Downtown Phoenix Hotel Corporation
An Arizona Nonprofit Corporation

A Component Unit of the City of Phoenix, Arizona

2008 Annual Financial Report

For the Fiscal Years Ended December 31, 2008 and 2007

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ADMINISTRATIVE ORGANIZATION

Board Members

David Krietor
President

Gary Verburg
Vice President

John Chan
Secretary

Dick Snell
Director

Ruth Osuna
Treasurer

City of Phoenix Administrative Staff

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City Manager

Jeff DeWitt
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Project Manager

Clifton
Gunderson LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying basic financial statements of Downtown Phoenix Hotel Corporation (a Component Unit of the City of Phoenix, Arizona) as of and for the years ended December 31, 2008 and 2007, 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, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Clifton Gunderson LLP

Phoenix, Arizona
June 24, 2009

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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, 2008 and 2007.

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. Hotel revenues are projected to pay all costs. 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 MBIA, Inc. which covered the Corporation bonds. Detailed information on the bonds is presented in Note 4 to the basic financial statements.

Corporation Contracts for Hotel Development

To act on behalf of the Corporation in the development and construction of the Hotel, contracts were entered into with a hotel consultant, program manager and construction manager. The Corporation also entered into a hotel operating agreement for the operations of the Hotel.

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

The TynanGroup, Inc. (TynanGroup), a California corporation and a national real estate development services firm that has expertise in the hospitality real estate development process, was contracted to act as the program Manager to provide general oversight of the Hotel project on behalf of the Corporation.

The Perini Building Company, an Arizona Corporation, the largest builder of hotels and casinos in the United States, was contracted as the Construction Manager (CM) @ Risk and was responsible for overseeing the design and completing the construction of the Hotel.

Finally, 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.

Overview of the Basic Financial Statements

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

- Financial statements
- Notes to the financial statements

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

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

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

The *Statements of Cash Flows* provide information about the receipts and payments of the Corporation that result in changes to Cash and Cash Equivalents. The cash flows are classified as operating activities, capital and 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 14-21 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):

	2008	2007	2006
Current and other assets	$ 79,013	$ 160,487	$ 303,592
Capital assets	274,332	205,765	57,727
Total assets	353,345	366,252	361,319
Current liabilities	23,529	26,136	25,360
Long-term liabilities	337,374	337,000	336,940
Total liabilities	360,903	363,136	362,300
Net assets			
Invested in capital assets, net of related debt	(1,729)	-	-
Restricted for debt service	37,379	55,359	73,119
Restricted for capital projects	25,868	88,281	216,158
Unrestricted	(69,076)	(140,524)	(290,258)
Total net assets (deficit)	$ (7,558)	$ 3,116	$ (981)

The current assets are comprised primarily of bond proceeds held by the trustee bank for operating and debt service reserves.

The decrease in total assets for 2008 is primarily due to the payment of pre-opening expenses and the initial operating costs for the Hotel. The reduction in current assets related to payment of construction costs is offset by the increase in capital assets.

The increase in total assets for 2007 is primarily due to the contribution of $5 million operating reserves from the Hotel Operator.

The long-term liabilities are comprised of bonds payable net of unamortized issuance costs and premium 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, 2008, amounts to $274,332,000 (net of accumulated depreciation). This investment in capital assets includes buildings, improvements, and equipment. The total increase in the Corporation's investment in capital assets for the current fiscal year was 33 percent and is due to the completion of the construction of the Hotel.

Changes in Net Assets

Summary of changes in net assets (in thousands):

	2008	2007	2006
Hotel operating revenues	$ 7,866	$ -	$ -
Investment income	1,123	2,519	14,745
Other	18	-	-
Contributions	-	5,000	-
Total revenues	9,007	7,519	14,745
Hotel operating expenses	8,822	-	-
Pre-opening expenses	5,527	2,136	654
Debt issuance costs	626	626	616
Trustee fees	300	19	-
Interest on long-term debt	4,406	641	14,188
Total expenses	19,681	3,422	15,458
Increase (decrease) in net assets	(10,674)	4,097	(713)
Ending net assets (deficit)	$ (7,558)	$ 3,116	$ (981)

The decrease in ending net assets as of December 31, 2008 is primarily due to the payment of pre-opening expenses, start-up costs, and interest on long-term debt. The interest on long-term debt is no longer being capitalized due to the opening of the Hotel on October 1, 2008. After initial start-up, results of operations are expected to cover the debt service costs and recover the losses from the pre-opening and initial start-up phases.

The increase in ending net assets as of December 31, 2007 is primarily due to the contribution of $5 million operating reserve by the Hotel Operator.

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.

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Downtown Phoenix Hotel Corporation
Statements of Net Assets
December 31, 2008 and 2007
(in thousands)

	2008	2007
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 1,804	$ -
Accounts Receivable, Net of Allowance for Doubtful Accounts (2008, $3 and 2007, $0)	2,069	-
Inventories	253	-
Prepaid Expenses	247	-
Total Current Assets	4,373	-
Current Restricted Assets		
Debt Service		
Cash and Cash Equivalents	19,869	21,588
Investments	17,510	33,771
Receivables		
Accrued Interest	292	295
Operating Reserve		
Cash and Cash Equivalents	10,952	16,186
Receivables		
Accrued Interest	-	46
Capital Projects		
Cash and Cash Equivalents	12,871	75,373
Receivables		
Accrued Interest	51	320
Investments	12,996	12,908
Total Current Restricted Assets	74,541	160,487
Noncurrent Assets		
Other	99	-
Capital Assets		
Buildings	274,953	-
Improvements Other Than Buildings	537	-
Equipment	571	-
Construction in Progress	-	205,765
Less: Accumulated Depreciation	(1,729)	-
Total Capital Assets, Net	274,332	205,765
Total Noncurrent Assets	274,431	205,765
Total Assets	353,345	366,252

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

	2008	2007
LIABILITIES		
Current Liabilities Payable from Current Assets		
Accounts Payable	737	-
Accrued Expenses	2,041	-
Advance Deposits	421	-
Total Current Liabilities Payable from Current Assets	3,199	-
Current Liabilities Payable from Restricted Assets		
Debt Service		
Interest Payable	8,706	8,706
Operating Reserve		
Accounts Payable	54	34
Capital Projects		
Accounts Payable	1,222	6,876
Deposits in Trust	10,348	10,520
Total Current Liabilities Payable from Restricted Assets	20,330	26,136
Noncurrent Liabilities		
Bonds Payable	350,000	350,000
Unamortized Debt Issuance Costs	(19,716)	(20,342)
Unamortized Premium	7,090	7,342
Total Noncurrent Liabilities	337,374	337,000
Total Liabilities	360,903	363,136
NET ASSETS		
Invested In Capital Assets, Net of Related Debt	(1,729)	-
Restricted for Debt Service	37,379	55,359
Restricted for Capital Projects	25,868	88,281
Unrestricted	(69,076)	(140,524)
Net Assets (Deficit)	$ (7,558)	$ 3,116

Downtown Phoenix Hotel Corporation
Statements of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended December 31, 2008 and 2007
(in thousands)

	2008	2007
Operating Revenues		
Rooms	$ 4,129	$ -
Food and Beverage	3,406	-
Other	331	-
Total Operating Revenues	7,866	-
Operating Expenses		
Rooms	1,229	-
Food and Beverage	2,847	-
General and Administrative Costs	3,017	-
Depreciation	1,729	-
Pre-Opening Expenses	5,527	2,136
Debt Issuance Costs	626	626
Trustee Fees	300	19
Total Operating Expenses	15,275	2,781
Operating Loss	(7,409)	(2,781)
Non-Operating Revenues (Expenses)		
Investment Income		
Net Increase (Decrease) in Fair Value of Investments	(133)	1,693
Interest	1,256	826
Contributions	-	5,000
Interest on Capital Debt	(4,406)	(641)
Other	18	-
Total Non-Operating Revenues (Expenses)	(3,265)	6,878
Change in Net Assets	(10,674)	4,097
Net Assets (Deficit), January 1	3,116	(981)
Net Assets (Deficit), December 31	$ (7,558)	$ 3,116

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, 2008 and 2007
(in thousands)

	2008	2007
Cash Flows from Operating Activities		
Cash Received from Customers	$ 6,217	$ -
Payments to Suppliers	(7,702)	(2,142)
Payment of Staff and Administrative Expenses	(3,018)	(345)
Net Cash Used by Operating Activities	(4,503)	(2,487)
Cash Flows from Capital and Related Financing Activities		
Interest Paid on Capital Debt	(17,412)	(17,412)
Return of Deposits Held in Trust	(172)	(21)
Acquisition and Construction of Capital Assets	(66,532)	(139,890)
Capital Contributions	-	5,000
Net Cash Used by Capital and Related Financing Activities	(84,116)	(152,323)
Cash Flows from Investing Activities		
Proceeds from Sales and Maturities of Investment Securities	16,039	16,424
Interest on Investments	4,929	10,600
Net Cash Provided by Investing Activities	20,968	27,024
Net Decrease in Cash and Cash Equivalents	(67,651)	(127,786)
Cash and Cash Equivalents, January 1	113,147	240,933
Cash and Cash Equivalents, December 31	$ 45,496	$ 113,147
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating Loss	$ (7,409)	$ (2,781)
Adjustments		
Depreciation	1,729	-
(Increase) Decrease in Assets		
Accounts Receivable	(2,069)	-
Inventories	(253)	-
Prepaid Expenses	(247)	-
Other Non-Current Assets	(99)	-
Increase (Decrease) in Liabilities		
Accounts Payable	757	(7)
Accrued Expenses	2,041	-
Advance Deposits	421	-
Unamortized Debt Issuance Costs	626	301
Net Cash Used by Operating Activities	$ (4,503)	$ (2,487)
Noncash Transactions Affecting Financial Position		
Increase (Decrease) in Fair Value of Investments	$ (133)	$ 1,693
Total Noncash Transactions Affecting Financial Position	$ (133)	$ 1,693

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

The Downtown Phoenix Hotel Corporation (the Corporation) is a non-profit public benefit corporation established in January 2005 to facilitate the financing, development, construction, and operation of a full-service convention center hotel in downtown Phoenix. The hotel began operations in October, 2008 and the Corporation is no longer a development stage enterprise.

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 two components: 1) restricted and 2) unrestricted. 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 operating supplies and food and beverage inventory items which are generally valued at the lower of FIFO cost (first-in, first-out) or market. Inventory also includes linens, china, glass, silver, uniforms, utensils and guest room items. Replacement purchases of these items are expensed as incurred.

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

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 it holds.

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

	2008	2007
Cash	$ 1,804	$ -
Short-term money market accounts	31,206	36,967
Short-term investments	12,486	76,180
Total Cash and Cash Equivalents	$ 45,496	$ 113,147

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

2008

	Credit Quality Rating	Fair Value	Weighted Average Maturity (Years)
Guaranteed Investment Contracts collateralized by U.S. Treasury Securities	Not Rated	$ 12,486	0.003
U.S. Government Agency Securities			
FNMA Notes	AAA	17,337	0.375
FHLMC Notes	AAA	13,169	2.078
Total U.S. Government Agency Securities		30,506	
Total Investments		42,992	0.7885
Less: Short-Term Investments		(12,486)	
Net Investments		$ 30,506	

2007

	Credit Quality Rating		Fair Value	Weighted Average Maturity (Years)
Guaranteed Investment Contracts				
collateralized by U.S. Treasury Securities	Not Rated	$	76,180	0.003
U.S. Government Agency Securities				
FNMA Notes	AAA		17,069	1.392
FHLMC Notes	AAA		21,024	2.064
FHLB Notes	AAA		8,586	0.994
Total U.S. Government Agency Securities			46,679	
Total Investments			122,859	0.6178
Less: Short-Term Investments			(76,180)	
Net Investments		$	46,679	

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 primarily invested in securities issued by the U.S. Treasury or by U.S. Government Agency Securities which carry long-term AAA rating from both rating organizations. Guaranteed Investment Contracts are collateralized by U.S. Treasuries at 104%.

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	2008	2007
FNMA	U.S. Government Agency Securities	$ 17,337	$ 17,069
FHLMC	U.S. Government Agency Securities	13,169	21,024
FHLB	U.S. Government Agency Securities	-	8,586

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
2008				
Non-depreciable assets:				
Construction-in-Progress	$ 205,765	$ 69,074	$ (274,839)	$ -
Depreciable assets:				
Buildings	-	274,953	-	274,953
Improvements	-	537	-	537
Equipment	-	571	-	571
Total depreciable assets	-	276,061	-	276,061
Less accumulated depreciation for:				
Buildings	-	(1,711)	-	(1,711)
Improvements	-	(9)	-	(9)
Equipment	-	(9)	-	(9)
Total accumulated depreciation	-	(1,729)	-	(1,729)
Total depreciable assets, net	-	274,332	-	274,332
Capital assets, at cost, net	$ 205,765	$ 343,406	$ (274,839)	$ 274,332
2007				
Construction-in-Progress (non-depreciable)	$ 57,727	$ 148,038	$ -	$ 205,765

The Corporation capitalized interest totaling $9,400,134 and $7,342,315 in fiscal years 2008 and 2007, respectively.

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.

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, 2008 and 2007

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			
2009	$ -	$ 7,800,075	$ 7,800,075
2010	-	7,800,075	7,800,075
2011	-	7,800,075	7,800,075
2012	1,470,000	7,763,325	9,233,325
2013	1,635,000	7,685,700	9,320,700
2014-2018	11,020,000	36,938,813	47,958,813
2019-2023	16,465,000	33,840,213	50,305,213
2024-2028	23,890,000	28,767,475	52,657,475
2029-2033	33,570,000	21,579,500	55,149,500
2034-2038	46,005,000	11,695,625	57,700,625
2039-2040	22,655,000	1,149,625	23,804,625
	$ 156,710,000	$ 172,820,500	$ 329,530,500
Coupon rates		4.0 - 5.25%	
Effective interest rate		5.29%	
Subordinate Revenue Bonds, Series 2005B			
2009	$ -	$ 8,102,069	$ 8,102,069
2010	-	8,102,069	8,102,069
2011	-	8,102,069	8,102,069
2012	-	8,102,069	8,102,069
2013	-	8,102,069	8,102,069
2014-2018	-	40,510,344	40,510,344
2019-2023	20,815,000	38,531,534	59,346,534
2024-2028	30,950,000	31,849,613	62,799,613
2029-2033	39,120,000	23,449,688	62,569,688
2034-2038	49,910,000	12,389,750	62,299,750
2039-2040	23,630,000	1,196,000	24,826,000
	$ 164,425,000	$ 188,437,272	$ 352,862,272
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			
2009	$ -	$ 1,509,485	$ 1,509,485
2010	-	1,509,485	1,509,485
2011	-	1,509,485	1,509,485
2012	3,095,000	1,430,098	4,525,098
2013	3,255,000	1,266,733	4,521,733
2014-2018	19,000,000	3,535,577	22,535,577
2019	3,515,000	93,323	3,608,323
	$ 28,865,000	$ 10,854,186	$ 39,719,186
Coupon rates		5.13 - 5.31%	
Effective interest rate		5.67%	
Total Debt Service Requirements			
2009	$ -	$ 17,411,629	$ 17,411,629
2010	-	17,411,629	17,411,629
2011	-	17,411,629	17,411,629
2012	4,565,000	17,295,492	21,860,492
2013	4,890,000	17,054,501	21,944,501
2014-2018	30,020,000	80,984,733	111,004,733
2019-2023	40,795,000	72,465,070	113,260,070
2024-2028	54,840,000	60,617,088	115,457,088
2029-2033	72,690,000	45,029,188	117,719,188
2034-2038	95,915,000	24,085,375	120,000,375
2039-2040	46,285,000	2,345,625	48,630,625
	$ 350,000,000	$ 372,111,958	$ 722,111,958

5. Related Party Transactions

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

Site and other related expenditures made by the City prior to the issuance of the Series 2005 Bonds) at the times and solely from amounts available for such purpose in the City Payments Account of the Excess Revenue Fund.

The Corporation paid the City $81,194 and $287,464 in 2008 and 2007, respectively, for permits, plan reviews and other construction related work performed by the City's Engineering and Architectural Services staff. The City performs and absorbs significantly all administrative functions and costs on behalf of the Corporation.

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. Contractual Commitments

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.

8. Net Assets

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