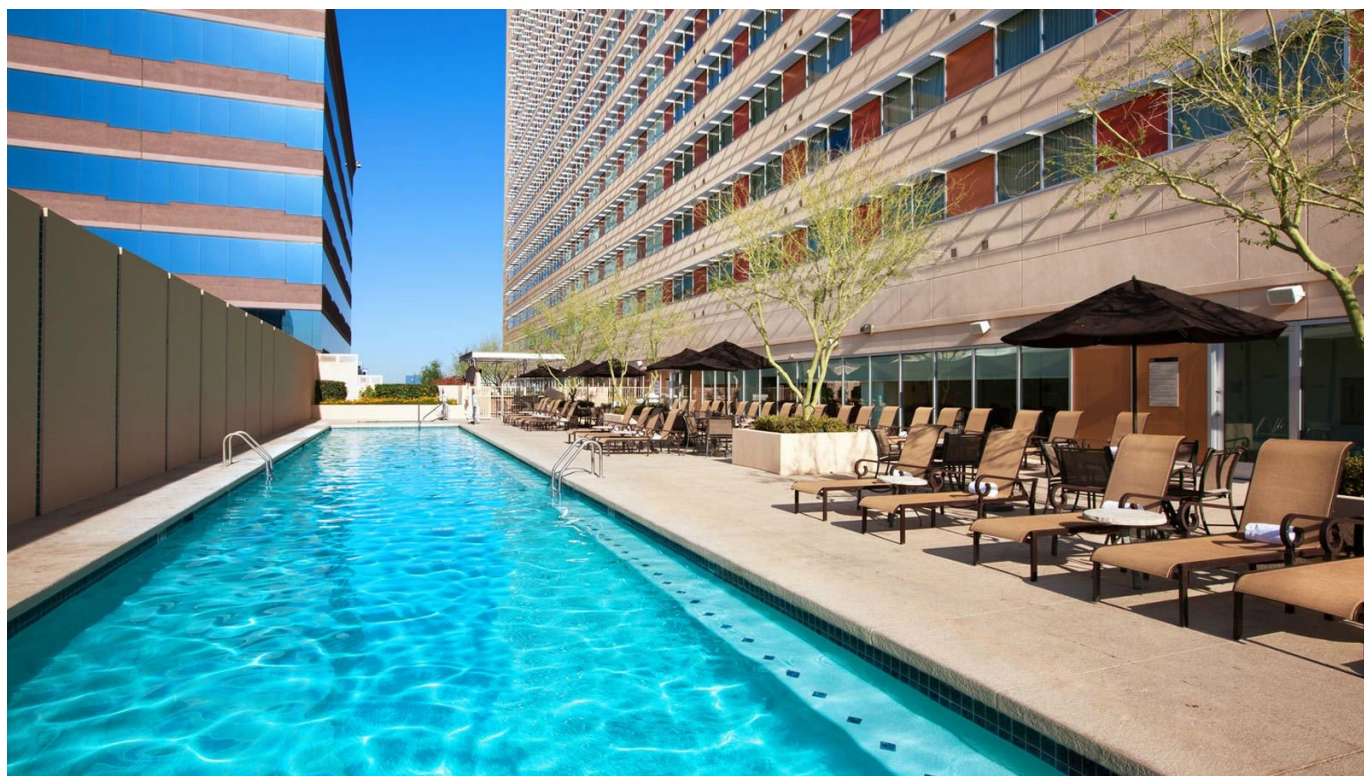


DOWNTOWN PHOENIX HOTEL CORPORATION
AN ARIZONA NONPROFIT CORPORATION
A COMPONENT UNIT OF THE CITY OF PHOENIX, ARIZONA



2016 ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016 AND 2015



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, 2016 and 2015

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

ADMINISTRATIVE ORGANIZATION

Board Members

Milton Dohoney *Dick Snell*
President *Director*

Paul Blue *Denise Olson*
Vice President *Treasurer*

John Chan
Secretary

City of Phoenix Administrative Staff

Milton Dohoney
Assistant City Manager

Denise Olson
Chief Financial Officer

Jeremy Legg
Special Projects Manager

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 and a component unit of the City of Phoenix, Arizona), as of December 31, 2016 and 2015, 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, 2016 and 2015, and the changes its in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter Regarding a Correction of an Error

As discussed in Note 9 to the financial statements, during 2016 the City of Phoenix determined that the payment of the Corporation's bonds payable by the City of Phoenix should have been recorded as a contribution to the Corporation in 2015 rather than as debt owed to the City of Phoenix. As a result, the Corporation reported a restatement of net position as of December 31, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 8 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 audits 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Downtown Phoenix Hotel Corporation's basic financial statements. The administrative organization section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



CliftonLarsonAllen LLP

Phoenix, Arizona
June 2, 2017

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, 2016 and 2015.

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 (the Council) appoints the Corporation's Board of Directors (the Board). 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 and City Management'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.

Authorization to Market the Hotel

On December 2, 2015, the Council authorized the Board to amend the Articles of Incorporation to allow the Corporation to facilitate the marketing of and negotiations for a possible sale of the Hotel.

The Hotel remains for sale as of the date of this report.

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.

CHMWarnick, 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 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 9-12 of this report. Summarized versions of the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position are included in this Management's Discussion and Analysis (MD&A).

The *Statements of Net Position* present information on all of the Corporation's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the components 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 *Statements 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, noncapital financing activities, capital and related financing activities, and investing activities.

Notes to the financial statements. The notes provide additional information that is essential to obtain a full understanding of the data provided in the financial statements. The notes to the basic financial statements can be found on pages 13-19 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:

Summary of net position (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 30,456	\$ 22,151	\$ 67,003
Capital assets	222,449	229,762	236,056
Total assets	<u>252,905</u>	<u>251,913</u>	<u>303,059</u>
Deferred outflows of resources	—	—	—
Current liabilities	11,377	11,790	31,243
Noncurrent liabilities	233	311	335,119
Total liabilities	<u>11,610</u>	<u>12,101</u>	<u>366,362</u>
Deferred inflows of resources	—	—	—
Net position			
Net investment in capital assets	222,449	229,762	(38,397)
Restricted for debt service	—	—	26,383
Restricted for distributions to City	957	729	—
Restricted for capital projects	11,618	10,234	8,337
Unrestricted	6,271	(913)	(59,626)
Total net position	<u>\$ 241,295</u>	<u>\$ 239,812</u>	<u>\$ (63,303)</u>

Net Position

The current and other assets are comprised primarily of cash reserves held by the trustee bank. The increase of \$8.3 million, or 37.5%, during 2016 was due to a higher level of deposits into the cash reserve accounts. As of December 31, 2016, the Capital Expenditure Reserve was \$11.6 million, the Unrestricted Cash and Cash Equivalents was \$11.3 million, and the Operating Reserve was \$3.2 million.

As of December 31, 2015, the Capital Expenditure Reserve was \$10.2 million and the Operating Reserve was \$4.0 million. The decrease of \$44.9 million, or 66.9%, in current and other assets during 2015 was directly related to the refinancing of the bonds payable when the reserve accounts were used to pay down the bonds payable.

The Corporation's capital assets as of December 31, 2016, amounted to \$222.4 million (net of accumulated depreciation). Capital assets include land, buildings, improvements, equipment, construction in progress, and intangible assets. The total decrease in the Corporation's capital assets for fiscal year 2016 was 3.2% and was due to the year's depreciation of Hotel assets.

The Corporation's capital assets as of December 31, 2015, amounted to \$229.8 million (net of accumulated depreciation). The total decrease in the Corporation's capital assets for fiscal year 2015 was 2.7% and was due to the year's depreciation of Hotel assets.

Current liabilities are comprised of accounts payable, accrued expenses, advance deposits, and deposits held in trust as of December 31, 2016 and 2015. The balance in 2016 was consistent with 2015.

Current liabilities decreased in 2015 from 2014 because there was no accrual necessary for bond principal and interest payable as of December 31, 2015 since the bond payment was made prior to year-end.

Noncurrent liabilities decreased by \$334.8 million in 2015 from 2014 due to the refinancing of the outstanding bonds, as well as the write-off of the unamortized bond premiums. On August 12, 2015, the City refinanced all outstanding revenue bonds related to the Hotel that were issued in December 2005 - see Note 8 to the financial statements for further discussion.

Total net position remained consistent between 2016 and 2015. Unrestricted net position in 2016 increased by \$7.2 million from 2015 due to an increase in the deposits into the cash reserve accounts from high levels of room occupancy rates.

Total net position significantly increased in 2015 from 2014 due to the refinancing. Net investment in capital assets increased due to the payoff of the bonds payable. Net position restricted for debt service decreased to zero in 2015 due to the debt service cash reserves used in the refinancing. Restricted for capital projects increased due to higher room revenues. Unrestricted net position increased due to the above explanations - see below for explanations related to changes in net position.

Summary of changes in net position (in thousands):

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating revenues	\$ 60,773	\$ 61,923	\$ 53,887
Investment income	24	10	34
Contributions from City	—	309,463	12,704
Total revenues	<u>60,797</u>	<u>371,396</u>	<u>66,625</u>
Operating expenses	50,800	50,662	49,685
Trustee fees	2	1	8
Interest on capital debt	—	14,251	16,512
Distributions to City	8,512	3,367	—
Loss on disposal of capital assets	—	—	491
Gain on extinguishment of debt	—	—	(3,100)
Total expenses	<u>59,314</u>	<u>68,281</u>	<u>63,596</u>
Changes in net position	1,483	303,115	3,029
Net position (deficit), January 1	<u>239,812</u>	<u>(63,303)</u>	<u>(66,332)</u>
Net position (deficit), December 31	<u>\$ 241,295</u>	<u>\$ 239,812</u>	<u>\$ (63,303)</u>

Operating revenues decreased by \$1.2 million, or 1.9%, during 2016. This decrease was primarily due to a decrease in room occupancy of 0.5%, as well as fewer business-related banquet and catering bookings at the Hotel.

Operating revenues increased by \$8.0 million, or 14.9%, during 2015. This was primarily due to higher room revenues driven by a 7.6% increase in room occupancy.

There were no contributions received during 2016 because contributions from the City's Sports Facilities Tax Fund are no longer required after the refinancing of the bonds payable in 2015.

Contributions from City increased \$296.8 million during 2015. This was directly related to the refinancing of the bonds payable where the City contributed \$305.9 million to the Corporation.

Operating expenses in 2016 were consistent with operating expenses in 2015.

Operating expenses increased by \$1.0 million, or 2.0%, during 2015. The increase was primarily due to an increase in room expenses driven by a 7.6% increase in room occupancy.

Interest on capital debt was zero in 2016 due to the refinancing and decreased by \$2.3 million, or 13.7%, during 2015. The decrease was due to the refinancing of the bonds payable in August 2015.

Distributions to City began in 2015 after the refinancing of the outstanding bonds. The Corporation makes periodic distributions to the City. There was one distribution in 2015 for \$3.4 million and two distributions in 2016 totaling \$8.5 million.

Loss on disposal of capital assets during 2014 was related to the disposition of the Ramada land sale.

Gain on extinguishment of debt during 2014 was related to the elimination of accrued and unpaid subordinate management and centralized services fees per the Amended Operating Agreement.

The increase in ending net position as of December 31, 2015 was due to the refinancing and payoff of the Hotel's outstanding bonds using the contributions from the City, as well as higher operating revenues and room occupancy rates - see Note 8 to the financial statements for further discussion on the refinancing.

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, 251 West Washington Street, Ninth Floor, Phoenix, Arizona, 85003.

DOWNTOWN PHOENIX HOTEL CORPORATION**Statements of Net Position**

December 31, 2016 and 2015

(in thousands)

	2016	Restated 2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 11,345	\$ 2,441
Receivables		
Accounts Receivable, Net of Allowance for Doubtful Accounts (2016, \$2 and 2015, \$4)	1,633	3,091
Accrued Interest	1	—
Inventories	294	260
Prepaid Expenses	1,145	1,085
Total Current Assets	<u>14,418</u>	<u>6,877</u>
Current Restricted Assets		
Operating Reserve		
Cash and Cash Equivalents	3,230	4,046
Distributions to City		
Cash and Cash Equivalents	956	729
Receivables		
Accrued Interest	1	—
Capital Projects		
Cash and Cash Equivalents	11,616	10,234
Receivables		
Accrued Interest	2	—
Total Current Restricted Assets	<u>15,805</u>	<u>15,009</u>
Noncurrent Assets		
Other	233	265
Capital Assets		
Buildings	277,625	277,617
Improvements Other Than Buildings	537	537
Equipment	4,565	4,379
Intangible	209	209
Less: Accumulated Depreciation	(60,487)	(52,980)
Total Capital Assets, Net	<u>222,449</u>	<u>229,762</u>
Total Noncurrent Assets	<u>222,682</u>	<u>230,027</u>
Total Assets	<u>252,905</u>	<u>251,913</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total Deferred Outflows of Resources	<u>—</u>	<u>—</u>

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

	2016	Restated 2015
LIABILITIES		
Current Liabilities Payable from Current Assets		
Accounts Payable	630	741
Accrued Expenses	2,945	3,182
Advance Deposits	989	1,056
Total Current Liabilities Payable from Current Assets	<u>4,564</u>	<u>4,979</u>
Current Liabilities Payable from Restricted Assets		
Operating Reserve		
Accounts Payable	36	34
Deposits in Trust	6,777	6,777
Total Current Liabilities Payable from Restricted Assets	<u>6,813</u>	<u>6,811</u>
Noncurrent Liabilities		
Advance Payments	233	311
Total Noncurrent Liabilities	<u>233</u>	<u>311</u>
Total Liabilities	<u>11,610</u>	<u>12,101</u>
DEFERRED INFLOWS OF RESOURCES		
Total Deferred Inflows of Resources	<u>—</u>	<u>—</u>
NET POSITION		
Net Investment in Capital Assets	222,449	229,762
Restricted for Distributions to City	957	729
Restricted for Capital Projects	11,618	10,234
Unrestricted	6,271	(913)
Total Net Position	<u>\$ 241,295</u>	<u>\$ 239,812</u>

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

DOWNTOWN PHOENIX HOTEL CORPORATION
Statements of Revenues, Expenses
and Changes in Net Position
For the Fiscal Years Ended December 31, 2016 and 2015
(in thousands)

	2016	Restated 2015
	<u>2016</u>	<u>Restated 2015</u>
Operating Revenues		
Rooms	\$ 37,782	\$ 37,974
Food and Beverage	20,783	21,771
Other	2,208	2,178
Total Operating Revenues	<u>60,773</u>	<u>61,923</u>
Operating Expenses		
Rooms	10,540	9,820
Food and Beverage	14,014	14,488
General and Administrative Costs	18,040	18,092
Depreciation	7,507	7,535
Trustee Fees	2	1
Other	699	727
Total Operating Expenses	<u>50,802</u>	<u>50,663</u>
Operating Income	9,971	11,260
Non-Operating Revenues (Expenses)		
Investment Income		
Net Decrease in Fair Value of Investments	—	(9)
Interest	24	19
Contributions from City	—	309,463
Interest on Capital Debt	—	(14,251)
Distributions to City	(8,512)	(3,367)
Total Non-Operating Expenses	<u>(8,488)</u>	<u>291,855</u>
Changes in Net Position	1,483	303,115
Net Position (Deficit), January 1	239,812	(63,303)
Net Position, December 31 (as restated for 2015)	<u>\$ 241,295</u>	<u>\$ 239,812</u>

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, 2016 and 2015

(in thousands)

	2016	Restated 2015
Cash Flows from Operating Activities		
Cash Received from Customers	\$ 62,012	\$ 61,451
Payments to Suppliers	(25,741)	(27,065)
Payment of Staff and Administrative Expenses	(17,889)	(18,092)
Net Cash Provided by Operating Activities	<u>18,382</u>	<u>16,294</u>
Cash Flows from Noncapital Financing Activities		
Contributions from City of Phoenix	—	309,463
Distributions to City of Phoenix	(8,512)	(3,367)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(8,512)</u>	<u>306,096</u>
Cash Flows from Capital and Related Financing Activities		
Principal Paid on Capital Debt	—	(340,714)
Interest Paid on Capital Debt	—	(22,582)
Receipt of Deposits Held in Trust	—	13
Return of Deposits Held in Trust	—	(3,549)
Acquisition and Construction of Capital Assets	(193)	(1,242)
Net Cash Used by Capital and Related Financing Activities	<u>(193)</u>	<u>(368,074)</u>
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investment Securities	—	22,590
Interest on Investments	20	22
Net Cash Provided by Investing Activities	<u>20</u>	<u>22,612</u>
Net Increase (Decrease) in Cash and Cash Equivalents	9,697	(23,072)
Cash and Cash Equivalents, January 1	17,450	40,522
Cash and Cash Equivalents, December 31	<u>\$ 27,147</u>	<u>\$ 17,450</u>
Reconciliation of Operating Income to		
Net Cash Provided by Operating Activities		
Operating Income	\$ 9,971	\$ 11,260
Adjustments		
Depreciation	7,507	7,537
(Increase) Decrease in Assets		
Accounts Receivable	1,457	(578)
Inventories	(34)	(7)
Prepaid Expenses	(59)	(280)
Other Non-Current Assets	31	34
Increase (Decrease) in Liabilities		
Accounts Payable	(109)	(1,510)
Accrued Expenses	(237)	(579)
Advance Deposits	(67)	106
Advance Payments	(78)	311
Net Cash Provided by Operating Activities	<u>\$ 18,382</u>	<u>\$ 16,294</u>
Noncash Transactions Affecting Financial Position		
Decrease in Fair Value of Investments	\$ —	\$ (9)
Loss on Refinancing of Long-term Debt	—	(6,060)
Total Noncash Transactions Affecting Financial Position	<u>\$ —</u>	<u>\$ (6,069)</u>

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, 2016 and 2015

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 (Hotel). The Hotel began operations in October 2008. The Hotel is operated by Starwood Hotels & Resorts Management Company, Inc. (Hotel Operator), a direct subsidiary of Starwood Hotels & Resorts Worldwide, Inc., (Starwood).

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 accounting 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, provides financial support, 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 and deferred outflows of resources, as well as long-term debt, obligations, and deferred inflows of resources. 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 report all financial resources of the entity and are displayed in a format of assets plus deferred outflows of resources less liabilities plus deferred inflows of resources 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 the statements for some items that will only result in cash flows in future periods e.g., accounts payable. This is the accrual method of accounting.

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, 2016 and 2015

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, noncapital financing 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.

Restricted assets on the Statements of Net Position primarily consist of investments for debt service. Cash with fiscal agent/trustee and accrued interest receivables are restricted for debt service, operating reserve, and capital projects.

d. 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.

e. Investments

When the Corporation has investments they 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*," No. 40, "*Deposit and Investment Risk Disclosures*," and No. 72, "*Fair Value Measurement and Application*."

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

Inventories include 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.

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

NOTES TO THE FINANCIAL STATEMENTS
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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.

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. Advertising Costs

Advertising costs are expensed when incurred.

l. 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

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):

	<u>2016</u>	<u>2015</u>
Cash	\$ 3,463	\$ 2,441
Short-term money market accounts	23,684	15,009
Total cash and cash equivalents	<u>\$ 27,147</u>	<u>\$ 17,450</u>

At December 31, 2016 and 2015, the Hotel's reported cash deposits were \$3,413,438 and \$2,391,292, respectively. The bank balances related to these deposits were \$3,874,422 and \$2,701,405, respectively.

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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
<u>2016</u>				
Non-depreciable assets:				
Intangible assets	\$ 95	\$ —	\$ —	\$ 95
Total non-depreciable assets	95	—	—	95
Depreciable assets:				
Buildings	277,617	8	—	277,625
Improvements	537	—	—	537
Equipment	4,379	186	—	4,565
Intangible assets	114	—	—	114
Total depreciable assets	282,647	194	—	282,841
Less accumulated depreciation for:				
Buildings	(50,214)	(7,008)	—	(57,222)
Improvements	(259)	(36)	—	(295)
Equipment	(2,417)	(457)	—	(2,874)
Intangible assets	(90)	(6)	—	(96)
Total accumulated depreciation	(52,980)	(7,507)	—	(60,487)
Total depreciable assets, net	229,667	(7,313)	—	222,354
Capital assets, at cost, net	\$ 229,762	\$ (7,313)	\$ —	\$ 222,449

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	Beginning Balance	Increases	Decreases	Ending Balance
<u>2015</u>				
Non-depreciable assets:				
Construction in progress	\$ 321	\$ —	\$ (321)	\$ —
Intangible assets	95	—	—	95
Total non-depreciable assets	416	—	(321)	95
Depreciable assets:				
Buildings	276,552	1,065	—	277,617
Improvements	537	—	—	537
Equipment	3,913	466	—	4,379
Intangible assets	82	32	—	114
Total depreciable assets	281,084	1,563	—	282,647
Less accumulated depreciation for:				
Buildings	(43,185)	(7,029)	—	(50,214)
Improvements	(225)	(34)	—	(259)
Equipment	(1,970)	(447)	—	(2,417)
Intangible assets	(65)	(25)	—	(90)
Total accumulated depreciation	(45,445)	(7,535)	—	(52,980)
Total depreciable assets, net	235,639	(5,972)	—	229,667
Capital assets, at cost, net	\$ 236,055	\$ (5,972)	\$ (321)	\$ 229,762

There was no interest capitalized in fiscal years 2016 and 2015.

4. Long-Term Obligations

A summary of changes in noncurrent liabilities for the year ended December 31 is as follows (in thousands):

<u>2016</u>	Balances			Balances December 31
	January 1	Additions	Reductions	
Advance Payments	\$ 311	\$ —	\$ (78)	\$ 233
Total Noncurrent Liabilities	\$ 311	\$ —	\$ (78)	\$ 233
<u>2015</u>	Balances			Balances December 31
	January 1	Additions	Reductions	
Bonds Payable***	\$ 329,720	\$ —	\$ (329,720)	\$ —
Advance Payments	—	311	—	311
Unamortized Premium	5,399	—	(5,399)	—
Total Noncurrent Liabilities	\$ 335,119	\$ 311	\$ (335,119)	\$ 311

***See Note 8 for additional information on refinancing of corporation bonds

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5. Related Party Transactions

The City acquired the land (the Site) upon which the Hotel is located in March 2005. Pursuant to an amended ground lease dated as of August 12, 2015, 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 amended ground lease date and will terminate on the later of 1) the date on which the Hotel Loan or any obligation issued or incurred to refinance is no longer outstanding or 2) the date the Corporation is no longer party to a hotel management agreement for the Hotel. The City may not terminate the ground lease for any reason prior to the end of the term of the ground lease.

The Corporation paid the City \$750 in fiscal year 2015 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 \$176,334 and \$206,804 for administrative services in fiscal year 2016 and 2015, respectively.

As of December 31, 2016 and 2015, the Hotel had accounts payable and accrued expenses from Starwood Hotels and Resorts in the amount of \$291,541 and \$491,285, respectively.

The Corporation received \$309,463,446 in contributions during fiscal year 2015 from the City.

6. Commitments and Contingencies

The Corporation has entered into a contract with Starwood Hotels and Resorts Management Company to operate the Hotel. The Original Operating Agreement was amended with an effective date of January 1, 2015, which resulted in an extinguishment of debt of \$3.1 million for the Corporation. The Amended Operating Agreement covers the fifteen years of operations includes a base management fee of \$1.63 million in the initial year of operations and increasing to \$2.87 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.

During October 2014, the Hotel experienced a fire in which the Hotel was shut down for approximately one week. The cost of the repairs and lost business was being reimbursed by an insurance company. The Hotel received approximately \$156 thousand and \$2.2 million from the insurance company in 2016 and 2015, respectively. As of December 31, 2016, all insurance claims related to the fire have been paid.

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 Corporation.

7. 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 \$392,520 in 2016 and \$385,359 in 2015.

8. Refinancing of Corporation Bonds

On August 12, 2015, the City entered into a loan agreement (Hotel Loan) with DNT Asset Trust, a subsidiary of JPMorgan Chase Bank, N.A., for \$305,940,000 from which the proceeds were used to extinguish the Corporation's Senior and Subordinate Revenue Bonds, Series 2005A, Series 2005B, and Series 2005C. The Corporation is not named in the Loan

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Agreement but initially recorded a note payable for \$305,940,000 to the City.

During 2016, the City of Phoenix reached the decision to correct the financial reporting for the refinancing to reflect the note payable instead as a contribution from the City because the loan agreement names the City as the responsible party and not the Corporation - see Note 9 for restated amounts.

9. Restatement

The presentations of the Statements of Net Position, Statements of Revenues, Expenditures and Changes in Net Position, and the Statements of Cash Flows for the year ended December 31, 2015 have been revised to reflect a change to the financial reporting related to the refinancing of the Hotel's outstanding bonds.

A summary of changes is as follows (in thousands):

	Originally Stated Amount	Restated Amount
Statement of Net Position		
Deferred Outflows of Resources	\$ 5,834	\$ —
Note Payable to City	305,940	—
Statement of Revenues, Expenses and Changes in Net Position		
Contributions from City	3,523	309,463
Interest on Capital Debt	11,784	14,251
Distributions to City	—	3,367
Net Position as of December 31, 2015	\$ (60,294)	\$ 239,812

10. Subsequent Event

Management evaluated subsequent events through June 2, 2017, the date the financial statements were available to be issued. Events or transactions occurring after December 31, 2016, but prior to June 2, 2017, that provided additional evidence about conditions that existed at December 31, 2016, have been recognized in the financial statements for the year ended December 31, 2016. Events or transactions that provided evidence about conditions that did not exist at December 31, 2016, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended December 31, 2016.