# Memphis-Shelby County Airport Authority

## Memphis, Tennessee

# Comprehensive Annual Financial Report

A Component Unit of the City of Memphis

**for Fiscal Year Ended June 30, 2006 and 2005**

**Prepared by the Finance Division**

# Memphis-Shelby County Airport Authority

## June 30, 2006

### Board of Commissioners

Arnold E. Perl, Chairman

John Stokes, Vice-Chairman

Jim D. Etheridge

Thomas C. Farnsworth

Herbert H. Hilliard, Sr.

Jon K. Thompson

Ruby R. Wharton

### Officers and Key Staff Members

| Members | Position |
|---|---|
| Larry D. Cox, A.A.E. | President and Chief Executive Officer |
| Scott A. Brockman, A.A.E. | Executive Vice President Finance and Administration, Authority Treasurer |
| Bobby A. Martin | Vice President Operations, Authority Secretary |
| Anthony W. Brown, Esquire | Vice President Business Diversity Development and Governmental Affairs, Authority Assistant Secretary |
| Linda M. Jones, C.P.A. | Director of Finance, Authority Assistant Treasurer |
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| Mahi C. Chambers, C.P.A. | Director of Staff Services |
| John E. Greaud, P.E. | Director of Maintenance |
| George E. Mabon, PHR | Director of Human Resources |
| Gwendolyn E. Pritchard | Director of Customer Service |
| Richard V. White, A.A.E. | Director of Properties |
| Walter T. White, A.A.E. | Director of Operations and Public Safety |
| R. Grattan Brown, Jr. | General Counsel, Glankler Brown, PLLC |

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**COMPLIANCE SECTION**

MEMPHIS-SHELBY COUNTY AIRPORT AUTHORITY

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October 23, 2006

To the Board of Commissioners of the
Memphis-Shelby County Airport Authority

The Comprehensive Annual Financial Report ("CAFR") of the Memphis-Shelby County Airport Authority (the "Authority") for the fiscal year ended June 30, 2006, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Finance Division of the Authority. To the best of our knowledge and belief, and as indicated by the opinion of our independent auditors, the enclosed data of the Authority is accurate in all material respects and reported in a manner designed to present fairly the financial position, results of operations, and cash flows in accordance with U.S. generally accepted accounting principles ("GAAP"). All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

In developing and evaluating the Authority's accounting system, consideration is given to the adequacy of internal controls. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with GAAP. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived; and 2) the evaluation of costs and benefits requires estimates and judgments by management. We believe that the Authority's internal control processes adequately safeguard assets and provide reasonable assurance that financial transactions are recorded properly.

The CAFR is presented in four sections: Introductory, Financial, Statistical and Compliance. Just prior to the Introductory Section is a list of principal officials and the table of contents. The Introductory Section includes this transmittal letter, the Authority's organizational chart and a copy of the Certificate of Achievement for Excellence in Financial Reporting awarded to the Authority by the Government Finance Officers Association of the United States and Canada for the fiscal year ended June 30, 2005. The Financial Section includes the independent auditors' report, Management's Discussion and Analysis ("MD&A") of the financial condition of the Authority, the Authority's financial statements, and supplemental schedules. The Statistical Section includes select financial and demographic information, generally presented on a multi-year basis.

Management is required by GAAP to provide a narrative introductory overview and analysis as an accompaniment to the financial statements in the form of the MD&A. This letter of transmittal should be read in conjunction with the MD&A, which is discussed in the preceding paragraph and can be found in the Financial Section of this report.

Pursuant to Article VII E. of the Agreement between the City of Memphis ("City") and the Authority dated May 26, 1970, an audit of the financial statements has been completed by the Authority's independent certified public accountants, Moore Stephens Rhea & Ivy, PLC. The goal of the independent audit is to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended June 30, 2006, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the fiscal year ended June 30, 2006, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the Financial Section of this report.

The Single Audit Act of 1984 and U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, require the Authority to arrange for an annual audit in conformity with their provisions. Information related to a single audit, including the Schedule of Expenditures of Federal and State Awards, findings and recommendations, are reported in the compliance section. The independent auditors' reports on the internal control structure and compliance with applicable laws and regulations are also included in the compliance section of this report.

## PROFILE OF THE MEMPHIS-SHELBY COUNTY AIRPORT AUTHORITY

The Authority is established pursuant to the Metropolitan Airport Authority Act of Tennessee and all amendments thereto. The major purposes of the Authority are to plan, establish, acquire, construct, improve and operate one or more airports within the City and Shelby County (the "County"). The Authority has the power to issue bonds to accomplish any of the purposes authorized by the Metropolitan Airport Authority Act of Tennessee. All bonds shall be payable solely from the revenues, income and charges of the Authority and such bonds shall not constitute an obligation of the City or County.

The City has issued general obligation bonds to finance projects associated with the Authority. The Authority has entered into agreements with the City to pay debt service on these bonds; however, the City's full faith and credit are pledged against these bonds and in the event of the Authority's default on payment, the bonds would be payable from taxes levied on all taxable property in the City subject to taxation by the City without limitations as to rate or amount. The Authority is not empowered to levy taxes.

The Mayor of the City, with the Mayor of Shelby County nominating two, appoints all members of the seven-member Board of Commissioners to govern the Authority. The Memphis City Council confirms these appointments for a seven-year term. A member of the Board may be removed from office by a two-thirds vote of the Memphis City Council, but only after notice of cause for the removal has been served and the member has been granted an opportunity for a public hearing on the matter.

The Board appoints the President, who is the chief executive officer of the Authority. The President appoints, and the Board confirms, the remaining officers. These officers manage and operate the Authority's airports with a staff of approximately 300 employees, both permanent and temporary.

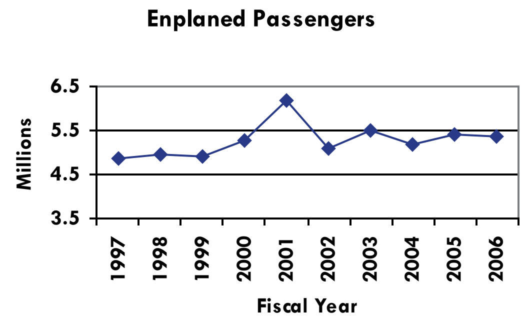
Based on the financial accountability the City has over the Authority, the Authority is considered a component unit of the City under the criteria set forth by the Governmental Accounting Standards Board ("GASB").

The Authority owns Memphis International (the "Airport"), Charles W. Baker, and General DeWitt Spain Airports. Charles W. Baker Airport ("Baker") is located south of Millington, Tennessee and General DeWitt Spain Airport ("Spain") is located just north of downtown Memphis. Both Baker and Spain Airports serve general aviation and are considered reliever airports for the Airport.

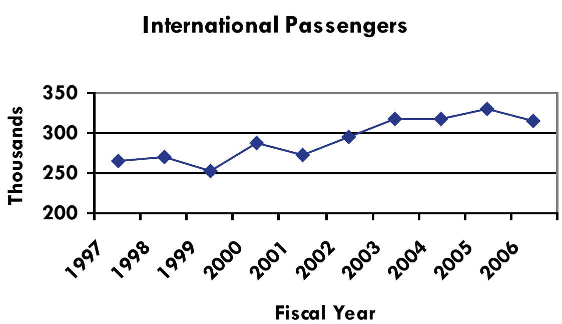
The Airport occupies about 4,300 acres of land in Shelby County and is 13 miles by road southeast of downtown Memphis. The Airport is 99.9% unaffected by impassable weather and handles all types of aircraft. The Airport has four runways equipped with precision instrument landing systems suitable for use by large aircraft and a surface movement guidance system allowing the Airport to operate down to a 300 foot runway visual range. The terminal building has 85 gates to accommodate passenger aircraft and includes a Federal Inspection Station ("FIS") for clearing international flights and associated passengers. Passenger and air cargo carriers play an important role in the Memphis economy.

Five major and eleven regional scheduled passenger airlines currently serve Memphis International Airport. During this fiscal year, the Airport has seen fairly significant fluctuations in its passenger airline flight schedules as Northwest, Delta and other passenger airlines, operating under Chapter 11 of the Bankruptcy Code, restructure operations to match capacity with demand. The fiscal year started out with 294 scheduled daily departures, reached a peak of 300 per day by the end of August 2005, then dropped to 284 in September due to the referenced bankruptcy filings. By June 30, 2006, daily flights had returned to 282, the same level as June 2004 but well below the 294 recorded for 2005.

Northwest Airlines ("Northwest"), the largest passenger airline serving Memphis, has been using the Airport as a major transfer hub since 1985. As of June 30, Northwest operated 76 scheduled daily mainline departures as compared to 95 in 2005 and serves approximately 48% of the total passengers enplaned at the Airport, which is down from last year's 52%. Pinnacle Airlines and Mesaba, flying under the Northwest Airlink name, reported 143 daily departures, up from 133 last year. Pinnacle and Mesaba serves approximately 32.5% of the total enplaned passengers, which is up from last year's 28%. While Northwest's regional airlines picked up some of the decreased flights, overall the three carriers collectively make up the majority of the 4% decrease in scheduled flights.




Enplaned passengers steadily increased from FY 1996, until September 11, 2001, with a small dip in FY 1999 due to the Northwest Airlines pilot's strike. There was a dramatic increase in FY 2001 when an additional afternoon bank of flights was added by Northwest. However, the events of September 11th had a dramatic affect on FY 2002, driving a decrease in enplaned passengers of 18%. This is mainly due to a reduction of 27% in Northwest's scheduled passenger flights on October 1, 2001. Since 2001, availability of scheduled flights, total seats, and the volatility of the same, has driven fluctuations of enplaned passengers both up and down. FY 2006 enplaned passengers are down 1% even though passenger scheduled flights were down 4%. Further evidence of this volatility is the fact that while 2006 is down about 1% compared to 2005, it is up 3% when compared to fiscal year 2004.




While domestic passengers have been down overall since September 11, 2001, international passenger traffic has shown relative stability and an overall increase, reaching a high in FY 2005. FY 2006 reflected some minor slippage with a reduction of 4%. The Memphis-Amsterdam connection continues to be the largest of the six international markets served from the Airport. The KLM Royal Dutch Airlines-Northwest partnership began serving this market in 1995. This flight was taken over fully by Northwest in June 2003. The daily flight assists not only passenger travel, but also aids freight companies by connecting them to a key distribution center for Europe.

All-cargo air carriers continue to have a significant impact at the Airport, making the Airport one of only a few dual-purpose airports in the country. The Airport handled a total of 4 million U.S. tons of cargo in FY 2006. Nearly 95% of the cargo was reported as domestic. FedEx Corporation ("FedEx"), the world's largest express transportation company, is headquartered in Memphis and operates its primary overnight package sorting facility at the Airport. FedEx continues to dominate the cargo business at the Airport, transporting approximately 98% of all cargo handled at the Airport in FY 2006. FedEx's share of cargo at the Airport has surpassed 95% since 1992. This activity keeps the Airport active twenty-four hours a day. Since 1991, the Airport has continually maintained its #1 ranking in the world for total air cargo handled, according to statistics reported by Airports Council International, Geneva, Switzerland.

The U.S. Department of Justice, Immigration and Naturalization Service, has designated the airport as a "Transit without Visa Port of Entry." This status allows international passengers to connect through Memphis without obtaining a transit visa. Memphis also has designated Foreign Trade Zones.

## FACTORS AFFECTING FINANCIAL CONDITION

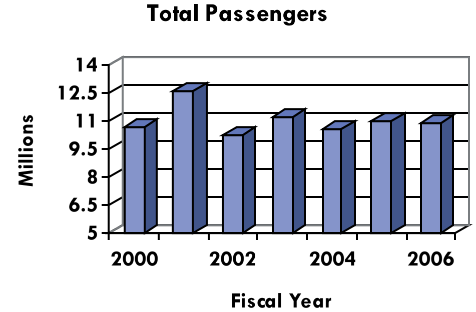
### Economic Conditions and Outlook

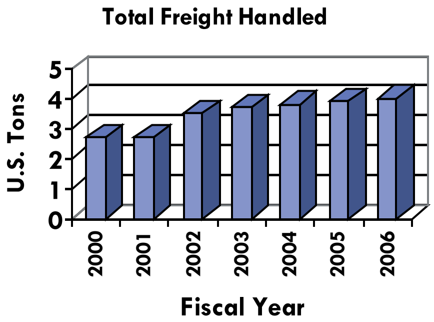
In FY 2006 the Airport continued to be the single largest economic engine in Memphis, as determined in an economic impact study conducted by the Sparks Bureau of Business and Economic Research at the University of Memphis, dated May 2005. The combined direct expenditures of its FY 2004 cargo and passenger operations and construction projects and expenditures at the Airport totaled nearly \$10.7 billion. This resulted in total output in the Memphis Metropolitan Statistical Area ("MMSA") of over \$20.7 billion, earnings of nearly \$6 billion and the generation of nearly 166,000 jobs. In 2004, the Airport's impact on total MMSA employment was 1 in 4 jobs, with the largest share of that impact coming from air cargo operations. It was also estimated that approximately 23% of the 2004 enplaned passengers were visitors to the Memphis area.

The passenger airline industry continued to operate in turmoil through FY 2006 and into FY 2007. Struggling passenger airlines have been forced to file bankruptcy in order to survive and are attempting to restructure their operations to better compete with lower cost entities. This restructuring process is clearly evident in Memphis with fluctuating scheduled passenger flights and passenger statistics. Even those passenger carriers not in bankruptcy have continually had to restructure operations in an attempt to match supply with demand. Additionally, this sector of the industry has been challenged with relatively flat ticket prices and fuel costs that have soared to historic levels.

While passenger airlines, in an attempt to return to profitability, continue to adjust their schedules and operations, the Airport has continued to hold down expenses and adjust to the changes. As stated above, passenger levels over the past six years have been inconsistent and somewhat volatile. FY 2006 is down 1% compared to last year. However, when compared to FY 2000, passengers are up 2% and are higher than levels attained in 2002 and 2004, but below the historic high in 2001 and approximately 2% below passenger levels in 2003. During 2001, the Airport was in a growth mode with Northwest as the passenger hub carrier added on a fourth bank of flights in June 2000. Reflecting the volatility, total daily passenger flights went from a high of 360 in June 2001 to a low of 245 in November of the same year. Even with normal cyclical fluctuations, daily schedule flights have continued to change radically due primarily to Northwest's changes in schedule attempting to control rising costs. By the end of FY 2005, daily scheduled passenger flights were up to 292 from 282 at the beginning of FY 2005 and then again back down to 282 by June 2006. Nationally and locally, there has been a move to more regional jets versus larger air carrier aircraft. It is anticipated that this type of fluctuation may continue over the next several years.

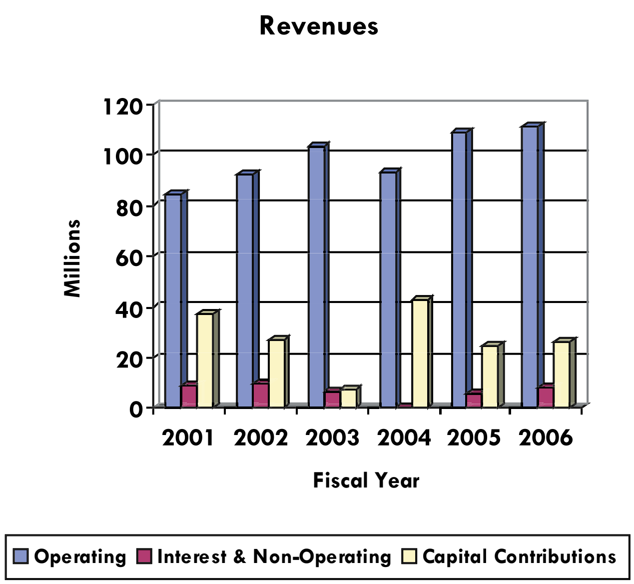
On September 14, 2005, two legacy carriers (Northwest and Delta Air Lines) filed for protection under Chapter 11 of the Bankruptcy code. Additionally, two of their affiliates, Comair and Mesaba, subsequently also file for bankruptcy protection. Although the impact of these filings on the airlines as well as the Airport's operations is still not determinable, there have been and will continue to be changes as a result. For further discussions, please refer to the Future Outlook section of Management's Discussion and Analysis in the Financial Section of this document.

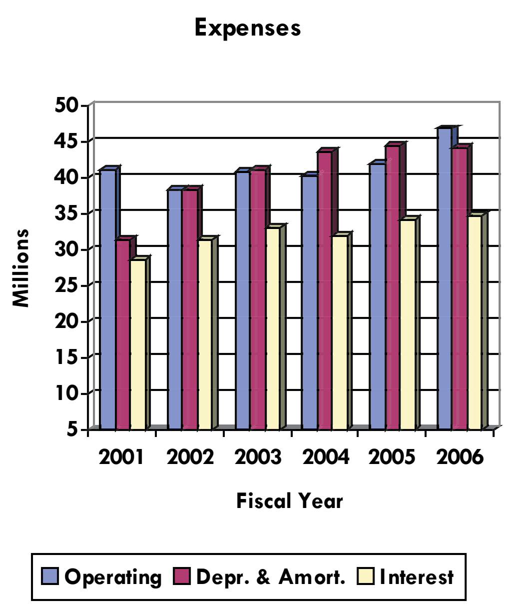





Over the past seven years, the all cargo airline activity has remained much more stable than passenger activity. While there are a few less all cargo airlines today, there has been an overall increase in the amount of freight handled. Freight is up over 2% from FY 2005 and 48% from FY 2000. Most of this increase can be attributed to FedEx, as the result of an agreement with the U.S. Postal Service to handle mail in August 2001. That contract remains in place today. FedEx has seen a 54% increase in domestic freight and 14% increase in international freight over FY 2000 levels. While the Airport does not expect such phenomenal growth in the coming years, we do anticipate stable growth in overall cargo operations and to remain the world's #1 cargo airport in total tonnage for the foreseeable future.

All of these factors, as well as the slow national economic recovery, have affected the Authority's operations. The Authority has kept its operating expenses relatively stable for the past four years since they drive the rates and charges for the airlines. Notwithstanding costs driven by airline bankruptcies, the only major increase in normal expenses affecting rates and charges has been interest related to debt approved by the airlines and issued prior to September 11, 2001. Depreciation and amortization expense is expected to continue rising each year due to capital assets being added upon the completion of construction projects. However, FY 2006 is slightly lower than FY 2005 due to the sale of assets deemed surplus. Depreciation and amortization expenses do not affect the airline rates and charges nor their costs of operating in Memphis. Recognizing our role in partnership with passenger carriers, the Authority continues to keep expenses as low as possible while still maintaining the upkeep and safety of operations and facilities. More detailed historical information can be found in the Statistical Section on the Revenues and Expenses schedule.




Capital contributions are received in the form of grant funds from the Federal Aviation Administration ("FAA") and the State of Tennessee for airport improvement projects. The fluctuations in this category are in part related to the timing of construction project expenditures and in part to the processes used by the federal government to appropriate funds to the FAA. The Authority currently has a letter of intent ("LOI") from the FAA to help fund specific construction projects which occurred over a number of years. This LOI was issued in 2000 for several projects that have already been complete and one that is ongoing. It is anticipated that the remaining LOI funds of approximately $20 million will be received over the next four years.

The Authority continues to enact its long term capital improvement program approved and put in place in 1999. Funding for most of the program was secured prior to September 11, 2001. Therefore, modifications are being made to accommodate the changing environment since September 11th. The design for the remaining projects related to terminal building and ground transportation areas are nearing completion. Most of the airfield projects have been complete and are in use. Currently, the Authority is updating its Strategic Plan, which will drive the long term Capital Improvement Plan going forward.

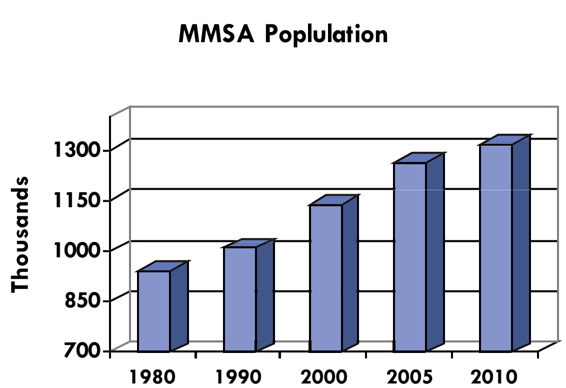
Additionally, the Tennessee Air National Guard is in the process of constructing new facilities on the southeast corner of the Airport. They will be relocating to this location upon the completion of construction in the winter of 2008. The new facilities have an estimated cost of $225 million. Further information on funding and expenditures can be found in Note 14 of the Notes to the financial statements in the Financial Section.

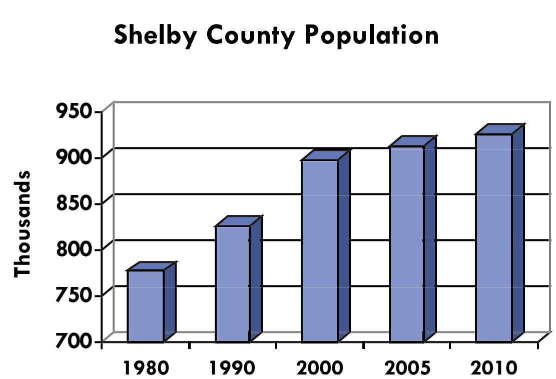
The Transportation Safety Administration continues to make changes and add new security measures at the nation's airports as they refine the Homeland Security Act. Many of the costs to implement these changes have been mandated on airports and in most instances, passed through to the airlines.

## Population and Employment

The Memphis Metropolitan Statistical Area ("MMSA") encompasses a 3,000-square-mile area comprised of Shelby, Fayette and Tipton Counties in Tennessee, Desoto County in Mississippi and Crittenden County in Arkansas. Transportation and distribution services, tourism, technology, healthcare, trade and construction help make the MMSA a richly diverse economic engine.

The MMSA population is estimated to be approximately 1,261,500 for 2005, which is up from 1,170,900 for 2003. Additionally, the population for the MMSA is expected to increase to 1,314,400 by 2010. Shelby County's estimated population for 2005 is 912,260, which was slightly higher than the 903,300 for 2003. More population information can be found in the Statistical Section.



The Airport is the principal air carrier airport serving the MMSA with approximately 80% of the passengers originating their air journeys living in the MMSA.

The Memphis area continues to show the effects of the slow recovering economy this year with higher unemployment rates than has been seen in several years. This may increase more as Northwest reduces its personnel requirements as a part of its restructuring under bankruptcy. The MMSA unemployment rate for July 2006 is 6.6%; above the State of Tennessee rate of 5.9% and the national average of 4.8%.

The Airport and the Port of Memphis, as well as the seven federal highways, 15 state highways and two U. S. interstate systems that cross the City, along with its central location in the United States, all contribute to Memphis' position as America's Distribution Center. Accordingly, transportation plays a major role in the economy of the MMSA. More metropolitan markets can be served overnight (within 600 miles) from Memphis than any other city in the central United States. Memphis offers multiple inter-modal transportation options such as air to truck or truck to air, water to truck or rail, or rail to truck. Memphis boasts the fourth busiest inland river port with enhanced inter-modal capabilities.

Visitors are also attracted to Memphis for sporting events such as the Grizzlies, a National Basketball Association team, the Redbirds, a AAA team affiliate with Major League Baseball's 2006 World Champion St. Louis Cardinals, the Autozone Liberty Bowl Football Classic and the FedEx/St. Jude Golf Classic, to name a few. Gaming has developed as a major contributor to the economy of the MMSA. Tunica County, Mississippi, just 30 miles from downtown Memphis, is recognized as the third largest grossing gaming center in the country. Memphis also attracts worldwide visitors to Graceland, home of Elvis Presley, St. Jude Children's Research Center and the National Civil Rights Museum.

## LONG TERM FINANCIAL PLANNING

### Master Plan/Strategic Plan

One of the tools the Authority uses for long term planning is the Master Plan, which is updated every 7 to 10 years. This document is prepared with the input of staff, the signatory airlines and other key tenants of the Airport. The master plan specifies the physical improvements that are needed to meet projections of future demand. It consists of a technical report that specifies the logic and reasoning for proposed capital improvements as well as large scale drawings that illustrate the physical layout of the improvements. The financial implications of a master plan are very important because it serves as the basis for requesting federal funds for the construction of capital improvements proposed in the plan. The Authority's most recent update of the Master Plan provides a flexible and cost-effective guide for the future development of Memphis International Airport through the year 2015. Capital improvements recommended by the plan are demand-driven. This means that although there are a large number of projects proposed by the plan, only those that are needed as a result of actual increase in demand will be constructed.

The Authority is also in the process of developing a comprehensive Strategic Plan, which will identify and inventory strengths and weaknesses and guide the Authority's operating, capital and financial planning for the next 5-7 years.

### Multi-Year Financial Plan

The Authority has begun the process of preparing Multi-Year Financial Plans, which will be updated annually. This plan contains the first year of the proposed annual Operating Budget and the Capital Improvements Budget and the remaining two years reflecting fiscal projections developed through a combination of historical trends, contractual and other known commitments, anticipated changes to future revenues and expenditures and other reasonable assumptions. The Capital Improvements Budget contains not only the current fiscal year, but also the ensuing five fiscal years.

## RELEVANT FINANCIAL POLICIES

### Cash Management

As of June 30, the Authority engaged NewSouth Capital Management, Inc. as its portfolio manager to direct the investment of its funds and to provide comparative investment market information. Allowable investments are limited to those authorized by the 1988 Bond Resolution. All investments were made in compliance with their applicable resolution or bond indenture.

The Authority invests temporarily idle cash in direct obligations of or obligations guaranteed by the United States Government, obligations of specific agencies of the United States Government, New Housing Authority Bonds or Project Notes issued by public agencies or municipalities and guaranteed by the United States Government, secured negotiable certificates of deposit and secured repurchase agreements. Investments are insured, registered or held by a trustee in the Authority's name.

At June 30, 2006, the market value of securities underlying repurchase agreements approximates the carrying value of the repurchase agreements. The investments held on June 30, 2006, yielded interest ranging from 2.522% to 6.73% and mature on various dates through March 2011. In addition, all accounts are interest bearing. See Note 2 in the Financial Section for additional Cash and Investment information.

### Investments

The Authority's single most important objective under this policy is to preserve the principal of those funds within the portfolio. The portfolio is managed in such a manner that assures that funds are available as needed to meet immediate and/or future operating requirements and that it is managed in such a fashion as to maximize the return of investments. The carrying value of all investments approximate their fair value.

### Risk Management

It is the policy of the Authority to eliminate or transfer risk where possible. The Authority currently maintains $1 billion of total insurance coverage. For claims arising out of bodily injury or property damage at the Airport, the Authority carries $514 million of liability insurance. The Authority also has approximately $500 million of property insurance on airport properties, which includes earthquake coverage. The Authority or its tenants, within limits and with deductibles approved by the Authority, maintain fire insurance coverage on all buildings at the airports. Contractors and lessees are required to carry certain amounts of insurance. A schedule of insurance in force at June 30, 2006, can be found in the Statistical Section of this report.

In addition to the coverage discussed above, the Authority maintains an Owner Controlled Insurance Program ("OCIP"). OCIP is a method of assuring that all contractors and subcontractors of any tier performing work at a construction project jobsite are provided insurance for Tennessee Workers' Compensation, Employers Liability and Commercial General Liability, including Completed Operations and Excess Liability. The Authority pays for the full cost of the OCIP and charges those costs back to the projects covered.

The Authority has also implemented various risk control techniques including employee safety and accident training. The Authority's general counsel reviews all contracts and leases.

**Debt Management**

As part of its strategic and long term financial planning, the Authority strives to ensure that financial resources are adequate to meet long-term planning objectives. In managing its debt, the Authority strives to achieve the lowest cost of capital, ensure high credit quality, assure access to the capital credit markets, preserve financial flexibility, and manage interest rate risk exposure. See Note 6 in the Financial Section for Long Term Debt information.

**Pension and other Post-employment Benefits**

The Authority participates in the contributory defined benefit pension plans of the City of Memphis Retirement System. A Board of Administration administers the plans under the direction of the City's Mayor. Substantially all full-time salaried employees are required to participate in one of the two plans. Hourly employees are eligible for coverage under a supplemental retirement plan based on their wages under the Federal Insurance Contribution Act (Social Security). The plans provide retirement benefits as well as death and disability benefits. The Authority is required to contribute at an actuarially determined rate. See Note 9 in the Financial Section for more information.

The Authority also provides a supplemental retirement benefit to all Authority participants in the City of Memphis Retirement System. It is a defined contribution plan under which the Authority makes contributions on a discretionary basis. See Note 10 In the Financial Section for more information.

In addition to the pension benefits, the Authority provides 80% of the cost of certain health care and life insurance coverage to active employees and those who retire from the Authority under the provision of the City's Retirement System. See Note 12 in the Financial Section for more information.

## MAJOR INITIATIVES

In the next few years, the focus for construction will be in the ground transportation and airfield areas. In FY 2005, the Airport opened a new exit road from the passenger terminal. Reconfiguration of the entrance drive will begin in the fall of 2006 to allow for easier traffic flow into the passenger terminal. The new roadway configuration will also provide adequate ground for the construction of a new air traffic control tower by the FAA which is currently scheduled to take place in the next three years. Demands for public parking have taxed the Airport's current infrastructure. Accordingly, the Authority anticipates construction of a new multi-level parking garage to be added north of the existing structure. This structure will add 2,500 additional parking spaces at an estimated cost of $74 million. Construction is scheduled to begin in FY 2008.

Projects underway in the airfield area include the extension of Taxiway Yankee ("Y") to the south end of Runway 18L-36R, the development of the southeast area of the airfield area for cargo expansion and the construction of a new Emergency Response Center including an aircraft rescue fire fighting station, which will replace the existing fire station. The final phase of the extension of taxiway Yankee will be complete in fiscal year 2007. The construction of new air cargo facilities and ramp on the east side of the airfield is underway and will be complete in the next year. The cargo ramp is expected to be complete by December 2006 and the support facilities completed by the fall of 2007. These projects, which have been identified in the Airport's Master Plan Update, amount to approximately $84 million and are identified as phase II of the new capital improvement plan with funding to be obtained from Authority funds, existing airport revenue bonds and federal and state grants.

The Authority is working with the Tennessee Air National Guard ("TnANG") to develop the southeast corner of the airport for their relocation. This project, totaling approximately $225 million, is being financed by TnANG and a third party, with no Authority participation. It includes building replacement facilities, a new aircraft parking apron, and the extension of Taxiway Y into their ramp area. The project was announced and kicked off in September 2004 and should be finished by the end of calendar year 2008. The new facilities will be able to house TnANG's newest aircraft, the C-5 Galaxy, of which TnANG has already received three.

## BUDGETARY CONTROLS

An annual budget is prepared on the basis established by the 1973 General Revenue Bond Resolution dated June 15, 1973 for all accounts and funds established by those agreements and resolutions, except construction and debt service funds. The annual budget serves as the foundation for the Authority's financial planning and control. All appropriations except open project account appropriations lapse at the end of each fiscal year and must be reappropriated. Since there is no legal requirement to report on the budgetary basis, no budget information is presented in the accompanying financial statements.

## AWARDS AND ACKNOWLEDGMENTS

### Certificate of Achievement

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the Authority for its comprehensive annual financial report ("CAFR") for the fiscal year ended June 30, 2005. The Authority has received a Certificate of Achievement for seventeen consecutive fiscal years from 1989-2005. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparations of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA for consideration.

**Acknowledgements**

The preparation of the financial statements would not have been possible without the efficient and dedicated services of the entire staff of the Finance Division. We would like to express our appreciation to all members of the Division for their help and contributions to its preparation.

Respectfully submitted,

**Larry D. Cox, A.A.E.**
President
Chief Executive Officer

**Scott A. Brockman, A.A.E.**
Executive Vice President Finance & Administration
CFO/Authority Treasurer

**Linda M. Jones, C.P.A.**
Director of Finance
Authority Assistant Treasurer

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

## Memphis-Shelby County Airport Authority Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

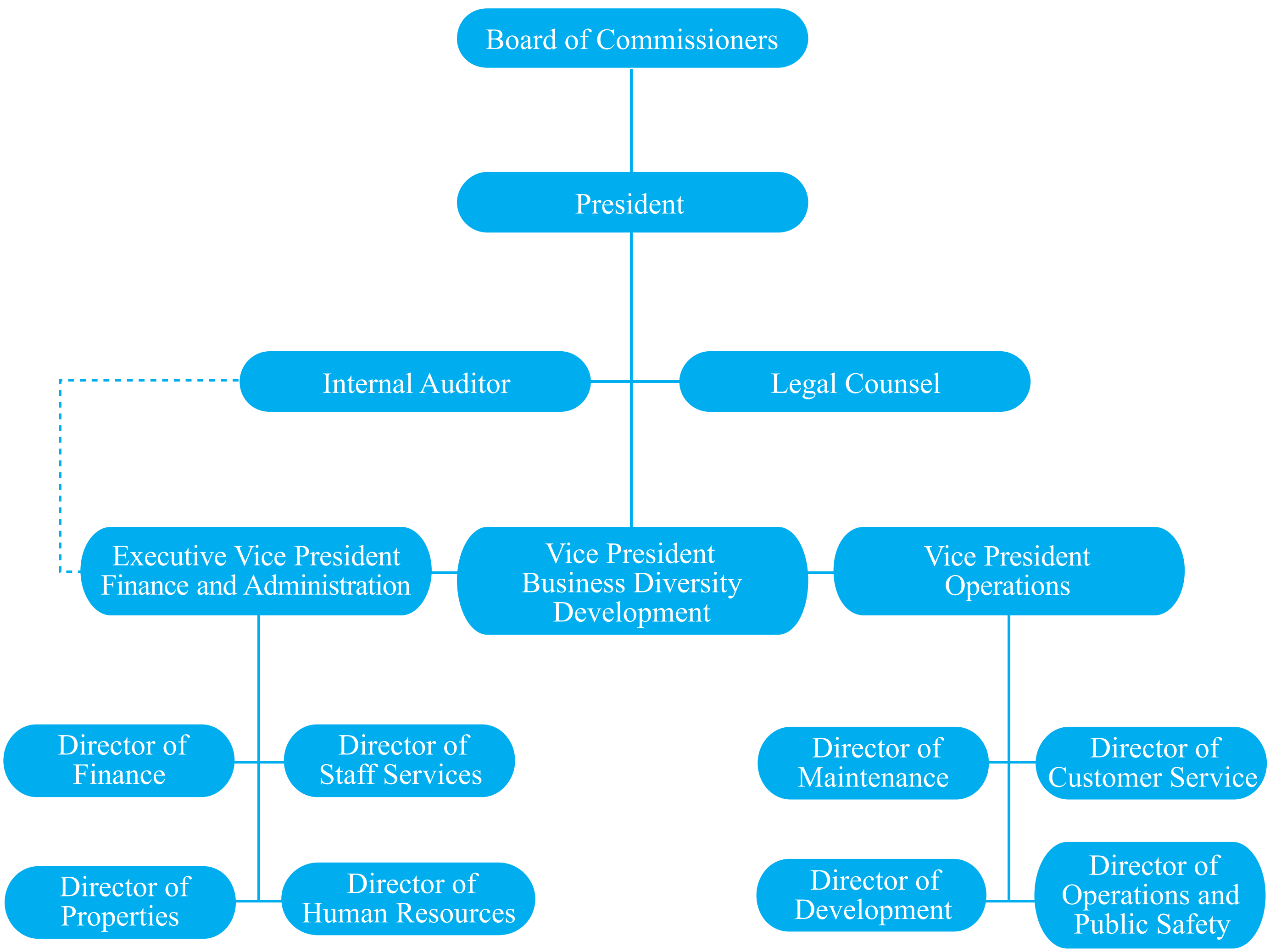
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

# Memphis-Shelby County Airport Authority

## ORGANIZATIONAL CHART



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## INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners and Management
Memphis-Shelby County Airport Authority

We have audited the accompanying statements of net assets of the Memphis-Shelby County Airport Authority (the "Authority"), a component unit of the City of Memphis, Tennessee, as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, as listed in the table of contents, is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the Authority's basic financial statements taken as a whole. The accompanying supplemental schedules as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the 2006 basic financial statements. The accompanying schedule of expenditures of federal and state awards as listed in the table of contents is presented for the purpose of additional analysis as required by OMB Circular A-133 and the State of Tennessee and is not a required part of the 2006 basic financial statements. The supplemental schedules and the schedule of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the 2006 basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the 2006 basic financial statements taken as a whole. The introductory section and statistical section as listed in the table of contents have not been subject to the auditing procedures applied in the audit of the 2006 basic financial statements and, accordingly, we express no opinion on them.

September 8, 2006

Moore Stephens Rhea & Ivy, PLC

# MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This narrative discussion and analysis is intended to serve as an introduction to the Memphis-Shelby County Airport Authority's (the "Authority") basic financial statements for the fiscal year ended June 30, 2006. The information presented here should be read in conjunction with the financial statements, footnotes and supplementary information found in this report. The Authority owns and operates Memphis International Airport and two general aviation airports, Charles W. Baker and General DeWitt Spain.

All dollar amounts, except per unit data, are expressed in thousands of dollars ("000").

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is structured as an enterprise fund with separate accounts for its three airports. The financial statements are prepared on the accrual basis of accounting. Therefore, revenues are recognized when earned and expenses are recognized when incurred. Capital assets are capitalized and depreciated, except land, over their useful lives. See the notes to the financial statements for a summary of the Authority's significant accounting policies.

Following this Management Discussion and Analysis ("MD&A") are the basic financial statements and supplemental schedules of the Authority. This information, taken collectively, is designed to provide readers with an understanding of the Authority's finances.

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

The *Statement of Revenues, Expenses and Changes in Net Assets* presents information showing how the Authority'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 result in cash flows in future fiscal periods.

The *Statement of Cash Flows* relates to the flows of cash and cash equivalents. Consequently, only transactions that affect the Authority's cash accounts are recorded in this statement. A reconciliation follows this Statement to assist in the understanding of the difference between cash flows from operating activities and operating income.

## FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities for fiscal year 2006 by $492,094. Of this amount, $24,944 is unrestricted and may be used for any lawful purpose of the Authority.

- The Authority's overall financial position improved as evidenced by the increase in net assets for fiscal year 2006 of $19,463.

- The Authority's total outstanding debt decreased by $27,788 (4%) during the current fiscal year due to normal debt payments.

- Operating revenues increased by 2% from the prior year due mainly to increases in rental car commissions and debt service rentals, which was offset by decreases in airline rates and charges.

- Operating expenses, before depreciation and amortization, increased 11% compared to the prior year. All areas show an increase except Ground Transportation and Police and Operations area. The largest expense was bad debt write offs related to Delta, Northwest, Comair and Mesaba Airlines bankruptcies, which was $3,216 or 6.9% of operating expenses. Operating expenses, net of the bad debt write off, increased 3.8% or $1,577.

- Capital Contributions increased 7% this fiscal year due mainly to an increase in grant awards.

## FINANCIAL POSITION

Current assets decreased this year due mainly to the decrease in investments, which was lower by $7 million due to capital improvement expenditures reducing the amount of funds available to invest. Cash and cash equivalents were higher than prior year for a combined total of $3 million due to timing differences. Capital contributions receivable was $4 million less than prior year due mainly to timing of grants received. Net capital assets increased $26 million (net of depreciation) due to planned construction projects. Non-current assets decreased mainly due to the decrease in investments, which also were the result of less funds available due to capital expenditures.

Current liabilities are higher due to increases in construction payables, and current maturities on long-term debt. Total long-term liabilities are lower than prior year due primarily to scheduled reductions in annual debt payments. Further information related to long-term debt can be found in the Outstanding Debt section of this MD&A and also in Note 6 of the accompanying financial statements.

The largest portion of the Authority's net assets (72% for 2006 and 70% for 2005) represents its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related outstanding debt used to acquire those assets. The Authority uses these assets to provide services to its passengers, visitors and tenants of the airport; consequently, these assets are not available for future spending.

Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from operations, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Authority's net assets (23% for 2006 and 25% for 2005) represents resources that are subject to restrictions from contributors, bond resolutions and State and Federal regulations on how they may be used. The remaining balance of net assets are unrestricted ($24,944 for 2006), and may be used for any lawful purpose of the Authority.

At the end of the current and previous fiscal year, the Authority reported positive balances in all three categories of net assets.

## SUMMARY OF NET ASSETS

| | JUNE 30 | | PERCENT INCREASE (DECREASE) | VARIANCE |
|---|---|---|---|---|
| | **2006** | **2005** | | |
| Assets: | | | | |
| Current assets | $ 182,659 | $ 188,658 | (3)% | $ (5,999) |
| Net capital assets | 882,842 | 856,281 | 3 | 26,561 |
| Other non-current assets | 96,909 | 98,985 | (2) | (2,076) |
| Total assets | 1,162,410 | 1,143,924 | 2 | 18,486 |
| Liabilities: | | | | |
| Current liabilities | 68,819 | 55,465 | 24 | 13,354 |
| Long-term liabilities | 601,497 | 615,828 | (2) | (14,331) |
| Total liabilities | 670,316 | 671,293 | - | (977) |
| Net assets: | | | | |
| Invested in capital assets, net of debt | 351,896 | 333,199 | 6 | 18,697 |
| Restricted | 115,254 | 116,201 | (1) | (947) |
| Unrestricted | 24,944 | 23,231 | 7 | 1,713 |
| Total net assets | $ 492,094 | $ 472,631 | 4% | $ 19,463 |

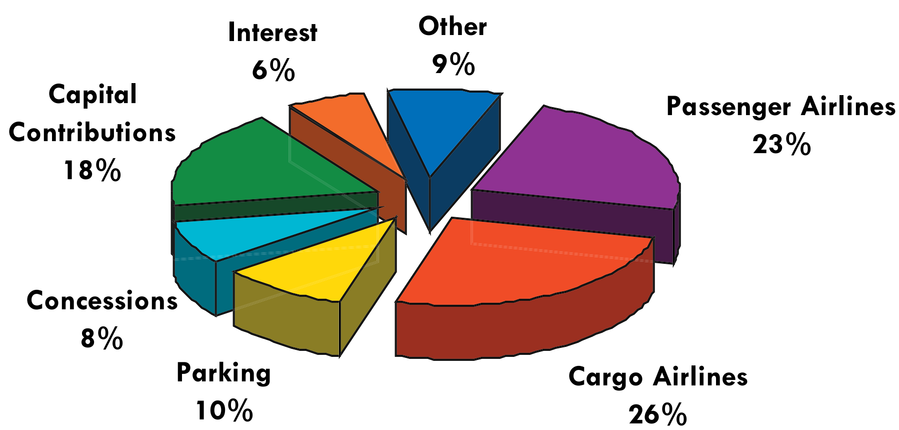
## AIRLINES RATES AND CHARGES

The Authority's Airport Use and Lease Agreement, in effect with eight airlines known collectively as the Signatory Airlines, establishes the rates and charges methodology for the Signatory Airlines and their affiliates each year. This agreement will remain in effect until June 30, 2007. Landing fees and rates for non-signatory and non-scheduled airlines are assessed at 125% and 150%, respectively, of the Signatory rates.

| SIGNATORY AIRLINE RATES AND CHARGES | JULY 1, 2006 – JUNE 30, 2007 | MAY 1, 2005 – JUNE 30, 2006 | JULY 2004 – APRIL 30, 2005 |
|---|---|---|---|
| Terminal Average Square Foot Rate | $ 31.20 | $ 34.60 | $ 39.86 |
| Cargo Building Square Foot Rate | 21.23 | 22.53 | 22.98 |
| Aircraft Loading Position Rate – per lineal foot | 52.08 | 29.31 | 28.72 |
| Signatory Landing Fee - per 1,000 lbs. Unit | 1.5024 | 1.5879 | 1.6669 |

## REVENUES

The following chart shows major sources and the percentage of revenues for the year ended June 30, 2006.




Airline revenues are the major source of revenue for the Authority. Due to the strong presence of cargo operations at Memphis International Airport (FedEx super-hub and the world's largest in total tonnage), airline revenues have been separated to reflect distinct passenger and cargo categories.

There was an overall decrease in revenues generated from the airlines. This was mainly due to decreases in the square foot rental rates as well as landing fee rates. New concession agreements resulted in a 54% increase in rental car concessions. Public parking revenues increased 5% over last year due to an increase in utilization.

The completion of the terminal concession renovation program resulted in a 10% increase in terminal concessions. The program began in April of 2004 and was primarily funded with third party concessionaire investments. Upon completion, concessionaires also began paying debt service rentals to the Authority to pay for the debt incurred in the build out of the new concessions areas. This added an additional $1.3 million to other rentals. Also included in other rentals was an increase in the fuel sales at the two reliever airports, which can be attributed to increased usage as well as increased fuel prices.

## REVENUES (Continued)

**REVENUES BY MAJOR SOURCE**

| | 2006 | 2005 | VARIANCE | PERCENT INCREASE (DECREASE) |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| **Passenger Airlines** | | | | |
| Passenger landing fee | $ 11,799 | $ 12,787 | $ (988) | (8)% |
| Airline terminal rentals | 19,632 | 21,327 | (1,695) | (8) |
| Airline fee payments-international charges | 1,719 | 2,236 | (517) | (23) |
| Other rentals | 353 | 348 | 5 | 1 |
| Total | 33,503 | 36,698 | (3,195) | (9) |
| **Cargo Airlines** | | | | |
| Cargo landing fees | 29,692 | 29,831 | (139) | |
| Ground rents | 5,304 | 5,383 | (79) | (1) |
| Other rentals | 2,821 | 3,114 | (293) | (9) |
| Total | 37,817 | 38,328 | (511) | (1) |
| **Non-Airline Rentals** | | | | |
| Concessions-terminal | 5,466 | 4,973 | 493 | 10 |
| Concessions-rental car | 6,621 | 4,294 | 2,327 | 54 |
| Public parking | 12,189 | 11,634 | 555 | 5 |
| Employee parking | 1,777 | 1,860 | (83) | (4) |
| Other rentals | 7,526 | 4,490 | 3,036 | 68 |
| Total | 33,579 | 27,251 | 6,328 | 23 |
| **Other Revenue** | | | | |
| Restricted rental income | 1,591 | 1,591 | | |
| Special facilities lease income | 4,525 | 4,525 | | |
| Total other revenues | 6,116 | 6,116 | | |
| Total operating revenues | 111,015 | 108,393 | 2,622 | 2 |
| **Non-operating Revenues** | | | | |
| Interest and investment income | 8,149 | 5,830 | 2,319 | 40 |
| Other | 163 | 118 | 45 | 38 |
| Total non-operating revenues | 8,312 | 5,948 | 2,364 | 40 |
| **Capital Contributions** | 26,042 | 24,337 | 1,705 | 7 |
| Total Revenues | $ 145,369 | $ 138,678 | $ 6,691 | 5% |

## REVENUES (Continued)

Cost per enplaned passenger is a measure used by the airline industry to reflect the relative costs an airline pays to operate at an airport based upon the number of enplaned passengers for that airport. That measure, however, is not exact for comparison, as not all airports calculate the number in the same way and cautions should be taken when comparing individual or groups of airports.

| COST PER ENPLANED PASSENGER | 2006 | 2005 | 2004 |
|---|---|---|---|
| Passenger Airline Revenues | $ 31,784 | $ 34,462 | $ 31,056 |
| Enplaned Passengers | 5,349 | 5,403 | 5,193 |
| Average Cost Per Enplaned Passenger[1] | 5.94 | 6.38 | 5.98 |
| International Charges | 1,719 | 2,236 | 2,354 |
| Average Cost Per Enplaned Passenger Including International Charges | $ 6.26 | $ 6.79 | $ 6.43 |

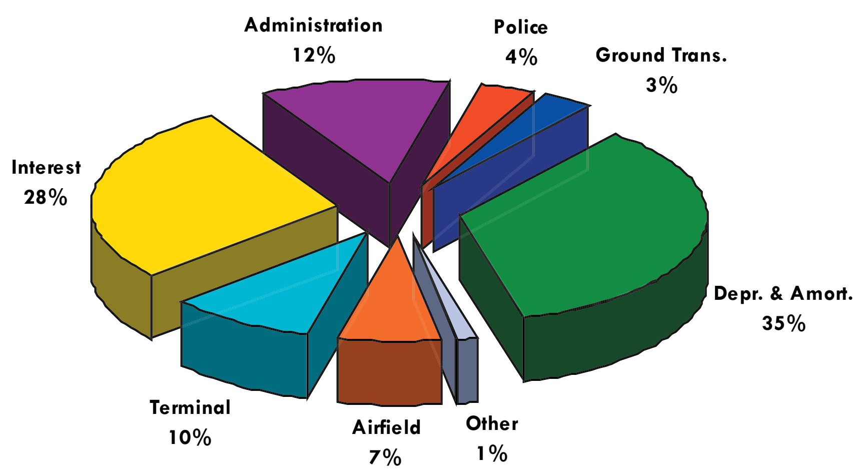
[1]On average, Northwest Airlines and some charters are the only passenger carriers subject to international facility charges. As such, the cost per enplaned passenger analysis is expanded to show detail with and without international fees.

### NON-OPERATING REVENUE

Non-operating revenue consists mainly of interest and investment income. Interest and investment income was $8,149 in 2006 compared to $5,830 in 2005. This amount is driven by higher interest rates.

## EXPENSES

The following chart shows major cost centers and the percentage of expenses for the year ended June 30, 2006:



## EXPENSES (Continued)

### EXPENSES BY COST CENTER

| | 2006 | 2005 | PERCENT INCREASE (DECREASE) | VARIANCE |
|---|---|---|---|---|
| **Operating Expenses** | | | | |
| Terminal area | $ 12,538 | $ 12,158 | 3% | $ 380 |
| Airfield area | 8,265 | 7,149 | 16 | 1,116 |
| Ground transportation area | 4,045 | 4,516 | (10) | (471) |
| Administration area | 15,551 | 11,967 | 30 | 3,584 |
| Police & operations area | 4,432 | 4,497 | (1) | (65) |
| Other areas | 1,964 | 1,715 | 15 | 249 |
| Total operating expense | 46,795 | 42,002 | 11 | 4,793 |
| **Non-operating Expense** | | | | |
| Interest expense | 34,847 | 34,118 | 2 | 729 |
| Total expenses before depreciation and amortization | 81,642 | 76,120 | 7 | 5,522 |
| **Depreciation and Amortization** | 44,264 | 44,463 | | (199) |
| **Total Expense** | $ 125,906 | $ 120,583 | 4% | $ 5,323 |

Increases can be noted in most cost centers when compared to the prior year. Total expenses in fiscal year 2006, are 4% more in total than in 2005. The Airfield area increase is due to increases in pavement joint sealant repairs and more fuel being purchased for resale at Baker and Spain Airports to meet the demand from general aviation traffic. The decrease in the ground transportation area is due mainly to an adjustment to credit card fees for the prior year. Increased costs in the Administration area are directly attributed to the increase in bad debt expense resulting from the Northwest, Delta, Comair and Mesaba bankruptcies. Other areas show an increase primarily due to increases in ongoing environmental operating expenses. Operating expenses, net of bankruptcy write offs, increased 3.8%

Non-operating expense consists of interest expense. Interest expense increased to $34,847 in 2006 from $34,118 in 2005 due to the 2005 amount being offset by more capitalized construction interest, with no offset in 2006.

Depreciation and amortization expense had a net decrease of $199. This was the result of current year's expenses, which would have been $503 higher than the prior year, being offset by $702 in disposed assets.

## EXPENSES (Continued)

| SUMMARY OF CHANGES IN NET ASSETS | 2006 | 2005 | PERCENT INCREASE (DECREASE) | VARIANCE |
|---|---|---|---|---|
| Operating revenues | $ 111,015 | $ 108,393 | 2% | $ 2,622 |
| Operating expenses | (46,795) | (42,002) | 11 | (4,793) |
| Operating income before depreciation & amortization | 64,220 | 66,391 | (3) | (2,171) |
| Depreciation & amortization | (44,264) | (44,463) | | 199 |
| Operating income | 19,956 | 21,928 | (9) | (1,972) |
| Non-operating income | 8,312 | 5,948 | 40 | 2,364 |
| Non-operating expense | (34,847) | (34,118) | 2 | (729) |
| Loss before capital contributions | (6,579) | (6,242) | 5 | (337) |
| Capital contributions | 26,042 | 24,337 | 7 | 1,705 |
| Increase in net assets | $ 19,463 | $ 18,095 | 8% | $ 1,368 |

Capital contributions are mainly federal grants, which for 2006 were received to fund construction and reconstruction of runways at the Airport. Grants were higher in 2006 due mainly to the timing of an increase in AIP entitlement grants from the Federal Aviation Administration ("FAA").

## CAPITAL ASSETS

The Authority's investment in capital assets is detailed in the following table. The total remained relatively even this fiscal year. Major capital asset events occurring this fiscal year include the following:

- The completion of taxiway Yankee reconstruction and extension accounts for $61,262 of the increase in the Runways, taxiways and airfield lighting category. The remaining difference includes improvements on the southeast corner of the Airport where the cargo apron and Tennessee Air National Guard Base will be constructed.

- The increase in the Land account resulted mostly from the purchase of land in industrial park on the east side of the Airfield, which is needed for future expansion.

- The increase in Buildings resulted from the completion of new concession space in the B Concourse of the terminal and installation of the elevators connecting the Terminal B Ticketing Lobby area with Baggage Claim and the lower level parking garage.

- The increase in Roads, bridges and fences resulted from the completion of the Outbound Roadway, expansion of the service road bridge over Winchester Road and the installation of a perimeter intrusion detection system.

- Construction in progress decreased due to the completion of projects.

## CAPITAL ASSETS (Continued)

More detailed information can be found in Note 4 of the accompanying financial statements.

**NET CAPITAL ASSETS**

| | 2006 | 2005 | VARIANCE | PERCENT INCREASE (DECREASE) |
|---|---|---|---|---|
| Avigation easements | $ 58,173 | $ 58,173 | | |
| Land and improvements | 162,251 | 160,855 | $ 1,396 | 1 % |
| Buildings | 335,649 | 331,662 | 3,987 | 1 |
| Runways, taxiways, & airfield lighting | 631,372 | 558,056 | 73,316 | 13 |
| Facilities leases to others | 27,077 | 27,077 | | |
| Roads, bridges, and fences | 35,606 | 24,076 | 11,530 | 48 |
| Equipment and utility systems | 71,617 | 70,181 | 1,436 | 2 |
| Construction in process | 36,878 | 59,295 | (22,417) | (38) |
| Total capital assets | 1,358,623 | 1,289,375 | 69,248 | 5 |
| Less accumulated depreciation & amortization | 475,781 | 433,094 | 42,687 | 10 |
| Net capital assets | $ 882,842 | $ 856,281 | $ 26,561 | 3 % |

## DEBT ACTIVITY

At the end of the current fiscal year, the Authority had total bonded debt outstanding of $611,867. Of this amount, $14,090 is general obligation debt backed by the full faith and credit of the City of Memphis. The remainder of the Authority's bonded debt represents bonds secured solely by specific revenue sources. The special facilities bonds totaling $45,000 are backed by revenues generated solely from the users of the special facilities for which the bonds were issued. The remaining debt, totaling $552,165, is classified as general airport revenue bonds and will be repaid by ongoing operating revenues.

| OUTSTANDING DEBT | 2006 | 2005 | VARIANCE | PERCENT INCREASE (DECREASE) |
|---|---|---|---|---|
| Bonds: | | | | |
| Airport Revenue | $ 552,165 | $ 576,615 | $ (24,450) | (4)% |
| City of Memphis General Obligation | 14,090 | 17,140 | (3,050) | (18) |
| Special Facilities Revenue | 45,000 | 45,000 | | |
| Unamortized bond premiums | 3,307 | 3,852 | (545) | (14) |
| Unamortized deferred refundings | (2,695) | (3,340) | 645 | (19) |
| Notes payable | 998 | 1,265 | (267) | (21) |
| Other liabilities | 2,751 | 2,872 | (121) | (4) |
| Total | $ 615,616 | $ 643,404 | $ (27,788) | (4)% |

## DEBT ACTIVITY (Continued)

The Authority's total debt decreased $27,788 (4%) during the current fiscal year. The reduction in the total debt outstanding is due to scheduled reductions in annual debt payments of $28,052.

Notes Payable were issued to finance the purchase of replacement shuttle buses for transporting passengers from the public parking lots to the terminal complex and employees to and from the employee parking lot on Democrat Road to the terminal complex. The notes are renewable on an annual basis and bear interest at a rate of LIBOR plus 1.75%. Payments will come from revenues generated by the respective parking operations.

More detailed information related to long-term debt can be found in Footnote 6 of the accompanying financial statements.

## DEBT SERVICE COVERAGE

Airport revenue bond resolution covenants require that revenues available to pay debt service, as defined in the bond resolution, are equal to a minimum of 125% of the debt service on airport revenue bonds and 100% of the combined debt service on the airport revenue bonds and the City of Memphis general obligation bonds. Coverage ratios for the past three years are shown in the following table.

**COVERAGE RATIO**

| | FY 2006 | FY 2005 | FY 2004 |
|---|---|---|---|
| Airport Revenue Bonds | 136% | 134% | 135% |
| Airport Revenue and General Obligation Bonds | 127% | 125% | 126% |

## AIRPORT ACTIVITIES AND HIGHLIGHTS

This fiscal year, Memphis International Airport has seen fluctuations in its passenger airline flight schedules as Northwest, Delta and other passenger airlines, operating under Chapter 11 of the Bankruptcy Code, continue to try to become more efficient. The previous fiscal year's scheduled passenger flights increased slightly up to 300 per day by the end of August 2005, but then the unsuccessful labor negotiations Northwest had with their mechanics union led to a strike on August 20, 2005. On September 14, 2005, both Northwest and Delta airlines filed for Chapter 11 bankruptcy protection. Two of their affiliates, Mesaba (NWA) and Comair (Delta) also filed for Chapter 11 bankruptcy protection. The result of these events was a drop in scheduled flights and several schedule adjustments, which reduced total available seats. By June 30, 2006, total daily flight departures for all passenger airlines were 282 compared to 294 in 2005 (4% reduction). This reduction in flights resulted in a decrease in total passengers of approximately 185,000, or 3.2%. Please see the Future

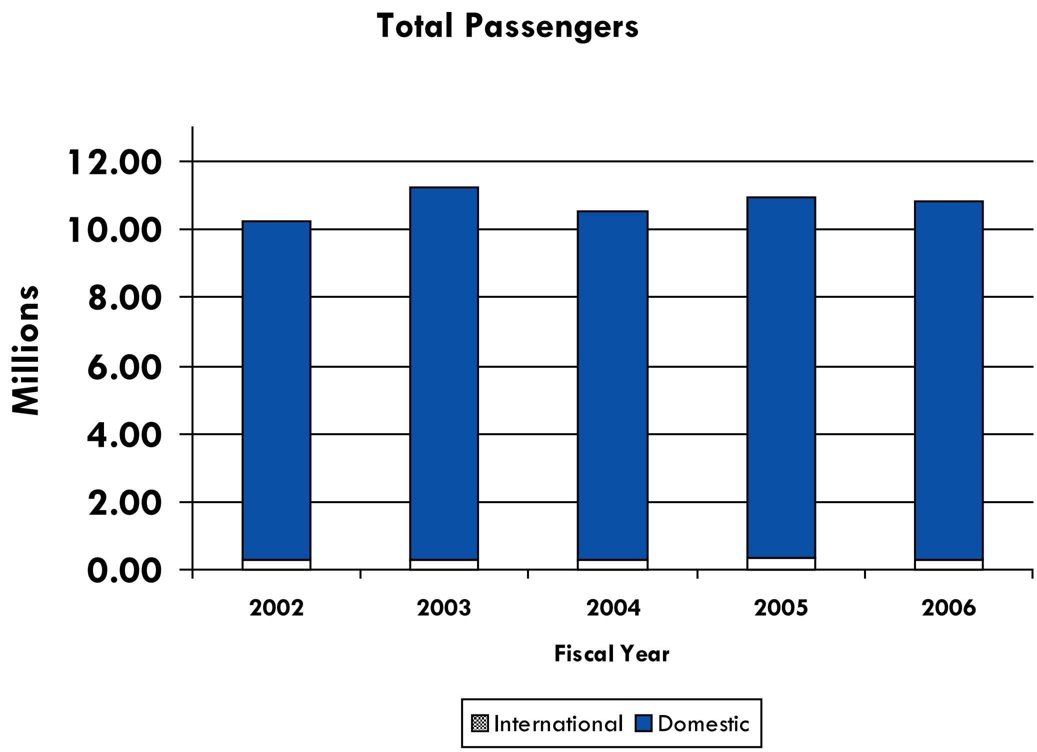
## AIRPORT ACTIVITIES AND HIGHLIGHTS (Continued)

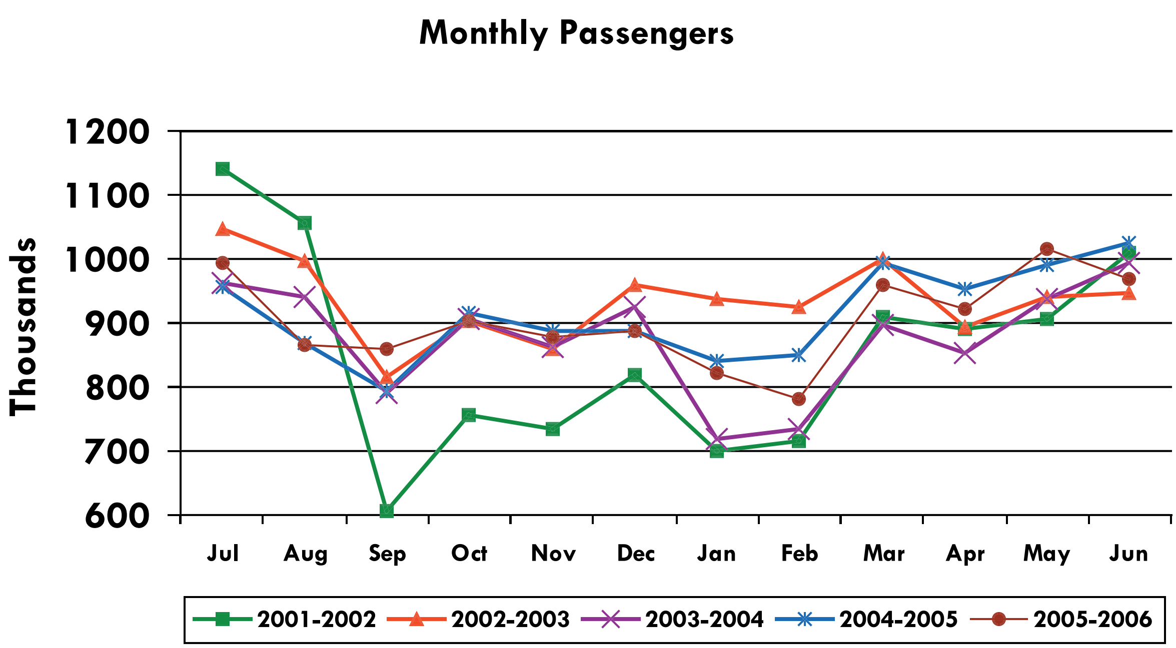
Outlook section of the report for additional discussion on the potential impacts of these events.

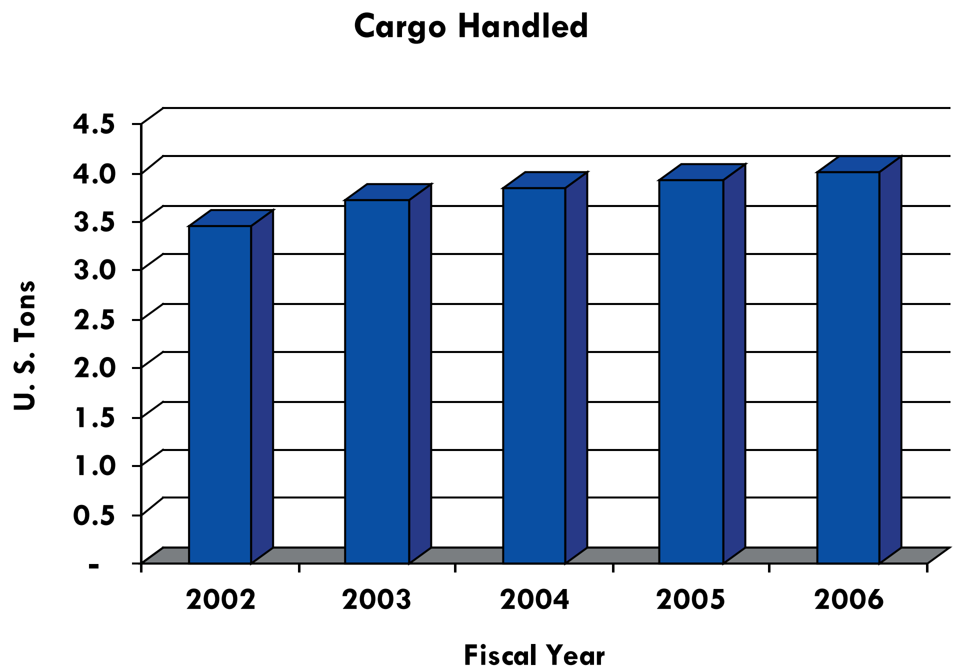
Air Cargo activity remained strong in spite of significant challenges within the national and world economies. Memphis remained the world's largest cargo airport with in excess of 4 million U.S. tons of total cargo during the fiscal year. For calendar year 2005, Memphis recorded slightly less than 4 million U.S. tons, while Hong Kong, the world's second largest airport from a cargo tonnage standpoint, reported slightly more than the equivalent of 3.8 million U.S. tons. Cargo activity at the Airport is dominated by FedEx Express, which has its corporate headquarters and operates its worldwide super-hub from Memphis.

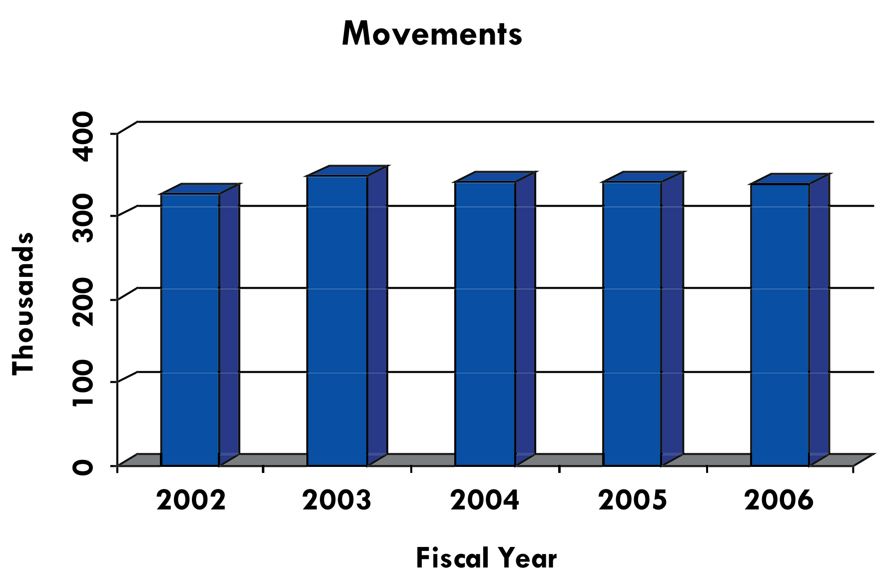
Selected statistical information about total passengers, aircraft landed weight, and air carrier movements for the past five years is presented in the table below.

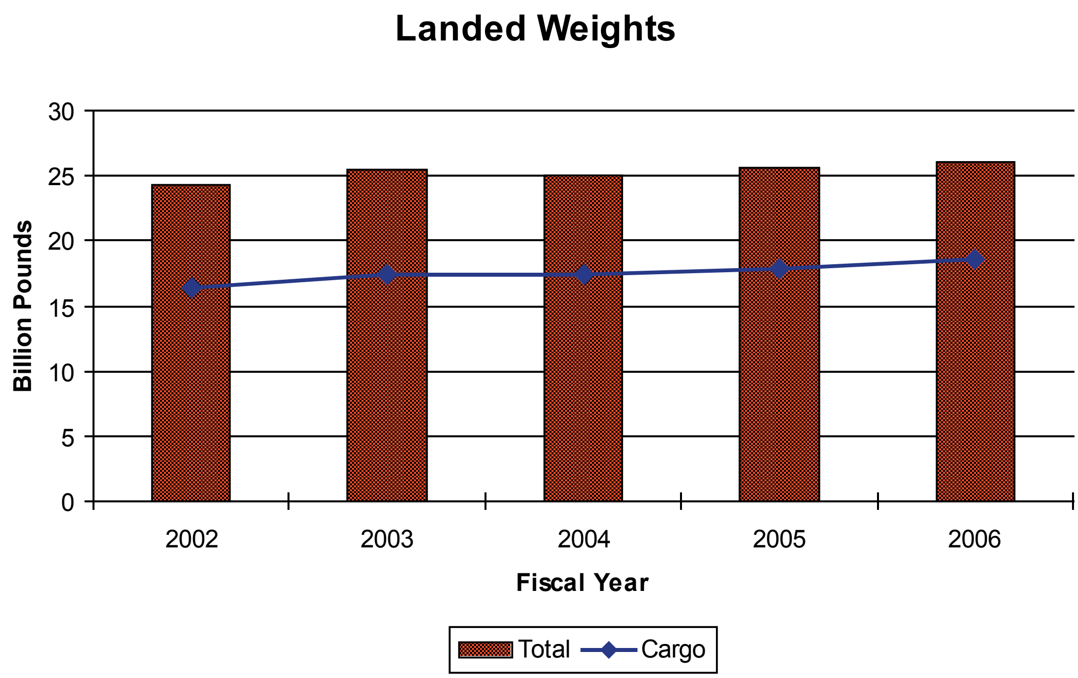
| FISCAL YEAR | TOTAL PASSENGERS | TOTAL CARGO HANDLED (U.S. TONS) | AIRCRAFT LANDED WEIGHT (1000 POUND UNITS) | AIR CARRIER MOVEMENTS |
|---|---|---|---|---|
| 2006 | 10,853,934 | 4,009,413 | 25,960,030 | 339,528 |
| 2005 | 10,963,875 | 3,916,581 | 25,557,091 | 340,734 |
| 2004 | 10,519,752 | 3,848,609 | 25,040,546 | 341,944 |
| 2003 | 11,225,251 | 3,727,562 | 25,491,744 | 347,592 |
| 2002 | 10,243,086 | 3,458,127 | 24,277,350 | 327,508 |


Total Passengers
12.00
10.00
8.00
6.00
4.00
2.00
0.00
Millions
2002
2003
2004
2005
2006
Fiscal Year
International
Domestic


Monthly Passengers
1200
1100
1000
900
800
700
600
Thousands
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
2001-2002
2002-2003
2003-2004
2004-2005
2005-2006


Cargo Handled
U. S. Tons
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
-
2002
2003
2004
2005
2006
Fiscal Year


Movements
Thousands
400
300
200
100
0
2002
2003
2004
2005
2006
Fiscal Year




## FUTURE OUTLOOK

Memphis International Airport (the "Airport") is home to a passenger hub for Northwest Airlines ("Northwest") and to the world's largest cargo operation and the worldwide super-hub for FedEx Express. The challenges that continue to be encountered by U.S. passenger air carriers, including record fuel prices, have been well documented. On September 14, 2005, both Northwest and Delta Airlines filed for protection under Chapter 11 of the Bankruptcy Code. Shortly thereafter, Northwest affiliate carrier, Mesaba, and Delta affiliate carrier, Comair, also filed for protection under Chapter 11 of the Bankruptcy Code. Northwest, Delta, and their affiliates comprised 86% of the Airports total passengers for the year ended June 30, 2006. Additionally, Northwest has experienced significant labor strife both pre- and post-bankruptcy petition. That strife continues as they struggle to reach an amicable contract with their flight attendants, the last labor group without a new agreement. As of the date of this report, significant modifications have not occurred to either Northwest's or Delta's operations in Memphis.

With the bankruptcy filings, it is likely that both Northwest and Delta, like other passenger air carriers, will continue to adjust their flight schedules and those of their affiliates, to match capacity with demand. As such, the Airport may be subject to additional schedule adjustments in the future. Because Northwest operates a passenger hub in Memphis, it is likely that additional adjustments to their flight schedule over time could occur within Northwest's reorganization plan. Historically, companies operating under bankruptcy protection have taken considerable time to assess their operations and to make changes. Management has no way to judge or predict when changes in the flight operations of carriers in bankruptcy will occur. Additionally, Management believes that Northwest has and will continue to take steps to match capacity with demand and at this time has no information that would indicate any significant reduction in flights in the foreseeable future.

## FUTURE OUTLOOK (Continued)

Cargo operations continue to remain strong and all information indicates that FedEx will continue its history of stable growth overall and at the Airport. The addition of the Airbus A-380 to FedEx's fleet in the future will enhance those growth opportunities. The A-380 is being hailed as the world's largest aircraft and FedEx is the cargo launch customer for the aircraft. Additionally, the successful negotiation of a lease with FedEx for 103 acres of land currently being used by the Tennessee Air National Guard (TnANG) once TnANG relocates to its new base in 2009 will provide additional growth potential for FedEx in the future. The 103 acre site lies within the FedEx operation. Memphis is also the home of FedEx's World Headquarters.

There are distinct operational and financial advantages of having both a passenger and cargo hub. From an operational standpoint, the Airport boasts four runways with advanced technology to allow continued flight operations in severe weather conditions. Financially, many of the costs of operating the Memphis airport system are decentralized and are not borne individually by either hub carrier. No assurance can be given as to the levels of aviation activity which will be achieved at the Airport in future fiscal years.

## REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Questions concerning any of the information should be addressed to the Chief Financial Officer, Memphis-Shelby County Airport Authority, 2491 Winchester Road, Suite 113, Memphis, Tennessee 38116-3856.

## STATEMENTS OF NET ASSETS
### *June 30, 2006 and 2005 (In Thousands)*

| | 2006 | 2005 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| UNRESTRICTED ASSETS | | |
| Cash and cash equivalents | $ 1,908 | $ 9,590 |
| Accounts receivable | 7,683 | 8,596 |
| Short-term investments | 15,047 | 7,448 |
| Accrued interest receivable | 359 | 158 |
| Materials and supplies inventory | 1,560 | 1,523 |
| Prepaid expenses | 2,923 | 1,071 |
| Grants receivable | 10 | |
| Total current unrestricted assets | 29,490 | 28,386 |
| RESTRICTED ASSETS | | |
| Cash | 20,182 | 9,532 |
| Short-term investments | 121,891 | 136,293 |
| Account receivable | 392 | 407 |
| Accrued interest receivable | 2,175 | 1,882 |
| Capital contributions receivable | 8,529 | 12,158 |
| Total current restricted assets | 153,169 | 160,272 |
| TOTAL CURRENT ASSETS | 182,659 | 188,658 |
| NON-CURRENT ASSETS | | |
| UNRESTRICTED ASSETS | | |
| Investments | 1,724 | |
| RESTRICTED ASSETS | | |
| Investments | 61,680 | 67,104 |
| Special facilities rent receivable | 26,012 | 23,513 |
| Total non-current assets | 87,692 | 90,617 |
| CAPITAL ASSETS | | |
| Land and improvements | 162,251 | 160,855 |
| Depreciable capital assets (less accumulated depreciation of $475,781 and $433,094) | 683,713 | 636,131 |
| Construction in progress | 36,878 | 59,295 |
| Total capital assets, net | 882,842 | 856,281 |
| BOND ISSUE COSTS (less accumulated amortization of $6,256 and $5,381) | 7,493 | 8,368 |
| TOTAL NON-CURRENT ASSETS | 979,751 | 955,266 |
| **TOTAL ASSETS** | $ 1,162,410 | $1,143,924 |

See accompanying notes.

| | 2006 | 2005 |
|---|---|---|
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Payable from unrestricted assets: | | |
| Accounts payable | $ 2,710 | $ 1,905 |
| Accrued expenses | 1,109 | 963 |
| Current portion – compensated absences | 1,160 | 1,035 |
| Total payable from unrestricted assets | 4,979 | 3,903 |
| Payable from restricted assets: | | |
| Construction contracts payable | 16,768 | 11,747 |
| Funds held for others | 7,350 | 693 |
| Accrued interest payable | 9,789 | 10,072 |
| Current maturities of long-term debt | 29,933 | 29,050 |
| Total payable from restricted assets | 63,840 | 51,562 |
| TOTAL CURRENT LIABILITIES | 68,819 | 55,465 |
| NON-CURRENT LIABILITIES | | |
| Capital leases | | 300 |
| Deferred lease revenue | 16,974 | 2,509 |
| Compensated absences | 1,291 | 1,252 |
| Bonds and notes payable | 583,232 | 611,767 |
| TOTAL NON-CURRENT LIABILITIES | 601,497 | 615,828 |
| **TOTAL LIABILITIES** | $ 670,316 | $ 671,293 |
| **NET ASSETS** | | |
| Invested in capital assets, net of related debt | $ 351,896 | $ 333,199 |
| Restricted for: | | |
| Debt service | 102,440 | 100,086 |
| Capital acquisition | 12,814 | 16,115 |
| Unrestricted | 24,944 | 23,231 |
| **TOTAL NET ASSETS** | $ 492,094 | $ 472,631 |

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
### *Years Ended June 30, 2006 and 2005 (In Thousands)*

| | 2006 | 2005 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Terminal building | $ 29,287 | $ 29,659 |
| Airfield | 48,013 | 48,769 |
| Ground transportation | 21,850 | 18,972 |
| Other aviation areas | 4,824 | 4,562 |
| Non-aviation areas | 7,041 | 6,431 |
| Total operating revenues | 111,015 | 108,393 |
| **OPERATING EXPENSES** | | |
| Terminal building | 12,538 | 12,158 |
| Airfield | 8,265 | 7,149 |
| Ground transportation | 4,045 | 4,516 |
| General administration | 15,551 | 11,967 |
| Police | 4,432 | 4,497 |
| Field shop | 1,478 | 1,436 |
| Other aviation areas | 76 | 62 |
| Non-aviation areas | 410 | 217 |
| Total operating expenses before depreciation and amortization | 46,795 | 42,002 |
| **DEPRECIATION AND AMORTIZATION** | 44,264 | 44,463 |
| **OPERATING INCOME** | 19,956 | 21,928 |
| **NON-OPERATING REVENUE (EXPENSE)** | | |
| Interest and investment income | 8,149 | 5,830 |
| Interest expense | (34,847) | (34,118) |
| Operating grants | 163 | 118 |
| Total non-operating revenue (expense) | (26,535) | (28,170) |
| **LOSS BEFORE CAPITAL CONTRIBUTIONS** | (6,579) | (6,242) |
| **CAPITAL CONTRIBUTIONS** | 26,042 | 24,337 |
| **CHANGE IN NET ASSETS** | 19,463 | 18,095 |
| **TOTAL NET ASSETS, BEGINNING OF YEAR** | 472,631 | 454,536 |
| **TOTAL NET ASSETS, END OF YEAR** | $ 492,094 | $ 472,631 |

See accompanying notes.

# STATEMENTS OF CASH FLOWS
## *Years Ended June 30, 2006 and 2005 (In Thousands)*

| | 2006 | 2005 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash received from customers | $ 109,801 | $ 104,671 |
| Cash paid to suppliers for goods and services | (27,518) | (23,574) |
| Cash paid to employees for services | (20,485) | (18,884) |
| Net cash provided by operating activities | 61,798 | 62,213 |
| **CASH FLOWS FROM NON-CAPITAL FINANCING** | | |
| Operating grants received | 153 | 118 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Proceeds from the sale of capital assets | 62 | 544 |
| Acquisition and construction of capital assets | (64,929) | (55,563) |
| Reimbursements from other governments and entities | 21,137 | 6,200 |
| Proceeds from issuance of debt and notes payable | | 500 |
| Principal paid on long-term debt, notes payable and capital leases | (28,052) | (26,748) |
| Interest paid on long-term debt | (35,030) | (36,345) |
| Capital contributions received | 29,671 | 24,166 |
| Net cash used in capital and related financing activities | (77,141) | (87,246) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of investment securities | (220,570) | (447,525) |
| Proceeds from sales and maturities of investment securities | 229,984 | 469,941 |
| Interest and dividends on investments | 8,744 | 6,741 |
| Net cash provided by investing activities | 18,158 | 29,157 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | 2,968 | 4,242 |
| **CASH AND CASH EQUIVALENTS** | | |
| **BEGINNING OF YEAR** | 19,122 | 14,880 |
| **END OF YEAR** | $ 22,090 | $ 19,122 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF** | | |
| Unrestricted cash and cash equivalents | 1,908 | 9,590 |
| Restricted cash | 20,182 | 9,532 |
| | $ 22,090 | $ 19,122 |

See accompanying notes.

## STATEMENTS OF CASH FLOWS (continued)
### *Years Ended June 30, 2006 and 2005 (In Thousands)*

| | 2006 | 2005 |
|---|---|---|
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES** | | |
| Operating income | $ 19,956 | $ 21,928 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Depreciation and amortization | 44,264 | 44,463 |
| Gain on the sale of property and equipment | (62) | |
| Provision for uncollectible accounts receivable | 3,216 | 13 |
| (Increase) decrease in assets: | | |
| Receivables | (4,802) | (3,395) |
| Materials and supplies inventory | (37) | (106) |
| Prepaid expenses | (1,852) | 59 |
| Increase (decrease) in liabilities: | | |
| Accounts payable | 805 | (805) |
| Accrued expenses | 310 | 56 |
| Net cash provided by operating activities | $ 61,798 | $ 62,213 |

**NON-CASH INVESTING ACTIVITIES**

Investments decreased by $847 and $559 in 2006 and 2005, respectively, due to the change in fair value.

See accompanying notes.

## NOTES TO FINANCIAL STATEMENTS
*June 30, 2006 and 2005 (In Thousands)*

### 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A.** ***Organization*** **–** The Memphis-Shelby County Airport Authority (the "Authority") is a body politic and corporate of the State of Tennessee, created in 1969 pursuant to the Metropolitan Airport Authority Act. It is governed by a seven-member Board of Commissioners (the "Board"), who is appointed by the Mayor of the City of Memphis (the "City"), with two members nominated by the Mayor of Shelby County (the "County"). The Memphis City Council confirms all members. The Authority owns and operates the Memphis International Airport and two reliever airports, the Charles W. Baker Airport and the General DeWitt Spain Airport, whose financial operations are not significant.

**B.** ***Reporting Entity*** – The Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Reporting Entity*, defines the governmental financial reporting entity as the primary government, organizations for which the primary government is "financially accountable," and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

"Financial Accountability" is the benchmark for determining which organizations are component units of a primary government. Financial accountability exists when a primary government has appointed a voting majority of the governing body of a legally separate organization and (1) is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. Based on the criteria below, the Authority is considered a component unit of the City:

i. Financial Accountability – The members of the Board are appointed as described above. A member of the Board may be removed from office by a two-thirds vote of the Memphis City Council, but only after notice of cause for the removal has been served and the member has been granted an opportunity for a public hearing on the matter.

ii. Specific Financial Burden – The City has issued its general obligation bonds to finance projects associated with the Authority. The Authority has entered into agreements with the City to pay debt service on these bonds; however, the City's full faith and credit are pledged against these bonds and in the event of the Authority's default on payment would be payable from taxes levied on all taxable property in the City subject to taxation by the City without limitations as to rate or amount. The Authority is not empowered to levy taxes.

***C.*** ***Basis of Accounting*** – The Authority consists of an enterprise fund with separate accounts for the three airports. Enterprise funds are classified as proprietary funds by GASB and are accounted for

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

using a total economic resources measurement focus. The enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Board is that the costs of providing services on a continuing basis be recovered through user charges. The financial statements are prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized as earned and expenses are recognized as incurred.

*Operating revenues and expenses* – Operating revenues and expenses generally result from leasing terminal space, buildings and airfield spaces to airlines and other tenants. The principal operating revenues of the Authority are charges to airlines and concessionaries for use of the airport. Operating expenses include costs of maintaining the airport including administrative expenses and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Therefore, transactions, which are capital, financing or investing related, are reported as non-operating revenues and interest expense and financing costs are reported as non-operating expenses.

Pursuant to GASB Statement No. 20, as amended, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Authority applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements and Interpretations, Accounting Principles Board (“APB”) Opinions, and Accounting Research Bulletins (“ARBs”) issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected to not apply FASB Statements and Interpretations issued after November 30, 1989.

**D.** ***Budgets*** – In accordance with the Metropolitan Airport Authority Act, the City entered into an agreement dated May 26, 1970 with the Authority, which transferred all airport properties, functions, and outstanding obligations to the Authority. Provisions of the agreement require the Authority to prepare an annual operating budget, which must be filed with the City. A five-year capital improvement program, including modifications and reasons therefore is also required to be submitted each year. Even though the budgets are required to be filed with the City, the Board is responsible for approving the budget and any subsequent revisions.

The Airline Airport Affairs Committee, composed of signatory airlines, reviews the proposed annual budget, which is the basis for rates and charges under basic airport leases. This committee and other users may present objections and, if not adequately addressed, force a public hearing. Once adopted and issued, users have sixty days to respond after which time the budget becomes effective.

The Authority is not required to demonstrate statutory compliance with its annual operating budget. Accordingly, budgetary data is not included in the basic financial statements. All budgets

**NOTES TO FINANCIAL STATEMENTS (continued)**
***June 30, 2006 and 2005 (In Thousands)***

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

are prepared in accordance with the airport lease and use agreements and in conformance with requirements contained in bond resolutions. Unexpended appropriations lapse at year-end.

**E.** ***Cash and Cash Equivalents*** – Cash and cash equivalents include amounts in demand deposits as well as investments with a maturity date within three months of the date acquired.

**F.** ***Investments*** − Investments are reported at fair value with the exception of nonnegotiable investment contracts, which are reported at cost. The investment portfolio is managed to maintain the preservation of the principal of those funds within the portfolio, while maintaining enough liquidity to meet immediate and/or future operating requirements, and to maximize the return on investments while remaining within the context of these parameters.

**G.** ***Materials and Supplies Inventory*** – Inventory is valued at the lower of cost determined on a first-in, first-out (“FIFO”) method or market.

**H.** ***Restricted Assets*** – The bond indentures and bond resolutions authorizing the issuance of bonds require segregation of cash and investments into restricted accounts. Additionally, certain assets are restricted by the Board or by regulatory agencies (Note 3).

**I.** ***Leases*** – The Authority is lessor under numerous lease agreements. The leases are classified as operating leases, except for certain special facility leases, which are accounted for as direct financing leases.

**J.** ***Capital Assets*** – Assets with a cost of five thousand dollars or more are capitalized. Capital assets are stated at cost when purchased or fair value when donated, less accumulated depreciation. During construction of assets, interest incurred on related construction debt, less interest earned from investments whose use is restricted to related capital improvements, is capitalized from the time of borrowing until completion of the project. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The estimated lives by general classification are as follows:

| | Years |
|---|---|
| Avigation easements | 40 |
| Runways, taxiways, aprons, and airfield lighting | 15-30 |
| Buildings | 10-40 |
| Facilities constructed for tenants | 18 |
| Roads, bridges, and fences | 20 |
| Equipment and utility systems | 5-40 |

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries,* became effective for the Authority in fiscal year 2006. The adoption of this statement had no effect on the Authority's financial statements.

**K.** ***Bond Issue Costs*** **–** Bonds issue costs include underwriting spreads, insurance, and various professional fees. The costs are deferred and amortized over the life of the respective bond issues using the interest method.

**L.** ***Original Issue Discount/Premium*** – Original issue discounts and premiums are netted against the bond payable account and amortized over the lives of respective bond issues using the interest method.

**M.** ***Compensated Absences*** **–** Substantially all employees receive compensation for vacations, holidays, illness, and certain other qualifying absences. Liabilities relating to these absences are recognized as incurred.

**N.** ***Capital Contributions*** **–** Grants from federal, state and local governments and private enterprises are received for payment of costs related to various property acquisitions and construction projects and for debt retirement. Grants are recorded when all applicable eligibility requirements are met.

**O.** ***Retirement Systems*** **–** The Authority currently funds pension costs, which are composed of normal cost and amortization of unfunded prior service costs.

**P.** ***Taxes*** **–** The Authority is exempt from payment of federal and state income, property, and certain other taxes.

**Q.** ***Use of Estimates*** **–** The preparation of financial statements in conformity with U.S generally accepted accounting principles requires management to make 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**R.** ***Risk Management*** **–** The Authority purchases commercial insurance coverage for claims arising out of bodily injury or property damage as well as property insurance on airport properties, which includes earthquake and flood coverage. There were no significant reductions in insurance coverage in the current year. Additionally, there were no significant settlements, which exceeded insurance coverages for each of the past three years. The Authority is a member of both the City of Memphis health insurance program and the self-insured fund for health and medical benefits. The City's

**NOTES TO FINANCIAL STATEMENTS (continued)**
***June 30, 2006 and 2005 (In Thousands)***

## 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Health Insurance-Internal Service Fund charges premiums which are used to pay claims and fund the accrual for "incurred but not reported" claims and administrative costs of its health and medical benefits program.

**S**. ***Net Assets*** – The Authority recognizes the difference between its assets and liabilities as net assets. Net assets categories include the following:

i. Invested in capital assets, net of related debt – comprised of the Authority's capital assets less any related outstanding debt used to acquire those assets.

ii. Restricted for debt service – comprised of the Authority's assets, mainly cash and investments, restricted by bond resolution to be used in paying debt service obligations.

iii. Restricted for capital acquisition – comprised of the Authority's assets restricted by contributors, bond resolutions and State and Federal regulations to be used in purchasing or construction of capital items or improvements.

iv. Unrestricted – the remaining balance of net assets.

**T.** ***Conduit Debt*** – The conduit debt obligations are special limited obligations of the Authority, payable solely from and secured by pledges of rentals to be received from lease agreements the Authority has secured with FedEx Corporation and Pinnacle Airlines. The bonds do not constitute a debt or pledge of the faith and credit or net revenues of the Authority, the City of Memphis, the County, or the State. As such, the debt is considered "conduit debt" to the Authority, and the related assets and liabilities are not included in the accompanying statements of net assets. Conduit debt transactions are more fully described in Note 7.

**U.** ***Reclassification*** – Certain 2005 balances have been reclassified to conform to the 2006 presentation.

## 2. DEPOSITS AND INVESTMENTS

**A.** ***Deposits –*** Cash deposits as of June 30, 2006 and 2005, were approximately $21,042 and $19,077 respectively. These deposits consisted of interest bearing and non-interest bearing demand accounts. Petty cash as of June 30, 2006 and 2005 was $16 and $17 respectively.

*Custodial credit risk* – In the case of deposits, this is the risk that in the event of bank failure, the Authority's deposits may not be returned. The Authority's policy is for the deposits to be

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

**2. DEPOSITS AND INVESTMENTS (CONTINUED)**

collateralized through the State of Tennessee collateral pool or for collateral to be pledged on such deposits held by the custodian. State statute requires cash deposits in excess of Federal Deposit Insurance Corporation insurance to be collateralized at 105%.

**B.** ***Investments*** **–** Investments consist of the following at June 30, 2006 and 2005:

| | 2006 | 2005 | WEIGHTED AVERAGE MATURITY (YEARS) AT JUNE 30, 2006 |
|---|---|---|---|
| At fair value: | | | |
| U.S. Government agencies | $ 175,380 | $ 185,958 | 0.88 |
| Deferred compensation – mutual funds | 449 | 374 | |
| At cost: | | | |
| Forward purchase agreement | 24,513 | 24,513 | 18.94 |
| | $ 200,342 | $ 210,845 | |

In addition to the above investments the Authority had cash equivalents, representing money market accounts and U.S. Government agencies of $1,033 and $28 at June 30, 2006 and 2005, respectively.

The investments made during the fiscal years 2006 and 2005, were limited to the classifications above.

In 2000, the Authority entered into a forward purchase agreement to invest $24,513 of bond reserve funds. Under the agreement, the trustee holds the investments until they are required for bond maturities or until the agreement is terminated. The Authority is paid a fixed return of 6.558%. If the agreement is terminated prior to the bond's maturity, the Authority or the Trustee may be required to pay a termination amount. This termination amount would be determined by prevailing interest rates at the time of termination. The Authority records this nonnegotiable investment contract at cost. This investment represents more than 5% of the Authority's portfolio at June 30, 2006. The issuer of this investment contract had a credit rating of Aa3 by Moody's at June 30, 2006.

*Interest rate risk* – In accordance with its investment policy, the Authority manages its exposure to declines in fair values by limiting the maturity of individual investments to no more than 5 years from the date of purchase unless the security is matched to a specific obligation or debt of the Authority.

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

**2. DEPOSITS AND INVESTMENTS (CONTINUED)**

*Credit risk* - Bond resolutions generally authorize the Authority to invest in direct obligations of or obligations guaranteed by the U.S. Government, obligations issued or guaranteed by specific agencies of the U.S. Government, secured certificates of deposit, secured repurchase agreements, and money market funds. The Authority may also invest in municipal bonds and investment agreements as long as the issuer is rated in one of the two highest rating categories by at least two nationally recognized rating agencies.

*Concentration of credit risk* – The Authority's investment policy provides for certain maximum limits in each eligible security type to reduce the risk of loss from an over concentration in a specific class of security. The policy also does not allow for an investment in any one issuer that is in excess of 5% percent of the Authority's total investments with the following exceptions:

| Investment Type | Maximum |
|---|---|
| U.S. Treasury Obligations | 100% |
| Each Federal Agency | 50% |
| Each Repurchase Agreement Counterparty | 25% |
| Bank Deposits or Savings Accounts | 80% |
| Investment Agreements | 50% |

*Custodial Credit Risk* – The Authority's investment policy provides that all securities purchased by the Authority or held as collateral on either deposits or investments shall be held in third-party safekeeping at a qualified financial institution.

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

### 2. DEPOSITS AND INVESTMENTS (CONTINUED)

**C.** ***Reconciliation of Deposits and Investments to the Balance Sheet*** – A reconciliation of cash and cash equivalent and investments as shown in the accompanying statements of net assets is as follows:

| | | 2006 | | 2005 |
|---|---|---|---|---|
| Unrestricted current assets: | | | | |
| Cash and cash equivalents | $ | 1,908 | $ | 9,590 |
| Short term investments | | 15,047 | | 7,448 |
| Unrestricted non-current assets: | | | | |
| Investments | | 1,724 | | |
| Restricted current assets: | | | | |
| Cash | | 20,182 | | 9,532 |
| Short-term investments | | 121,891 | | 136,293 |
| Restricted non-current assets: | | | | |
| Investments | | 61,680 | | 67,104 |
| Total | $ | 222,432 | $ | 229,967 |
| | | | | |
| Total deposits and petty cash | $ | 21,057 | $ | 19,094 |
| Total cash equivalents | | 1,033 | | 28 |
| Total investments | | 200,342 | | 210,845 |
| Total | $ | 222,432 | $ | 229,967 |

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

### 3. RESTRICTED ASSETS

Restricted assets consist of the following at June 30, 2006 and 2005:

| | 2006 | | | | | 2005 |
|---|---|---|---|---|---|---|
| | CASH | INVESTMENTS | ACCRUED INTEREST RECEIVABLE | OTHER RECEIVABLES | TOTAL | TOTAL |
| RESTRICTED BY BOND INDENTURES: | | | | | | |
| Debt service: | | | | | | |
| Special facilities bonds | | | | $ 26,012 | $ 26,012 | $ 23,513 |
| Airport revenue bonds | | $ 18,361 | | | 18,361 | 18,415 |
| General obligation bonds | $ 2,075 | 9,660 | $ 32 | | 11,767 | 11,947 |
| Total | 2,075 | 28,021 | 32 | 26,012 | 56,140 | 53,875 |
| Bond reserves: | | | | | | |
| Airport revenue bonds | 197 | 55,602 | 942 | | 56,741 | 56,721 |
| Total | 197 | 55,602 | 942 | | 56,741 | 56,721 |
| Construction and land acquisition and associated costs: | | | | | | |
| Airport expansion | 1,551 | 96,379 | 1,180 | 7,325 | 106,435 | 129,275 |
| Contractor retainage | 5,653 | | | | 5,653 | 4,097 |
| Total | 7,204 | 96,379 | 1,180 | 7,325 | 112,088 | 133,372 |
| RESTRICTED BY REGULATORY AGENCY: | | | | | | |
| Federal grants | | | | 962 | 962 | 369 |
| State grant | | | | 242 | 242 | 154 |
| Total | | | | 1,204 | 1,204 | 523 |
| RESTRICTED BY CONTRIBUTORS: | | | | | | |
| Airport improvements | 21 | 1,594 | 3 | | 1,618 | 1,620 |
| International park | 12 | 1,526 | 18 | | 1,556 | 1,500 |
| Customer facility charges | 530 | | | | 530 | 530 |
| Deferred compensation | | 449 | | | 449 | 374 |
| Tennessee Air National Guard Relocation | 10,143 | | | 392 | 10,535 | 2,374 |
| Total | 10,706 | 3,569 | 21 | 392 | 14,688 | 6,398 |
| TOTAL RESTRICTED ASSETS | $ 20,182 | $ 183,571 | $ 2,175 | $ 34,933 | $ 240,861 | $ 250,889 |

## NOTES TO FINANCIAL STATEMENTS (continued)
*June 30, 2006 and 2005 (In Thousands)*

### 3. RESTRICTED ASSETS (CONTINUED)

Revenues of the Authority are deposited to the revenue fund, which was created by the airport revenue bond resolution. Monies in the revenue fund are to be used and applied in the following order of priority:

First, there shall be applied each month the amount that the Authority determines to be required to pay costs of operation and maintenance;

Second, there shall be deposited each month into the Airport Improvement Bond Fund and the accounts therein the amounts by the resolution to be used for the purposes specified therein;

Third, so long as the Authority shall be required to make payments to the City or the County or other municipality for the payment by such city, county or other municipality of principal, interest and premiums on bonds, notes or other evidences of indebtedness issued by it for the Airport, there shall be set aside in the separate account of the Authority continued under the Basic Resolution that amount which, together with other monies credited to such account, if the same amount were set aside in such account in each month thereafter prior to the next date on which the Authority is required to make payments to the City or the County or other municipality, as the case may be, for the payment by the City, County or other municipality of principal of and interest and premium on the bonds, notes or other evidences of indebtedness issued by it for the Airport, the aggregate of the amounts so set aside in such separate account will on such next date be equal to the payment required to be made on such date by the Authority to the City or the County or such other municipality, as the case may be; and

Fourth, the Authority may use any monies remaining for any lawful purpose of the Authority.

The Authority covenants in bond resolutions that it will impose, prescribe, and collect rates, rentals, fees, and charges for the use of the airports and revise the same when necessary to assure that the Authority will be financially self-sufficient and that revenues so produced shall be sufficient to pay debt service when due; to pay all costs of operations and maintenance; to reimburse the City for its general obligation bonds; and to pay when due any other claims payable.

The construction and land acquisition accounts are to be used for construction projects and acquisition of land in connection with the Authority's noise compatibility and airport expansion programs. Withdrawals of money on credit in these accounts are made upon written requisition.

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

### 4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006, was as follows:

| | BALANCE JULY 1, 2005 | ADDITIONS AND RECLASS-IFICATIONS | LESS RETIREMENTS | BALANCE JUNE 30, 2006 |
|---|---|---|---|---|
| CAPITAL ASSETS NOT BEING DEPRECIATED: | | | | |
| Land | $ 160,855 | $ 1,396 | | $ 162,251 |
| Construction in progress | 59,295 | 48,317 | $ 70,734 | 36,878 |
| Total capital assets, not being depreciated | 220,150 | 49,713 | 70,734 | 199,129 |
| CAPITAL ASSETS BEING DEPRECIATED: | | | | |
| Avigation easements | 58,173 | | | 58,173 |
| Runways, taxiways, aprons and airfield lighting | 558,056 | 73,316 | | 631,372 |
| Buildings | 331,662 | 3,987 | | 335,649 |
| Facilities constructed for tenants | 27,077 | | | 27,077 |
| Roads, bridges and fences | 24,076 | 11,530 | | 35,606 |
| Equipment and utility systems | 70,181 | 3,870 | 2,434 | 71,617 |
| Total capital assets being depreciated | 1,069,225 | 92,703 | 2,434 | 1,159,494 |
| ACCUMULATED DEPRECIATION: | | | | |
| Avigation easements | 13,195 | 1,328 | | 14,523 |
| Runways, taxiways, aprons and airfield lighting | 178,876 | 23,226 | | 202,102 |
| Buildings | 152,895 | 13,233 | | 166,128 |
| Facilities constructed for tenants | 27,077 | | | 27,077 |
| Roads, bridges and fences | 16,067 | 1,204 | | 17,271 |
| Equipment and utility systems | 44,984 | 4,398 | 702 | 48,680 |
| Total accumulated depreciation | 433,094 | 43,389 | 702 | 475,781 |
| Total capital assets being depreciated, net | 636,131 | 49,314 | 1,732 | 683,713 |
| CAPITAL ASSETS, NET | $ 856,281 | $ 99,027 | $ 72,466 | $ 882,842 |

Total capitalized interest in fiscal year 2005 was $1,627. There was no interest capitalized in fiscal year 2006.

Substantially all capital assets are held by the Authority for the purpose of rental or related use.

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

### 5. LEASE AND USE OF AIRPORT FACILITIES

The Authority leases terminal space, buildings, and airfield space on both a fixed-fee and contingent rental (percent of revenue) basis. Contingent rentals generally have fixed specified minimum rent provisions. Contingent rentals were $55,974 and $54,732 for fiscal years 2006 and 2005, respectively. During fiscal year 2006, the Authority received a settlement of approximately $715 relating to prior years contingent rentals, which is included in current revenues.

Substantially all of the leases provide for periodic re-computation (based on a defined formula) of the rental amounts. Rates and fees charged by the Authority for the use of its facilities are required by terms of the individual leases to be sufficient to cover operating expenses, debt service, and general obligation debt, but not depreciation and amortization.

Other fees are received from public parking and miscellaneous other sources. Non-aviation revenue consists primarily of hotel and other rentals. Site and building rentals from these tenants are governed by the terms of various leases.

The Authority has acquired equipment or constructed facilities for lease to others under agreements accounted for as operating leases. The cost of these leased properties was financed by the airport revenue bonds issued by the Authority (Note 6). The lease agreements provide for rentals equal to or exceeding principal and interest payments due on the related bonds and, in addition, call for certain ground rentals.

Minimum future rentals for leases are as follows:

| YEAR | AMOUNT |
|---|---|
| 2007 | $ 34,537 |
| 2008 | 20,802 |
| 2009 | 21,314 |
| 2010 | 21,240 |
| 2011 | 20,960 |
| 2012-2016 | 103,859 |
| 2017-2021 | 28,120 |
| 2022-2026 | 20,828 |
| 2027-2030 | 3,253 |
| Total | $ 274,913 |

In addition to the above future rentals, the Authority will recognize $77,000 in rental revenues over a 50 year period commencing when FedEx Corporation occupies the existing Tennessee Air National Guard facility as discussed in Note 14.

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

## 6. LONG-TERM DEBT

Long-term debt information and activity for fiscal year 2006 was as follows:

| | ORIGINAL ISSUE AMOUNT | INTEREST RATES | BALANCE JULY 1, 2005 | ADDITIONS | DEDUCTIONS | BALANCE JUNE 30, 2006 | AMOUNTS DUE WITHIN ONE YEAR |
|---|---|---|---|---|---|---|---|
| Airport Revenue Bonds: | | | | | | | |
| Series 1993B | $ 30,630 | 5.0-5.65% | $ 4,335 | | | $ 4,335 | |
| Series 1997A | 43,805 | 5.25-6.25% | 26,090 | | $ 4,020 | 22,070 | $ 4,265 |
| Series 1999A | 67,800 | Variable | 56,125 | | 3,925 | 52,200 | 4,125 |
| Series 1999B | 67,600 | Variable | 56,125 | | 3,925 | 52,200 | 4,125 |
| Series 1999D | 238,400 | 4.5-6.125% | 237,900 | | 100 | 237,800 | 110 |
| Series 1999E | 6,730 | 4.5-5.625% | 4,435 | | 535 | 3,900 | 560 |
| Series 2001A | 121,860 | 4.0-5.5% | 110,825 | | 8,170 | 102,655 | 8,290 |
| Series 2001B | 42,380 | 5.125% | 42,380 | | | 42,380 | |
| Series 2002 | 23,150 | 3.25-5.5% | 18,760 | | 2,330 | 16,430 | 2,425 |
| Series 2003A | 21,030 | 4.0-5.25% | 19,640 | | 1,445 | 18,195 | 1,500 |
| Total | 663,385 | | 576,615 | | 24,450 | 552,165 | 25,400 |
| City of Memphis General Obligation Bonds: | | | | | | | |
| Series 1995 | 13,500 | Variable | 5,100 | | 1,600 | 3,500 | 1,700 |
| Series 1998 | 19,290 | 5.5-5.7% | 12,040 | | 1,450 | 10,590 | 1,535 |
| Total | 32,790 | | 17,140 | | 3,050 | 14,090 | 3,235 |
| Special Facilities Revenue Bonds: | | | | | | | |
| Series 2003 | 45,000 | 4.5% | 45,000 | | | 45,000 | |
| Notes Payable | 1,540 | Variable | 1,265 | | 267 | 998 | 998 |
| Less unamortized deferred amount on refunded bonds | | | (3,340) | | (645) | (2,695) | |
| Unamortized bond premiums | | | 3,852 | | 545 | 3,307 | |
| Total bonds and notes payable | | | 640,532 | | 27,667 | 612,865 | 29,633 |
| Other liabilities: | | | | | | | |
| Capital leases | | | 585 | | 285 | 300 | 300 |
| Compensated absences | | | 2,287 | $ 297 | 133 | 2,451 | 1,160 |
| Total other liabilities | | | 2,872 | 297 | 418 | 2,751 | 1,460 |
| Total long-term debt | | | $ 643,404 | $ 297 | $ 28,085 | $ 615,616 | $ 31,093 |

**NOTES TO FINANCIAL STATEMENTS (continued)**
***June 30, 2006 and 2005 (In Thousands)***

## 6. LONG-TERM DEBT (CONTINUED)

The unamortized deferred amount on refunded bonds at June 30, 2006, represents $2,558 deferred on the Airport Revenue Bonds and $137 deferred on the City of Memphis General Obligation Bonds.

***Special Facilities Revenue Bonds*** **–** Special Facilities Revenue Bonds – Series 1993 were issued to fund construction of an aircraft maintenance hangar, corporate hangar and apron area for FedEx Corporation.

In July 2003 the Authority issued $45,000 in Special Facilities Bonds, Refunding Series 2003. These bonds were used to refund the Special Facilities Revenue Bonds, Series 1993. The bonds are due July 1, 2014, and bear interest at 4.5% (payable semi-annually). The lessee of the related facilities paid the costs of issuance. No gain or loss resulted from this refunding. Additionally, no effect on the Authority's cash flows resulted from the refunding as rents charged the lessee pay the debt service on the bonds. The bonds are payable solely by rentals from the facilities. Rents collected by the trustee are sufficient to pay debt service and certain administrative and trustee costs. See Note 3 regarding the Special Facilities Bonds receivable which is restricted for repayment of the principal portion of the debt.

***Airport Revenue Bonds*** **–** The bonds were issued for airfield and terminal building improvements and expansion of Memphis International Airport parking capacity. The bond resolution contains a rate covenant which requires collection of rentals and charges for the use of the airports so that the Authority will be financially self-sufficient and the revenues produced will be sufficient to pay principal, interest, and premium, if any, when due. The Authority may issue additional airport revenue bonds, subject to historical and future revenue tests.

The 1999A and 1999B bonds bear a variable interest rate, which was 3.95% and 3.98% respectively at June 30, 2006. The interest rate is determined by the Periodic Auction Reset Securities rate when such securities are auctioned every seven days. These variable interest rate bonds were in effect swapped to a fixed interest rate debt on November 1, 1996. See Interest Rate Swap section of this footnote for details.

***City of Memphis General Obligation Bonds*** – The 1995 bonds were issued to refund previous general obligation debt used for land acquisition in connection with the Authority's noise compatibility program. The 1998 bonds were issued to refund previous general obligation debt used for acquisition of land for expansion. The bonds are direct obligations of the City who has pledged its full faith and credit and taxing power to the punctual payment of principal and interest; however, the Authority has entered into agreements with the City to pay debt service as it is due.

The 1995 bonds bear a variable interest rate, which was 4.25% at June 30, 2006. The rate is adjusted weekly and is determined by a remarketing agent to be the minimum rate of interest, on such determination date, which would be necessary to remarket the bonds in a secondary market.

**NOTES TO FINANCIAL STATEMENTS (continued)**
***June 30, 2006 and 2005 (In Thousands)***

## 6. LONG-TERM DEBT (CONTINUED)

***Notes Payable*** – On June 30, 2004, the Authority entered into a note payable of $930 to finance the purchase of eight shuttle buses for transporting employees from the Democrat Road employee parking lot to the terminal complex. The note is renewable on an annual basis and bears interest at a rate of LIBOR plus 1.75%. Payments will be generated through rates charged for employee parking.

On June 16, 2005, the Authority entered into a second note payable with an original amount of $500 to finance the purchase of five shuttle buses for transporting parkers from the outlying public parking lots to the terminal building. The note is renewable on an annual basis and bears interest at a rate of LIBOR plus 1.75%. Payments will be generated through rates charged for public parking.

***Line of Credit*** – The Authority has a line of credit of $10,000 with a bank. The amount available is reduced by the $998 outstanding on notes payable leaving $9,002 available at June 30, 2006.

***Maturities of Bond Debt and Interest Payable –*** Maturities, mandatory sinking fund redemptions, and interest payments of long-term debt are as follows:

| YEAR | SPECIAL FACILITIES REVENUE BONDS | AIRPORT REVENUE BONDS | CITY OF MEMPHIS GENERAL OBLIGATION BONDS | INTEREST PAYMENTS* |
|---|---|---|---|---|
| 2007 | - | $ 25,400 | $ 3,235 | $ 33,689 |
| 2008 | - | 25,005 | 3,420 | 32,246 |
| 2009 | - | 27,795 | 1,710 | 30,763 |
| 2010 | - | 28,665 | 1,805 | 29,099 |
| 2011 | | 28,925 | 1,905 | 27,431 |
| 2012-2016 | $ 45,000 | 111,830 | 2,015 | 112,117 |
| 2017-2021 | - | 145,885 | - | 72,508 |
| 2022-2026 | - | 158,660 | - | 24,841 |
| Total | $ 45,000 | $ 552,165 | $ 14,090 | $ 362,694 |

*Interest payments include net swap payments based on rates as of June 30, 2006, and assume that those rates remain the same for the term of the debt and swap.

The special facilities and airport revenue bonds are subject to optional redemption at a premium over no greater than a five-year period prior to maturity. Bond resolutions provide that airport revenues are to be used to satisfy debt service requirements of the airport revenue, general operation and maintenance costs of the airport, and City of Memphis general obligation bonds, respectively. The special facilities and airport revenue bonds are not an obligation of any other governmental unit.

## NOTES TO FINANCIAL STATEMENTS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

## 6. LONG-TERM DEBT (CONTINUED)

***Capital Leases*** – The Authority has entered into lease agreements for financing the acquisition of equipment. The leases qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments at the date of their inception, which totaled $1,779. The remaining capital lease obligation of $300, plus interest of $15, is scheduled to be paid in full in 2007.

### Interest Rate Swap

***Objective of the Interest Rate Swap*** – On November 1, 1996, the Authority entered into an interest rate swap agreement to reduce the impact of changes in interest rates on its 1996 variable interest rate bonds. This agreement was revised on September 30, 1999, upon issuance of the Series 1999A, 1999B, and 1999C variable rate bonds, which refunded the 1996 debt. On October 31, 2001, the agreement was revised to provide for additional notional amounts through March 2016. The intention of the swap was to effectively change the Authority's variable interest rate to a fixed rate of 4.94% on the Series 1999A and 1999B bonds and a fixed rate of 6.93% on the Series 1999C bonds. The agreement on the Series 1999C bonds was terminated when the bonds matured in March 2002.

***Terms*** – The Series 1999A and 1999B bonds and the related swap agreement mature on March 1, 2016, and the swap's notional amount of $194,300 matched the $194,300 variable rate bonds. Starting in fiscal year 2000, the notional value of the swap and the principal amount of the associated debt began to decline. At June 30, 2006, the notional amounts relating to the Series 1999A and 1999B bonds were $104,400, which is equal to the outstanding debt. Under the swap, the Authority pays the counterparty a fixed payment of 4.94% and receives a variable payment determined by the Periodic Reset Securities rate.

The counterparty will have the option to cause the floating interest rate index to be converted from the actual variable bond rate to the alternate index under various conditions under the terms of the contract. The alternate index is calculated as the Bond Market Association Municipal Swap Index plus .05%. The conditions necessary under this option include the following:

- The aggregate outstanding principal amount of the bonds is not at least equal to the then applicable notional amount of the swap.
- The auction or floating rate mode then in effect on the bonds is neither a daily nor weekly mode nor another mode which is mutually acceptable to both parties.
- The credit ratings on the underlying bonds are below or fall below AA- or A-1+ by Standard & Poor's or Aa3 or VMIG1 by Moody's.

**NOTES TO FINANCIAL STATEMENTS (continued)**
***June 30, 2006 and 2005 (In Thousands)***

## 6. LONG-TERM DEBT (CONTINUED)

- To the extent the Authority has published ratings, the Authority's senior, unsecured, unenhanced credit ratings are below or fall below BBB+ by Standard & Poor's or Baa1 by Moody's.
- A failed auction or liquidity facility put with respect to the bonds has occurred or is occurring.
- A market disruption in general, or with respect to trading of the bonds or obligations similar to bonds, has occurred or is occurring, for a period of at least 20 days, which, in the opinion of the counterparty, in consultation with the Authority, has materially impacted the trading performance of the bonds.
- A fixed rate conversion with respect to the bonds, in whole or in part, has occurred.
- The counterparty is not the broker-dealer or the remarketing agent of the bonds.
- The interest on the bonds is subject to either United States or Tennessee income tax, or legislation is introduced which would make the bonds subject to either United States or Tennessee income tax, and such action in the reasonable opinion of the counterparty in consultation with the Authority has materially impacted the trading performance of the bonds.
- Legislation is passed by either House of the Congress which would alter the calculation or fiscal effect of the alternative minimum tax or alter the tax treatment of bonds subject to the alternative minimum tax, and such action in the reasonable opinion of the counterparty, with consultation with the Authority, has materially impacted the trading performance of the bonds.
- A default by the Authority under the swap agreement or on the bonds has occurred and is continuing after any applicable grace period has elapsed.

***Fair Value*** – Because interest rates have declined since execution of the swap, the swap had a negative fair value of $4,111 as of June 30, 2006. The fair value is based on a good faith estimate of the mid-market value.

***Credit Risk*** – As of June 30, 2006, the Authority was not exposed to credit risk because the swap had a negative fair value. Should interest rates change and the fair value of the swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value.

***Termination Risk*** – The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. For any annual period commencing September 1, 2002, and on

## NOTES TO FINANCIAL STATEMENTS (continued)
*June 30, 2006 and 2005 (In Thousands)*

### 6. LONG-TERM DEBT (CONTINUED)

each September 1 thereafter until and including the termination date, the Authority may, upon written notice to the counterparty, terminate and cash settle this swap effective on the commencement date of such annual period. If the swap is terminated, the variable rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

**Swap Payments and Associated Debt**

Using rates as of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same for their term, were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

| | VARIABLE RATE BONDS | | INTEREST RATE | |
|---|---|---|---|---|
| YEAR | PRINCIPAL | INTEREST | SWAP | TOTAL |
| 2007 | $ 8,250 | $ 4,058 | $ 998 | $ 13,306 |
| 2008 | 8,600 | 3,727 | 917 | 13,244 |
| 2009 | 9,100 | 3,381 | 831 | 13,312 |
| 2010 | 9,500 | 3,016 | 742 | 13,258 |
| 2011 | 10,050 | 2,634 | 648 | 13,332 |
| 2012 | 10,550 | 2,231 | 548 | 13,329 |
| 2013 | 11,200 | 1,806 | 444 | 13,450 |
| 2014 | 11,700 | 1,357 | 334 | 13,391 |
| 2015 | 12,400 | 886 | 218 | 13,504 |
| 2016 | 13,050 | 388 | 95 | 13,533 |
| Total | $ 104,400 | $ 23,484 | $ 5,775 | $ 133,659 |

### 7. CONDUIT DEBT

The conduit debt obligations are special limited obligations of the Authority, payable solely from and secured by pledges of rentals to be received from lease agreements the Authority has secured with FedEx Corporation and Pinnacle Airlines. The bonds do not constitute a debt or pledge of the faith and credit or net revenues of the Authority, the City or Memphis, the County, or the State.

**NOTES TO FINANCIAL STATEMENTS (continued)**
***June 30, 2006 and 2005 (In Thousands)***

## 7. CONDUIT DEBT (CONTINUED)

The Authority has facilitated the issuance of the following series of conduit debt:

| | AMOUNT OUTSTANDING AS OF JUNE 30 | |
|---|---|---|
| | **2006** | **2005** |
| Special Facilities Revenue Bonds – Refunding Series 1997. Issued in the amount of $3,160 bearing interest at 6.125%, due in full on December 1, 2016. Proceeds used to refund bonds previously issued to finance the cost of the acquisition and construction of certain aircraft maintenance and repair facilities for Pinnacle Airlines, Inc. (formerly Express Airlines I, Inc.) and are payable solely from and are secured by a pledge of rental payments to be received from lease agreements and an Unconditional Guaranty. | $ 2,360 | $ 2,460 |
| Special Facilities Revenue Bonds – Refunding Series 1997. Issued in the amount of $20,105 bearing interest at 5.35%, due in full on September 1, 2012. Proceeds used to refund bonds previously issued to finance the cost of the acquisition and construction of certain aircraft cargo handling and sorting facilities for FedEx Corporation and are payable solely from and are secured by a pledge of rental payments to be received from lease agreements and an Unconditional Guaranty. | 20,105 | 20,105 |
| Special Facilities Revenue Bonds – Refunding Series 2001. Issued in the amount of $87,875 bearing interest at 5.00%, due in full on September 1, 2009. Proceeds used to refund bonds previously issued to finance the cost of the acquisition and construction of certain aircraft cargo handling and sorting facilities for FedEx Corporation and are payable solely from and are secured by a pledge of rental payments to be received from lease agreements and an Unconditional Guaranty. | 87,875 | 87,875 |
| Special Facilities Revenue Bonds – Refunding Series 2002. Issued in the amount of $95,770 bearing interest at 5.05%, due in full on September 1, 2012. Proceeds used to refund bonds previously issued to finance the cost of the acquisition and construction of certain aircraft cargo handling and sorting facilities for FedEx Corporation and are payable solely from and are secured by a pledge of rental payments to be received from lease agreements and an Unconditional Guaranty. | 95,770 | 95,770 |
| Total | $ 206,110 | $ 206,210 |

These bonds are special limited obligations of the Authority, payable as described above. The bonds do not constitute a debt or obligation of the Authority and accordingly have not been reported in the accompanying financial statements.

June 30, 2006 and 2005 (In Thousands)

## 8. CAPITAL CONTRIBUTIONS

The Authority has received capital contributions by means of Federal and State grants, as follows:

| | 2006 | 2005 |
|---|---|---|
| Federal | $ 24,205 | $ 14,376 |
| State | 1,837 | 9,961 |
| Total capital contributions | $ 26,042 | $ 24,337 |

## 9. DEFINED BENEFIT RETIREMENT PLANS

***General*** **–** The Authority participates in the City of Memphis Retirement System ("City Plan"). Although the Authority is a separate entity, plan benefits have not been allocated to employees of the Authority. Consequently, disclosures will follow guidelines for cost-sharing multiple employer public employee retirement systems. The Retirement System is established under Chapter 25, Code of Ordinances, City of Memphis, Tennessee, and is administered by a Board of Administration under the direction of the Mayor. The Retirement System is included in the City's general purpose financial statements as a pension trust fund. That report may be obtained by writing to the City of Memphis, Comptroller's Office, 125 N. Main Street, Memphis, TN 38103.

***Plan Description*** **–** Substantially all full-time salaried employees are required to participate in one of two contributory defined benefit pension plans (the "Plans"). Plan A is for salaried employees hired before July 1, 1978, and Plan B is for salaried employees hired thereafter. Hourly employees are eligible for coverage under a supplemental retirement plan based on their wages under the Federal Insurance Contribution Act (Social Security). The Authority's payroll for employees covered by the plans was $16,475 and $16,262 for fiscal years 2006 and 2005, respectively. Total payroll was $16,597 and $16,441 for the same two periods.

The Plans provide retirement benefits as well as death and disability benefits. Retirement benefits vest after ten years of service. General employees under Plan A may retire after completion of twenty-five years of service or, if earlier, after age sixty and completion of ten years of service. Under Plan B, general employees may retire after meeting any of the following schedules:

1. After age sixty and the completion of ten years of service
2. After age sixty-five and the completion of five years of service
3. After twenty-five years of service

**NOTES TO FINANCIAL STATEMENTS (continued)**
***June 30, 2006 and 2005 (In Thousands)***

## 9. DEFINED BENEFIT RETIREMENT PLANS (CONTINUED)

***Funding Policy* –** Plan members are required to contribute 5% under Plan A and 8% under Plan B of their annual covered salary and the Authority is required to contribute at an actuarially determined rate, which was 5% at June 30, 2006. The contribution requirements of Plan members and the Authority are established and may be amended by the Board of Administration. The Authority's contributions to the Plan for fiscal years 2006, 2005, and 2004 were $755, $720, and $654, respectively, equal to the required contributions for each year.

## 10. DEFINED CONTRIBUTION PLAN

On July 1, 1999, the Authority established the Memphis-Shelby County Airport Authority Supplemental Defined Contribution Plan that was designed to meet the requirements of Code Section 401(a). All participants in the Supplemental Defined Contribution Plan are also participants in the Memphis Retirement System. The purpose of the supplemental plan is to provide supplemental retirement benefits to participants in addition to the benefits provided by the City Plan. The Authority makes contributions on a discretionary basis. The amount of contributions expensed for the fiscal years 2006 and 2005 was $772 and $731, respectively. Since the plan assets are held in trust for the benefit of the plan members, the related assets of the plan are not included in the accompanying statements of net assets. At June 30, 2006 and 2005, the fair value of the plan assets was $6,729 and $5,346 respectively.

## 11. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Authority employees, permits the deferral of a portion of salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The plan has been amended to meet the recently enacted requirements of Internal Revenue Code Section 457. The amended plan provides that assets or income of the plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the plan. Since the assets of the amended plan are held in custodial and annuity accounts for the exclusive benefit of plan participants, the related assets of the plan are not included in the accompanying statements of net assets. At June 30, 2006 and 2005, the fair value of the plan assets was $4,483 and $3,919 respectively.

## NOTES TO FINANCIAL STATEMENTS (continued)
*June 30, 2006 and 2005 (In Thousands)*

### 12. POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS

In addition to the pension benefits described in Notes 9 and 10, the Authority provides post-retirement health care benefits to all employees who retire from the Authority under the provisions of the City of Memphis Retirement System. The Board in conjunction with the City has established benefit provisions and contribution obligations. Currently, 87 employees are eligible for post-retirement benefits. The Authority provides 80% of the cost of certain health care and life insurance coverage to retirees. Expenses for post-retirement health care benefits are recognized when premiums are incurred. Expenses for the fiscal years 2006 and 2005, were $377 and $397, respectively.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions,* issued June 2004, will be effective for the Authority beginning with its year ending June 30, 2008. This statement establishes standards for the measurement, recognition, and display of other post-employment benefits expenses and related assets or liabilities, note disclosures, and if applicable, required supplementary information in the financial reports. Management of the Authority has not yet determined the effect this statement will have on the Authority's financial statements.

### 13. RELATED PARTIES AND MAJOR CUSTOMERS

The City provided fire protection and other services to the Authority at a cost of $3,049 and $2,930 for fiscal years 2006 and 2005, respectively.

The Authority receives a large portion of its operating revenues from two airlines, FedEx Corporation and Northwest Airlines Corporation ("Northwest"). Rentals, landing fees, and other revenues from these two airlines were approximately 58% and 62% of operating revenues for the fiscal years 2006 and 2005, respectively. On September 14, 2005, Northwest filed for Chapter 11 bankruptcy. At the date of the bankruptcy filing, Northwest owed the Authority $2,864, which has been written off as a bad debt. Management will continue to monitor all post-bankruptcy petition balances due from Northwest. The Authority's future revenues from Northwest could be negatively impacted by the uncertain factors relating to Northwest's continued business operations and such effect could be significant.

### 14. COMMITMENTS AND CONTINGENCIES

During fiscal year 2005, the Authority entered into a series of agreements to facilitate the exchange of land currently leased by the Tennessee Air National Guard ("TnANG") and to develop the southeast corner of the Airport for TnANG's relocation. The estimated $225,159 cost of the TnANG project is being funded by $148,159 from TnANG and $77,000 in future rentals from FedEx Corporation, which will occupy TnANG's existing lease area once TnANG is relocated to their new facility. Of the $77,000 in future rentals, $16,974 has been received in advance and is recorded as deferred lease revenue at June 30, 2006.

**NOTES TO FINANCIAL STATEMENTS (continued)**
***June 30, 2006 and 2005 (In Thousands)***

## 14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of June 30, 2006, a total of $33,909 has been expended on the TnANG project, and the Authority has open construction commitments of $130,682 related to this project. Funds provided by TnANG to construct their own facilities are not recorded in the Authority's financial statements.

The Authority has other construction projects estimated at $149,838, of which $89,110 has been expended through June 30, 2006. Of the remaining $60,728 expected to be spent, the outstanding commitments were $23,297 at June 30, 2006, related primarily to reconstruction and extension of existing taxiways, parking garage repairs, and terminal improvements. The remaining commitments relate to projects to be funded from Airport Expansion funds included in restricted assets (Note 3) and federal grants.

In the normal course of operations, the Authority is subject to claims and litigation. Management is of the opinion that, based on the information presently available, no matters will have a material adverse effect on the financial position or results of operations of the Authority.

## SUPPLEMENTAL SCHEDULE OF STATEMENT OF NET ASSETS INFORMATION BY AIRPORT
*June 30, 2006, with Comparative Totals for 2005 (In Thousands)*

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| | Memphis International Airport | Charles W. Baker Airport | General DeWitt Spain Airport | Total | Total |
| **ASSETS** | | | | | |
| CURRENT ASSETS | | | | | |
| UNRESTRICTED ASSETS | | | | | |
| Cash and cash equivalents | $ 1,889 | $ 2 | $ 17 | $ 1,908 | $ 9,590 |
| Accounts receivable | 7,680 | | 3 | 7,683 | 8,596 |
| Short-term investments | 15,047 | | | 15,047 | 7,448 |
| Accrued interest receivable | 359 | | | 359 | 158 |
| Materials and supplies inventory | 1,496 | 35 | 29 | 1,560 | 1,523 |
| Prepaid expenses | 2,905 | 13 | 5 | 2,923 | 1,071 |
| Grants receivable | | 5 | 5 | 10 | |
| Total current unrestricted assets | 29,376 | 55 | 59 | 29,490 | 28,386 |
| RESTRICTED ASSETS | | | | | |
| Cash | 20,182 | | | 20,182 | 9,532 |
| Short-term investments | 121,891 | | | 121,891 | 136,293 |
| Account receivable | 392 | | | 392 | 407 |
| Accrued interest receivable | 2,175 | | | 2,175 | 1,882 |
| Capital contributions receivable | 8,168 | 135 | 226 | 8,529 | 12,158 |
| Total current restricted assets | 152,808 | 135 | 226 | 153,169 | 160,272 |
| TOTAL CURRENT ASSETS | 182,184 | 190 | 285 | 182,659 | 188,658 |
| NON-CURRENT ASSETS | | | | | |
| UNRESTRICTED ASSETS | | | | | |
| Investments | 1,724 | | | 1,724 | |
| RESTRICTED ASSETS | | | | | |
| Investments | 61,680 | | | 61,680 | 67,104 |
| Special facilities rent receivable | 26,012 | | | 26,012 | 23,513 |
| Total non-current restricted assets | 87,692 | | | 87,692 | 90,617 |
| CAPITAL ASSETS | | | | | |
| Land and improvements | 160,571 | 479 | 1,201 | 162,251 | 160,855 |
| Depreciable capital assets (less accumulated depreciation of $475,781 and $433,094) | 680,527 | 1,739 | 1,447 | 683,713 | 636,131 |
| Construction in progress | 36,868 | 10 | | 36,878 | 59,295 |
| Total capital assets, net | 877,966 | 2,228 | 2,648 | 882,842 | 856,281 |
| BOND ISSUE COSTS (less accumulated amortization of $6,256 and $5,381) | 7,493 | | | 7,493 | 8,368 |
| TOTAL NON-CURRENT ASSETS | 974,875 | 2,228 | 2,648 | 979,751 | 955,266 |
| **TOTAL ASSETS** | $ 1,157,059 | $ 2,418 | $ 2,933 | $ 1,162,410 | $ 1,143,924 |

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| | Memphis International Airport | Charles W. Baker Airport | General DeWitt Spain Airport | Total | Total |
| **LIABILITIES** | | | | | |
| CURRENT LIABILITIES | | | | | |
| Payable from unrestricted assets: | | | | | |
| Accounts payable | $ 2,692 | $ 6 | $ 12 | $ 2,710 | $ 1,905 |
| Accrued expenses | 1,109 | | | 1,109 | 963 |
| Due to (from) other airports | (4,891) | 2,153 | 2,738 | | |
| Current portion - compensated absenses | 1,146 | 7 | 7 | 1,160 | 1,035 |
| Total payable from unrestricted assets | 56 | 2,166 | 2,757 | 4,979 | 3,903 |
| Payable from restricted assets: | | | | | |
| Construction contracts payable | 16,768 | | | 16,768 | 11,747 |
| Funds held for others | 7,350 | | | 7,350 | 693 |
| Accrued interest payable | 9,789 | | | 9,789 | 10,072 |
| Current maturities of long-term debt | 29,933 | | | 29,933 | 29,050 |
| Total payable from restricted assets | 63,840 | | | 63,840 | 51,562 |
| TOTAL CURRENT LIABILITIES | 63,896 | 2,166 | 2,757 | 68,819 | 55,465 |
| NON-CURRENT LIABILITIES | | | | | |
| Capital leases | | | | | 300 |
| Deferred lease revenue | 16,974 | | | 16,974 | 2,509 |
| Compensated absences | 1,291 | | | 1,291 | 1,252 |
| Bonds and notes payable | 583,232 | | | 583,232 | 611,767 |
| TOTAL NON-CURRENT LIABILITIES | 601,497 | | | 601,497 | 615,828 |
| **TOTAL LIABILITIES** | $ 665,393 | $ 2,166 | $ 2,757 | $ 670,316 | $ 671,293 |
| **NET ASSETS** | | | | | |
| Invested in capital assets, net of related debt | $ 347,020 | $ 2,228 | $ 2,648 | $ 351,896 | $ 333,199 |
| Restricted for: | | | | | |
| Debt service | 102,440 | | | 102,440 | 100,086 |
| Capital acquisition | 12,453 | 135 | 226 | 12,814 | 16,115 |
| Unrestricted | 29,753 | (2,111) | (2,698) | 24,944 | 23,231 |
| **TOTAL NET ASSETS** | $ 491,666 | $ 252 | $ 176 | $ 492,094 | $ 472,631 |

## SUPPLEMENTAL SCHEDULE OF STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION BY AIRPORT

### *Year ended June 30, 2006, with Comparative Totals for 2005 (In Thousands)*

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| | Memphis International Airport | Charles W. Baker Airport | General DeWitt Spain Airport | Total | Total |
| **OPERATING REVENUES** | | | | | |
| Terminal building | $ 29,287 | | | $ 29,287 | $ 29,659 |
| Airfield | 47,183 | $ 362 | $ 468 | 48,013 | 48,769 |
| Ground transportation | 21,850 | | | 21,850 | 18,972 |
| Other aviation areas | 4,660 | 98 | 66 | 4,824 | 4,562 |
| Non-aviation areas | 7,036 | 5 | | 7,041 | 6,431 |
| Total operating revenues | 110,016 | 465 | 534 | 111,015 | 108,393 |
| **OPERATING EXPENSES** | | | | | |
| Terminal building | 12,538 | | | 12,538 | 12,158 |
| Airfield | 7,558 | 296 | 411 | 8,265 | 7,149 |
| Ground transportation | 4,045 | | | 4,045 | 4,516 |
| General administration | 15,263 | 145 | 143 | 15,551 | 11,967 |
| Police | 4,432 | | | 4,432 | 4,497 |
| Field shop | 1,478 | | | 1,478 | 1,436 |
| Other aviation areas | 69 | 3 | 4 | 76 | 62 |
| Non-aviation areas | 410 | | | 410 | 217 |
| Total operating expenses before depreciation and amortization | 45,793 | 444 | 558 | 46,795 | 42,002 |
| **DEPRECIATION AND AMORTIZATION** | 43,907 | 162 | 195 | 44,264 | 44,463 |
| **OPERATING INCOME (LOSS)** | 20,316 | (141) | (219) | 19,956 | 21,928 |
| **NON-OPERATING REVENUE (EXPENSE)** | | | | | |
| Interest and investment income | 8,149 | | | 8,149 | 5,830 |
| Interest expense | (34,847) | | | (34,847) | (34,118) |
| Operating grants | 153 | 5 | 5 | 163 | 118 |
| Total non-operating revenue (expense) | (26,545) | 5 | 5 | (26,535) | (28,170) |
| **LOSS BEFORE CAPITAL CONTRIBUTIONS** | (6,229) | (136) | (214) | (6,579) | (6,242) |
| **CAPITAL CONTRIBUTIONS** | 25,945 | 19 | 78 | 26,042 | 24,337 |
| **CHANGE IN NET ASSETS** | 19,716 | (117) | (136) | 19,463 | 18,095 |
| **TOTAL NET ASSETS, BEGINNING OF YEAR** | 471,950 | 369 | 312 | 472,631 | 454,536 |
| **TOTAL NET ASSETS, END OF YEAR** | $ 491,666 | $ 252 | $ 176 | $ 492,094 | $ 472,631 |

## SUPPLEMENTAL SCHEDULE OF STATEMENT OF CASH FLOWS INFORMATION BY AIRPORT
### *Year ended June 30, 2006, with Comparative Totals for 2005 (In Thousands)*

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| | Memphis International Airport | Charles W. Baker Airport | General DeWitt Spain Airport | Total | Total |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Cash received from customers | $ 108,804 | $ 465 | $ 532 | $ 109,801 | $ 104,671 |
| Cash paid to suppliers for goods and services | (26,725) | (370) | (423) | (27,518) | (23,574) |
| Cash paid to employees for services | (20,275) | (103) | (107) | (20,485) | (18,884) |
| Net cash provided by (used in) operating activities | 61,804 | (8) | 2 | 61,798 | 62,213 |
| **CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES** | | | | | |
| Operating grants received | 153 | | | 153 | 118 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | | |
| Proceeds from the sale of capital assets | 62 | | | 62 | 544 |
| Acquisition and construction of capital assets | (64,929) | | | (64,929) | (55,563) |
| Reimbursements from other governments and entities | 21,137 | | | 21,137 | 6,200 |
| Proceeds from issuance of debt and notes payable | | | | | 500 |
| Principal paid on long-term debt, notes payable and capital leases | (28,052) | | | (28,052) | (26,748) |
| Interest paid on long-term debt | (35,030) | | | (35,030) | (36,345) |
| Capital contributions received | 29,654 | 8 | 9 | 29,671 | 24,166 |
| Net cash (used in) provided by capital and related financing activities | (77,158) | 8 | 9 | (77,141) | (87,246) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Purchase of investment securities | (220,570) | | | (220,570) | (447,525) |
| Proceeds from sales and maturities of investment securities | 229,984 | | | 229,984 | 469,941 |
| Interest and dividends on investments | 8,744 | | | 8,744 | 6,741 |
| Net cash provided by (used in) investing activities | 18,158 | | | 18,158 | 29,157 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 2,957 | | 11 | 2,968 | 4,242 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 19,114 | 2 | 6 | 19,122 | 14,880 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | $ 22,071 | $ 2 | $ 17 | $ 22,090 | $ 19,122 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF** | | | | | |
| Unrestricted cash and cash equivalents | $ 1,889 | $ 2 | $ 17 | $ 1,908 | $ 9,590 |
| Restricted cash | 20,182 | | | 20,182 | 9,532 |
| | $ 22,071 | $ 2 | $ 17 | $ 22,090 | $ 19,122 |

## SUPPLEMENTAL SCHEDULE OF STATEMENT OF CASH FLOWS INFORMATION BY AIRPORT (continued)

### *Year ended June 30, 2006, with Comparative Totals for 2005 (In Thousands)*

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| | Memphis International Airport | Charles W. Baker Airport | General DeWitt Spain Airport | Total | Total |
| **RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES** | | | | | |
| Operating income (loss) | $ 20,316 | $ (141) | $ (219) | $ 19,956 | $ 21,928 |
| Adjustments to reconcile operating income (loss) | | | | | |
| to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 43,907 | 162 | 195 | 44,264 | 44,463 |
| Gain on the sale of property and equipment | (62) | | | (62) | |
| Provision for uncollectible accounts receivable | 3,216 | | | 3,216 | 13 |
| (Increase) decrease in assets: | | | | | |
| Receivables | (4,800) | | (2) | (4,802) | (3,395) |
| Materials and supplies inventory | (21) | (13) | (3) | (37) | (106) |
| Prepaid expenses | (1,850) | (4) | 2 | (1,852) | 59 |
| Increase (decrease) in liabilities: | | | | | |
| Accounts payable | 800 | | 5 | 805 | (805) |
| Accrued expenses | 310 | | | 310 | 56 |
| Transfer between airports for operating activities | (12) | (12) | 24 | | |
| Net cash provided by (used in) operating activities | $ 61,804 | $ (8) | $ 2 | $ 61,798 | $ 62,213 |

## SUPPLEMENTAL SCHEDULE OF OPERATING REVENUES BY SOURCE BY AIRPORT

*Year ended June 30, 2006, with Comparative Totals for 2005 (In Thousands)*

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| | Memphis International Airport | Charles W. Baker Airport | General DeWitt Spain Airport | Total | Total |
| **TERMINAL BUILDING** | | | | | |
| Space rental - airlines | $ 16,620 | | | $ 16,620 | $ 18,825 |
| Concessionaires - food and beverages | 3,196 | | | 3,196 | 2,756 |
| Concessionaires - other | 2,270 | | | 2,270 | 2,256 |
| Shared tenant - telephone system | 487 | | | 487 | 495 |
| Other commissions, fees, etc. | 405 | | | 405 | 315 |
| Debt service rental | 6,309 | | | 6,309 | 5,012 |
| Total | 29,287 | | | 29,287 | 29,659 |
| **AIRFIELD** | | | | | |
| Landing fees - signatory | 36,042 | | | 36,042 | 37,290 |
| Landing fees - non-signatory | 5,449 | | | 5,449 | 5,326 |
| Apron fees | 613 | $ 2 | $ 8 | 623 | 547 |
| Fuel flow fees - fixed base operations | 260 | | | 260 | 277 |
| Ground rentals - fixed base operations | 413 | 1 | | 414 | 257 |
| Ground rentals - airlines | 4,377 | | | 4,377 | 4,455 |
| Other | 29 | 359 | 460 | 848 | 617 |
| Total | 47,183 | 362 | 468 | 48,013 | 48,769 |
| **GROUND TRANSPORTATION** | | | | | |
| Public parking | 12,189 | | | 12,189 | 11,634 |
| Employee parking | 1,777 | | | 1,777 | 1,860 |
| Rental car agencies and other | 7,884 | | | 7,884 | 5,478 |
| Total | 21,850 | | | 21,850 | 18,972 |
| **OTHER AVIATION AREAS** | | | | | |
| Building rentals - fixed base operations | 294 | | 2 | 296 | 100 |
| Building rentals - airlines | 300 | | | 300 | 300 |
| Building rentals - others | 57 | 82 | 54 | 193 | 150 |
| Cargo building rentals - airlines | 1,399 | | | 1,399 | 1,799 |
| Cargo building rentals - others | 694 | | | 694 | 320 |
| Fuel farm - airlines | 18 | | | 18 | 18 |
| Fuel farm - others | 73 | | | 73 | 66 |
| Ground rentals - airlines | 1,498 | | | 1,498 | 1,458 |
| Ground rentals - others | 327 | 16 | 10 | 353 | 351 |
| Total | 4,660 | 98 | 66 | 4,824 | 4,562 |
| **NON-AVIATION AREAS** | | | | | |
| Rental - commercial sites | 174 | | | 174 | 74 |
| Rental - hotel | 205 | | | 205 | 229 |
| Special facilities and other restricted lease income | 6,116 | | | 6,116 | 6,116 |
| Other | 541 | 5 | | 546 | 12 |
| Total | 7,036 | 5 | | 7,041 | 6,431 |
| **TOTAL OPERATING REVENUES** | $ 110,016 | $ 465 | $ 534 | $ 111,015 | $ 108,393 |

## SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES BY SOURCE BY AIRPORT
*Year ended June 30, 2006, with Comparative Totals for 2005 (In Thousands)*

| | 2006 | | | | 2005 |
|---|---|---|---|---|---|
| | Memphis International Airport | Charles W. Baker Airport | General DeWitt Spain Airport | Total | Total |
| **TERMINAL BUILDING** | | | | | |
| Terminal shop maintenance and operations | $ 6,117 | | | $ 6,117 | $ 6,116 |
| Steam and refrigeration | 314 | | | 314 | 222 |
| Salaries and employee benefit | 5,741 | | | 5,741 | 5,406 |
| Shared tenant - telephone systems | 306 | | | 306 | 350 |
| Customer service operations | 60 | | | 60 | 64 |
| Total | 12,538 | | | 12,538 | 12,158 |
| **AIRFIELD** | | | | | |
| Airfield maintenance and operations | 5,486 | $ 296 | $ 411 | 6,193 | 5,333 |
| Salaries and employee benefits | 2,072 | | | 2,072 | 1,816 |
| Total | 7,558 | 296 | 411 | 8,265 | 7,149 |
| **GROUND TRANSPORTATION** | | | | | |
| Public parking - operations | 2,132 | | | 2,132 | 2,601 |
| Employee parking - operations | 1,504 | | | 1,504 | 1,511 |
| Taxicab operations | 409 | | | 409 | 403 |
| Rental car operations | | | | | 1 |
| Total | 4,045 | | | 4,045 | 4,516 |
| **GENERAL ADMINISTRATION** | | | | | |
| General - non-departmental | 1,697 | 52 | 52 | 1,801 | 1,925 |
| General - departmental | 6,371 | | | 6,371 | 2,666 |
| Telephone | 129 | 3 | | 132 | 108 |
| Salaries and employee benefits | 7,066 | 90 | 91 | 7,247 | 7,268 |
| Total | 15,263 | 145 | 143 | 15,551 | 11,967 |
| **POLICE** | | | | | |
| Airport police operations | 588 | | | 588 | 726 |
| Salaries and employee benefits | 3,731 | | | 3,731 | 3,654 |
| Operations coordinators | 113 | | | 113 | 117 |
| Total | 4,432 | | | 4,432 | 4,497 |
| **FIELD SHOP** | | | | | |
| Field and paint shop maintenance and operations | 869 | | | 869 | 897 |
| Salaries and employee benefits | 609 | | | 609 | 539 |
| Total | 1,478 | | | 1,478 | 1,436 |
| **OTHER AVIATION AREAS** | | | | | |
| Cargo building complexes | 69 | | | 69 | 58 |
| Other aviation areas | | 3 | 4 | 7 | 4 |
| Total | 69 | 3 | 4 | 76 | 62 |
| **NON-AVIATION AREAS** | 410 | | | 410 | 217 |
| Total Operating Expenses Before Depreciation and Amortization | 45,793 | 444 | 558 | 46,795 | 42,002 |
| **DEPRECIATION AND AMORTIZATION** | 43,907 | 162 | 195 | 44,264 | 44,463 |
| **TOTAL OPERATING EXPENSES** | $ 89,700 | $ 606 | $ 753 | $ 91,059 | $ 86,465 |

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE REQUIREMENTS - CASH BASIS

*Year ended June 30, 2006 (In Thousands)*

| | Airport Revenue Bonds | | | | |
|---|---|---|---|---|---|
| **Fiscal Year** | **Series 1993B** | **Series 1997A** | **Series 1999A** | **Series 1999B** | **Series 1999D** |
| 2007 | $ 282 | $ 5,622 | $ 6,874 | $ 6,874 | $ 14,525 |
| 2008 | 2,382 | 5,616 | 6,835 | 6,835 | 14,409 |
| 2009 | 2,380 | 5,621 | 6,861 | 6,861 | 14,409 |
| 2010 | | 5,616 | 6,824 | 6,824 | 14,409 |
| 2011 | | 3,629 | 6,852 | 6,852 | 14,409 |
| 2012 | | | 6,840 | 6,840 | 14,409 |
| 2013 | | | 6,885 | 6,885 | 15,560 |
| 2014 | | | 6,837 | 6,837 | 16,653 |
| 2015 | | | 6,876 | 6,876 | 17,159 |
| 2016 | | | 6,872 | 6,872 | 17,179 |
| 2017 | | | | | 33,598 |
| 2018 | | | | | 33,597 |
| 2019 | | | | | 33,599 |
| 2020 | | | | | 33,595 |
| 2021 | | | | | 33,596 |
| 2022 | | | | | 33,596 |
| 2023 | | | | | 33,597 |
| 2024 | | | | | 33,596 |
| 2025 | | | | | 33,599 |
| 2026 | | | | | |
| Total | 5,044 | 26,104 | 68,556 | 68,556 | 455,494 |
| Less interest | 709 | 4,034 | 16,356 | 16,356 | 217,694 |
| Principal payments | $ 4,335 | $ 22,070 | $ 52,200 | $ 52,200 | $ 237,800 |

| Series 1999E | Series 2001A | Series 2001B | Series 2002 | Series 2003A | Series Total |
|---|---|---|---|---|---|
| $ 769 | $ 13,789 | $ 2,172 | $ 3,137 | $ 2,343 | $ 56,387 |
| 775 | 12,315 | 2,172 | 1,043 | 2,342 | 54,724 |
| 775 | 13,714 | 2,172 | 1,039 | 2,335 | 56,167 |
| 782 | 13,088 | 2,172 | 3,430 | 2,325 | 55,470 |
| 786 | 12,734 | 2,172 | 4,417 | 2,313 | 54,164 |
| 792 | 7,909 | 2,172 | 5,719 | 2,304 | 46,985 |
| | 7,912 | 2,172 | 448 | 2,295 | 42,157 |
| | 7,910 | 2,172 | 450 | 2,287 | 43,146 |
| | 7,909 | 2,172 | | 2,276 | 43,268 |
| | 7,912 | 2,172 | | 2,263 | 43,270 |
| | 7,908 | 2,172 | | | 43,678 |
| | 7,911 | 2,172 | | | 43,680 |
| | 7,911 | 2,172 | | | 43,682 |
| | 7,907 | 2,172 | | | 43,674 |
| | 7,911 | 2,172 | | | 43,679 |
| | | 9,822 | | | 43,418 |
| | | 9,820 | | | 43,417 |
| | | 9,823 | | | 43,419 |
| | | 9,824 | | | 43,423 |
| | | 9,824 | | | 9,824 |
| 4,679 | 144,740 | 81,693 | 19,683 | 23,083 | 897,632 |
| 779 | 42,085 | 39,313 | 3,253 | 4,888 | 345,467 |
| $ 3,900 | $ 102,655 | $ 42,380 | $ 16,430 | $ 18,195 | $ 552,165 |

## SUPPLEMENTAL SCHEDULE OF DEBT SERVICE REQUIREMENTS - CASH BASIS (continued)
### *June 30, 2006 and 2005 (In Thousands)*

| | City of Memphis General Obligation Bonds | | | Special Facilities Revenue Bonds | |
|---|---|---|---|---|---|
| **Fiscal Year** | **Series 1995B (1)** | **Series 2001** | **Total** | **Series 2003** | **Total of All Bonds** |
| 2007 | $ 1,833 | $ 2,079 | $ 3,912 | $ 2,025 | $ 62,324 |
| 2008 | 1,844 | 2,078 | 3,922 | 2,025 | 60,671 |
| 2009 | | 2,076 | 2,076 | 2,025 | 60,268 |
| 2010 | | 2,074 | 2,074 | 2,025 | 59,569 |
| 2011 | | 2,072 | 2,072 | 2,025 | 58,261 |
| 2012 | | 2,073 | 2,073 | 2,025 | 51,083 |
| 2013 | | | | 2,025 | 44,182 |
| 2014 | | | | 46,013 | 89,159 |
| 2015 | | | | | 43,268 |
| 2016 | | | | | 43,270 |
| 2017 | | | | | 43,678 |
| 2018 | | | | | 43,680 |
| 2019 | | | | | 43,682 |
| 2020 | | | | | 43,674 |
| 2021 | | | | | 43,679 |
| 2022 | | | | | 43,418 |
| 2023 | | | | | 43,417 |
| 2024 | | | | | 43,419 |
| 2025 | | | | | 43,423 |
| 2026 | | | | | 9,824 |
| Total | 3,677 | 12,452 | 16,129 | 60,188 | 973,949 |
| Less interest | 177 | 1,862 | 2,039 | 15,188 | 362,694 |
| Principal payments | $ 3,500 | $ 10,590 | $ 14,090 | $ 45,000 | $ 611,255 |

*The schedule of debt service requirements presents principal, mandatory sinking fund redemptions, and interest when due.*
(1) Interest calculated at an assumed rate of 7.5%.

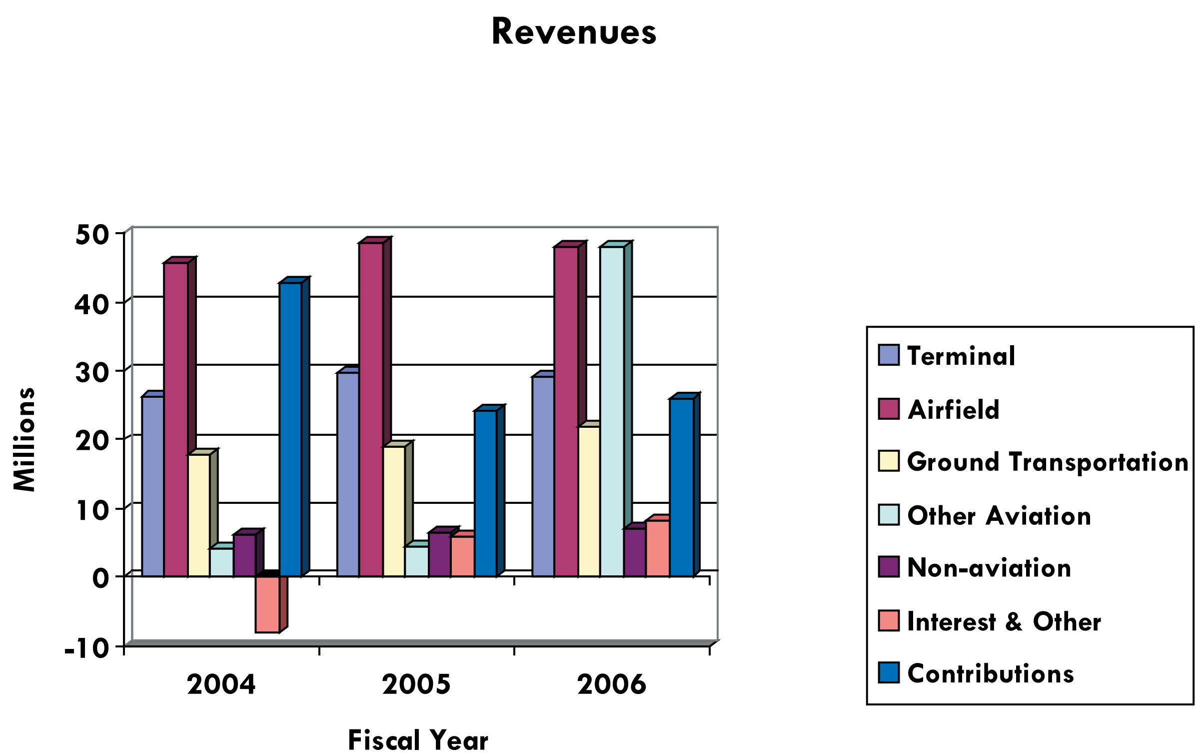
# TOTAL ANNUAL REVENUES, EXPENSES AND CHANGES IN NET ASSETS
## *For the Ten Years Ended June 30, 2006 (In Thousands)*

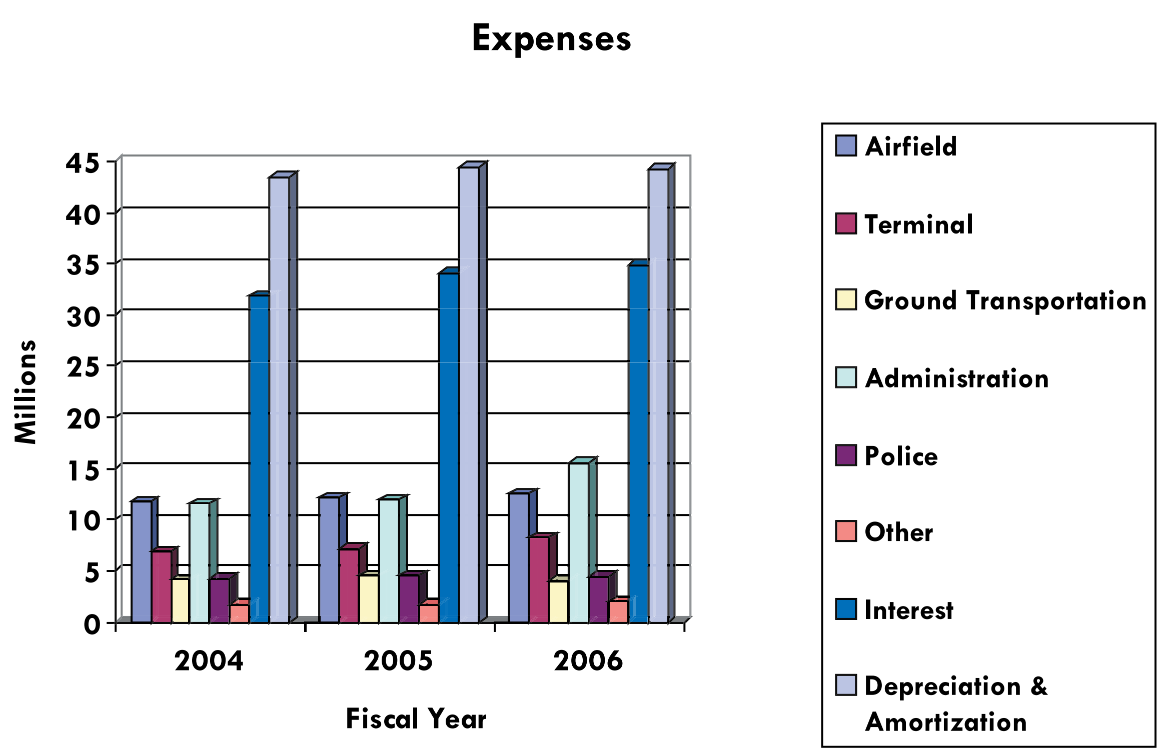
| | 2006 | 2005 | 2004 |
|---|---|---|---|
| **Operating Revenues** | | | |
| Terminal | $ 29,287 | $ 29,659 | $ 26,354 |
| Airfield | 48,013 | 48,769 | 45,763 |
| Ground transportation | 21,850 | 18,972 | 17,799 |
| Other aviation areas | 4,824 | 4,562 | 4,191 |
| Non-aviation areas | 7,041 | 6,431 | 6,302 |
| | 111,015 | 108,393 | 100,409 |
| Rental credit for signatory airlines (1) | | | (7,209) |
| Total Operating Revenues | 111,015 | 108,393 | 93,200 |
| **Operating Expenses** | | | |
| Terminal | 12,538 | 12,158 | 11,760 |
| Airfield | 8,265 | 7,149 | 6,905 |
| Ground Transportation | 4,045 | 4,516 | 4,126 |
| General Administration | 15,551 | 11,967 | 11,563 |
| Police | 4,432 | 4,497 | 4,280 |
| Field Shop | 1,478 | 1,436 | 1,168 |
| Other Aviation Areas | 76 | 62 | 50 |
| Non-aviation Areas | 410 | 217 | 537 |
| Total operating expenses before depreciation and amortization | 46,795 | 42,002 | 40,389 |
| **Depreciation and Amortization** | 44,264 | 44,463 | 43,474 |
| **Operating Income** | 19,956 | 21,928 | 9,337 |
| **Non-Operating Revenues (Expense):** | | | |
| Interest and Investment Income | 8,149 | 5,830 | 3,391 |
| Customer Facility Charges (2) | | | |
| Discretionary Reserve Credit | | | (4,530) |
| Operating Grants | 163 | 118 | 239 |
| Interest Expense | (34,847) | (34,118) | (31,835) |
| Total Non-Operating Expense | (26,535) | (28,170) | (32,735) |
| Loss Before Contributions | (6,579) | (6,242) | (23,398) |
| **Capital Contributions (3)** | 26,042 | 24,337 | 42,866 |
| **Change in Net Assets** | $ 19,463 | $ 18,095 | $ 19,468 |

(1) One time credit in lieu of applying the prior year surplus to reduce the subsequent year rental rates per the airline agreement.
(2) Revenues collected from rental car agencies to fund a new ground transportation facility. The project was halted after the events of September 11, 2001, which caused a drop in demand and deferment of the associated project.
(3) The Authority adopted GASB Statement No. 33 in 2001 resulting in contributions in aid being included as a component of the Change in Net Assets. Fiscal year 2000 was also restated.

| 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|
| $ 27,901 | $ 24,125 | $ 19,421 | $ 15,879 | $ 17,816 | $ 19,409 | $ 19,243 |
| 46,995 | 40,642 | 35,704 | 22,766 | 16,648 | 16,742 | 17,194 |
| 17,213 | 17,292 | 19,057 | 16,681 | 15,506 | 13,897 | 12,680 |
| 4,062 | 3,358 | 2,997 | 5,089 | 5,403 | 5,114 | 5,048 |
| 7,280 | 6,969 | 6,802 | 6,815 | 6,913 | 6,846 | 6,622 |
| 103,451 | 92,386 | 83,981 | 67,230 | 62,286 | 62,008 | 60,787 |
| 103,451 | 92,386 | 83,981 | 67,230 | 62,286 | 62,008 | 60,787 |
| 11,381 | 11,765 | 12,274 | 10,457 | 9,357 | 8,868 | 8,295 |
| 6,963 | 5,734 | 6,247 | 6,237 | 4,901 | 4,644 | 4,949 |
| 4,188 | 4,120 | 4,021 | 3,905 | 2,271 | 2,459 | 2,149 |
| 11,287 | 10,386 | 12,345 | 11,782 | 9,944 | 9,363 | 7,680 |
| 4,698 | 4,283 | 3,713 | 3,484 | 2,813 | 2,553 | 2,359 |
| 1,259 | 1,030 | 1,344 | 1,062 | 920 | 939 | 937 |
| 97 | 56 | 195 | 146 | 118 | 131 | 85 |
| 859 | 900 | 1,041 | 1,099 | 1,404 | 1,300 | 820 |
| 40,732 | 38,274 | 41,180 | 38,172 | 31,728 | 30,257 | 27,274 |
| 41,119 | 38,245 | 31,365 | 24,531 | 24,093 | 22,772 | 18,323 |
| 21,600 | 15,867 | 11,436 | 4,527 | 6,465 | 8,979 | 15,190 |
| 6,519 | 7,823 | 9,099 | 2,262 | 3,078 | 4,329 | 6,046 |
| | 1,018 | | | | | |
| 151 | 1,117 | 81 | 18 | 18 | 18 | 18 |
| (33,090) | (31,433) | (28,612) | (15,992) | (14,609) | (15,174) | (18,055) |
| (26,420) | (21,475) | (19,432) | (13,712) | (11,513) | (10,827) | (11,991) |
| (4,820) | (5,608) | (7,996) | (9,185) | (5,048) | (1,848) | 3,199 |
| 7,473 | 26,747 | 37,297 | 16,613 | | | |
| $ 2,653 | $ 21,139 | $ 29,301 | $ 7,428 | $ (5,048) | $ (1,848) | $ 3,199 |

## REVENUES AND EXPENSES BY COST CENTER



## NET ASSETS
## *For the Six Years Ended June 30, 2006*

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 |
|---|---|---|---|---|---|---|
| Invested in capital assets, net of related debt | $ 351,896 | $ 333,199 | $ 320,251 | $ 309,223 | $ 346,266 | $ 354,576 |
| Restricted for: | | | | | | |
| Debt Service | 102,440 | 100,086 | 97,823 | 96,409 | 51,317 | 41,791 |
| Capital Acquisition | 12,814 | 16,115 | 19,278 | 2,779 | 23,124 | 10,562 |
| Total Restricted | 115,254 | 116,201 | 117,101 | 99,188 | 74,441 | 52,353 |
| Unrestricted | 24,944 | 23,231 | 17,184 | 26,657 | 11,708 | 4,347 |
| Total Net Assets [1] | $ 492,094 | $ 472,631 | $ 454,536 | $ 435,068 | $ 432,415 | $ 411,276 |

(1) The Authority adopted GASB Statement No. 34 in 2002 resulting in the elimination of Fund Equity and introducing Net Assets. Fiscal Year 2001 was restated; however, fiscal years prior to 2001 are unavailable in this format.

# PASSENGER ENPLANEMENTS MARKET SHARE
## *Last Ten Years*

| | FY 2006 | | FY 2005 | | FY 2004 | | FY 2003 | |
|---|---|---|---|---|---|---|---|---|
| **AIRLINE** | **Enplanements** | **Share** | **Enplanements** | **Share** | **Enplanements** | **Share** | **Enplanements** | **Share** |
| **Domestic** | | | | | | | | |
| Northwest Airlines | 2,390,694 | 44.7% | 2,641,818 | 48.9% | 2,443,379 | 47.0% | 3,090,199 | 56.2% |
| Northwest Airlink | 1,287,585 | 24.1% | 992,367 | 18.4% | 917,426 | 17.7% | 643,120 | 11.7% |
| Mesaba Airlines | 449,224 | 8.4% | 542,082 | 10.0% | 675,547 | 13.0% | 683,291 | 12.4% |
| Delta Air Lines | 236,424 | 4.4% | 290,782 | 5.4% | 274,408 | 5.3% | 268,223 | 4.9% |
| AirTran | 152,708 | 2.9% | 141,971 | 2.6% | 135,852 | 2.6% | 100,757 | 1.8% |
| United Express (1) | 126,241 | 2.4% | 107,055 | 2.0% | 101,123 | 1.9% | 85,404 | 1.5% |
| American Eagle | 114,738 | 2.1% | 104,648 | 1.9% | 76,257 | 1.5% | 41,558 | 0.8% |
| Continental Express | 96,419 | 1.8% | 90,320 | 1.7% | 87,249 | 1.7% | 78,866 | 1.4% |
| USAirways Express (2) | 89,566 | 1.7% | 70,396 | 1.3% | 83,473 | 1.6% | 54,809 | 1.0% |
| American Airlines | 81,847 | 1.5% | 56,671 | 1.0% | 50,895 | 1.0% | 82,041 | 1.5% |
| Com Air | 60,154 | 1.1% | 47,860 | 0.9% | 39,102 | 0.8% | 50,601 | 0.9% |
| America West Express (4) | 46,413 | 0.9% | 46,361 | 0.9% | 37,089 | 0.7% | 8,549 | 0.2% |
| Delta Connection (3) | 28,800 | 0.5% | 55,244 | 1.0% | 56,137 | 1.1% | 38,270 | 0.7% |
| Other (5) | 32,912 | 0.6% | 54,107 | 1.0% | 58,285 | 1.1% | 111,064 | 2.0% |
| **TOTAL DOMESTIC** | 5,193,725 | 97.1% | 5,241,682 | 97.0% | 5,036,222 | 97.0% | 5,336,752 | 97.0% |
| **International** | | | | | | | | |
| Northwest Airlines | 154,406 | 2.9% | 158,323 | 2.9% | 149,393 | 2.9% | 86,139 | 1.6% |
| Other (5) | 976 | 0.0% | 3,440 | 0.1% | 7,445 | 0.1% | 76,840 | 1.4% |
| **TOTAL INTERNATIONAL** | 155,382 | 2.9% | 161,763 | 3.0% | 156,838 | 3.0% | 162,979 | 3.0% |
| **Total Enplanements - MSCAA** | 5,349,107 | 100.0% | 5,403,445 | 100.0% | 5,193,060 | 100.0% | 5,499,731 | 100.0% |
| **Percent of Total U.S. Enplanements (6)** | | n.a | | 0.71% | | 0.71% | | 0.82% |

Source: Memphis-Shelby County Airport Authority, Activity Reports and U.S. Bureau of Transportation

(1) Beginning in 2002, operated by Air Wisconsin, Atlantic Coast and Skywest Airlines; in 2005 Mesa Airlines replaced Atlantic Coast.
(2) Beginning in 2003, also operated by Mesa Airlines and PSA.
(3) Beginning in 2003, operated by Atlantic Coast, Atlantic Southeast and Skywest Airlines; in 2005, Chautauqua was added.
(4) Beginning in 2005, operated by America West and Freedom Airlines
(5) May include activity by airlines no longer serving Memphis.
(6) Source: Airport Council International, based upon calendar year.

| | FY 2002 | | FY 2001 | | FY 2000 | | FY 1999 | | FY 1998 | | FY 1997 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Enplanements** | **Share** | **Enplanements** | **Share** | **Enplanements** | **Share** | **Enplanements** | **Share** | **Enplanements** | **Share** | **Enplanements** | **Share** |
| | 2,944,140 | 58.0% | 3,659,317 | 59.2% | 3,161,354 | 60.1% | 3,079,452 | 63.2% | 3,198,664 | 64.5% | 3,181,811 | 65.7% |
| | 618,598 | 12.2% | 823,030 | 13.3% | 557,212 | 10.6% | 558,951 | 11.4% | 617,844 | 12.5% | 625,086 | 12.9% |
| | 396,049 | 7.8% | 510,607 | 8.3% | 260,540 | 5.0% | 20,158 | 0.4% | | | | |
| | 318,528 | 6.3% | 421,132 | 6.8% | 494,836 | 9.4% | 504,903 | 10.3% | 477,040 | 9.6% | 445,939 | 9.2% |
| | 100,916 | 2.0% | 102,679 | 1.7% | 94,532 | 1.8% | 78,393 | 1.6% | 65,195 | 1.3% | 38,606 | 0.8% |
| | 74,343 | 1.5% | 5,044 | 0.1% | 23,136 | 0.4% | 8,445 | 0.2% | | | | |
| | 49,810 | 1.0% | 43,215 | 0.7% | 36,415 | 0.7% | 30,203 | 0.6% | | | | |
| | 85,222 | 1.7% | 85,702 | 1.4% | 83,902 | 1.6% | 43,352 | 0.9% | 33,544 | 0.7% | 22,204 | 0.5% |
| | 36,899 | 0.7% | 5,495 | 0.1% | | | | | | | | |
| | 77,990 | 1.5% | 87,478 | 1.4% | 92,066 | 1.7% | 96,074 | 2.0% | 88,880 | 1.8% | 88,499 | 1.8% |
| | 40,128 | 0.8% | 32,374 | 0.5% | 42,840 | 0.8% | 39,156 | 0.8% | 31,753 | 0.6% | 23,940 | 0.5% |
| | 15,216 | 0.3% | | | | | | | | | | |
| | 167,401 | 3.3% | 267,598 | 4.3% | 271,234 | 5.2% | 298,423 | 6.0% | 315,828 | 6.4% | 287,358 | 5.9% |
| | 4,925,240 | 97.1% | 6,043,671 | 97.8% | 5,118,067 | 97.3% | 4,757,510 | 97.4% | 4,828,748 | 97.4% | 4,713,443 | 97.3% |
| | 61,200 | 1.2% | 40,537 | 0.6% | 43,242 | 0.8% | 33,007 | 0.7% | 38,701 | 0.8% | 45,729 | 0.9% |
| | 85,487 | 1.7% | 96,706 | 1.6% | 101,064 | 1.9% | 94,156 | 1.9% | 92,118 | 1.8% | 87,046 | 1.8% |
| | 146,687 | 2.9% | 137,243 | 2.2% | 144,306 | 2.7% | 127,163 | 2.6% | 130,819 | 2.6% | 132,775 | 2.7% |
| | 5,071,927 | 100.0% | 6,180,914 | 100.0% | 5,262,373 | 100.0% | 4,884,673 | 100.0% | 4,959,567 | 100.0% | 4,846,218 | 100.0% |
| | | 0.74% | | 0.85% | | 0.73% | | 0.71% | | 0.74% | | 0.74% |

# ORIGINATING AND TRANSFERRING AIRLINE PASSENGERS
## *For the Fiscal Year Ended June 30, 2006*

**Percentage Distribution of Enplaned passengers**

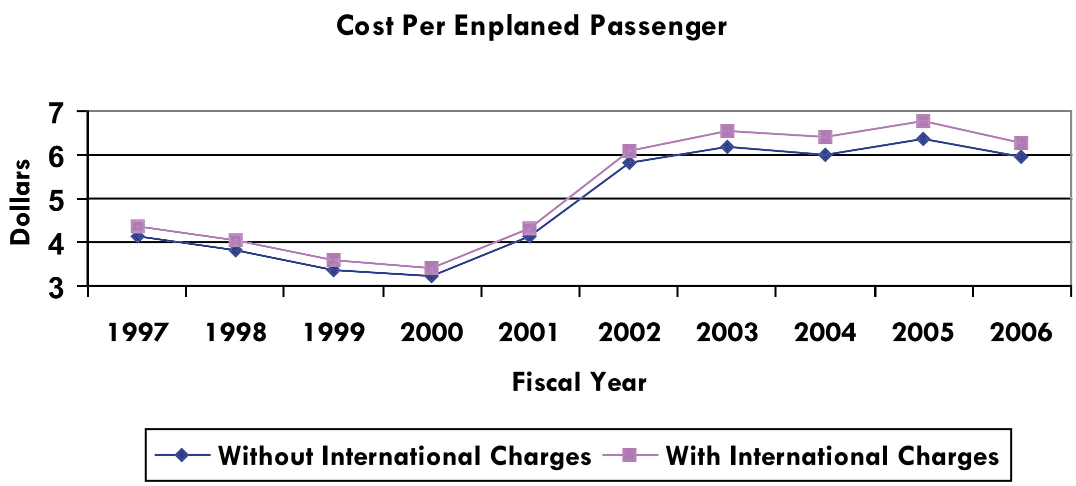
| Airline | Originating Passengers | Transferring Passengers: Intraline | Transferring Passengers: Interline | Transferring Passengers: Total | Enplaned Passengers |
|---|---|---|---|---|---|
| AirTran Airways | 100.00% | | | | 152,708 |
| American | 100.00% | | | | 81,847 |
| Delta | 100.00% | | | | 236,424 |
| Northwest | 20.00% | 45.00% | 35.00% | 80.00% | 2,545,100 |
| Northwest Partners | 27.42% | 19.43% | 53.15% | 72.58% | 1,736,809 |
| Regional/Other | 98.08% | 0.00% | 1.92% | 1.92% | 596,219 |
| Total/Average | 36.99% | 28.82% | 34.19% | 63.01% | 5,349,107 |
| Approximate Annual Enplanements | 1,978,635 | 1,541,612 | 1,828,860 | 3,370,472 | 5,349,107 |

Source: Survey of Passenger Airlines

# COST PER ENPLANED PASSENGER
## *Last Ten Years (In Thousands)*

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| Passenger Airline Revenue | $ 31,784 | $ 34,462 | $ 31,056 | $ 33,881 | $ 29,469 | $ 25,520 | $ 16,921 | $ 16,546 | $ 18,908 | $ 19,958 |
| Enplaned Passengers | 5,349 | 5,403 | 5,193 | 5,500 | 5,072 | 6,181 | 5,262 | 4,885 | 4,960 | 4,846 |
| Average Cost Per Enplaned Passenger (1) | $ 5.94 | $ 6.38 | $ 5.98 | $ 6.16 | $ 5.81 | $ 4.13 | $ 3.22 | $ 3.39 | $ 3.81 | $ 4.12 |
| International Charges | 1,719 | 2,236 | 2,354 | 2,164 | 1,423 | 1,108 | 1,113 | 1,116 | 1,234 | 1,264 |
| Average Cost Per Enplaned Passenger Including International Charges | $ 6.26 | $ 6.79 | $ 6.43 | $ 6.55 | $ 6.09 | $ 4.31 | $ 3.43 | $ 3.62 | $ 4.06 | $ 4.38 |

(1) On average, Northwest Airlines and some charters are the only passenger carriers subject to international facility charges. As such, the cost per enplaned passenger analysis is expanded to show detail with and without international fees.



## CARGO MARKET SHARE ENPLANED
### *Last Ten Years (Expressed in thousands of pounds)*

| | FY 2006 | | FY 2005 | | FY 2004 | | FY 2003 | |
|---|---|---|---|---|---|---|---|---|
| AIRLINE | Cargo Weight | Share | Cargo Weight | Share | Cargo Weight | Share | Cargo Weight | Share |
| **Domestic Freight** | | | | | | | | |
| Federal Express | 3,908,589 | 93.1% | 3,818,706 | 93.3% | 3,744,889 | 93.6% | 3,668,062 | 93.8% |
| United Parcel Service | 37,256 | 0.9% | 34,589 | 0.9% | 29,999 | 0.8% | 26,075 | 0.7% |
| Air Transport Int'l (prev BAX Global) | 13,365 | 0.3% | 13,981 | 0.4% | 13,858 | 0.4% | 13,622 | 0.3% |
| Mountain Air | 9,256 | 0.2% | 9,804 | 0.2% | 9,994 | 0.3% | 11,249 | 0.3% |
| UPS Supply Chain (prev Menlo/Emery) | 5,863 | 0.1% | 4,923 | 0.1% | 6,516 | 0.2% | 6,375 | 0.2% |
| DHL | 5,125 | 0.1% | 1,723 | 0.0% | 1,705 | 0.0% | 1,576 | 0.0% |
| Baron Aviation | 3,879 | 0.1% | 4,385 | 0.1% | 4,318 | 0.1% | 4,144 | 0.1% |
| ABX (prev Airborne Express) | 3,275 | 0.1% | 9,594 | 0.2% | 9,369 | 0.2% | 9,842 | 0.3% |
| Northwest | 3,010 | 0.1% | 4,183 | 0.1% | 7,133 | 0.2% | 3,258 | 0.1% |
| Delta | 2,003 | 0.0% | 1,065 | 0.0% | 955 | 0.0% | 1,120 | 0.0% |
| Other (1) | 2,299 | 0.1% | 3,726 | 0.1% | 787 | 0.0% | 1,485 | 0.0% |
| Total Domestic Freight | 3,993,920 | 95.1% | 3,906,679 | 95.4% | 3,829,523 | 95.8% | 3,746,808 | 95.8% |
| **International Freight** | | | | | | | | |
| Federal Express | 192,375 | 4.6% | 178,127 | 4.4% | 163,261 | 4.1% | 144,416 | 3.7% |
| Other (1) | 3,967 | 0.1% | 3,393 | 0.1% | 576 | 0.0% | 4,534 | 0.1% |
| Total International Freight | 196,342 | 4.7% | 181,520 | 4.5% | 163,837 | 4.1% | 148,950 | 3.8% |
| **Air Mail** | | | | | | | | |
| Kalitta Air | 6,463 | 0.2% | 4,166 | 0.1% | 3,927 | 0.1% | | |
| American | 54 | 0.0% | | | | | | |
| Northwest | 28 | 0.0% | 12 | 0.0% | 1,171 | 0.0% | 14,103 | 0.4% |
| Delta | 15 | 0.0% | 569 | 0.0% | 1,063 | 0.0% | 480 | 0.0% |
| Other (1) | 74 | 0.0% | 356 | 0.0% | 498 | 0.0% | 223 | 0.0% |
| Total Air Mail | 6,634 | 0.2% | 5,103 | 0.1% | 6,659 | 0.1% | 14,806 | 0.4% |
| TOTAL CARGO ENPLANED | 4,196,896 | 100.0% | 4,093,302 | 100.0% | 4,000,019 | 100% | 3,910,564 | 100.0% |

Source: Memphis-Shelby County Airport Authority, Activity Reports.

(1) May include activity by airlines no longer service Memphis.

| FY 2002 | | FY 2001 | | FY 2000 | | FY 1999 | | FY 1998 | | FY 1997 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Cargo Weight** | **Share** | **Cargo Weight** | **Share** | **Cargo Weight** | **Share** | **Cargo Weight** | **Share** | **Cargo Weight** | **Share** | **Cargo Weight** | **Share** |
| 3,399,669 | 93.4% | 2,390,614 | 89.5% | 2,448,268 | 89.8% | 2,359,098 | 90.0% | 2,298,514 | 88.4% | 1,993,381 | 87.3% |
| 27,092 | 0.7% | 25,205 | 0.9% | 25,663 | 0.9% | 23,147 | 0.9% | 19,997 | 0.8% | 21,812 | 1.0% |
| 13,932 | 0.4% | 12,938 | 0.5% | 21,657 | 0.9% | 22,453 | 0.9% | 21,441 | 0.8% | 16,690 | 0.7% |
| 9,698 | 0.3% | 9,728 | 0.4% | 8,595 | 0.3% | 9,649 | 0.4% | 11,760 | 0.4% | 9,625 | 0.4% |
| 7,303 | 0.2% | 12,350 | 0.5% | 14,532 | 0.5% | 15,547 | 0.6% | 14,848 | 0.6% | 15,501 | 0.7% |
| 1,501 | 0.0% | 1,259 | 0.1% | 810 | 0.0% | | | | | | |
| 4,396 | 0.1% | 4,734 | 0.2% | 5,497 | 0.2% | 5,694 | 0.2% | 5,678 | 0.2% | 5,509 | 0.2% |
| 9,133 | 0.3% | 10,025 | 0.4% | 8,526 | 0.3% | 5,667 | 0.2% | 4,500 | 0.2% | 4,426 | 0.2% |
| 3,184 | 0.1% | 4,900 | 0.2% | 7,105 | 0.3% | 5,036 | 0.2% | 5,819 | 0.2% | 6,880 | 0.3% |
| 936 | 0.0% | 804 | 0.0% | 1,237 | 0.1% | 2,000 | 0.1% | 1,406 | 0.1% | 1,271 | 0.1% |
| 1,772 | 0.0% | 3,804 | 0.1% | 4,320 | 0.1% | 6,292 | 0.2% | 9,827 | 0.4% | 7,582 | 0.3% |
| 3,478,616 | 95.5% | 2,476,361 | 92.8% | 2,546,210 | 93.4% | 2,454,583 | 93.7% | 2,393,790 | 92.1% | 2,082,677 | 91.2% |
| 132,395 | 3.6% | 141,856 | 5.3% | 130,098 | 4.8% | 121,930 | 4.6% | 144,345 | 5.5% | 138,099 | 6.1% |
| 5,930 | 0.2% | 9,259 | 0.3% | 9,014 | 0.3% | 9,291 | 0.4% | 7,139 | 0.2% | 7,188 | 0.3% |
| 138,325 | 3.8% | 151,115 | 5.6% | 139,112 | 5.1% | 131,221 | 5.0% | 151,484 | 5.7% | 145,287 | 6.4% |
| 21,604 | 0.6% | 36,813 | 1.4% | 32,392 | 1.2% | 26,204 | 1.0% | 44,885 | 1.7% | 42,133 | 1.9% |
| 1,647 | 0.0% | 2,777 | 0.1% | 3,122 | 0.1% | 3,756 | 0.1% | 4,900 | 0.2% | 4,469 | 0.2% |
| 1,166 | 0.1% | 5,072 | 0.1% | 4,182 | 0.2% | 6,162 | 0.2% | 6,434 | 0.3% | 8,176 | 0.3% |
| 24,417 | 0.7% | 44,662 | 1.6% | 39,696 | 1.5% | 36,122 | 1.3% | 56,219 | 2.2% | 54,778 | 2.4% |
| 3,641,358 | 100.0% | 2,672,138 | 100.0% | 2,725,018 | 100.0% | 2,621,926 | 100.0% | 2,601,493 | 100.0% | 2,282,742 | 100.0% |

## LANDED WEIGHTS
### *Last Ten Years (Expressed in thousands of Pounds)*

| AIRLINE | FY 2006 Landed Weight | FY 2006 Share | FY 2005 Landed Weight | FY 2005 Share | FY 2004 Landed Weight | FY 2004 Share | FY 2003 Landed Weight | FY 2003 Share |
|---|---|---|---|---|---|---|---|---|
| **MAJOR/NATIONAL** | | | | | | | | |
| Northwest Airlines | 3,645,688 | 14.0% | 4,173,077 | 16.3% | 4,027,714 | 16.1% | 4,690,885 | 18.4% |
| Delta Airlines | 343,854 | 1.3% | 386,830 | 1.5% | 372,802 | 1.5% | 391,599 | 1.5% |
| Airtran | 182,650 | 0.7% | 182,208 | 0.7% | 169,684 | 0.7% | 141,128 | 0.6% |
| American Airlines | 142,037 | 0.5% | 104,428 | 0.4% | 106,426 | 0.4% | 145,874 | 0.6% |
| US Airways | 23,108 | 0.1% | 30,631 | 0.1% | 423 | 0.0% | 93,910 | 0.4% |
| Continental | 9,070 | 0.3% | 26,074 | 0.1% | 34,760 | 0.1% | 33,550 | 0.1% |
| Other (1) | | 0.0% | | 0.0% | 0 | 0.0% | 115,568 | 0.5% |
| **TOTAL MAJOR/NATIONAL** | 4,346,407 | 16.9% | 4,903,248 | 19.1% | 4,711,809 | 18.8% | 5,612,514 | 22.1% |
| **REGIONAL** | | | | | | | | |
| Pinnacle Airlines | 1,696,089 | 6.5% | 1,365,679 | 5.3% | 1,270,551 | 5.1% | 978,739 | 3.8% |
| Mesaba | 548,226 | 2.1% | 646,572 | 2.5% | 823,742 | 3.3% | 928,975 | 3.6% |
| American Eagle | 141,608 | 0.5% | 126,356 | 0.5% | 112,328 | 0.4% | 59,636 | 0.2% |
| Mesa Airlines | 131,955 | 0.5% | 112,500 | 0.4% | 102,874 | 0.4% | 62,020 | 0.2% |
| Continental Express | 122,303 | 0.5% | 133,742 | 0.5% | 120,182 | 0.5% | 116,939 | 0.5% |
| United Express(2) | 103,752 | 0.4% | 95,299 | 0.4% | 129,908 | 0.5% | 104,763 | 0.4% |
| Com Air | 78,443 | 0.3% | 60,019 | 0.2% | 61,382 | 0.2% | 83,566 | 0.3% |
| Other (1) | 181,602 | 0.7% | 217,268 | 0.9% | 264,611 | 1.1% | 192,138 | 0.8% |
| **TOTAL REGIONAL** | 3,003,978 | 11.5% | 2,757,435 | 10.7% | 2,885,578 | 11.5% | 2,526,776 | 9.8% |
| **CARGO** | | | | | | | | |
| Federal Express | 18,098,283 | 69.7% | 17,398,021 | 68.0% | 16,896,344 | 67.5% | 16,721,927 | 65.6% |
| United Parcel Service | 153,161 | 0.6% | 140,871 | 0.6% | 178,982 | 0.7% | 255,214 | 1.0% |
| Menlo (formerly Emery Air Freight) | 86,327 | 0.3% | 67,708 | 0.3% | 92,203 | 0.4% | 116,820 | 0.5% |
| Air Transport Int'l (fmr BAX Global) | 78,262 | 0.3% | 84,380 | 0.3% | 75,161 | 0.3% | 82,776 | 0.3% |
| Kalitta Air | 54,720 | 0.2% | 39,735 | 0.2% | 31,905 | 0.1% | 0 | 0.0% |
| ABX (Airborne Express) | 34,861 | 0.1% | 81,589 | 0.3% | 71,230 | 0.3% | 73,661 | 0.3% |
| Other (1) | 104,031 | 0.4% | 121,674 | 0.5% | 97,334 | 0.4% | 102,056 | 0.4% |
| **TOTAL CARGO** | 18,609,645 | 71.6% | 17,933,978 | 70.2% | 17,443,159 | 69.7% | 17,352,454 | 68.1% |
| **TOTAL LANDED WEIGHTS** | 25,960,030 | 100.0% | 25,594,661 | 100.0% | 25,040,546 | 100.0% | 25,491,744 | 100.0% |

(1) May include activity by airlines no longer serving Memphis.

(2) Beginning in 2002, operated by Air Wisconsin, Atlantic Coast and Skywest Airlines.

Source: Memphis-Shelby County Airport Authority, Activity Reports.

| FY 2002 | | FY 2001 | | FY 2000 | | FY 1999 | | FY 1998 | | FY 1997 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Landed Weight** | **Share** | **Landed Weight** | **Share** | **Landed Weight** | **Share** | **Landed Weight** | **Share** | **Landed Weight** | **Share** | **Landed Weight** | **Share** |
| | | | | | | | | | | | |
| 4,714,431 | 19.4% | 5,498,081 | 25.7% | 4,945,130 | 24.8% | 4,637,523 | 24.7% | 4,746,391 | 25.6% | 4,780,238 | 27.9% |
| 513,245 | 2.1% | 688,567 | 3.2% | 745,043 | 3.8% | 744,379 | 4.0% | 751,019 | 4.1% | 723,690 | 4.2% |
| 141,273 | 0.6% | 141,174 | 0.7% | 142,560 | 0.7% | 137,808 | 0.7% | 131,274 | 0.7% | 66,528 | 0.4% |
| 139,339 | 0.6% | 156,322 | 0.7% | 158,490 | 0.8% | 171,061 | 0.9% | 144,498 | 0.8% | 170,846 | 1.0% |
| 156,961 | 0.7% | 162,789 | 0.8% | 162,468 | 0.8% | 166,245 | 0.9% | 158,580 | 0.9% | 167,208 | 1.0% |
| 31,680 | 0.1% | 17,710 | 0.1% | | | | | | | | |
| 149,922 | 0.6% | 341,292 | 1.6% | 308,120 | 1.5% | 300,858 | 1.6% | 292,402 | 1.5% | 319,098 | 1.9% |
| 5,846,851 | 24.1% | 7,005,935 | 32.8% | 6,461,811 | 32.4% | 6,157,874 | 32.8% | 6,224,164 | 33.6% | 6,227,608 | 36.4% |
| | | | | | | | | | | | |
| 958,194 | 3.9% | 1,199,072 | 5.6% | 751,203 | 3.8% | 734,081 | 3.9% | 845,242 | 4.6% | 860,447 | 5.0% |
| 513,413 | 2.1% | 699,930 | 3.3% | 328,125 | 1.6% | 25,358 | 0.1% | | | | |
| 48,957 | 0.2% | 44,775 | 0.2% | 37,541 | 0.2% | 26,531 | 0.1% | 16,701 | 0.1% | 21,426 | 0.1% |
| 19,739 | 0.1% | | | | | | | | | | |
| 125,566 | 0.5% | 131,796 | 0.6% | 102,853 | 0.5% | 78,292 | 0.4% | 55,072 | 0.3% | 41,388 | 0.2% |
| 96,444 | 0.4% | 7,972 | 0.0% | 33,476 | 0.2% | 12,925 | 0.1% | | | | |
| 73,414 | 0.3% | 50,055 | 0.2% | 65,001 | 0.3% | 52,712 | 0.3% | 46,978 | 0.3% | 43,080 | 0.3% |
| 164,041 | 0.7% | 137,950 | 0.7% | 165,976 | 0.8% | 158,841 | 0.9% | 182,971 | 0.9% | 137,848 | 0.8% |
| 1,999,768 | 8.2% | 2,271,550 | 10.6% | 1,484,175 | 7.4% | 1,088,740 | 5.8% | 1,146,964 | 6.2% | 1,104,189 | 6.4% |
| | | | | | | | | | | | |
| 15,784,102 | 65.0% | 11,343,962 | 53.0% | 11,221,895 | 56.2% | 10,774,270 | 57.5% | 10,433,811 | 56.4% | 9,202,269 | 53.7% |
| 257,356 | 1.1% | 259,746 | 1.2% | 252,649 | 1.3% | 245,640 | 1.3% | 267,169 | 1.4% | 260,458 | 1.5% |
| 110,093 | 0.5% | 133,816 | 0.6% | 121,764 | 0.6% | 113,594 | 0.6% | 81,164 | 0.4% | 70,624 | 0.4% |
| 82,820 | 0.3% | 71,341 | 0.3% | 128,873 | 0.6% | 138,469 | 0.7% | 119,324 | 0.7% | 81,628 | 0.5% |
| 585 | 0.0% | | | | | | | | | | |
| 72,875 | 0.3% | 101,660 | 0.5% | 80,085 | 0.4% | 49,496 | 0.3% | 31,194 | 0.2% | 27,881 | 0.2% |
| 122,900 | 0.5% | 203,859 | 1.0% | 217,313 | 1.1% | 185,015 | 1.0% | 204,969 | 1.1% | 153,501 | 0.9% |
| 16,430,731 | 67.7% | 12,114,384 | 56.6% | 12,022,579 | 60.2% | 11,506,484 | 61.4% | 11,137,631 | 60.2% | 9,796,361 | 57.2% |
| | | | | | | | | | | | |
| 24,277,350 | 100.0% | 21,391,869 | 100.0% | 19,968,565 | 100.0% | 18,753,098 | 100.0% | 18,508,759 | 100.0% | 17,128,158 | 100.0% |

## AIRCRAFT OPERATIONS [1]
### *Last Ten Years*

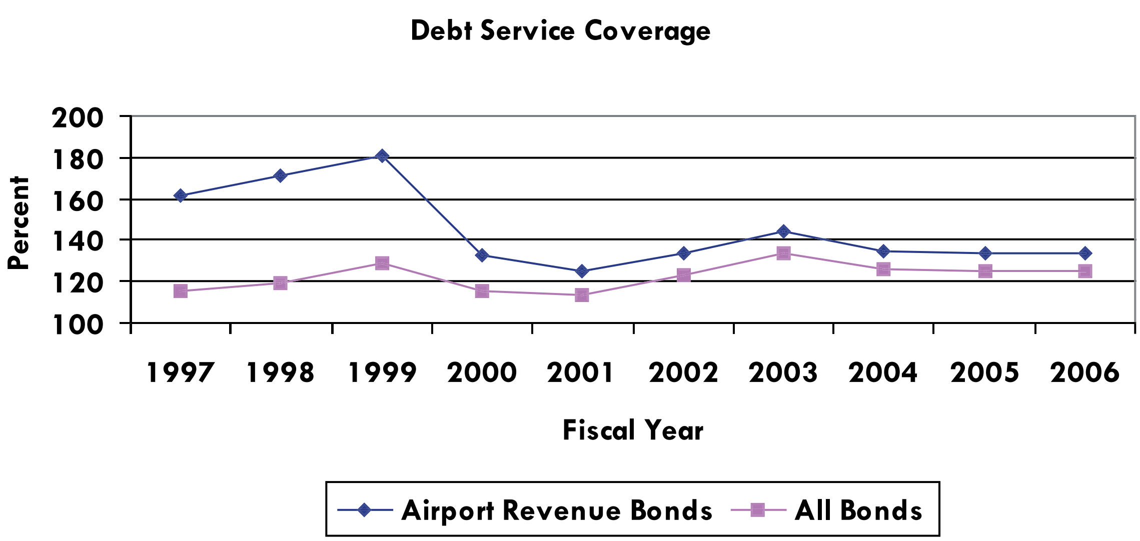
| Fiscal Year | Major/ National | Regional | Cargo | General Aviation | Military | Total |
|---|---|---|---|---|---|---|
| 2006 | 70,622 | 132,662 | 136,244 | 48,185 | 1,692 | 389,405 |
| 2005 | 81,854 | 124,394 | 134,486 | 50,523 | 1,454 | 392,711 |
| 2004 | 77,942 | 132,236 | 131,766 | 49,994 | 1,752 | 393,690 |
| 2003 | 94,738 | 119,824 | 133,030 | 55,111 | 1,712 | 404,415 |
| 2002 | 96,144 | 101,778 | 129,586 | 59,011 | 3,617 | 390,136 |
| 2001 | 114,156 | 118,916 | 103,170 | 59,897 | 4,488 | 400,627 |
| 2000 | 103,704 | 88,962 | 104,456 | 76,237 | 4,651 | 378,010 |
| 1999 | 99,786 | 75,162 | 103,046 | 79,573 | 5,588 | 363,155 |
| 1998 | 102,120 | 86,390 | 103,256 | 75,748 | 4,635 | 372,149 |
| 1997 | 102,384 | 85,646 | 94,028 | 76,079 | 4,899 | 363,036 |

Source: Memphis-Shelby County Airport Authority, Activity Reports
[1] Takeoffs and Landings

# DEBT SERVICE COVERAGE
## *Last Ten Years (In Thousands)*

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Revenues: (as defined in bond indenture)** | | | | | | | | | | |
| Operating Revenues | $ 111,015 | $ 108,393 | $ 93,200 | $ 103,451 | $ 92,386 | $ 83,981 | $ 67,230 | $ 62,286 | $ 62,008 | $ 60,787 |
| Application of prior year surplus | 5,148 | 3,653 | 7,266 | | | 2,974 | 6,858 | 5,122 | 4,061 | 2,645 |
| Coverage Carryforward | 9,780 | 9,280 | 9,841 | 9,841 | 3,831 | | | | | |
| Total | 125,943 | 121,326 | 110,307 | 113,292 | 96,217 | 86,955 | 74,088 | 67,408 | 66,069 | 63,432 |
| Operating Expenses | 46,795 | 42,002 | 40,389 | 40,732 | 38,274 | 41,180 | 38,172 | 31,728 | 30,257 | 27,274 |
| Net Revenues Before Adjustments | 79,148 | 79,324 | 69,918 | 72,560 | 57,943 | 45,775 | 35,916 | 35,680 | 35,812 | 36,158 |
| Restricted Interest Earnings [a] | 4,336 | 3,556 | 4,580 | 3,601 | 4,227 | 4,099 | 2,603 | 1,958 | 2,421 | 1,799 |
| Operating grants | 163 | 118 | 239 | 151 | 1,117 | 81 | 18 | 18 | 18 | 18 |
| Bond Reserves – 1999C | | | | | 1,132 | | | | | |
| Other revenue | 530 | 569 | 525 | 522 | 740 | 894 | 915 | 819 | 945 | 1,100 |
| Capital Outlay | (1,924) | (2,273) | (2,760) | (1,624) | (4,470) | (1,482) | (3,414) | (2,861) | (1,933) | (1,826) |
| Special facilities lease | (4,525) | (4,525) | (4,396) | (5,290) | (5,290) | (5,290) | (5,290) | (5,290) | (5,290) | (5,290) |
| Notes payable (principal and interest) | (658) | (525) | (331) | (416) | (355) | (66) | (49) | | | |
| Net Revenues | $ 77,070 | $ 76,244 | $ 67,775 | $ 69,504 | $ 55,044 | $ 44,011 | $ 30,699 | $ 30,324 | $ 31,973 | $ 31,959 |
| **Debt Service on:** | | | | | | | | | | |
| Airport Revenue Bonds | 56,747 | 57,067 | 50,178 | 48,192 | 41,142 | 35,215 | 23,009 | 16,773 | 18,734 | 19,751 |
| General Obligation Bonds | 3,927 | 3,843 | 3,661 | 3,623 | 3,641 | 3,784 | 3,756 | 6,663 | 8,058 | 8,160 |
| Total Debt Service [b] | $ 60,674 | $ 60,910 | $ 53,839 | $ 51,815 | $ 44,783 | $ 38,999 | $ 26,765 | $ 23,436 | $ 26,792 | $ 27,911 |
| Coverage ratio: Airport revenue bonds | 134% | 134% | 135% | 144% | 134% | 125% | 133% | 181% | 171% | 162% |
| All bonds [c] | 125% | 125% | 126% | 134% | 123% | 113% | 115% | 129% | 119% | 115% |

(a) Restricted interest earnings represents earnings on current debt service funds and operating funds.
(b) Excludes amounts paid with capitalized interest.
(c) Bond resolutions covenants require a minimum ratio of 100% for all bonds and 125% for airport revenue bonds. Special Facilities Bonds are secured and payable from rentals equal to the debt service on the bonds. Debt service on these bonds is not payable from general revenues and, accordingly, does not enter into these coverage ratio calculations.



## RATIO OF ANNUAL BOND DEBT SERVICE TO TOTAL EXPENSES EXCLUDING DEPRECIATION AND AMORTIZATION *Last Ten Years (In Thousands)*

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| Principal | $ 28,059 | $ 26,937 | $ 21,384 | $ 18,392 | $ 16,227 | $ 15,180 | $ 12,220 | $ 14,280 | $ 16,615 | $ 15,677 |
| Interest [1] | 32,615 | 33,973 | 32,454 | 33,423 | 28,556 | 23,819 | 14,545 | 9,156 | 10,177 | 12,234 |
| Total Debt Service [2] | $ 60,674 | $ 60,910 | $ 53,838 | $ 51,815 | $ 44,783 | $ 38,999 | $ 26,765 | $ 23,436 | $ 26,792 | $ 27,911 |
| Total Expenses [3] | 125,906 | 120,583 | 115,698 | 114,941 | 107,952 | 101,157 | 78,695 | 70,430 | 68,203 | 63,652 |
| Less Gain or loss on property disposals and depreciation and amortization | (44,202) | (44,463) | (43,469) | (41,104) | (38,227) | (31,365) | (24,534) | (24,114) | (22,754) | (18,329) |
| Add Principal | 28,059 | 26,937 | 21,384 | 18,392 | 16,227 | 15,180 | 12,220 | 14,280 | 16,615 | 15,677 |
| Add Net capitalized interest | | 1,627 | 5,117 | 4,002 | 4,624 | 2,975 | 6,079 | 3,419 | 2,682 | 1,804 |
| Total General Expenditures | $ 109,763 | $ 104,684 | $ 98,730 | $ 96,231 | $ 90,576 | $ 87,947 | $ 72,460 | $ 64,015 | $ 64,746 | $ 62,804 |
| Ratio of Debt Service to Expenditures | 55.3% | 58.2% | 54.5% | 53.8% | 49.4% | 44.3% | 36.9% | 36.6% | 41.4% | 44.4% |

(1) Excludes capitalized interest paid from bond proceeds during construction.
(2) Includes all bond debt except the Special Facilities Bonds.
(3) Excludes conduit debt obligations.

## AIRPORT REVENUE BOND DEBT PER ENPLANED PASSENGER *Last Ten Years (In Thousands)*

| | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| Airport Revenue Bond Debt | $ 552,165 | $ 576,615 | $ 600,150 | $ 616,500 | $ 634,340 | $ 483,625 | $ 496,030 | $ 256,065 | $ 267,190 | $ 277,020 |
| Enplaned Passengers | 5,349 | 5,403 | 5,193 | 5,500 | 5,072 | 6,181 | 5,262 | 4,885 | 4,960 | 4,846 |
| Airport Revenue Bond Debt Per Enplaned Passenger | $ 103 | $ 107 | $ 116 | $ 112 | $ 125 | $ 78 | $ 94 | $ 52 | $ 54 | $ 57 |

# USE OF BOND PROCEEDS

Descriptions of the uses of proceeds from the Authority's outstanding bond issues are summarized below.

## AIRPORT REVENUE BONDS

**Series 2003A** – The bonds were issued to provide funds for the purpose of refunding a portion of the Series 1993 Bonds. The Series 1993 bonds were issued to provide funds for the purpose of refunding the outstanding principal balance of the Series 1985 Bonds; which were issued to fund airfield improvements including runway paving and lighting, airfield drainage improvements, airfield maintenance facility and fencing; terminal improvements including passenger holdrooms and baggage claim improvements for both the Authority and tenants and a hydrant fueling system; and ground transportation site preparations.

**Series 2002** – The bonds were issued to provide funds for the purpose of refunding a portion of the Series 1993B and all of Series 1994A Bonds. The proceeds of the 1993B bonds were issued to provide funds for the purpose of refunding a portion of the Series 1988 Bonds. (See Series 1988, which follows.) The proceeds of the 1994A bonds were issued to finance the construction and related costs of certain capital improvements to the passenger terminal facilities, roadways, parking lots and taxiways.

**Series 2001A and B** – The proceeds of this bond issue were used to finance the construction, reconstruction and extension of runways and taxiways, acquisition of property for noise mitigation, replacement of airport signage, property acquisition and clearing, expansion of the parking garage and employee parking lot, the acquisition and implementation of an automated vehicle identification system, roadway improvements, construction of terminal improvements, a walkway connector, baggage system improvements and other airline tenant finishes at the Airport, construction of facilities for air cargo and airline ground service equipment and other associated projects at the Airport including the replacement and upgrade of two cooling plants and the relocation of an airport maintenance shop.

**Series 1999E** - The bonds were issued to provide funds for the purpose of refunding the Series 1991 Bonds. The proceeds of the Series 1991 Bonds were used to finance the completion of certain taxiway construction projects and the installation of an improved access control system to enhance Airport security.

**Series 1999D** - The proceeds of this bond issue were used to finance the extension of Taxiway N to the south end of Runway 18R-36L, construction of an aircraft apron at the south end of Taxiway N, reconstruction of Taxiway M as a temporary runway and connecting taxiways, reconstruction of Taxiway Z and T, construction of high-speed exits from Runway 9-27, enlarge the airfield maintenance facility and to acquire property for airport development in the airfield area. Repairs in the parking garage and upper level terminal drive were projects for the ground transportation area. Terminal projects include constructing a walkway connecting Concourse B and C, constructing additional gates to accommodate regional jets, construct space for airline clubs and concessions and other tenant improvements.

## USE OF BOND PROCEEDS (CONTINUED)

**AIRPORT REVENUE BONDS (CONTINUED)**

Funds were also used for the following airline-related improvements: finish and equip 23 regional jet gates on Concourses A & C, upgrade the flight information display system & gate check-in facilities on Concourse B, finish and equip the new Northwest World Club, renovate and expand the apron control, upgrade passenger check-in computers, expand baggage sort system and install and equip additional ticket counters for Northwest Airlines. For other airline tenants, renovate existing ticket and baggage claim facilities in Terminal C for joint use, expand holdroom space and install some jet bridges in Concourse C.

**Series 1999A and B** - The bonds were issued to provide funds for the purpose of refunding the Series 1996A and B bonds. The proceeds of the 1996A and B bonds were used to finance ongoing airfield projects which included the following items: a portion of the construction of Runway 18L-36R and its associated taxiways, the reconstruction and extension of Runway 18C-36C and associated taxiways, reconstruction, strengthening and extension of the tunnel structure over Winchester Road, the reconstruction and lowering of Shelby Drive, a portion of a taxiway parallel to Runway 18L-36R on the east side, Taxiway N slab replacement and partial rehabilitation, a Surface Movement Guidance and Control System, and the relocation of an air navigation transmitter south of the Airport.

Funds were also used for the following airline-related improvements: construct an 80,000 square foot parking apron for all-cargo aircraft adjacent to the existing cargo complex.

**Series 1997A** - The bonds were issued to provide funds for the purpose of refunding a portion of the Series 1988 Bonds, which were used for ongoing expansion and modification of the airports as outlined in a master plan adopted by the Authority in 1986. This bond issue funded airfield, terminal building, and airline projects.

Airfield projects involve the following taxiway construction and improvements: acquisition of 37 acres of land for future development, including planned third parallel north-south runway; construction of a second east-west taxiway south of the passenger terminal; reconstruction of taxiways along the east and south edges of the terminal aircraft parking apron; reconstruction of the taxiway paralleling runway 9-27; construction of holding aprons and bypass taxiways for runway 18R-36L; and a taxiway extension to ease traffic to and from the FedEx apron.

In the terminal area, the following improvements have been made: installation of additional electrical supply and chiller equipment; removal and treatment of asbestos; repair of the existing two levels of the garage; and design of additional curbside roadways.

Funds were also used for the following airline-related improvements: enlargement of certain passenger holdrooms; general improvements to passenger holdrooms; an airline club room, restrooms at the east and west concourses; construction of bridge connectors between the concourses; enlargement and remodeling of airlines operations offices and ticketing and baggage service counters; installation of various airlines equipment

## USE OF BOND PROCEEDS (CONTINUED)

### AIRPORT REVENUE BONDS (CONTINUED)

and fixtures and aircraft loading bridges; installation of electrical equipment and a hydrant fuel supply facility; construction of a maintenance and storage facility; and a storage and distribution warehouse for Northwest Airlines.

**Series 1993 B** – The bonds were issued to provide funds for the purpose of refunding a portion of the Series 1988 Bonds, which were issued to fund terminal improvements including the construction of additional public space; construction of a third level to the public parking garage; repair of the existing two levels of the garage; construction of overflow parking space; installation of equipment to monitor and control parking activity and revenues; and design of additional curbside roadways; and in the airfield area, various improvements to the reliever airports.

### CITY OF MEMPHIS GENERAL OBLIGATION BONDS

**Series 1998** - The bonds were issued to provide funds for the purpose of refunding the outstanding principal balance of the Series 1991B Bonds; which were issued to help finance the acquisition of land and 310 residential properties to allow future Airport development.

**Series 1995B** - The bonds were issued to provide funds for the purpose of refunding the outstanding principal balance of the Series 1987D Bonds; which were issued to help finance the purchase of land in connection with the Authority's noise compatibility program.

### SPECIAL FACILITIES REVENUE BONDS

**Series 2003** - The bonds were issued to provide funds for the purpose of refunding the outstanding principal balance of the Series 1993 Bonds, which were issued to construct a aircraft maintenance facilities, a corporate aviation hangar, and a ramp extension at the Airport.

**Series 2002** – The bonds were issued to provide funds for the purpose of refunding the outstanding principal balance of the Series 1992 Bonds, which were issued to refund the 1982A & 1982C Bonds, which were issued to finance facilities and equipment for the handling and sorting of packages at FedEx's central sorting facility.

**Series 2001** – The bonds were issued to provide funds for the purpose of refunding the outstanding principal balance of the Series 1984 Bonds, which were issued for additions to buildings and acquisition of equipment for the handling and sorting of packages weighing up to 150 pounds at FedEx's central sorting facility located at the Airport. The project added 170,000 square feet of existing buildings and 122,000 square feet of space in a new building, which is leased to FedEx. Equipment acquired included a document sort system, sort belts,

## USE OF BOND PROCEEDS (CONTINUED)

**SPECIAL FACILITIES REVENUE BONDS (CONTINUED)**

and an automated scanning system. Also included were input conveyer belts, an additional ramp, and parking spaces.

**Series 1997, dated November 1** - The bonds were issued to provide funds for the purpose of refunding the outstanding principal balance of the Series 1986 Bonds, which were issued to construct a maintenance facility for Pinnacle Airlines, formerly Express Airlines I, Inc.

**Series 1997, dated July 15** - The bonds were issued to provide funds for the purpose of refunding the outstanding principal balance of the Series 1982B Bonds, which were issued to finance facilities and equipment for the handling and sorting of packages at FedEx's central sorting facility. Primary additions were container and package handling equipment, document sorting equipment, an engine maintenance facility, an aircraft hangar, a back-up power system, a fire protection system, concrete ramp reinforcement and waterway stabilization, modification to a flight training facility, and miscellaneous related equipment .

## POPULATION
## METROPOLITAN STATISTICAL AREA [1]

| Year [3] | Shelby County | Memphis MSA | Tennessee | United States |
|---|---|---|---|---|
| 1970 | 722,100 | 856,800 | 3,926,000 | 203,302,000 |
| 1980 | 777,100 | 938,500 | 4,591,100 | 226,546,000 |
| 1990 | 826,300 | 1,007,300 | 4,877,200 | 249,402,000 |
| 2000 | 897,500 | 1,135,600 | 5,689,300 | 281,422,000 |
| Forecast 2005 [4] | 912,300 | 1,261,500 | 5,965,300 | 295,507,000 |
| Forecast 2010 [4] | 926,200 | 1,314,400 | 6,230,900 | 308,936,000 |

## TEN LARGEST EMPLOYERS
## METROPOLITAN STATISTICAL AREA [1]

| Name of Employer [2] | Number of Employees [2] |
|---|---|
| FedEx Corporation | 30,000 |
| Memphis City Schools | 15,240 |
| U. S. Government | 14,800 |
| Methodist Healthcare | 8,876 |
| Wal-Mart Stores, Inc. | 7,000 |
| Memphis City Government | 6,667 |
| Shelby County Government | 6,513 |
| Naval Support Activity Mid-South | 6,372 |
| Baptist Memorial Healthcare Corp. | 6,199 |
| Harrah's Entertainment Inc. | 5,900 |

(1) Metropolitan Statistical Area consists of Shelby, Tipton and Fayette Counties, Tennessee: Crittenden County, Arkansas; and Desoto County, Mississippi.
(2) Source: Memphis Business Journal, Book of Lists 2006.
(3) Source: Tennessee Department of Economic and Community Development, and U.S. Department of Commerce, Bureau of the Census, Current Population Reports, 2000.
(4) Estimates based on growth rates published by NPA Data Service, Inc., Key indicators of County growth, 1970-2025, 2000 edition.

# AIRLINES SERVING MEMPHIS INTERNATIONAL AIRPORT
## *June 30, 2006*

### CARGO AIRLINES

ABX Air dba Airborne Express, Inc.
Bankair, Inc.
Baron Aviation Services
BAX Global dba Air Transport International
DHL Worldwide Express
FedEx
Mountain Air Cargo
United Parcel Service, Inc.
UPS Supply Chain Solutions, Inc (formerly Menlo)
U.S. Check

### PASSENGER AIRLINES

**MAJOR**

AirTran Airways
American Airlines, Inc.
Continental Airlines
Delta Air Lines, Inc.
Northwest Airlines, Inc.

**CHARTER**

Champion Air
Miami Air International
Palm Air
Phoenix Air Group

**REGIONAL/COMMUTER**

America West Airlines dba America West Express
American Eagle
Atlantic Southeast Airlines dba Delta Connection
Comair dba Delta Connection
Continental Express
Mesa Airlines dba America West Express
Mesa Airlines dba United Express
Mesa Airlines dba US Airways Express
Mesaba Airlines dba Northwest
Mesaba Airlines dba Northwest Airlink
Pinnacle Airlines, Inc. dba Northwest Airlink
PSA dba US Airways
Skywest Airlines dba United Express
Trans States Airlines, Inc. dba American Connection

# EMPLOYER LOCATED ON AIRPORT PROPERTY
## *June 30, 2006*

**CONCESSIONAIRES AND TENANTS**

Aircraft Services International, Inc.
Airport Fast Park
Airport Rentals, Inc. dba Budget Rent-a-Car
AmSouth Bank
Anton Airfoods, Inc.
Cockrum Clark Delivery
Creative Host, Inc.
Delaware North Companies
DTG dba Dollar Rent-a-Car / Thrifty Rent-a-Car
Encore Enterprises
Enterprise Rent-a-Car
Flight Support Solutions
Gate Gourmet
Marcus Hopson dba Barbershop
Hudson News
The Hertz Corporation
Huntleigh USA Corporation
Integrated Airline Services
International Business Services
JCDecaux Airport, Inc.
Motorent, Inc. dba Avis Rent-a-Car, Licensee
NWA Federal Credit Union
The Paradies Shops
Parking Co. of America
Republic Parking System
Service Master Management
Shoeshine Shop
Smart Carte, Inc.
U S Security Associates, Inc
Vanguard Car Rental USA, Inc. dba Alamo Rent-a-Car / National Car Rental systems

**CARGO AIRLINES**

ABX Air dba Airborne Express, Inc.
BAX Global DBA Air Transport International
DHL Worldwide Express
Emery Air Freight Corp./Menlo Worldwide
FedEx
United Parcel Service, Inc.

**PASSENGER AIRLINES**

AirTran Airways
America West Airlines dba America West Express
American Airlines, Inc.
American Eagle
Atlantic Southeast Airlines dba Delta Connection
Comair dba Delta Connection
Continental Airlines
Continental Express
Delta Air Lines, Inc.
Mesa Airlines dba America West Express
Mesa Airlines dba United Express
Mesa Airlines dba USAirways Express
Mesaba Airlines dba Northwest
Mesaba Airlines dba Northwest Airlink
Northwest Airlines, Inc.
Pinnacle Airlines, Inc. dba Northwest Airlink
PSA dba US Airways
Skywest Airlines dba United Express
Trans States Airlines, Inc. dba American Connection

**OTHER EMPLOYERS**

AMFA
Aramark Aviation Services, LP
City of Memphis Fire Department
Complete Scale Service
Federal Aviation Administration
GAT Airline Ground Support
Jetstream
Richards Aviation
Signature Flight Support
Tennessee Air National Guard
Tennessee Technology Center
Transport Services, Inc.
Transportation Safety Administration
United States Postal Service
Wilson Air Center

# FULL-TIME EQUIVALENT EMPLOYEES BY COST CENTER
## *Last Ten Years*

| Cost Center | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|---|---|---|---|---|
| Terminal areas Maintenance | 56 | 56 | 57 | 57 | 57 | 52 | 50 | 48 | 48 | 48 |
| Airfield areas Maintenance | 78 | 84 | 77 | 80 | 80 | 76 | 76 | 74 | 74 | 73 |
| Administration area | 83 | 83 | 81 | 75 | 75 | 70 | 68 | 66 | 64 | 59 |
| Police & Operations areas Officers | 57 | 44 | 44 | 44 | 43 | 43 | 42 | 41 | 41 | 41 |
| Support Staff | 16 | 29 | 28 | 28 | 27 | 27 | 27 | 27 | 21 | 14 |
| General Aviation Airports Maintenance | 3 | 3 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Total | 293 | 299 | 289 | 286 | 284 | 270 | 265 | 258 | 250 | 237 |

# INSURANCE IN FORCE
## *June 30, 2006*

| Type of Policy | Amount of Policy | Policy Expiration Date | Name of Insurer | Risks Covered |
|---|---|---|---|---|
| Airport liability (Comprehensive general liability, contractual liability, personal injury liability, and hangar keeper's liability) | $250,000,000 total liability<br>Deductible: $5,000 per occurrence<br>$100,000 aggregate | April 1, 2007 | Old Republic Insurance Company and Lloyds of London | Personal injury and property damage |
| Aircraft non-ownership liability | 250,000,000 total liability<br>Deductible: $5,000 | April 1, 2007 | Old Republic Insurance Company and Lloyds of London | Personal injury and property damage |
| Employee benefits liability | $1,000,000 aggregate<br>Deductible: $1,000 | April 1, 2007 | Old Republic Insurance Company | Negligent act, error or omission damages |
| Automobile liability - bodily injury and property damage | $1,000,000 each occurrence | April 1, 2007 | Fireman's Fund Insurance Company | Bodily injury and property damage |
| Automobile - physical damage | Actual cash value at time of loss | April 1, 2007 | Fireman's Fund Insurance Company | Automobile physical damage |
| Property | $500,000,000 aggregate losses<br>$10,000,000 earthquake,<br>$10,000,000 flood,<br>$5,000,000 Terrorism.<br>Deductibles: Terrorism - $100,000<br>Flood-$500,000 per occurrence,<br>$1,000,000 aggregate<br>earthquake - 5% of value<br>property damage $25,000 | July 8, 2007 | FM Global | Building – All risk (includes fire and extended coverage, boiler & machinery as well as contents) |
| Fidelity and crime | $1,000,000<br>Deductible: $10,000 | Until cancelled | Hartford Fire Insurance Company | Employee theft, forgery, robbery, and computer fraud |
| Employment practices liability | $5,000,000<br>Deductible: $50,000 | April 1, 2007 | National Union Fire Insurance Company | Wrongful termination, discrimination, sexual harassment and workplace torts |
| Worker's compensation | $1,000,000<br>Statutory coverage – State of TN<br>Employers Liability | April 1, 2007 | Liberty Mutual Insurance Company | Workers' compensation for on-the-job injuries |
| Public officials liability | $5,000,000<br>Deductible: $25,000 | April 1, 2007 | National Union Fire Insurance Company | Board of Commissioners, management and professional liability |
| **Owner Controlled Insurance Program - (Construction Insurance):** | | | | |
| General Liability | $1,000,000 per occurrence<br>$2,000,000 aggregate<br>Deductible: $250,000 | October 1, 2009 | Zurich Insurance | Personal injury and property damage |
| Excess liability insurance | $10,000,000 per occurrence<br>$10,000,000 aggregate<br>Deductible: $250,000 | October 1, 2009 | Zurich Insurance | Personal injury and property damage |
| Workers' compensation | $1,000,000 each occurrence<br>$1,000,000 aggregate<br>Deductible: $250,000 | October 1, 2009 | Zurich Insurance | Workers' compensation for on-the-job injuries |

# SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
## *Year ended June 30, 2006 (In Thousands)*

| Grantor/Number Pass-Through Grantor | Federal CFDA Number | Grant and Contract Number | Project Description | Percentage of Participation |
|---|---|---|---|---|
| FEDERAL AWARDS | | | | |
| U.S. Department of Transportation Federal Aviation Administration (FAA): | | | | |
| Airport Improvement Programs | 20.106 | 3-47-0049-56 | Airport Security Enhancements | 90% |
| | | 3-47-0049-60 | Airport Development - Rehabilitate Taxiway C and N, Winchester Slip Ramp | 75% |
| | | 3-47-0049-61 | Aircraft Rescue and Fire Fighting Facility | 75% |
| | | 3-47-0049-63 | Improvements, Rehabilitate Runway 9/27 Taxiway C and V | 75% |
| | | 3-47-0049-64 | Aircraft Rescue Vehicle | 75% |
| | | 3-47-0049-65 | Airport Development - Service Road over Winchester | 75% |
| | | 3-47-0049-67 | Snow Removal Equipment and Airport Development - FY 2005 Improvement Projects | 75% |
| | | 3-47-0049-68 | Airport Development - Taxiway Reconstruction and Taxiway Construction | 75% |
| U.S. Department of Transportation Security Administration | | DTSA20-03-H-01003 | K9 Grant | 100% |
| U. S. Department of Transportation (FAA) Tennessee Department of Transportation | 20.106 | 79-555-0163-04 | Baker - Pavement Overlay | 90% |
| | | 79-555-0162-04 | Spain - Pavement Overlay | 90% |
| | | 79-555-0264-04 | Site Improvements for Runway & Apron | 75% |
| | | 79-555-0784-04 | Site Improvements for Runway & Apron, Phase II | 90% |
| | | 79-555-0786-04 | Site Improvements for Runway & Apron, Phase III | 90% |
| Total Federal Awards | | | | |
| STATE AWARDS | | | | |
| Tennessee Department of Transportation: | | | | |
| | | 99-555-1130-04 | Baker - Maintenance | 50% |
| | | 99-555-1130-04 | Spain - Maintenance | 50% |
| | | 99-555-0177-04 | Baker Utility Expansion and Upgrade | 90% |
| | | 79-555-0771-04 | Spain - Security | 90% |
| | | 79-555-0772-04 | Baker - Security | 90% |
| | | 99-555-1145-04 | Baker - Maintenance | 50% |
| | | 99-555-1145-04 | Spain - Maintenance | 50% |
| Total State Awards | | | | |
| TOTAL FEDERAL AND STATE AWARDS | | | | |

(1) Grant Expenditures contain $9,175 from prior years.

| Grants as Amended June 30, 2005 | Awarded | Total June 30, 2006 | Grants Receivable June 30, 2005 | Expenditures (1) | Cash Receipts | Grants Receivable June 30, 2006 |
|---|---|---|---|---|---|---|
| $ 2,330 | $ 200 | $ 2,530 | $ 12 | $ 2,125 | $ 1,718 | $ 419 |
| 5,144 | | 5,144 | 38 | 430 | 351 | 117 |
| 2,225 | | 2,225 | 6 | 1,066 | 742 | 330 |
| 22,120 | | 22,120 | 1,599 | 4,565 | 5,333 | 831 |
| 94 | | 94 | | 94 | 94 | |
| 1,328 | | 1,328 | 446 | 304 | 729 | 21 |
| | 22,639 | 22,639 | | 9,743 | 4,887 | 4,856 |
| | 5,878 | 5,878 | | 5,878 | 5,878 | |
| | 153 | 153 | | 153 | 113 | 40 |
| 33,241 | 28,870 | 62,111 | 2,101 | 24,358 | 19,845 | 6,614 |
| 482 | | 482 | 5 | | | 5 |
| 450 | | 450 | 95 | | | 95 |
| 3,862 | | 3,862 | 3,862 | | 3,862 | |
| 4,358 | | 4,358 | 4,358 | | 4,358 | |
| 1,555 | 2,824 | 4,379 | 1,556 | 1,740 | 1,741 | 1,555 |
| 10,707 | 2,824 | 13,531 | 9,876 | 1,740 | 9,961 | 1,655 |
| 43,948 | 31,694 | 75,642 | 11,977 | 26,098 | 29,806 | 8,269 |
| 9 | | 9 | 9 | | 9 | |
| 9 | | 9 | 9 | | 9 | |
| 9 | | 9 | 9 | | | 9 |
| 135 | | 135 | 53 | 72 | | 125 |
| 135 | | 135 | 101 | 15 | | 116 |
| | 10 | 10 | | 10 | | 10 |
| | 10 | 10 | | 10 | | 10 |
| 297 | 20 | 317 | 181 | 107 | 18 | 270 |
| $ 44,245 | $ 31,714 | $ 75,959 | $ 12,158 | $ 26,205 | $ 29,824 | $ 8,539 |

# NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
*Year Ended June 30, 2006*

## 1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal and state awards includes the federal and state grant activity of the Memphis-Shelby County Airport Authority and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the financial statements.

## 2. CONTINGENCY

The grant revenue amounts received and expensed are subject to audit and adjustment. If any expenditures are disallowed by the grantor as a result of such an audit, any claim for reimbursement to the grantor would become a liability of the Authority. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.

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# Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Commissioners and Management
Memphis-Shelby County Airport Authority

We have audited the financial statements of the Memphis-Shelby County Airport Authority (the "Authority") as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

*Internal Control Over Financial Reporting*

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Authority in a separate letter dated September 8, 2006.

This report is intended solely for the information and use of the Board of Commissioners, management, and federal program officials, and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

September 8, 2006

Moore Stephens Rhea & Ivy, PLC

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# Independent Auditor's Report on Compliance with Requirements Applicable to the Major Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133

The Board of Commissioners and Management
Memphis-Shelby County Airport Authority

*Compliance*

We have audited the compliance of the Memphis-Shelby County Airport Authority (the "Authority"), with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The Authority's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

*Internal Control Over Compliance*

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract and grants applicable to its federal program. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Commissioners, management and federal program officials, and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by anyone other than these specified parties.

September 8, 2006

Moore Stephens Rhea & Ivy, PLC

# SCHEDULE OF FINDINGS AND QUESTIONED COSTS
## *For the Year Ended June 30, 2006*

**PART I – SUMMARY OF AUDIT RESULTS**

1. The independent auditor's report on the financial statements of Memphis-Shelby County Airport Authority (the "Authority"), dated September 8, 2006, expressed an unqualified opinion.

2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (report dated September 8, 2006).

3. No instances of noncompliance considered material to the financial statements were disclosed by the audit.

4. No reportable conditions relating to the audit of the major federal award program is reported in the independent auditor's Report on Compliance with Requirements Applicable to the Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 (report dated September 8, 2006).

5. The independent auditor's Report on Compliance with Requirements Applicable to the Major Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133, dated September 8, 2006, expressed an unqualified opinion.

6. There were no audit findings relative to the major federal awards program.

7. The Authority's major program was the Airport Improvement Program (CFDA 20.106).

8. A threshold of $300,000 was used to distinguish between Type A and Type B programs as those terms are defined in OMB Circular A-133.

9. The Authority qualified as a low-risk auditee as that term is defined in OMB Circular A-133.

**PART II – FINDINGS – FINANCIAL STATEMENTS AUDIT**

None

**PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS**

None