		4.125 - 5.0%	
Effective interest rate		5.09%	

Fiscal Year Ending December 31	Principal	Interest	Total
Subordinate Revenue Bonds, Taxable Series 2005C			
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	3,790,000	718,398	4,508,398
2017-2019	11,705,000	905,022	12,610,022
	$ 28,865,000	$ 6,325,731	$ 35,190,731
Coupon rates		5.13 - 5.31%	
Effective interest rate		5.67%	
Total Debt Service Requirements			
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	5,980,000	16,217,554	22,197,554
2017-2021	36,270,000	76,112,863	112,382,863
2022-2026	48,700,000	65,826,944	114,526,944
2027-2031	65,030,000	51,806,075	116,836,075
2032-2036	85,915,000	33,170,625	119,085,625
2037-2040	87,825,000	9,079,375	96,904,375
	$ 350,000,000	$ 319,877,072	$ 669,877,072

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.

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 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 $5,700 in fiscal year 2011 and $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 $240,174 and $226,888 for administrative services in fiscal year 2011 and 2010, respectively.

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 $258,618 in 2011 and $239,367 in 2010.