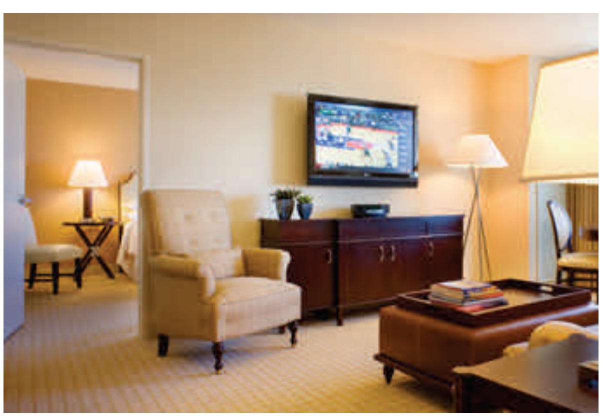
DOWNTOWN PHOENIX HOTEL CORPORATION
AN ARIZONA NONPROFIT CORPORATION

A Component Unit of the City of Phoenix, Arizona




2012 ANNUAL FINANCIAL REPORT
For the Fiscal Years Ended December 31, 2012 and 2011

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, 2012 and 2011

TABLE OF CONTENTS

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

ADMINISTRATIVE ORGANIZATION

Board Members

David Cavazos
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
Chief Financial Officer

Jeremy Legg
Economic Development Program Manager

CliftonLarsonAllen

CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Downtown Phoenix Hotel Corporation
Phoenix, Arizona

Report on the Financial Statements

We have audited the accompanying statements of net position of the Downtown Phoenix Hotel Corporation (the "Corporation") a component unit of the City of Phoenix, Arizona), as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Downtown Phoenix Hotel Corporation (a component unit of the City of Phoenix, Arizona) as of December 31, 2012 and 2011, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 context. 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 the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CliftonLarsonAllen LLP

Phoenix, Arizona
May 28, 2013

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, 2012 and 2011.

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 began in 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 Position and the Statements of Revenues, Expenses and Changes in Fund Net Position are included in this Management's Discussion and Analysis (MD&A).

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

The S*tatements of Revenues, Expenses and Changes in Net Position* present information showing how the Corporation's net position changed during the most recent fiscal years. All changes in net position 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 Position

Summary of net position (in thousands):

	2012	2011	2010
Current and other assets	$ 61,457	$ 60,868	$ 67,802
Capital assets	250,979	258,386	265,136
Total assets	312,436	319,254	332,938
Current liabilities	30,065	28,165	24,271
Noncurrent liabilities	329,304	333,861	338,088
Total liabilities	359,369	362,026	362,359
Net position			
Net investment in capital assets	(28,196)	(25,353)	(18,603)
Restricted for debt service	25,747	27,773	38,062
Restricted for capital projects	5,279	4,642	3,709
Unrestricted	(49,763)	(49,834)	(52,589)
Total net position	$ (46,933)	$ (42,772)	$ (29,421)

The current and other assets are comprised primarily of bond proceeds held by the trustee bank for operating and debt service reserves. As of December 31, 2012, the Operating Reserve ($10.1 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. $9.5 million of the City Lease Payments Account ($8.0 million) was used to pay the January 1, 2013 subordinate debt service payment. Per the indenture, the balance will be restored to $12.7 million from the City's Sports Facilities Fund in 2013. 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.

The Corporation's investment in capital assets as of December 31, 2012, amounts to $250,979,000 (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 2.87 percent, and is due to the year's depreciation of Hotel 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 fiscal year 2011 was 2.55 percent, and is due to the year's depreciation of Hotel assets.

Noncurrent liabilities are comprised of bonds payable net of unamortized issuance costs and premiums. Noncurrent liabilities decreased in 2012 and 2011 primarily due to bonds payable due in one year of $4.9 million and $4.6 million, respectively.

Changes in Net Position

Summary of changes in net position (in thousands):

	2012	2011	2010
Operating revenues	$ 54,566	$ 49,984	$ 52,657
Investment income	73	93	110
Contributions	7,973	-	-
Total revenues	62,612	50,077	52,767
Operating expenses	49,136	45,653	46,014
Debt issuance costs	626	626	626
Trustee fees	8	8	8
Interest on long-term debt	17,003	17,124	17,136
Loss on disposal of assets	-	17	-
Total expenses	66,773	63,428	63,784
Decrease in net position	(4,161)	(13,351)	(11,017)
Ending net position	$ (46,933)	$ (42,772)	$ (29,421)

Operating revenues increased by $4.6 million, or 9.2%, during 2012. The increase is primarily due to a 6.5% increase in the room occupancy percentage and increased food and beverage sales.

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.

Operating expenses increased by $3.5 million during 2012. The increase is primarily due to a $492 thousand increase in management fees, a $963 thousand increase in marketing services and a $1.5 million increase in food and beverage expenses.

Operating expenses decreased by $361 thousand during 2011. Decreases corresponding to the decreased revenues were partially offset by a $255 thousand increase in the management fees.

The decrease in ending net position as of December 31, 2012 is primarily due to contributions to the Subordinate Bonds City Lease Payment Sub Account and interest expense on long-term debt. The decrease in ending net position as of December 31, 2011 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 Chief Financial Officer, City of Phoenix, Calvin C. Goode Municipal Building, Ninth Floor, 251 West Washington, Phoenix, Arizona, 85003.

Downtown Phoenix Hotel Corporation
Statements Of Net Position
December 31, 2012 and 2011
(in thousands)

	2012	2011
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 3,487	$ 3,035
Accounts Receivable, Net of Allowance for		
Doubtful Accounts (2012, $2 and 2011, $12)	1,855	988
Inventories	238	229
Prepaid Expenses	832	569
Total Current Assets	6,412	4,821
Current Restricted Assets		
Debt Service		
Cash and Cash Equivalents	16,628	13,567
Investments	22,591	27,426
Receivables		
Accrued Interest	8	51
Operating Reserve		
Cash and Cash Equivalents	3,420	263
Receivables		
Accrued Interest	3	6
Investments	7,011	9,987
Capital Projects		
Cash and Cash Equivalents	5,279	4,642
Total Current Restricted Assets	54,940	55,942
Noncurrent Assets		
Other	105	105
Capital Assets		
Land	1,150	1,150
Buildings	276,143	276,143
Improvements Other Than Buildings	537	537
Equipment	3,717	3,567
Intangible	177	177
Construction in Progress	-	247
Less: Accumulated Depreciation	(30,745)	(23,435)
Total Capital Assets, Net	250,979	258,386
Total Noncurrent Assets	251,084	258,491
Total Assets	312,436	319,254

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

	2012	2011
LIABILITIES		
Current Liabilities Payable from Current Assets		
Accounts Payable	635	898
Accrued Expenses	3,314	2,331
Advance Deposits	673	737
Total Current Liabilities Payable from Current Assets	4,622	3,966
Current Liabilities Payable from Restricted Assets		
Debt Service		
Bonds Payable	4,890	4,565
Interest Payable	8,590	8,706
Operating Reserve		
Accounts Payable	1,616	555
Deposits in Trust	10,347	10,373
Total Current Liabilities Payable from Restricted Assets	25,443	24,199
Noncurrent Liabilities		
Bonds Payable	340,545	345,435
Unamortized Debt Issuance Costs	(17,212)	(17,838)
Unamortized Premium	5,971	6,264
Total Noncurrent Liabilities	329,304	333,861
Total Liabilities	359,369	362,026
NET POSITION		
Net Investment in Capital Assets	(28,196)	(25,353)
Restricted for Debt Service	25,747	27,773
Restricted for Capital Projects	5,279	4,642
Unrestricted	(49,763)	(49,834)
Total Net Position	$ (46,933)	$ (42,772)

Downtown Phoenix Hotel Corporation
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended December 31, 2012 and 2011
(in thousands)

	2012	2011
Operating Revenues		
Rooms	$ 31,049	$ 28,888
Food and Beverage	20,744	18,407
Other	2,773	2,689
Total Operating Revenues	54,566	49,984
Operating Expenses		
Rooms	7,577	7,217
Food and Beverage	14,487	12,959
General and Administrative Costs	18,560	17,091
Depreciation	7,310	7,295
Debt Issuance Costs	626	626
Trustee Fees	8	8
Other	1,202	1,091
Total Operating Expenses	49,770	46,287
Operating Income	4,796	3,697
Non-Operating Revenues (Expenses)		
Investment Income		
Net Decrease in Fair Value of Investments	(29)	(214)
Interest	102	307
Contributions	7,973	-
Interest on Capital Debt	(17,003)	(17,124)
Loss on Disposal of Capital Assets	-	(17)
Total Non-Operating Expenses	(8,957)	(17,048)
Change in Net Position	(4,161)	(13,351)
Net Position, January 1	(42,772)	(29,421)
Net Position, December 31	$ (46,933)	$ (42,772)

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, 2012 and 2011
(in thousands)

	2012	2011
Cash Flows from Operating Activities		
Cash Received from Customers	$ 53,635	$ 49,878
Payments to Suppliers	(21,668)	(22,088)
Payment of Staff and Administrative Expenses	(18,560)	(17,091)
Net Cash Provided by Operating Activities	13,407	10,699
Cash Flows from Noncapital Financing Activities		
Contribution from City of Phoenix	7,973	-
Net Cash Provided by Noncapital Financing Activities	7,973	-
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Capital Debt	(4,565)	-
Interest Paid on Capital Debt	(17,412)	(17,412)
Receipt of Deposits Held in Trust	52	70
Return of Deposits Held in Trust	(52)	(18)
Acquisition and Construction of Capital Assets	-	(569)
Net Cash Used by Capital and Related Financing Activities	(21,977)	(17,929)
Cash Flows from Investing Activities		
Purchases of Investment Securities	(24,107)	(45,339)
Proceeds from Sales and Maturities of Investment Securities	31,862	55,015
Interest on Investments	149	535
Net Cash Provided by Investing Activities	7,904	10,211
Net Increase in Cash and Cash Equivalents	7,307	2,981
Cash and Cash Equivalents, January 1	21,507	18,526
Cash and Cash Equivalents, December 31	$ 28,814	$ 21,507
Reconciliation of Operating Loss to		
Net Cash Provided (Used) by Operating Activities		
Operating Income	$ 4,796	$ 3,697
Adjustments		
Depreciation	7,310	7,295
Reversal of Construction in Progress	98	-
Amortization of Debt Issuance Costs	626	626
(Increase) Decrease in Assets		
Accounts Receivable	(867)	41
Inventories	(9)	15
Prepaid Expenses	(263)	(254)
Other Non-Current Assets	-	(2)
Increase (Decrease) in Liabilities		
Accounts Payable	797	(119)
Accrued Expenses	983	(453)
Advance Deposits	(64)	(147)
Net Cash Provided by Operating Activities	$ 13,407	$ 10,699
Noncash Transactions Affecting Financial Position		
Decrease in Fair Value of Investments	$ (29)	$ (214)
Total Noncash Transactions Affecting Financial Position	$ (29)	$ (214)

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

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, 2012 and 2011

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 Position; Statements of Revenues, Expenses and Changes in Net Position; 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 Position reports all financial resources of the entity and are displayed in a format of assets less liabilities equals net position, with the assets and liabilities shown in order of their relative liquidity. Net position is displayed in three components: 1) net investment in capital assets, 2) restricted and 3) unrestricted. Net investment in capital assets, 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 components of net position 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 components of net position 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 position is available. Reservations or designations of net position 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 Position present information showing how the Corporation's net position changed during the most recent fiscal year. All changes in net position 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 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. Noncurrent Liabilities

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the statements of net position. 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.

I. Reclassifications

Certan amounts in 2011 have been reclassified for comparative purposes to conform with the presentation in 2012. The reclassifications have no effect on the previously reported net position.

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).

	2012	2011
Cash	$ 3,487	$ 3,035
Short-term money market accounts	25,327	18,472
Total cash and cash equivalents	$ 28,814	$ 21,507

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

2012

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury Securities	N/A (1)	$ 29,602	1.242

2011

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
U.S. Treasury Securities	N/A (1)	$ 37,413	0.608

(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 U.S. Treasury Securities.

Concentration of Credit Risk
There were no investments in any one issuer that represented 5% or more of total Corporation investments at fair value as of December 31, 2012 and 2011.

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
2012				
Non-depreciable assets:				
Land	$ 1,150	$ -	$ -	$ 1,150
Construction in Progress	247	-	(247)	-
Intangible assets	95	-	-	95
Total non-depreciable assets	1,492	-	(247)	1,245
Depreciable assets:				
Buildings	276,143	-	-	276,143
Improvements	537	-	-	537
Equipment	3,567	150	-	3,717
Intangible assets	82	-	-	82
Total depreciable assets	280,329	150	-	280,479
Less accumulated depreciation for:				
Buildings	(22,412)	(6,909)	-	(29,321)
Improvements	(117)	(36)	-	(153)
Equipment	(890)	(349)	-	(1,239)
Intangible assets	(16)	(16)	-	(32)
Total accumulated depreciation	(23,435)	(7,310)	-	(30,745)
Total depreciable assets, net	256,894	(7,160)	-	249,734
Capital assets, at cost, net	$ 258,386	$ (7,160)	$ (247)	$ 250,979

	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)	$ (369)	$ 258,386

There was no interest capitalized in fiscal years 2012 and 2011.

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.

The only change in the bonds payable was a principle reduction of $4,565,000 in the fiscal year ended December 31, 2012.

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, 2012 and 2011

Debt service requirements, including principal and interest are as follows.

Fiscal Year Ending December 31	Principal	Interest	Total
Senior Revenue Bonds, Series 2005A			
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	2,400,000	7,276,600	9,676,600
2018-2022	15,290,000	34,562,337	49,852,337
2023-2027	22,210,000	29,957,950	52,167,950
2028-2032	31,440,000	23,204,750	54,644,750
2033-2037	43,260,000	13,927,250	57,187,250
2038-2040	33,010,000	2,541,250	35,551,250
	$ 155,240,000	$ 141,656,950	$ 296,896,950
Coupon rates		4.0 - 5.25%	
Effective interest rate		5.29%	
Subordinate Revenue Bonds, Series 2005B			
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	-	8,102,069	8,102,069
2018-2022	15,475,000	39,396,028	54,871,028
2023-2027	29,500,000	33,323,794	62,823,794
2028-2032	37,310,000	25,321,082	62,631,082
2033-2037	47,530,000	14,825,750	62,355,750
2038-2040	34,610,000	2,652,000	37,262,000
	$ 164,425,000	$ 156,028,999	$ 320,453,999
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			
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	3,990,000	513,963	4,503,963
2018-2019	7,715,000	391,060	8,106,060
	$ 25,770,000	$ 4,895,635	$ 30,665,635
Coupon rates		5.13 - 5.31%	
Effective interest rate		5.67%	
Total Debt Service Requirements			
2013	$ 4,890,000	$ 17,054,502	$ 21,944,502
2014	5,230,000	16,795,649	22,025,649
2015	5,595,000	16,517,995	22,112,995
2016	5,980,000	16,217,555	22,197,555
2017	6,390,000	15,892,632	22,282,632
2018-2022	38,480,000	74,349,425	112,829,425
2023-2027	51,710,000	63,281,744	114,991,744
2028-2032	68,750,000	48,525,832	117,275,831
2033-2037	90,790,000	28,753,000	119,543,000
2038-2040	67,620,000	5,193,250	72,813,250
	$ 345,435,000	$ 302,581,584	$ 648,016,584

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.

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 $1,500 in fiscal year 2012 and $5,700 in fiscal year 2011 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 $140,170 and $240,174 for administrative services in fiscal year 2012 and 2011, respectively.

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 Corporation.

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 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 were $315,368 in 2012 and $258,618 in 2011.