Memphis-Shelby County Airport Authority

MEMPHIS, TENNESSEE

A COMPONENT UNIT OF THE CITY OF MEMPHIS

Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2007 and 2006

PREPARED BY THE FINANCE DIVISION

Memphis-Shelby County Airport Authority

JUNE 30, 2007

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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
Sara L. Hall, J.D.	Vice President and General Counsel
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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

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October 26, 2007

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, 2007, 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, 2006. The Financial Section includes the independent auditor's 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, 2007, 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, 2007, 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 auditor's 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.

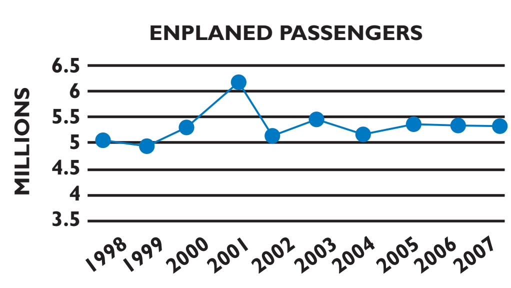
Based on the financial accountability the City has over the Authority, the Authority is considered a component unit of the City under the criteria set forth by the Governmental Accounting Standards Board ("GASB").

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.

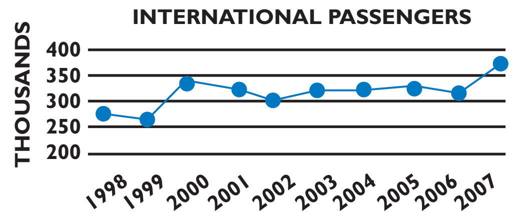
The Airport occupies about 4,300 acres of land in Shelby County and is 13 miles by road southeast of downtown Memphis. The Airport is 99.9% unaffected by impassable weather and handles all types of aircraft. The Airport has four runways equipped with precision instrument landing systems suitable for 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.

Six major and thirteen regional scheduled passenger airlines currently serve Memphis International Airport. During this fiscal year, the Airport had relatively stable passenger airline flight schedules as Northwest, Delta and other passenger airlines, operated much of the year under Chapter 11 of the Bankruptcy Code. Between April 30 and May 31, 2007 all airlines serving Memphis had exited bankruptcy.

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 80 scheduled average daily mainline departures as compared to 76 in 2006 and 95 in 2005 and serves approximately 48.6% of the total passengers enplaned at the Airport, which is slightly above last year's 48% but down from 2005's 52%. Pinnacle Airlines and Mesaba, flying under the Northwest Airlink name, reported 143 average daily departures for both 2007 and 2006, which was up from 133 in 2005. Pinnacle and Mesaba serves approximately 33% of the total enplaned passengers, which is up from last year's 32.5% and 2005'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 decrease in scheduled flights for both this year and last year.



Enplaned passengers steadily increased from 1999, until September 11, 2001. The small dip in 1999 was due to the Northwest Airlines pilot's strike. There was a dramatic increase in 2001 when an additional afternoon bank of flights was added by Northwest. However, the events of September 11th had a dramatic affect on 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. Enplaned passengers for 2007 are down 1.6%, which is slightly more of a reduction than was seen in 2006 However it appears that total enplaned passengers have stabilized between 5.2 and 5.5 million.



While domestic passengers have been down overall since September 11, 2001, international passenger traffic has shown relative stability and an overall increase, reaching an all time high in 2007 when it increased 16%. Some minor slippage was seen in 2006 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 hub airports in the country. The Airport handled a total of 4.2 million U.S. tons of cargo in 2007. Nearly 96% 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 2007. 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 several designated Foreign Trade Zones.

FACTORS AFFECTING FINANCIAL CONDITION

Economic Conditions and Outlook

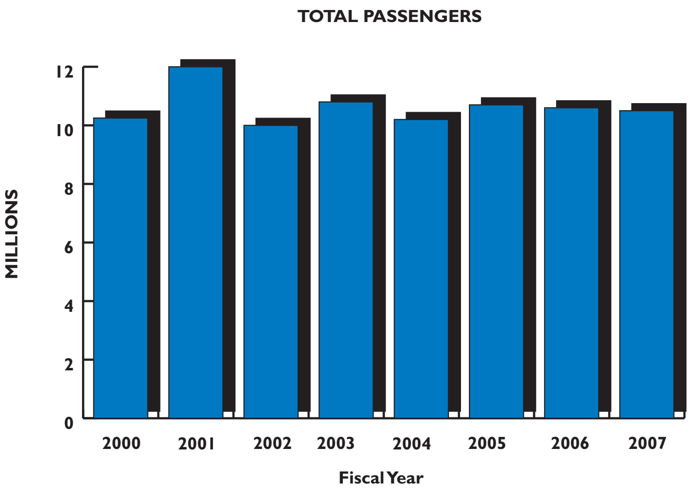
In 2007 the Airport continued to be the single largest economic engine in Memphis, as determined in an economic impact study conducted by the Sparks Bureau of Business and Economic Research at the University of Memphis, dated May 2005. The combined direct expenditures of its FY 2004 cargo and passenger 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.

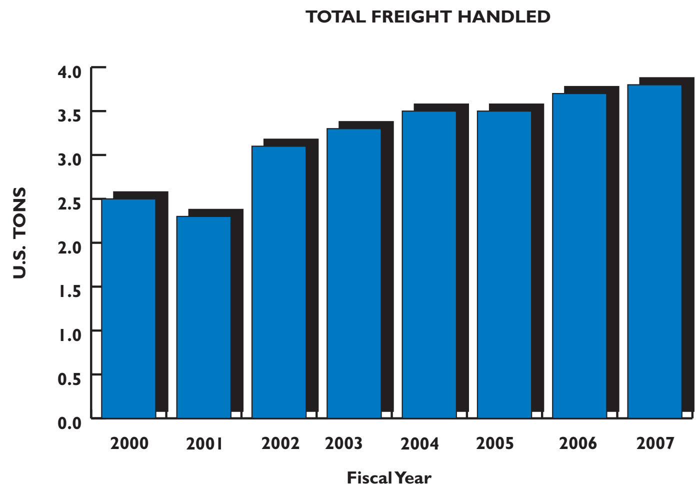
The passenger airline industry continued to operate in turmoil through 2006 and into 2007. Struggling passenger airlines were forced to file bankruptcy in order to survive and have restructured their operations to better compete with lower cost entities. This restructuring process was clearly evident 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 2007 is down 1.7% compared to last year. However, when compared to 2000, passengers are level and are higher than levels attained in 2002 and 2004, but below the historic high in 2001 and approximately 5% below passenger levels in 2003. During 2001, the Airport was in a growth mode when 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 2007, daily scheduled passenger flights were at 285, which was up 1% from 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.

At the end of May and June of 2007, two legacy carriers (Northwest and Delta Air Lines) exited Chapter 11 of the Bankruptcy code along with two of their affiliates, Comair and Mesaba.

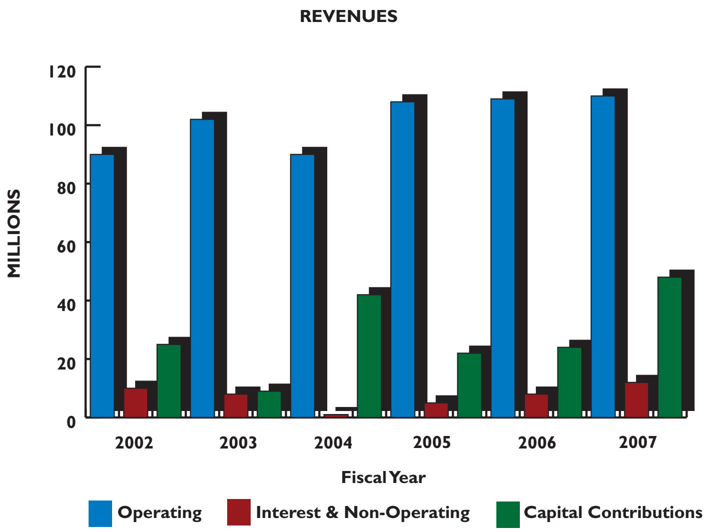
Over the past seven years, all cargo airline activity has remained much more stable than passenger activity. While there are a few less all cargo airlines today, there has been an overall increase in the amount of freight handled. Freight is up over 4% from 2006 and 56% from 2000. Most of this increase can be attributed to FedEx, as the result of an agreement with the U.S. Postal Service in August 2001 to handle mail. That contract remains in place today. FedEx has seen a 62% increase in domestic freight and 7% 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.

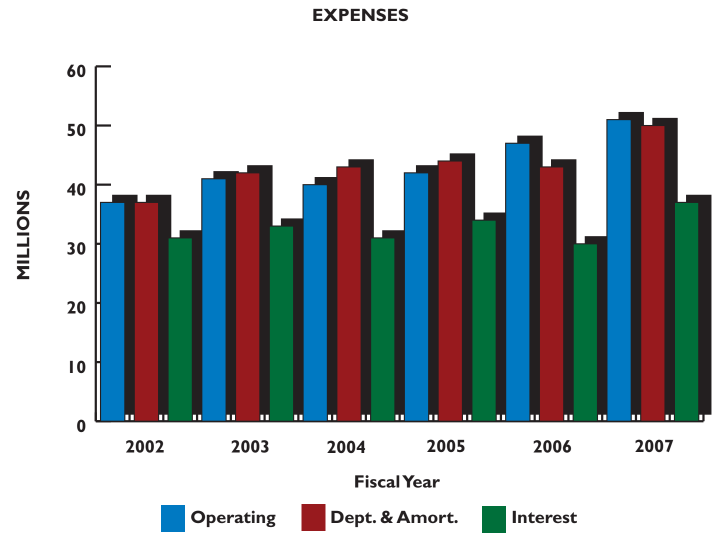




All of these factors, as well as the slow national economic recovery, have affected the Authority's operations. The Authority has kept its operating expenses relatively flat from 2002 through 2005. The increase in 2006 is due mainly to bad debt expense related to the passenger airline bankruptcies. The increases in 2007 are partially related to asset write offs with 1.8% of the increase being attributable to an increase in overall expenses. Depreciation and amortization expense is expected to continue rising each year due to capital assets being added upon the completion of construction projects. However, 2006 is slightly lower than 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. Interest expense was down 2% in 2007 compared to 2006 and 2.6% compared to 2005, but still higher than years prior to 2005. Recognizing our partnership role with our air 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 completed and one that is ongoing. It is anticipated that the remaining LOI funds of approximately $16 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 have been 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 Master Plan, which will drive the long term Capital Improvement Plan going forward.

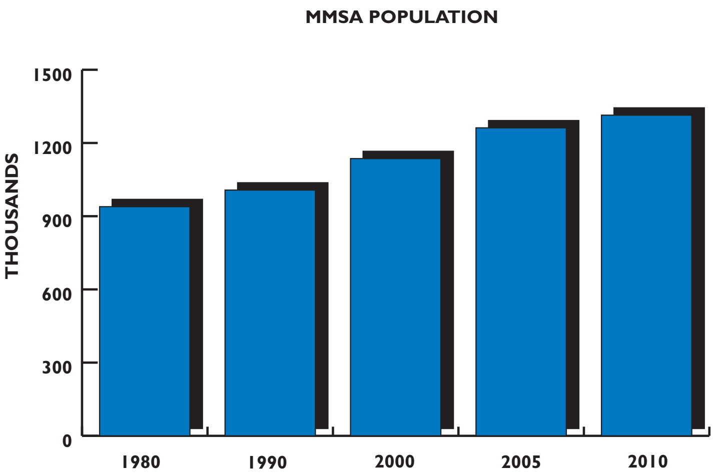
Additionally, the Tennessee Air National Guard is in the process of constructing new facilities on the southeast corner of the Airport. They will be relocating to this location upon the completion of construction in the winter of 2008. The new facilities have an estimated cost of $225 million. Further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

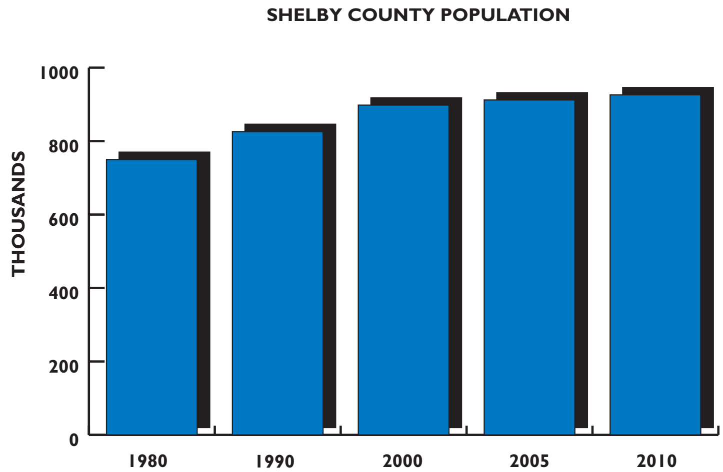
The Transportation Safety Administration continues to make changes and add new security measures at the nation's airports as they refine the Homeland Security Act. Many of the costs to implement these changes have been mandated on airports and in most instances, passed through to the airlines.

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 1,274,704 at July 1, 2006, which is up 5% from 2000. Additionally, the population for the MMSA is expected to increase to 1,314,400 by 2010. Shelby County's estimated population for 2006 is 928,648, which was 3% higher than the 897,472 for 2000. 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 2007 is 4.8%, which is above the State of Tennessee rate of 4.2% but below the national average of 4.9%.

The Airport and the Port of Memphis, as well as the seven federal highways, 15 state highways and two U.S. interstate systems, with a third one under construction, 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 Stanford 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, Stax Museum of American Soul Music 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 initiated an update to this Master Plan in June 2007. This plan is expected to take several years to complete.

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 also prepares Multi-Year Financial Plans, which are 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 November 2006, the Authority engaged PFM Asset Management LLC 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, 2007, the market value of securities underlying repurchase agreements approximates the carrying value of the repurchase agreements. The investments held on June 30, 2007, yielded interest ranging from 3.124% to 6.73% and mature on various dates through June 2012. 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 on investments. The carrying value of all investments approximates 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 $524 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, 2007, 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. Reconfiguration of the entrance drive began in the fall of 2006 to allow for easier traffic flow into the passenger terminal and is expected to be complete by December 2007. 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 approximately 4,000 additional parking spaces at an estimated cost of $70 million. Construction is scheduled to begin in FY 2008.

Projects underway in the airfield area include the development of the southeast area of the airfield area for cargo expansion, the addition of de-ice pads and de-ice chemical collection stations at the south end of the airport and the rehabilitation of taxiway Sierra. The construction of new air cargo facilities is underway and will be complete by the fall of 2008. These projects, which were identified in the prior Airport Master Plan Update, amount to approximately $18 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 financial 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 nine.

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, 2006. The Authority has received a Certificate of Achievement for eighteen consecutive fiscal years from 1989-2006. 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 contents of which conform to program standards. 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 conform to 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

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

Scott A. Brockman

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

Linda M. Jones

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, 2006

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.

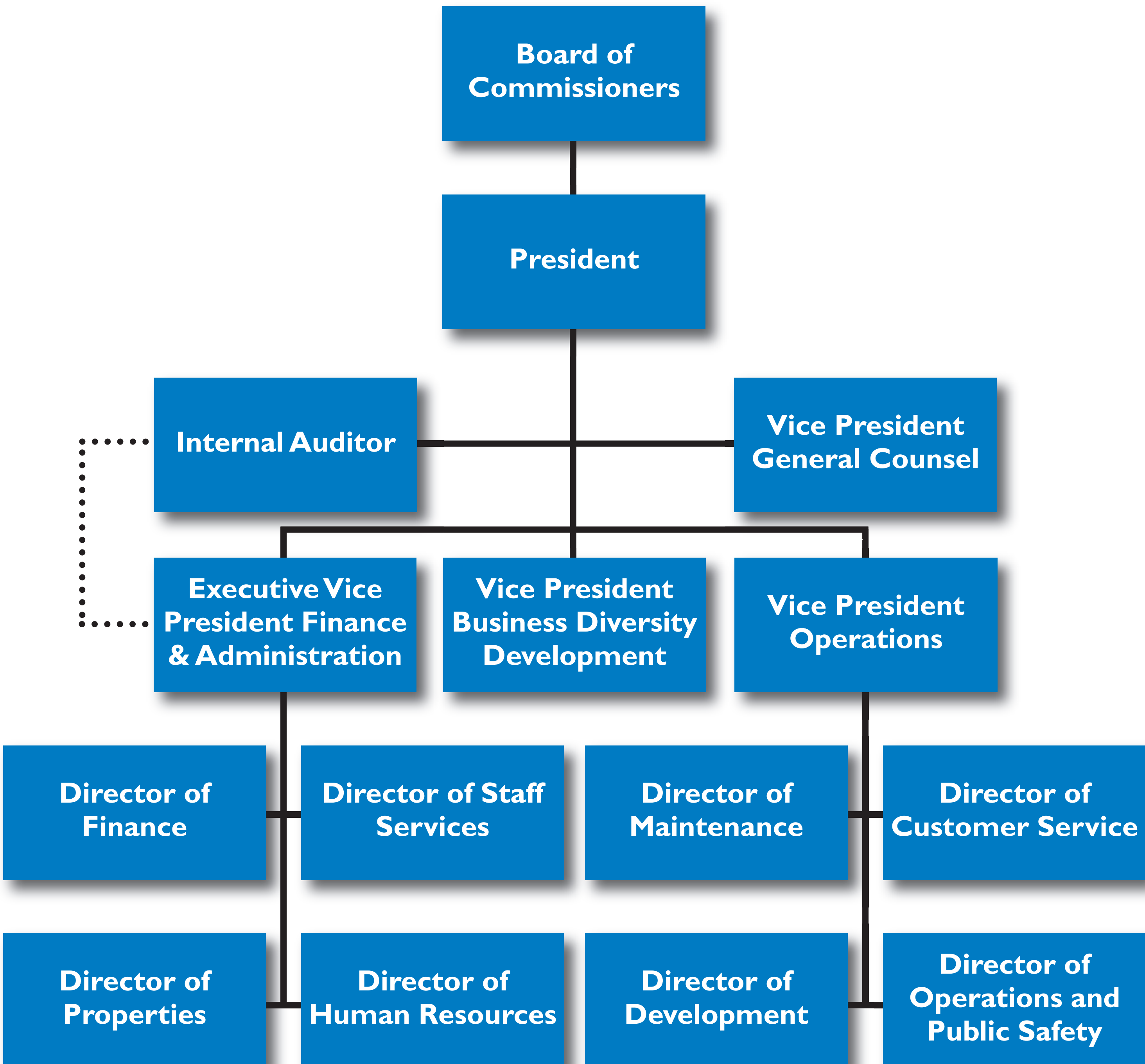
GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

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, 2007 and 2006, 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, 2007 and 2006, 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 October 26, 2007, 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 2007 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 2007 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 2007 basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the 2007 basic financial statements taken as a whole. The introductory section and statistical section as listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the 2007 basic financial statements and, accordingly, we express no opinion on them.

Moore Stephens Rhea & Ivy, PLC

October 26, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

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, 2007. 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. All Capital assets, except land, are capitalized and depreciated 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 at June 30, 2007 by $531,687. Of this amount, $29,039 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 2007 of $39,593.

- The Authority's total outstanding long-term debt decreased by $30,018 (5%) during fiscal year 2007 due to scheduled debt payments.

- Operating revenues increased by approximately 1.5% from fiscal year 2006 due mainly to increases in rental car commissions, the recovery of bad debt and interest earnings, which was offset by decreases in airline rates and charges.

- Operating expenses, before depreciation and amortization, increased 10% compared to the fiscal year 2006. The variance included a $3,847 write off of capital assets no longer held. That amount was offset by the lower bad debt write off of $3,185. Fiscal year 2006 bad debt write off was related to the bankruptcy filings of Delta, Northwest, Comair and Mesaba Airlines. The remaining variance can be attributed to multiple accounts with the largest being increases in fire and ambulance service contracted from the City of Memphis and expenses related to an ongoing disparity study.

- Capital Contributions increased 90% in fiscal year 2007 from grant awards related to projects described under Capital Assets.

FINANCIAL POSITION

Current asset fluctuations are due mainly to changes in cash and investments related to grants received and capital asset expenditures.

Capital contributions receivable decreased $1,509 in 2007 compared to the decrease of $3,629 in 2006. These receivables vary due mainly to timing of the amount of expenditures compared to time lag of grants received after making a draw for funds.

Net capital assets increased approximately $16,362 in fiscal year 2007 due to increases in construction in progress, which was offset by decreases in land and capital assets. The decreases are attributed to the write off of assets no longer held. In 2006, the increase of $26,561 (net of depreciation) was due to planned construction projects. Other non-current assets increased mainly due to the increase in investments.

Current liabilities are higher due to increases in construction payables. Total non-current liabilities are lower than 2006 due primarily to scheduled reductions in annual debt payments, which was offset by higher deferred lease revenue. 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 both 2007 and 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 (22% for 2007, 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, $29,039 in 2007 compared to $24,944 for 2006, are unrestricted and may be used for any lawful purpose of the Authority.

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

SUMMARY OF NET ASSETS

		JUNE 30,	
	2007	2006	2005
Assets:			
Current assets	$187,169	$182,659	$188,658
Net capital assets	899,204	882,842	856,281
Other non-current assets	114,968	96,909	98,985
Total assets	1,201,341	1,162,410	1,143,924
Increase(Decrease) over Prior Year	3%	2%	–
Liabilities:			
Current liabilities	73,012	68,819	55,465
Long-term liabilities	596,642	601,497	615,828
Total liabilities	669,654	670,316	671,293
Increase(Decrease) over Prior Year	–	–	(3%)
Net assets:			
Invested in capital assets, net of debt	384,606	351,896	333,199
Restricted	118,042	115,254	116,201
Unrestricted	29,039	24,944	23,231
Total net assets	$531,687	$492,094	$472,631
Increase(Decrease) over Prior Year	8%	4%	4%

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 was extended two years and will remain in effect until a new agreement is reached on or before June 30, 2009. Landing fees and rates for non-signatory and non-scheduled airlines are assessed at 125% and 150%, respectively, of the Signatory rates.

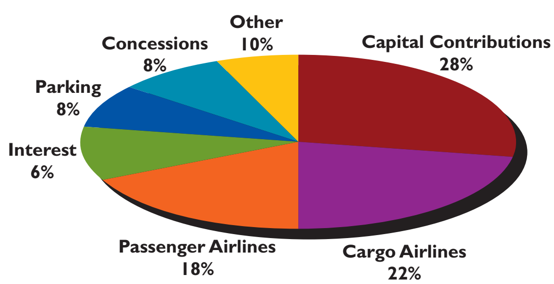
SIGNATORY AIRLINE RATES AND CHARGES	JULY 1, 2007 – JUNE 30, 2008	JULY 1, 2006 – JUNE 30, 2007	MAY 1, 2005 – JUNE 30, 2006[1]	JULY 1, 2004 – APRIL 30, 2005[1]
Terminal Average Square Foot Rate	$ 32.97	$ 31.20	$ 34.60	$ 39.86
Cargo Building Square Foot Rate	23.18	21.23	22.53	22.98
Aircraft Loading Position Rate–per lineal foot	52.49	52.08	29.31	28.72
Signatory Landing Fee–per 1,000 lbs. unit	1.4659	1.5024	1.5879	1.6669

(1) Rate reduction for 2006 was put into effect prior to the start of the fiscal year.

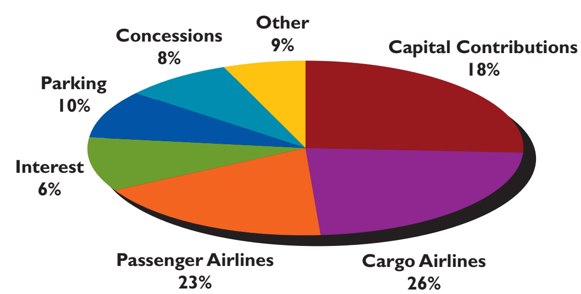
REVENUES

The following charts shows major sources and the percentage of revenues for the years ended June 30, 2007 and 2006.

2007



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 in both 2007 and 2006. These were mainly due to decreases in the square foot rental rates as well as landing fee rates as can be seen in the Signatory Airline Rates and Charges table on the previous page. Rental car commissions show a 17% increase over last year. Although not as high as the 54% increase 2006 showed over 2005, both years increases are a direct result of new concession agreements put in place in February 2006. Public parking revenues increased 2% in 2007 compared with 5% in 2006, both were due to an increase in utilization.

REVENUES (CONTINUED)

The completion of the terminal concession renovation program resulted in a 10% increase in terminal concessions for both 2007 and 2006. 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 Authority's investment in the new concessions areas. This added an additional $1,523 in 2007 compared to $1,299 in 2006 to other rentals. Also included in other rentals in 2007 was the recovery of $2,194 of bad debts written off in 2006 related to the airline bankruptcies. Without this bad debt recovery, other rentals would have been $7,841 or only 4% higher than 2006. The additional increases in other rentals for both 2007 and 2006 were from increases in the fuel sales at the two general aviation reliever airports, which can be attributed to increased usage as well as increased fuel prices.

Non-operating revenue consists mainly of interest and investment income. Interest and investment income was $11,138 compared to $8,149 in 2006 and $5,830 in 2005. This amount is driven by higher invested funds as well as higher interest rates. In 2007 the Authority resumed collection of customer facility charges ("CFCs") totaling $1,323 from the rental car agencies. These funds will be utilized to design and build a new ground transportation center.

REVENUES BY MAJOR SOURCE

	2007	2006	2005
Operating Revenues			
Passenger Airlines			
Passenger landing fees	$ 10,849	$ 11,799	$ 12,787
Airline terminal rentals	18,095	19,632	21,327
Airline fee payments-international charges	1,566	1,719	2,236
Other rentals	571	353	348
Total	31,081	33,503	36,698
Cargo Airlines			
Cargo landing fees	29,219	29,692	29,831
Ground rents	5,439	5,304	5,383
Other rentals	2,837	2,821	3,114
Total	37,495	37,817	38,328
Non-Airline Rentals			
Concessions-terminal	6,019	5,466	4,973
Concessions-rental car	7,741	6,621	4,294
Public parking	12,397	12,189	11,634
Employee parking	1,732	1,777	1,860
Other rentals	10,052	7,526	4,490
Total	37,941	33,579	27,251

REVENUES (CONTINUED)

REVENUES BY MAJOR SOURCE (continued)

	2007	2006	2005
Other Revenue			
Restricted rental income	1,592	1,591	1,591
Special facilities lease income	4,525	4,525	4,525
Total other revenues	6,117	6,116	6,116
Total operating revenues	112,634	111,015	108,393
Non-operating Revenues			
Interest and investment income	11,138	8,149	5,830
Customer facility charges	1,323		
Other	171	163	118
Total non-operating revenues	12,632	8,312	5,948
Capital Contributions	49,532	26,042	24,337
Total Revenues	$ 174,798	$ 145,369	$ 138,678

COST PER ENPLANED PASSENGER

Cost per enplaned passenger is a measure used by the airline industry to reflect the relative costs a passenger 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.

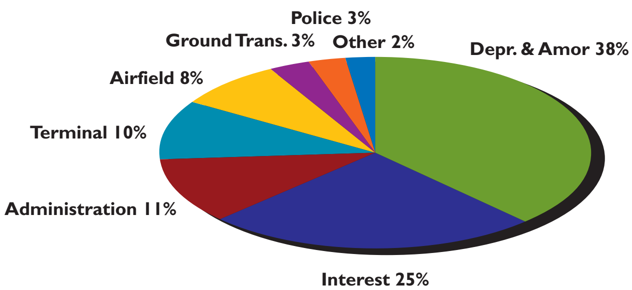
	2007	2006	2005
Passenger Airline Revenues	$ 29,515	$ 31,784	$ 34,462
Enplaned Passengers	5,263	5,349	5,403
Average Cost Per Enplaned Passenger[1]	$ 5.61	$ 5.94	$ 6.38
International Charges	$ 1,566	$ 1,719	$ 2,236
Average Cost Per Enplaned Passenger Including International Charges	$ 5.91	$ 6.26	$ 6.79

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 charges.

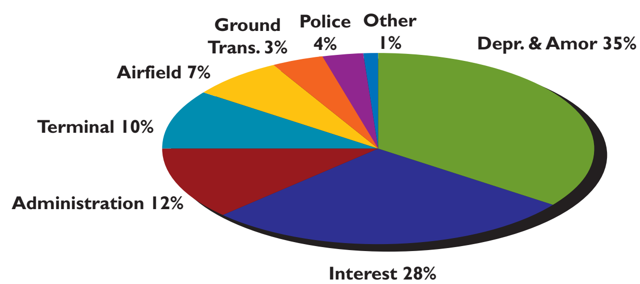
EXPENSES

The following chart shows major cost centers and the percentage of expenses for the years ended June 30, 2007 and 2006:

2007



2006



EXPENSES BY COST CENTER

	2007	2006	2005
Operating Expenses			
Terminal area	$ 12,533	$ 12,538	$ 12,158
Airfield area	10,396	8,265	7,149
Ground transportation area	4,492	4,045	4,516
Administration area	13,852	15,551	11,967
Police and operations area	4,373	4,432	4,497
Other areas	5,840	1,964	1,715
Total operating expense	51,486	46,795	42,002
Non-operating Expense			
Interest expense	33,255	34,847	34,118
Total expenses before depreciation and amortization	84,741	81,642	76,120
Depreciation and Amortization	50,464	44,264	44,463
Total Expense	$ 135,205	$ 125,906	$ 120,583

EXPENSESS (CONTINUED)

Total expenses in fiscal year 2007 were 7% higher than 2006 and 2006 was 4% more than in 2005. The Airfield area increase is due mainly to increases in fire and ambulance service, lime and cement supplies used for pavement repairs and salaries and benefits. The increase in the ground transportation area is due mainly to equipment repairs and maintenance. Increased costs in the Administration area are mainly due to the cost of the new disparity study which is offset by the reduction in bad debt expense. The 2006 bad debt expense of $3,185 was a result of the bankruptcy filings of Northwest, Delta, Comair and Mesaba Airlines. Other areas show an increase primarily due to the write off of $3,847 of capital assets no longer held.

Non-operating expense consists of interest expense. Interest expense decreased in 2007 when compared to 2006 due to the normal reduction in debt. The increase of $729 in 2006 when compared to 2005 was due to the normal reduction being offset by higher capitalized construction interest. There was no offset in 2006 or 2007.

Depreciation and amortization expense had a increase of $6,200 over last year.

SUMMARY OF CHANGES IN NET ASSETS	2007	2006	2005
Operating revenues	$ 112,634	$ 111,015	$ 108,393
Operating expenses	(51,486)	(46,795)	(42,002)
Operating income before depreciation and amortization	61,148	64,220	66,391
Depreciation and amortization	(50,464)	(44,264)	(44,463)
Operating income	10,684	19,956	21,928
Non-operating income	12,632	8,312	5,948
Non-operating expense	(33,255)	(34,847)	(34,118)
Loss before capital contributions	(9,939)	(6,579)	(6,242)
Capital contributions	49,532	26,042	24,337
Increase in net assets	$ 39,593	$ 19,463	$ 18,095

Capital contributions are mainly federal grants, which for both 2007 and 2006 were received to fund general construction and reconstruction of runways at the Airport. Grants were higher in both 2007 and 2006 due mainly to the timing of the receipt of grant funds in relation to the actual expenditure. Grant funds can only be drawn after the expense is incurred.

CAPITAL ASSETS

The Authority, while in the process of changing to a new accounting system in fiscal 2007, took the opportunity to standardized its asset groupings. This led to the reclassification of a large number of assets to different categories. The Authority's investment in capital assets is detailed in the following table. Major capital asset events occurring this fiscal year include the following:

CAPITAL ASSETS (CONTINUED)

- Runways, taxiways and airfield lighting had an overall decrease of $15,730 over 2006. The completion of the taxiway Papa extension and a portion of taxiway November that was reconstructed accounts for $12,552 and the completion of a de-icing pad at the end of taxiway Alpha accounts for $8,544 of the $29,050 additions for 2007. These additions were offset by $44,733 (net book value was $2,866) in write offs of runways, taxiway and airfield lighting no longer held.

- The decrease in the Land resulted from a reclassification of assets to runways, taxiways and airfield lighting.

- Buildings had an decrease of $9,467 over last year. There were additions of $11,270 due mainly to the addition of a $9,989 aircraft rescue and firefighting facility. However, these additions were offset with $7,715 in disposals and $13,022 was reclassified primarily to equipment and roads and bridges.

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- Roads, bridges and fences had additions of $1,993 due mainly to the widening of the north maintenance service road. There were $2,333 additions due to reclassification of assets mainly from Buildings. These additions were offset with disposals of $4,570.

- Equipment and utility systems had additions of $4,328 related to the purchase of various equipment and additions of $8,779 of reclassified assets mainly from Buildings.

- Construction in progress had $71,914 in new project costs added, which was offset with the transfer of $39,606 in projects completed.

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

NET CAPITAL ASSETS

	2007	2006	2005
Avigation easements	$ 58,173	$ 58,173	$ 58,173
Land and improvements	161,171	162,251	160,855
Buildings	326,182	335,649	331,662
Runways, taxiways, and airfield lighting	615,642	631,372	558,056
Facilities leases to others	27,077	27,077	27,077
Roads, bridges, and fences	35,361	35,606	24,076
Equipment and utility systems	76,762	71,617	70,181
Construction in process	65,534	36,878	59,295
Total capital assets	1,365,902	1,358,623	1,289,375
Less accumulated depreciation and amortization	466,698	475,781	433,094
Net capital assets	$ 899,204	$ 882,842	$ 856,281

DEBT ACTIVITY

At the end of the current fiscal year, the Authority had total bonded debt outstanding of $582,620. Of this amount, $10,855 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 $526,765, is classified as general airport revenue bonds and will be repaid by ongoing operating revenues.

OUTSTANDING DEBT

	2007	2006	2005
Bonds:			
Airport Revenue	$ 526,765	$ 552,165	$ 576,615
City of Memphis General Obligation	10,855	14,090	17,140
Special Facilities Revenue	45,000	45,000	45,000
Unamortized bond premiums	2,814	3,307	3,852
Unamortized deferred refundings	(2,121)	(2,695)	(3,340)
Notes payable	790	998	1,265
Other liabilities	1,495	2,751	2,872
Total	$ 585,598	$ 615,616	$ 643,404

The Authority's total debt decreased $30,018 (5%) in 2007 compared to $27,788 (4%) in 2006. The reduction in the total debt outstanding was due to scheduled reductions in annual debt payments.

Notes Payable were issued to finance the purchase of replacement shuttle buses for transporting passengers to and from the public parking lots 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 Note 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.

DEBT ACTIVITY (CONTINUED)

COVERAGE RATIO

	2007	2006	2005
Airport Revenue Bonds	137%	136%	134%
Airport Revenue and General Obligation Bonds	128%	127%	125%

BUSINESS DIVERSITY

The Airport Authority is committed to a culture of diversity and inclusion. Through the Office of Contract Compliance, the Authority administers a Disadvantaged Business Enterprise (DBE) Program and a Business Diversity Development Program (BDDP). The Authority informs the community of contracting opportunities via the Contract Compliance Opportunity Hotline, a variety of Contract Compliance Office outreach efforts, MSCAA website bid notifications and works cooperatively with a variety of organizations to promote opportunities. In 2006, through Airport Authority contracts, DBE/MWBEs earned revenue in excess of $15,000.

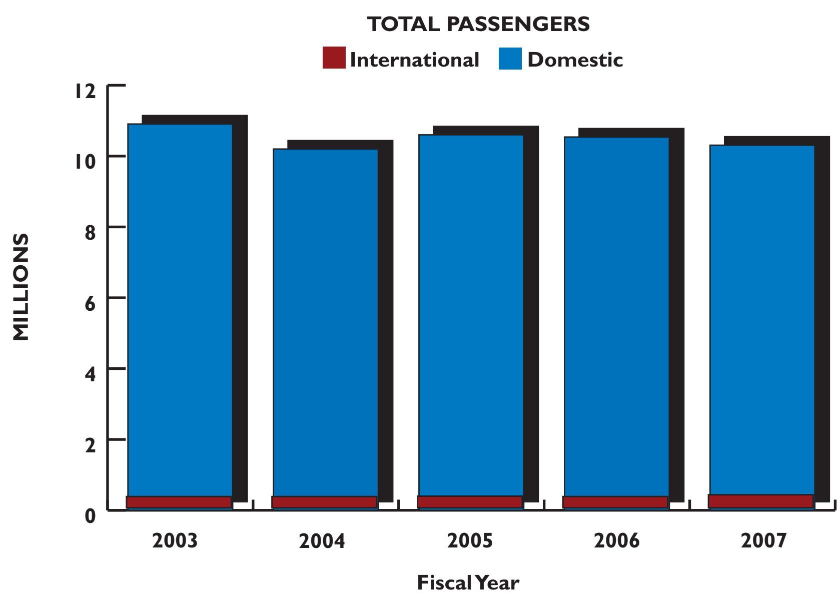
AIRPORT ACTIVITIES AND HIGHLIGHTS

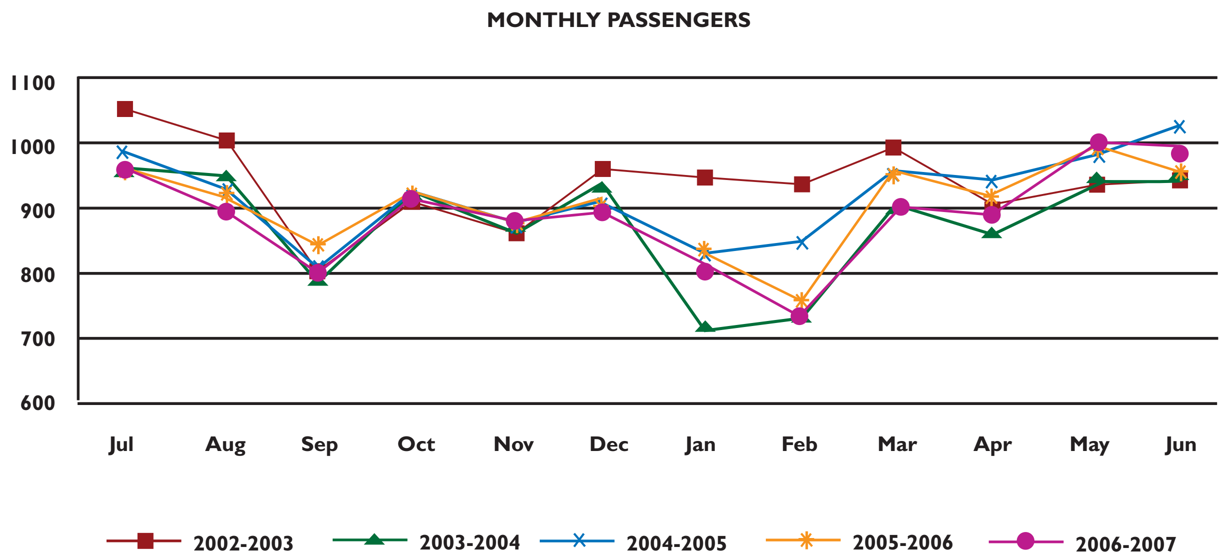
This fiscal year, Memphis International Airport has seen relatively steady passenger airline flight schedules. This has not been the case over the past couple of years while Northwest, Delta, and other passenger airlines were operating under protection from Chapter 11 of the Bankruptcy Code. On September 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. All three airlines came out of bankruptcy in May 2007. At June 30, 2007, total daily flight departures for all passenger airlines were 285, which is 1% higher than the 282 in 2006 but still less than the 294 in 2005. While flight schedules are remaining steady, total passengers are continuing to decrease. In 2007 the decrease from 2006 was 1.7%, compared to the decrease of 1% 2006 shows over 2005. Please see the Future Outlook section of the report for additional discussion on the potential impacts of these events.

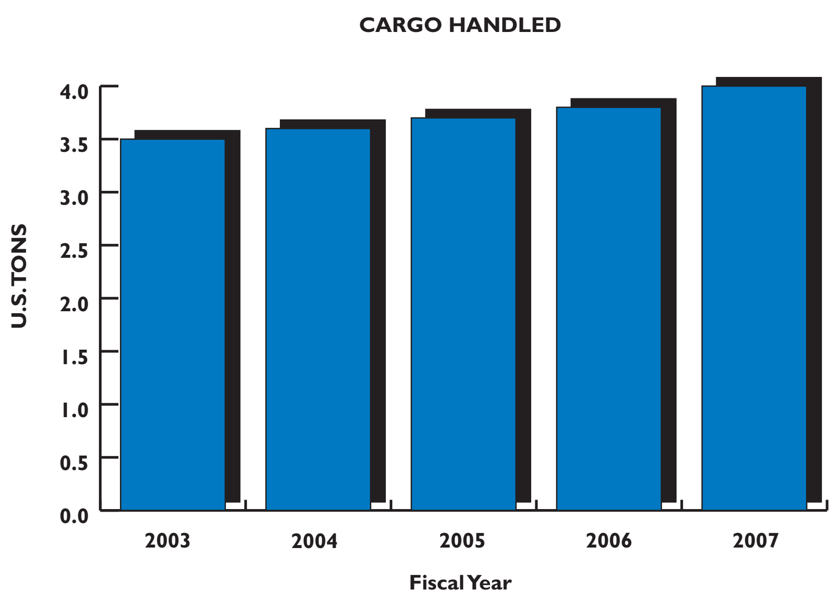
Air Cargo activity remained strong in spite of significant challenges within the national and world economies. Memphis remained the world's largest cargo airport with approximately 4.2 million U.S. tons of total cargo in 2007. This 4.4% increase over 2006 is almost double the growth seen from 2005 to 2006 and the largest annual growth since 2003. For calendar year 2006, Memphis recorded approximately 4.1 million U.S. tons, while Hong Kong, the world's second largest airport from a cargo tonnage standpoint, reported the equivalent of 4.0 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.

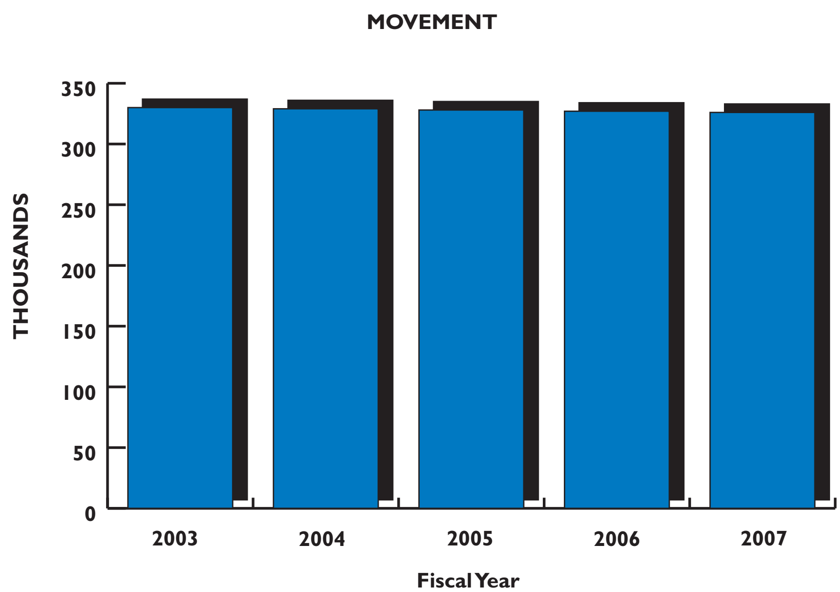
Selected statistical information about total passengers, total cargo, aircraft landed weight, and air carrier movements for the past five years is presented in the table below.

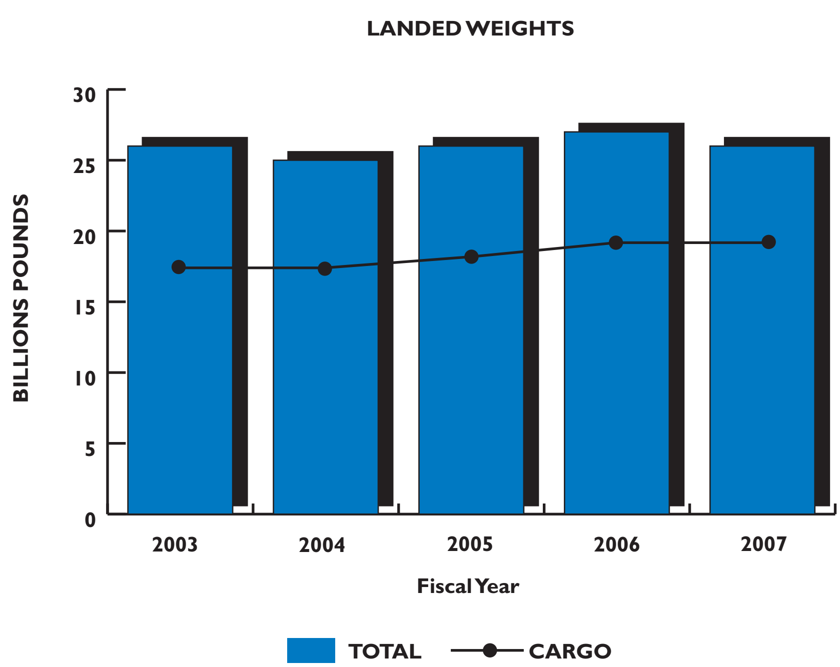
FISCAL YEAR	TOTAL PASSENGERS	TOTAL CARGO HANDLED (U.S. TONS)	AIRCRAFT LANDED WEIGHT (1000 POUND UNITS)	AIR CARRIER MOVEMENTS
2007	10,674,667	4,185,008	26,565,330	334,804
2006	10,853,934	4,009,413	25,960,030	339,528
2005	10,963,875	3,916,581	25,557,091	340,734
2004	10,519,752	3,848,609	25,040,546	341,944
2003	11,225,251	3,727,562	25,491,744	347,592




MONTHLY PASSENGERS
1100
1000
900
800
700
600
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
Apr
May
Jun
2002-2003
2003-2004
2004-2005
2005-2006
2006-2007


CARGO HANDLED
U.S. TONS
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
2003
2004
2005
2006
2007
Fiscal Year


MOVEMENT
THOUSANDS
350
300
250
200
150
100
50
0
2003
2004
2005
2006
2007
Fiscal Year


LANDED WEIGHTS
BILLIONS POUNDS
30
25
20
15
10
5
0
2003
2004
2005
2006
2007
Fiscal Year
TOTAL
CARGO

FUTURE OUTLOOK

Memphis International Airport is home to a passenger hub for 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 continued record fuel prices, have been well documented. For approximately the past two years, airline bankruptcies have been of primary focus with Northwest, Delta, Mesaba, and Comair all operating under the protection of Chapter 11 of the Bankruptcy Code. However, on April 30 and May 31, 2007 respectively, Delta and Northwests' reorganization plans became effective and they both exited bankruptcy. Their affiliated carriers, Mesaba and Comair, also exited bankruptcy under court approved reorganization plans.

With their reorganization plans in effect, 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 and changes in fleet mix in the future. Because Northwest operates a passenger hub in Memphis, it is likely that they will have more significant adjustments to their operations in the future. However, management has no information that would indicate any significant reduction in flights or overall seats in the foreseeable future.

The Airport continues to work with its existing passenger airline partners and other carriers not currently serving Memphis to identify new markets and air service enhancements. Those efforts have been successful over the past year with the start of service by Frontier Airlines and additional service by other carriers.

Cargo operations continue to remain strong and all information indicates that FedEx will continue its history of stable growth overall and at the Airport. Struggles by European aircraft manufacturer Airbus with the delivery of the new A-380 aircraft have caused FedEx to cancel its order for ten of the Airbus A-380 aircraft. The A-380 is being hailed as the world's largest aircraft and FedEx was to be the cargo launch customer for the aircraft. Due to delays in a firm delivery date, FedEx cancelled its order and placed an order with Boeing for fifteen 777 aircraft. While not the same payload and lift capacity as the A-380, the 777 aircraft have been reported as significant to the ongoing growth plan of FedEx, especially to long-haul international markets. Additionally, progress continues to be made on the completion of construction of the new Tennessee Air National Guard ("TnANG") base on the southeast of the airport that will allow TnANG to relocate from their current 103 acre site that lies within the FedEx hub operation. The Airport previously negotiated a new long-term lease with FedEx that includes the 103 acres of land currently being used by TnANG once TnANG relocates to its new base in 2009. The 103 acre site is important as it provides additional growth potential for FedEx in the future.Memphis is also the home of FedEx's World Headquarters and approximately 30,000 employees.

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 30,2007 AND 2006 *(IN THOUSANDS)*

	2007	2006
ASSETS		
CURRENT ASSETS		
UNRESTRICTED ASSETS		
Cash and cash equivalents	$ 4,795	$ 1,908
Accounts receivable	7,092	7,683
Short-term investments	15,412	15,047
Accrued interest receivable	262	359
Materials and supplies inventory	1,669	1,560
Prepaid expenses	2,105	2,923
Grants receivable	20	10
Total current unrestricted assets	31,355	29,490
RESTRICTED ASSETS		
Cash	29,644	20,182
Short-term investments	112,787	121,891
Account receivable	3,998	392
Accrued interest receivable	2,365	2,175
Capital contributions receivable	7,020	8,529
Total current restricted assets	155,814	153,169
TOTAL CURRENT ASSETS	187,169	182,659
NON-CURRENT ASSETS		
UNRESTRICTED ASSETS		
Investments	4,209	1,724
RESTRICTED ASSETS		
Investments	75,442	61,680
Special facilities rent receivable	28,513	26,012
Total non-current restricted assets	103,955	87,692
CAPITAL ASSETS		
Land and improvements	161,171	162,251
Depreciable capital assets (less accumulated depreciation of $466,698 and $475,781)	672,499	683,713
Construction in progress	65,534	36,878
Total capital assets, net	899,204	882,842
BOND ISSUE COSTS (less accumulated amortization of $6,945 and $6,256)	6,804	7,493
TOTAL NON-CURRENT ASSETS	1,014,172	979,751
TOTAL ASSETS	$ 1,201,341	$ 1,162,410

See accompanying notes.

	2007	2006
LIABILITIES		
CURRENT LIABILITIES		
Payable from unrestricted assets:		
Accounts payable	$ 3,686	$ 2,710
Accrued expenses	1,371	1,109
Current portion – compensated absences	226	1,160
Total payable from unrestricted assets	5,283	4,979
Payable from restricted assets:		
Construction contracts payable	23,537	16,768
Funds held for others	5,487	7,350
Accrued interest payable	9,464	9,789
Current maturities of long-term debt	29,241	29,933
Total payable from restricted assets	67,729	63,840
TOTAL CURRENT LIABILITIES	73,012	68,819
NON-CURRENT LIABILITIES		
Deferred lease revenue	40,511	16,974
Compensated absences	1,243	1,291
Bonds and notes payable	554,888	583,232
TOTAL NON-CURRENT LIABILITIES	596,642	601,497
TOTAL LIABILITIES	$ 669,654	$ 670,316
NET ASSETS		
Invested in capital assets, net of related debt	$ 384,606	$ 351,896
Restricted for:		
Debt service	105,873	102,440
Capital acquisition	12,169	12,814
Unrestricted	29,039	24,944
TOTAL NET ASSETS	$ 531,687	$ 492,094

STATEMENTS OF REVENUES EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006 *(IN THOUSANDS)*

	2007	2006
OPERATING REVENUES		
Terminal building	$ 28,728	$ 29,287
Airfield	46,867	48,013
Ground transportation	23,317	21,850
Other aviation areas	4,986	4,824
Non-aviation areas	8,736	7,041
Total operating revenues	112,634	111,015
OPERATING EXPENSES		
Terminal building	12,533	12,538
Airfield	10,396	8,265
Ground transportation	4,492	4,045
General administration	13,852	15,551
Police	4,373	4,432
Field shop	1,161	1,478
Other aviation areas	174	76
Non-aviation areas	4,505	410
Total operating expenses before depreciation and amortization	51,486	46,795
DEPRECIATION AND AMORTIZATION	50,464	44,264
OPERATING INCOME	10,684	19,956
NON-OPERATING REVENUE (EXPENSE)		
Interest and investment income	11,138	8,149
Interest expense	(33,255)	(34,847)
Customer facility charges	1,323	
Operating grants	171	163
Total non-operating revenue (expense)	(20,623)	(26,535)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(9,939)	(6,579)
CAPITAL CONTRIBUTIONS	49,532	26,042
CHANGE IN NET ASSETS	39,593	19,463
TOTAL NET ASSETS, BEGINNING OF YEAR	492,094	472,631
TOTAL NET ASSETS, END OF YEAR	$ 531,687	$ 492,094

See accompanying notes.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006 *(IN THOUSANDS)*

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	$ 111,045	$ 109,801
Cash paid to suppliers for goods and services	(26,788)	(27,518)
Cash paid to employees for services	(20,351)	(20,485)
Net cash provided by operating activities	63,906	61,798
CASH FLOWS FROM NON-CAPITAL FINANCING		
Operating grants received	161	153
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of capital assets	14	62
Acquisition and construction of capital assets	(63,085)	(64,929)
Reimbursements from other governments and entities	18,068	21,137
Principal paid on long-term debt, notes payable and capital leases	(29,117)	(28,052)
Interest paid on long-term debt	(33,499)	(35,030)
Capital contributions received	51,041	29,671
Customer facility charges	1,323	
Net cash used in capital and related financing activities	(55,255)	(77,141)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investment securities	(204,348)	(220,570)
Proceeds from sales and maturities of investment securities	197,835	229,984
Interest and dividends on investments	10,050	8,744
Net cash provided by investing activities	3,537	18,158
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,349	2,968
CASH AND CASH EQUIVALENTS		
BEGINNING OF YEAR	22,090	19,122
END OF YEAR	$ 34,439	$ 22,090
CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF		
Unrestricted cash and cash equivalents	4,795	1,908
Restricted cash	29,644	20,182
	$ 34,439	$ 22,090

See accompanying notes.

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2007 AND 2006 *(IN THOUSANDS)*

	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 10,684	$ 19,956
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	50,464	44,264
Loss (gain) on the disposal of property and equipment	3,703	(62)
Provision for uncollectible accounts receivable	2	3,216
(Increase) decrease in assets:		
Receivables	(1,912)	(4,802)
Materials and supplies inventory	(109)	(37)
Prepaid expenses	818	(1,852)
Increase (decrease) in liabilities:		
Accounts payable	976	805
Accrued expenses	(720)	310
Net cash provided by operating activities	$ 63,906	$ 61,798

NON-CASH INVESTING ACTIVITIES

Investments increased (decreased) by $648 and ($847) in 2007 and 2006, respectively, due to the change in fair value.

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006 *(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. The Authority 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 general aviation 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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 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 an average cost 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:

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

	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

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* ("GASB No. 51"). GASB No. 51 provides that intangible assets should be classified as capital assets and establishes guidance specific to intangible assets related to their useful life and amortization. This statement is effective for the Authority in fiscal year 2010, but earlier application is encouraged. Management intends to early adopt in fiscal 2008.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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

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 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS

A. **Deposits –** Cash deposits as of June 30, 2007 and 2006, were approximately $33,645 and $21,042 respectively. These deposits consisted of interest bearing and non-interest bearing demand accounts. Petty cash as of June 30, 2007 and 2006 was $16. The Authority had cash equivalents, representing money market accounts and U.S. Government agencies of $778 and $1,033 at June 30, 2007 and 2006, 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 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%. At June 30, 2007, the Authority had a cash balance with one custodian in the amount of $11,986. Collateral pledged on this deposit was $772 less than the amount required by the State. The collateral amount was increased subsequent to year end to meet State guidelines.

B. **Investments –** Investments consist of the following at June 30, 2007 and 2006:

	2007	2006	WEIGHTED AVERAGE MATURITY (YEARS) AT JUNE 30, 2007
At fair value:			
U.S. Government agencies	$ 182,728	$ 175,380	1.00
Deferred compensation – mutual funds	609	449	-
At cost:			
Forward purchase agreement	24,513	24,513	17.68
	$ 207,850	$ 200,342	

The investments made during fiscal years 2007 and 2006, were limited to the classifications above. Investments in U.S. Government agencies included the Federal National Mortgage Association, Federal Home Loan Mortgage Company, Federal Home Loan Bank, and Federal Farm Credit Bank, during fiscal years 2007 and 2006.

. NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

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, 2007. The issuer of this investment contract had a credit rating of Aa3 by Moody's at June 30, 2007.

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.

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)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

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

	2007	2006
Unrestricted current assets:		
Cash and cash equivalents	$ 4,795	$ 1,908
Short term investments	15,412	15,047
Unrestricted non-current assets:		
Investments	4,209	1,724
Restricted current assets:		
Cash	29,644	20,182
Short-term investments	112,787	121,891
Restricted non-current assets:		
Investments	75,442	61,680
Total	$ 242,289	$ 222,432
Total deposits and petty cash	$ 33,661	$ 21,057
Total cash equivalents	778	1,033
Total investments	207,850	200,342
Total	$ 242,289	$ 222,432

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. RESTRICTED ASSETS

Restricted assets consist of the following at June 30, 2007 and 2006:

	2007					2006
	CASH	INVESTMENTS	ACCRUED INTEREST RECEIVABLE	OTHER RECEIVABLES	TOTAL	TOTAL
Restricted by Bond Indentures:						
Debt service:						
Special facilities bonds				$ 28,513	$ 28,513	$ 26,012
Airport revenue bonds		$ 17,547			17,547	18,361
General obligation bonds	$ 1,929	9,661	$ 33		11,623	11,767
Total	1,929	27,208	33	28,513	57,683	56,140
Bond reserves:						
Airport revenue bonds	944	56,190	912		58,046	56,741
Total	944	56,190	912		58,046	56,741
Construction and land acquisition and associated costs:						
Airport expansion	170	100,965	1,412	6,607	109,154	106,435
Contractor retainage	11,987				11,987	5,653
Total	12,157	100,965	1,412	6,607	121,141	112,088
Restricted by Regulatory Agency:						
Federal grants				89	89	962
State grant				324	324	242
Total				413	413	1,204
Restricted by Contributors:						
Airport improvements	26	1,653	4		1,683	1,618
International park	30	1,604	4		1,638	1,556
Customer facility charges	1,078				1,078	530
Deferred compensation		609			609	449
Tennessee Air National Guard Relocation	13,480			3,998	17,478	10,535
Total	14,614	3,866	8	3,998	22,486	14,688
Total Restricted Assets	$ 29,644	$ 188,229	$ 2,365	$ 39,531	$ 259,769	$ 240,861

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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)

4. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	BALANCE JULY 1, 2006	ADDITIONS AND RECLASS-IFICATIONS	LESS RETIREMENT	BALANCE JUNE 30, 2007
CAPITAL ASSETS NOT BEING DEPRECIATED:				
Land	$ 162,251	$ (1,080)		$ 161,171
Construction in progress	36,878	68,252	$39,596	65,534
Total capital assets, not being depreciated	199,129	67,172	39,596	226,705
CAPITAL ASSETS BEING DEPRECIATED:				
Avigation easements	58,173			58,173
Runways, taxiways, aprons and airfield lighting	631,372	29,001	44,731	615,642
Buildings	335,649	(1,752)	7,715	326,182
Facilities constructed for tenants	27,077			27,077
Roads, bridges and fences	35,606	4,325	4,570	35,361
Equipment and utility systems	71,617	10,704	5,559	76,762
Total capital assets being depreciated	1,159,494	42,278	62,575	1,139,197
ACCUMULATED DEPRECIATION:				
Avigation easements	14,523	1,326		15,849
Runways, taxiways, aprons and airfield lighting	202,102	30,714	41,847	190,969
Buildings	166,128	8,634	7,083	167,679
Facilities constructed for tenants	27,077			27,077
Roads, bridges and fences	17,271	889	4,532	13,628
Equipment and utility systems	48,680	8,212	5,396	51,496
Total accumulated depreciation	475,781	49,775	58,858	466,698
Total capital assets being depreciated, net	683,713	(7,497)	3,717	672,499
CAPITAL ASSETS, NET	$ 882,842	$ 59,675	$ 43,313	$ 899,204

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL ASSETS (CONTINUED)

There was no interest capitalized in fiscal year 2007 or 2006.

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

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 $56,324 and $55,974 for fiscal years 2007 and 2006, respectively.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LEASE AND USE OF AIRPORT FACILITIES (CONTINUED)

Minimum future rentals for leases are as follows:

YEAR	AMOUNT
2008	$ 35,592
2009	36,780
2010	23,129
2011	22,849
2012	21,727
2013-2017	139,173
2018-2022	73,495
2023-2027	67,808
2028-2032	60,738
2033-2037	59,941
2038-2039	1,578
Total	$ 542,810

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)

6. LONG-TERM DEBT

Long-term debt information and activity for fiscal year 2007 was as follows:

	ORIGINAL ISSUE AMOUNT	INTEREST RATES	BALANCE JULY 1, 2006	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2007	AMOUNTS DUE WITHIN ONE YEAR
Airport Revenue Bonds:							
Series 1993B	$ 30,630	5.0-5.65%	$ 4,335			$ 4,335	$ 2,100
Series 1997A	43,805	5.25-6.25%	22,070		$ 4,265	17,805	4,515
Series 1999A	67,800	Variable	52,200		4,125	48,075	4,300
Series 1999B	67,600	Variable	52,200		4,125	48,075	4,300
Series 1999D	238,400	4.5-6.125%	237,800		110	237,690	
Series1999E	6,730	4.5-5.625%	3,900		560	3,340	595
Series 2001A	121,860	4.0-5.5%	102,655		8,290	94,365	7,250
Series 2001B	42,380	5.125%	42,380			42,380	
Series 2002	23,150	3.25-5.5%	16,430		2,425	14,005	385
Series 2003A	21,030	4.0-5.25%	18,195		1,500	16,695	1,560
Total	663,385		552,165		25,400	526,765	25,005
City of Memphis							
General Obligation Bonds:							
Series 1995	13,500	Variable	3,500		1,700	1,800	1,800
Series 1998	19,290	5.5-5.7%	10,590		1,535	9,055	1,620
Total	32,790		14,090		3,235	10,855	3,420
Special Facilities Revenue Bonds:							
Series 2003	45,000	4.5%	45,000			45,000	
Notes Payable	1,540	Variable	998		208	790	790
Less unamortized deferred amount on refunded bonds			(2,695)		(574)	(2,121)	
Unamortized bond premiums			3,307		493	2,814	
Total bonds and notes payable			612,865		28,762	584,103	29,215
Other liabilities:							
Capital leases			300		274	26	26
Compensated absences			2,451	$ 268	1,250	1,469	226
Total other liabilities			2,751	268	1,524	1,495	252
Total long-term debt			$ 615,616	$ 268	$ 30,286	$585,598	$29,467

The unamortized deferred amount on refunded bonds at June 30, 2006, represents $2,023 deferred on the Airport Revenue Bonds and $98 deferred on the City of Memphis General Obligation Bonds.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. LONG-TERM DEBT (CONTINUED)

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 3.80% and 3.90% respectively at June 30, 2007. 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 4.15% at June 30, 2007. 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)

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 $790 outstanding on notes payable leaving $9,210 available at June 30, 2007.

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*
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		23,350	2,015	25,718
2013-2017	$ 45,000	114,365		104,192
2018-2022		154,230		63,903
2023-2026		124,430		15,653
Total	$ 45,000	$ 526,765	$ 10,855	$ 329,005

*Interest payments include net swap payments based on rates as of June 30, 2007, 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)

6. LONG-TERM DEBT (CONTINUED)

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, 2007, the notional amounts relating to the Series 1999A and 1999B bonds were $96,150, 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.

- 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. LONG-TERM DEBT (CONTINUED)

- 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 $4,249 as of June 30, 2007. The fair value is based on a good faith estimate of the mid-market value.

Credit Risk – As of June 30, 2007, 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 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, 2007, 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. LONG-TERM DEBT (CONTINUED)

Swap Payments and Associated Debt (Continued)

YEAR	VARIABLE RATE BONDS PRINCIPAL	VARIABLE RATE BONDS INTEREST	INTEREST RATE SWAP	TOTAL
2008	$ 8,600	$ 3,619	$ 1,025	$ 13,244
2009	9,100	3,283	929	13,312
2010	9,500	2,929	829	13,258
2011	10,050	2,558	724	13,332
2012	10,550	2,166	613	13,329
2013	11,200	1,754	496	13,450
2014	11,700	1,318	373	13,391
2015	12,400	860	244	13,504
2016	13,050	376	107	13,533
Total	$ 96,150	$ 18,863	$ 5,340	$ 120,353

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 of Memphis, the County, or the State.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. CONDUIT DEBT (CONTINUED)

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

	AMOUNT OUTSTANDING AS OF JUNE 30 2007	2006
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.	$ 2,260	$ 2,360
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	$ 206,010	$ 266,110

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. CAPITAL CONTRIBUTIONS

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

	2007	2006
Federal	$ 46,814	$ 24,205
State	2,440	1,837
Other	278	
Total capital contributions	$ 49,532	$ 26,042

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 basic 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 $17,395 and $16,475 for fiscal years 2007 and 2006, respectively. Total payroll was $17,566 and $16,597 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)

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, 2007. 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 2007, 2006, and 2005 were $750, $755, and $720, 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 fiscal years 2007 and 2006 was $776 and $772, 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, 2007 and 2006, the fair value of the plan assets was $8,360 and $6,729, 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, 2007 and 2006, the fair value of the plan assets was $5,547 and $4,483, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

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, 89 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 fiscal years 2007 and 2006, were $401 and $377, 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 $3,600 and $3,049 for fiscal years 2007 and 2006, 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 54% and 58% of operating revenues for the fiscal years 2007 and 2006, 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 was written off as a bad debt in fiscal 2006. During fiscal year 2007, the Authority recovered approximately $1,800 of the previously written off balance.

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 $234,440 cost of the TnANG project is being funded by $157,440 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, $40,511 and $16,794 has been received in advance and is recorded as deferred lease revenue at June 30, 2007 and 2006, respectively. As of June 30, 2007, a total of $113,391 has been expended on the TnANG project,

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. COMMITMENTS AND CONTINGENCIES (CONTINUED)

and the Authority has open construction commitments of $97,343 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 $60,000, of which $30,303 has been expended through June 30, 2007. Of the remaining $29,697 expected to be spent, the outstanding commitments were $26,632 at June 30, 2007, related primarily to air cargo buildings, reconstruction and extension of existing taxiways, parking garage improvements, and terminal access roads. 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, 2007 WITH COMPARATIVE TOTALS FOR 2006
(IN THOUSANDS)

	MEMPHIS INTERNATIONAL AIRPORT	CHARLES W. BAKER AIRPORT	GENERAL DEWITT SPAIN AIRPORT	2007 TOTAL	2006 TOTAL
ASSETS					
CURRENT ASSETS					
UNRESTRICTED ASSETS					
Cash and cash equivalents	$ 4,778	$ 3	$ 14	$ 4,795	$ 1,908
Accounts receivable	7,084	3	5	7,092	7,683
Short-term investments	15,412			15,412	15,047
Accrued interest receivable	262			262	359
Materials and supplies inventory	1,605	35	29	1,669	1,560
Prepaid expenses	2,082	13	10	2,105	2,923
Grants receivable		10	10	20	10
Total current unrestricted assets	31,223	64	68	31,355	29,490
RESTRICTED ASSETS					
Cash	29,644			29,644	20,182
Short-term investments	112,787			112,787	121,891
Account receivable	3,998			3,998	392
Accrued interest receivable	2,365			2,365	2,175
Capital contributions receivable	5,493	610	917	7,020	8,529
Total current restricted assets	154,287	610	917	155,814	153,169
TOTAL CURRENT ASSETS	185,510	674	985	187,169	182,659
NON-CURRENT ASSETS					
UNRESTRICTED ASSETS					
Investments	4,209			4,209	1,724
RESTRICTED ASSETS					
Investments	75,442			75,442	61,680
Special facilities rent receivable	28,513			28,513	26,012
Total non-current restricted assets	103,955			103,955	87,692
CAPITAL ASSETS					
Land and improvements	159,491	479	1,201	161,171	162,251
Depreciable capital assets (less accumulated depreciation of $466,698 and $475,781)	669,365	1,705	1,429	672,499	683,713
Construction in progress	65,534			65,534	36,878
Total capital assets, net	894,390	2,184	2,630	899,204	882,842
BOND ISSUE COSTS (less accumulated amortization of $6,945 and $6,256)	6,804			6,804	7,493
TOTAL NON-CURRENT ASSETS	1,009,358	2,184	2,630	1,014,172	979,751
TOTAL ASSETS	$ 1,194,868	$ 2,858	$ 3,615	$ 1,201,341	$ 1,162,410

				2007	2006
	MEMPHIS INTERNATIONAL AIRPORT	CHARLES W. BAKER AIRPORT	GENERAL DEWITT SPAIN AIRPORT	TOTAL	TOTAL
LIABILITIES					
CURRENT LIABILITIES					
Payable from unrestricted assets:					
Accounts payable	$ 3,669	$ 8	$ 9	$ 3,686	$ 2,710
Accrued expenses	1,371			1,371	1,109
Due to (from) other airports	(5,113)	2,277	2,836		
Current portion - compensated absenses	214	5	7	226	1,160
Total payable from unrestricted assets	141	2,290	2,852	5,283	4,979
Payable from restricted assets:					
Construction contracts payable	23,537			23,537	16,768
Funds held for others	5,487			5,487	7,350
Accrued interest payable	9,464			9,464	9,789
Current maturities of long-term debt	29,241			29,241	29,933
Total payable from restricted assets	67,729			67,729	63,840
TOTAL CURRENT LIABILITIES	67,870	2,290	2,852	73,012	68,819
NON-CURRENT LIABILITIES					
Deferred lease revenue	40,511			40,511	16,974
Compensated absences	1,238		5	1,243	1,291
Bonds and notes payable	554,888			554,888	583,232
TOTAL NON-CURRENT LIABILITIES	596,637		5	596,642	601,497
TOTAL LIABILITIES	$ 664,507	$ 2,290	$ 2,857	$ 669,654	$ 670,316
NET ASSETS					
Invested in capital assets, net of related debt	$ 379,793	$ 2,183	$ 2,630	$ 384,606	$ 351,896
Restricted for:					
Debt service	105,873			105,873	102,440
Capital acquisition	10,642	610	917	12,169	12,814
Unrestricted	34,053	(2,225)	(2,789)	29,039	24,944
TOTAL NET ASSETS	$ 530,361	$ 568	$ 758	$ 531,687	$ 492,094

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

YEAR ENDED JUNE 30, 2007 WITH COMPARATIVE TOTALS FOR 2006 *(IN THOUSANDS)*

	MEMPHIS INTERNATIONAL AIRPORT	CHARLES W. BAKER AIRPORT	GENERAL DEWITT SPAIN AIRPORT	2007 TOTAL	2006 TOTAL
OPERATING REVENUES					
Terminal building	$ 28,728			$ 28,728	$ 29,287
Airfield	45,896	$ 352	$ 619	46,867	48,013
Ground transportation	23,317			23,317	21,850
Other aviation areas	4,802	104	80	4,986	4,824
Non-aviation areas	8,729	6	1	8,736	7,041
Total operating revenues	111,472	462	700	112,634	111,015
OPERATING EXPENSES					
Terminal building	12,533			12,533	12,538
Airfield	9,625	291	480	10,396	8,265
Ground transportation	4,492			4,492	4,045
General administration	13,541	152	159	13,852	15,551
Police	4,373			4,373	4,432
Field shop	1,161			1,161	1,478
Other aviation areas	165	3	6	174	76
Non-aviation areas	4,505			4,505	410
Total operating expenses before depreciation and amortization	50,395	446	645	51,486	46,795
DEPRECIATION AND AMORTIZATION	50,094	190	180	50,464	44,264
OPERATING INCOME (LOSS)	10,983	(174)	(125)	10,684	19,956
NON-OPERATING REVENUE (EXPENSE)					
Interest and investment income	11,138			11,138	8,149
Interest expense	(33,255)			(33,255)	(34,847)
Customer facility charges	1,323			1,323	
Operating grants	151	10	10	171	163
Total non-operating revenue (expense)	(20,643)	10	10	(20,623)	(26,535)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(9,660)	(164)	(115)	(9,939)	(6,579)
CAPITAL CONTRIBUTIONS	48,355	480	697	49,532	26,042
CHANGE IN NET ASSETS	38,695	316	582	39,593	19,463
TOTAL NET ASSETS, BEGINNING OF YEAR	491,666	252	176	492,094	472,631
TOTAL NET ASSETS, END OF YEAR	$ 530,361	$ 568	$ 758	$ 531,687	$ 492,094

SUPPLEMENTAL SCHEDULE OF STATEMENT OF CASH FLOWS INFORMATION BY AIRPORT

YEAR ENDED JUNE 30, 2007 WITH COMPARATIVE TOTALS FOR 2006

(IN THOUSANDS)

	MEMPHIS INTERNATIONAL AIRPORT	CHARLES W. BAKER AIRPORT	GENERAL DEWITT SPAIN AIRPORT	2007 TOTAL	2006 TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	$ 109,881	$ 463	$ 701	$ 111,045	$ 109,801
Cash paid to suppliers for goods and services	(26,106)	(224)	(458)	(26,788)	(27,518)
Cash paid to employees for services	(20,154)	(102)	(95)	(20,351)	(20,485)
Net cash provided by operating activities	63,621	137	148	63,906	61,798
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Operating grants received	161			161	153
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from the sale of capital assets	14			14	62
Acquisition and construction of capital assets	(62,777)	(146)	(162)	(63,085)	(64,929)
Reimbursements from other governments and entities	18,068			18,068	21,137
Principal paid on long-term debt, notes payable and capital leases	(29,117)			(29,117)	(28,052)
Interest paid on long-term debt	(33,499)			(33,499)	(35,030)
Capital contributions received	51,020	10	11	51,041	29,671
Customer facility charges	1,323			1,323	
Net cash used in capital and related financing activities	(54,968)	(136)	(151)	(55,255)	(77,141)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of investment securities	(204,348)			(204,348)	(220,570)
Proceeds from sales and maturities of investment securities	197,835			197,835	229,984
Interest and dividends on investments	10,050			10,050	8,744
Net cash provided by investing activities	3,537			3,537	18,158
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	12,351	1	(3)	12,349	2,968
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	22,071	2	17	22,090	19,122
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 34,422	$ 3	$ 14	$ 34,439	$ 22,090
CASH AND CASH EQUIVALENTS, END OF YEAR CONSIST OF					
Unrestricted cash and cash equivalents	$ 4,778	$ 3	$ 14	$ 4,795	$ 1,908
Restricted cash	29,644			29,644	20,182
	$ 34,422	$ 3	$ 14	$ 34,439	$ 22,090

SUPPLEMENTAL SCHEDULE OF STATEMENT OF CASH FLOWS INFORMATION BY AIRPORT (CONTINUED)

YEAR ENDED JUNE 30, 2007 WITH COMPARATIVE TOTALS FOR 2006

(IN THOUSANDS)

	MEMPHIS INTERNATIONAL AIRPORT	CHARLES W. BAKER AIRPORT	GENERAL DEWITT SPAIN AIRPORT	2007 TOTAL	2006 TOTAL
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating income (loss)	$ 10,983	$ (174)	$ (125)	$ 10,684	$ 19,956
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	50,094	190	180	50,464	44,264
Loss (gain) on the disposal of property and equipment	3,703			3,703	(62)
Provision for uncollectible accounts receivable	2			2	3,216
(Increase) decrease in assets:					
Receivables	(1,906)	(3)	(3)	(1,912)	(4,802)
Materials and supplies inventory	(109)			(109)	(37)
Prepaid expenses	823		(5)	818	(1,852)
Increase (decrease) in liabilities:					
Accounts payable	976	2	(2)	976	805
Accrued expenses	(723)	(2)	5	(720)	310
Transfer between airports for operating activities	(222)	124	98		
Net cash provided by operating activities	$ 63,621	$ 137	$ 148	$ 63,906	$ 61,798

SUPPLEMENTAL SCHEDULE OF OPERATING REVENUES BY SOURCE BY AIRPORT
YEAR ENDED JUNE 30, 2007 WITH COMPARATIVE TOTALS FOR 2006
(IN THOUSANDS)

	MEMPHIS INTERNATIONAL AIRPORT	CHARLES W. BAKER AIRPORT	GENERAL DEWITT SPAIN AIRPORT	2007 TOTAL	2006 TOTAL
TERMINAL BUILDING					
Space rental - airlines	$ 15,256			$ 15,256	$ 16,620
Concessionaires - food and beverages	3,583			3,583	3,196
Concessionaires - other	2,436			2,436	2,270
Shared tenant - telephone system	432			432	487
Other commissions, fees, etc.	597			597	405
Debt service rental	6,424			6,424	6,309
Total	28,728			28,728	29,287
AIRFIELD					
Landing fees - signatory	35,197			35,197	36,042
Landing fees - non-signatory	4,871			4,871	5,449
Apron fees	472	$ 2	$ 10	484	623
Fuel flow fees - fixed base operations	273			273	260
Ground rentals - fixed base operations	533	1		534	414
Ground rentals - airlines	4,513			4,513	4,377
Other	37	349	609	995	848
Total	45,896	352	619	46,867	48,013
GROUND TRANSPORTATION					
Public parking	12,397			12,397	12,189
Employee parking	1,732			1,732	1,777
Rental car agencies and other	9,188			9,188	7,884
Total	23,317			23,317	21,850
OTHER AVIATION AREAS					
Building rentals - fixed base operations	391	1	8	400	296
Building rentals - airlines	406			406	300
Building rentals - others	38	86	52	176	193
Cargo building rentals - airlines	1,373			1,373	1,399
Cargo building rentals - others	599			599	694
Fuel farm - airlines	17			17	18
Fuel farm - others	73			73	73
Ground rentals - airlines	1,578			1,578	1,498
Ground rentals - others	327	17	20	364	353
Total	4,802	104	80	4,986	4,824
NON-AVIATION AREAS					
Rental - commercial sites	170			170	174
Rental - hotel	238			238	205
Special facilities and other restricted lease income	6,117			6,117	6,116
Other	2,204	6	1	2,211	546
Total	8,729	6	1	8,736	7,041
TOTAL OPERATING REVENUES	$ 111,472	$ 462	$ 700	$ 112,634	$ 111,015

SUPPLEMENTAL SCHEDULE OF OPERATING EXPENSES BY SOURCE BY AIRPORT
YEAR ENDED JUNE 30, 2007 WITH COMPARATIVE TOTALS FOR 2006
(IN THOUSANDS)

	MEMPHIS INTERNATIONAL AIRPORT	CHARLES W. BAKER AIRPORT	GENERAL DEWITT SPAIN AIRPORT	2007 TOTAL	2006 TOTAL
TERMINAL BUILDING					
Terminal shop maintenance and operations	$ 6,362			$ 6,362	$ 6,117
Steam and refrigeration	258			258	314
Salaries and employee benefit	5,531			5,531	5,741
Shared tenant - telephone systems	291			291	306
Customer service operations	91			91	60
Total	12,533			12,533	12,538
AIRFIELD					
Airfield maintenance and operations	6,872	$ 291	$ 480	7,643	6,193
Salaries and employee benefits	2,753			2,753	2,072
Total	9,625	291	480	10,396	8,265
GROUND TRANSPORTATION					
Public parking - operations	2,403			2,403	2,132
Employee parking - operations	1,708			1,708	1,504
Taxicab operations	381			381	409
Total	4,492			4,492	4,045
GENERAL ADMINISTRATION					
General - non-departmental	2,288	58	70	2,416	1,801
General - departmental	4,031			4,031	6,371
Telephone	109	5		114	132
Salaries and employee benefits	7,113	89	89	7,291	7,247
Total	13,541	152	159	13,852	15,551
POLICE					
Airport police operations	705			705	588
Salaries and employee benefits	3,516			3,516	3,731
Operations coordinators	152			152	113
Total	4,373			4,373	4,432
FIELD SHOP					
Field and paint shop maintenance and operations	948			948	869
Salaries and employee benefits	213			213	609
Total	1,161			1,161	1,478
OTHER AVIATION AREAS					
Cargo building complexes	165			165	69
Other aviation areas		3	6	9	7
Total	165	3	6	174	76
NON-AVIATION AREAS	4,505			4,505	410
Total Operating Expenses Before Depreciation and Amortization	50,395	446	645	51,486	46,795
DEPRECIATION AND AMORTIZATION	50,094	190	180	50,464	44,264
TOTAL OPERATING EXPENSES	$ 100,489	$ 636	$ 825	$ 101,950	$ 91,059

SUPPLEMENTAL SCHEDULE OF DEBT SERVICE REQUIREMENTS - CASH BASIS
JUNE 30, 2007 *(IN THOUSANDS)*

AIRPORT REVENUE BONDS

FISCAL YEAR	SERIES 1993B	SERIES 1997A	SERIES 1999A	SERIES 1999B	SERIES 1999D
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	4,762	20,482	61,682	61,682	440,969
Less interest	427	2,677	13,607	13,607	203,279
Principal payments	$ 4,335	$ 17,805	$ 48,075	$ 48,075	$ 237,690

SERIES 1999E	SERIES 2001A	SERIES 2001B	SERIES 2002	SERIES 2003A	TOTAL
$ 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
3,910	130,951	79,521	16,546	20,740	841,245
570	36,586	37,141	2,541	4,045	314,480
$ 3,340	$ 94,365	$ 42,380	$ 14,005	$ 16,695	$ 526,765

SUPPLEMENTAL SCHEDULE OF DEBT SERVICE REQUIREMENTS - CASH BASIS (CONTINUED)
JUNE 30, 2007 *(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
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	1,844	10,373	12,217	58,163	911,625
Less interest	44	1,318	1,362	13,163	329,005
Principal payments	$ 1,800	$ 9,055	$ 10,855	$ 45,000	$ 582,620

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, 2007 (IN THOUSANDS)

	2007	2006	2005	2004
OPERATING REVENUES				
Terminal	$ 28,728	$ 29,287	$ 29,659	$ 26,354
Airfield	46,867	48,013	48,769	45,763
Ground transportation	23,317	21,850	18,972	17,799
Other aviation areas	4,986	4,824	4,562	4,191
Non-aviation areas	8,736	7,041	6,431	6,302
	112,634	111,015	108,393	100,409
Rental credit for signatory airlines (1				(7,209)
Total Operating Revenues	112,634	111,015	108,393	93,200
OPERATING EXPENSES				
Terminal	12,533	12,538	12,158	11,760
Airfield	10,396	8,265	7,149	6,905
Ground Transportation	4,492	4,045	4,516	4,126
General Administration	13,852	15,551	11,967	11,563
Police	4,373	4,432	4,497	4,280
Field Shop	1,161	1,478	1,436	1,168
Other Aviation Areas	174	76	62	50
Non-aviation Areas	4,505	410	217	537
Total operating expenses before depreciation and amortization	51,486	46,795	42,002	40,389
DEPRECIATION AND AMORTIZATION	50,464	44,264	44,463	43,474
OPERATING INCOME	10,684	19,956	21,928	9,337
NON-OPERATING REVENUES (EXPENSE):				
Interest and Investment Income	11,138	8,149	5,830	3,391
Customer Facility Charges (2)	1,323			
Discretionary Reserve Credit				(4,530)
Operating Grants	171	163	118	239
Interest Expense	(33,255)	(34,847)	(34,118)	(31,835)
Total Non-Operating Expense	(20,623)	(26,535)	(28,170)	(32,735)
Loss Before Contributions	(9,939)	(6,579)	(6,242)	(23,398)
CAPITAL CONTRIBUTIONS (3)	49,532	26,042	24,337	42,866
CHANGE IN NET ASSETS	$ 39,593	$ 19,463	$ 18,095	$ 19,468

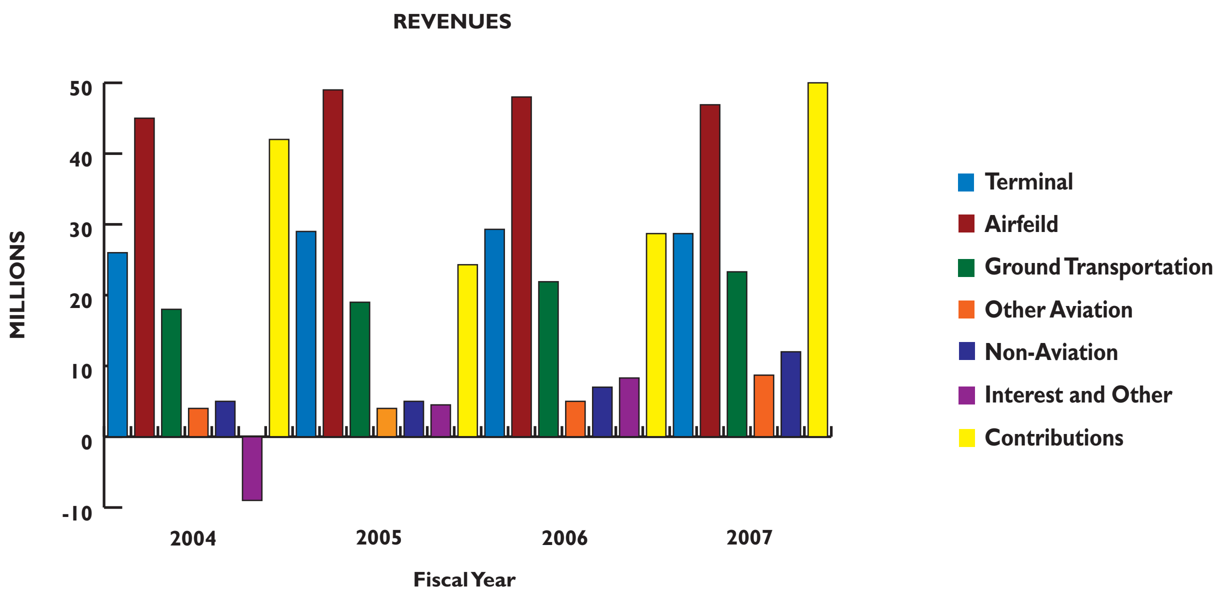
(1) One time credit in lieu of applying the prior year surplus to reduce the subsequent year rental rates per the airline agreement.

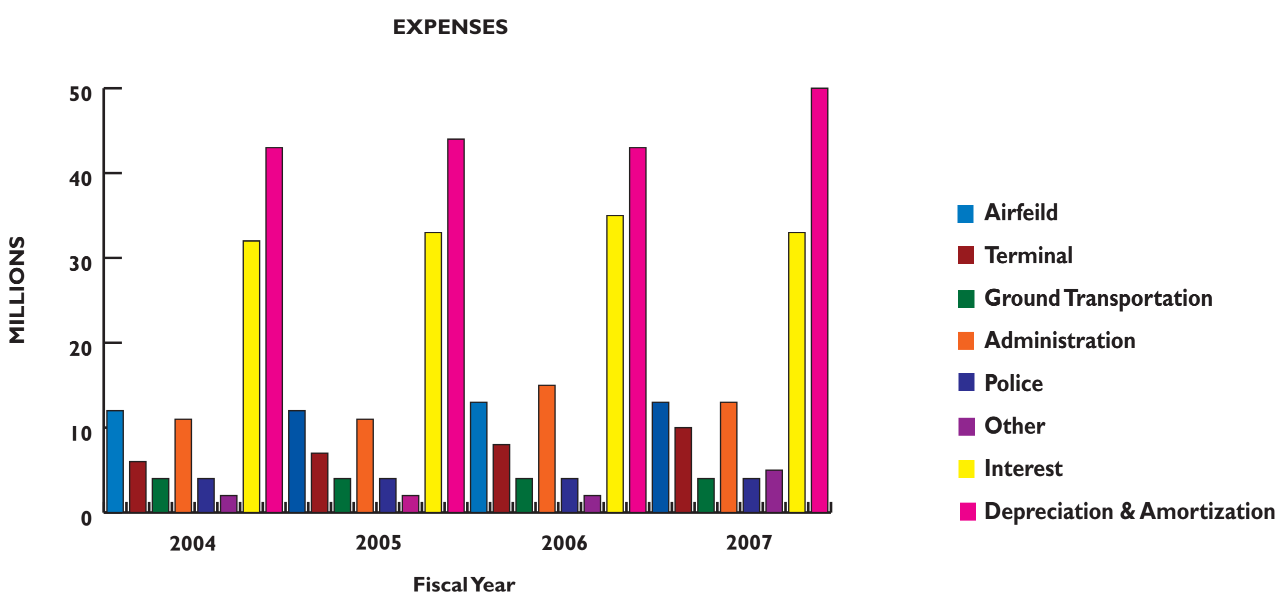
(2) Revenues collected from rental car agencies to fund a new ground transportation facility. This project was halted after the event of September 11, 2001, this caused a drop in demand and deferment of the associated project. The charges were reinstated in 2007 and the planning and design review process restarted.

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

REVENUES AND EXPENSES BY COST CENTER





NET ASSETS FOR THE SEVEN YEARS ENDED JUNE 30, 2007 (IN THOUSANDS)

	2007	2006	2005	2004	2003	2002	2001
Invested in capital assets, net							
of related debt	$384,606	$ 351,896	$ 333,199	$ 320,251	$ 309,223	$ 346,266	$ 354,576
Restricted for:							
Debt Service	105,873	102,440	100,086	97,823	96,409	51,317	41,791
Capital Acquisition	12,169	12,814	16,115	19,278	2,779	23,124	10,562
Total Restricted	118,042	115,254	116,201	117,101	99,188	74,441	52,353
Unrestricted	29,039	24,944	23,231	17,184	26,657	11,708	4,347
Total Net Assets (1)	$531,687	$ 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 2007		FY 2006		FY 2005		FY 2004	
AIRLINE	PASSENGERS ENPLANED	SHARE	PASSENGERS ENPLANED	SHARE	PASSENGERS ENPLANED	SHARE	PASSENGERS ENPLANED	SHARE
DOMESTIC								
Northwest Airlines	2,381,113	45.2%	2,390,694	44.7%	2,641,818	48.9%	2,443,379	47.0%
Northwest Airlink	1,477,975	28.1%	1,287,585	24.1%	992,367	18.4%	917,426	17.7%
Mesaba Airlines	205,045	3.9%	449,224	8.4%	542,082	10.0%	675,547	13.0%
AirTran	164,148	3.1%	152,708	2.9%	141,971	2.6%	135,852	2.6%
Delta Air Lines	117,219	2.2%	236,424	4.4%	290,782	5.4%	274,408	5.3%
USAirways Express (2)	113,315	2.2%	89,566	1.7%	70,396	1.3%	83,473	1.6%
American Airlines	108,941	2.1%	81,847	1.5%	56,671	1.0%	50,895	1.0%
United Express (3)	106,929	2.0%	126,241	2.4%	107,055	2.0%	101,123	1.9%
Delta Connection (1)	104,070	2.0%	28,800	0.5%	55,244	1.0%	56,137	1.1%
Continental Express	102,943	2.0%	96,419	1.8%	90,320	1.7%	87,249	1.7%
American Eagle	85,030	1.6%	114,738	2.1%	104,648	1.9%	76,257	1.5%
America West Express (4)	47,569	0.9%	46,413	0.9%	46,361	0.9%	37,089	0.7%
Comair	43,699	0.8%	60,154	1.1%	47,860	0.9%	39,102	0.8%
Other (5)	25,470	0.5%	32,912	0.6%	54,107	1.0%	58,285	1.1%
TOTAL DOMESTIC	5,083,466	96.6%	5,193,725	97.1%	5,241,682	97.0%	5,036,222	97.0%
INTERNATIONAL								
Northwest Airlines	179,928	3.4%	154,406	2.9%	158,323	2.9%	149,393	2.9%
Other (5)	122	0.0%	976	0.0%	3,440	0.1%	7,445	0.1%
TOTAL INTERNATIONAL	180,050	3.4%	155,382	2.9%	161,763	3.0%	156,838	3.0%
TOTAL ENPLANEMENTS	5,263,516	100.0%	5,349,107	100.0%	5,403,445	100.0%	5,193,060	100.0%
Percent of Total U.S. Enplanements (6)		N.A.		.75%		.75%		.75%

Source: Memphis-Shelby County Airport Authority Activity Reports

(1) Operated by Comair, Atlantic Coast, Atlantic Southeast, Skywest Airlines and Chautauqua.
(2) Operated by Mesa Airlines and PSA
(3) Operated by Air Wisconsin, Atlantic Coast, Skywest Airlines and Mesa Airlines.
(4) 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 2003		FY 2002		FY 2001		FY 2000		FY 1999		FY 1998	
PASSENGERS ENPLANED	**SHARE**	**PASSENGERS ENPLANED**	**SHARE**	**PASSENGERS ENPLANED**	**SHARE**	**PASSENGERS ENPLANED**	**SHARE**	**PASSENGERS ENPLANED**	**SHARE**	**PASSENGERS ENPLANED**	**SHARE**
3,090,199	56.2%	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%
643,120	11.7%	618,598	12.2%	823,030	13.3%	557,212	10.6%	558,951	11.4%	617,844	12.5%
683,291	12.4%	396,049	7.8%	510,607	8.3%	260,540	5.0%	20,158	0.4%		
100,757	1.8%	100,916	2.0%	102,679	1.7%	94,532	1.8%	78,393	1.6%	65,195	1.3%
268,223	4.9%	318,528	6.3%	421,132	6.8%	494,836	9.4%	504,903	10.3%	477,040	9.6%
54,809	1.0%	36,899	0.7%	5,495	0.1%						
82,041	1.5%	77,990	1.5%	87,478	1.4%	92,066	1.7%	96,074	2.0%	88,880	1.8%
85,404	1.5%	74,343	1.5%	5,044	0.1%	23,136	0.4%	8,445	0.2%		
38,270	0.7%	15,216	0.3%								
78,866	1.4%	85,222	1.7%	85,702	1.4%	83,902	1.6%	43,352	0.9%	33,544	0.7%
41,558	0.8%	49,810	1.0%	43,215	0.7%	36,415	0.7%	30,203	0.6%		
8,549	0.2%										
50,601	0.9%	40,128	0.8%	32,374	0.5%	42,840	0.8%	39,156	0.8%	31,753	0.6%
111,064	2.0%	167,401	3.3%	267,598	4.3%	271,234	5.2%	298,423	6.0%	315,828	6.4%
5,336,752	97.0%	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%
86,139	1.6%	61,200	1.2%	40,537	0.6%	43,242	0.8%	33,007	0.7%	38,701	0.8%
76,840	1.4%	85,487	1.7%	96,706	1.6%	101,064	1.9%	94,156	1.9%	92,118	1.8%
162,979	3.0%	146,687	2.9%	137,243	2.2%	144,306	2.7%	127,163	2.6%	130,819	2.6%
5,499,731	100.0%	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%
	0.86%		0.80%		0.96%		0.77%		0.74%		0.78%

ORIGINATING AND TRANSFERRING AIRLINE PASSENGERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

PERCENTAGE DISTRIBUTION OF ENPLANED PASSENGERS

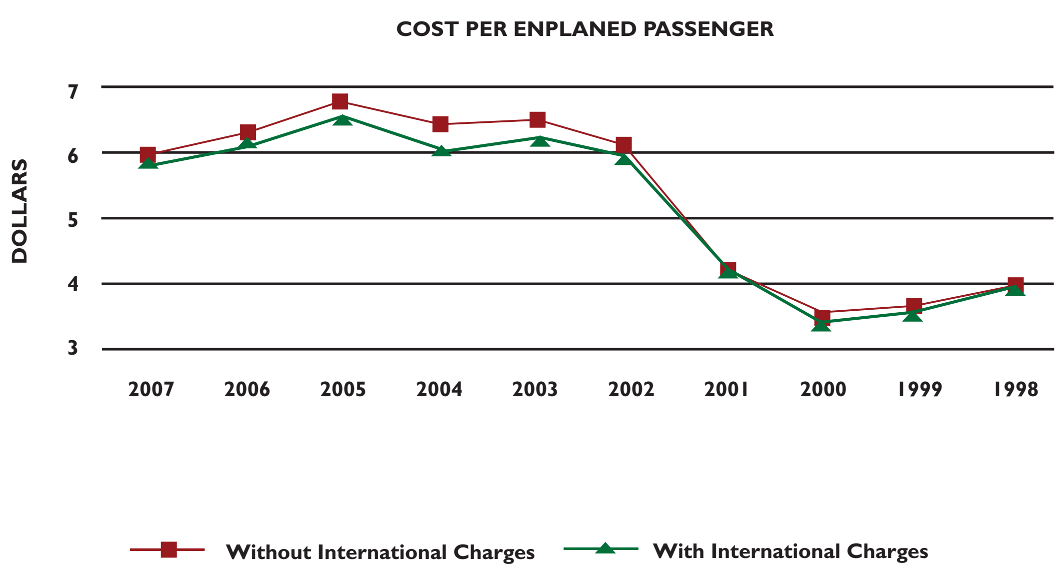
AIRLINE	ORIGINATING PASSENGERS	TRANSFERRING PASSENGERS INTRALINE	INTERLINE	TOTAL	ENPLANED PASSENGERS
AirTran Airways	100.00%				164,148
American	100.00%				108,941
Delta	100.00%				117,219
Northwest	21.50%	45.50%	33.00%	78.50%	2,561,041
Northwest Partners	21.00%	24.00%	55.00%	79.00%	1,683,020
Regional/Other	98.30%	0.00%	0.20%	0.20%	629,147
Total/Average	36.74%	29.81%	33.45%	63.26%	5,263,516
Approximate Annual Enplanements	1,933,816	1,569,054	1,760,646	3,329,700	5,263,516

Source: Survey of Passenger Airlines

COST PER ENPLANED PASSENGER
LAST TEN YEARS (IN THOUSANDS)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Passenger Airline Revenue	$ 29,515	$ 31,784	$ 34,462	$ 31,056	$ 33,881	$ 29,469	$ 25,520	$ 16,921	$ 16,546	$18,908
Enplaned Passengers	5,263	5,349	5,403	5,193	5,500	5,072	6,181	5,262	4,885	4,960
Average Cost Per Enplaned Passenger (1)	$ 5.61	$ 5.94	$ 6.38	$ 5.98	$ 6.16	$ 5.81	$ 4.13	$ 3.22	$ 3.39	$ 3.81
International Charges	1,566	1,719	2,236	2,354	2,164	1,423	1,108	1,113	1,116	1,234
Average Cost Per Enplaned Passenger Including International Charges	$ 5.91	$ 6.26	$ 6.79	$ 6.43	$ 6.55	$ 6.09	$ 4.31	$ 3.43	$ 3.62	$ 4.06

(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 charges.



CARGO MARKET SHARE ENPLANED
LAST TEN YEARS (EXPRESSED IN THOUSANDS OF POUNDS)

	FY 2007		FY 2006		FY 2005		FY 2004	
AIRLINE	CARGO ENPLANED	SHARE	CARGO ENPLANED	SHARE	CARGO ENPLANED	SHARE	CARGO ENPLANED	SHARE
DOMESTIC FREIGHT								
FedEx Express	4,099,458	93.9%	3,908,589	93.1%	3,818,706	93.3%	3,744,889	93.6%
United Parcel Service	35,693	0.8%	37,256	0.9%	34,589	0.9%	29,999	0.8%
Air Transport International	12,951	0.3%	13,365	0.3%	13,981	0.4%	13,858	0.4%
Mountain Air	9,404	0.2%	9,256	0.2%	9,804	0.2%	9,994	0.3%
DHL Worldwide Express	4,280	0.1%	5,125	0.1%	1,723	0.0%	1,705	0.0%
ABX Air dba Airborne Express	4,159	0.1%	3,275	0.1%	9,594	0.2%	9,369	0.2%
Northwest	3,100	0.1%	3,010	0.1%	4,183	0.1%	7,133	0.2%
Baron Aviation	1,753	0.0%	3,879	0.1%	4,385	0.1%	4,318	0.1%
Pinnacle Airlines	1,140	0.0%	948	0.0%	382	0.0%	371	0.0%
Delta	1,019	0.0%	2,003	0.0%	1,065	0.0%	955	0.0%
Other(1)	1,812	0.1%	7,214	0.2%	8,267	0.2%	6,932	0.2%
Total Domestic Freight	4,174,769	95.6%	3,993,920	95.1%	3,906,679	95.4%	3,829,523	95.8%
INTERNATIONAL								
FedEx Express	176,511	4.0%	192,375	4.6%	178,127	4.4%	163,261	4.1%
Northwest	4,073	0.1%	3,038	0.1%	3,348	0.1%	507	0.0%
Other (1)	635	0.0%	929	0.0%	45	0.0%	69	0.0%
Total International Freight	181,219	4.1%	196,342	4.7%	181,520	4.5%	163,837	4.1%
AIR MAIL								
Kalitta Air	10,902	0.3%	6,463	0.2%	4,166	0.1%	3,927	0.1%
Northwest	16	0.0%	28	0.0%	12	0.0%	1,171	0.0%
Other (1)	16	0.0%	143	0.0%	925	0.0%	1,561	0.0%
Total Air Mail	10,934	0.3%	6,634	0.2%	5,103	0.1%	6,659	0.1%
Total Cargo Enplaned	4,366,922	100.0%	4,196,896	100.0%	4,093,302	100.0%	4,000,019	100.0%

Source: Memphis-Shelby County Airport Authority Activity Reports
(1) May include activity by airlines no longer serving Memphis.

FY 2003		FY 2002		FY 2001		FY 2000		FY 1999		FY 1998	
CARGO ENPLANED	SHARE	CARGO ENPLANED	SHARE	CARGO ENPLANED	SHARE	CARGO ENPLANED	SHARE	CARGO ENPLANED	SHARE	CARGO ENPLANED	SHARE
3,668,062	93.8%	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%
26,075	0.7%	27,092	0.7%	25,205	0.9%	25,663	0.9%	23,147	0.9%	19,997	0.8%
13,622	0.3%	13,932	0.4%	12,938	0.5%	21,657	0.9%	22,453	0.9%	21,441	0.8%
11,249	0.3%	9,698	0.3%	9,728	0.4%	8,595	0.3%	9,649	0.4%	11,760	0.4%
1,576	0.0%	1,501	0.0%	1,259	0.1%	810	0.0%				
9,842	0.3%	9,133	0.3%	10,025	0.4%	8,526	0.3%	5,667	0.2%	4,500	0.2%
3,258	0.1%	3,184	0.1%	4,900	0.2%	7,105	0.3%	5,036	0.2%	5,819	0.2%
4,144	0.1%	4,396	0.1%	4,734	0.2%	5,497	0.2%	5,694	0.2%	5,678	0.2%
958	0.0%	361	0.0%	468	0.0%	364	0.0%	362	0.0%	416	0.0%
1,120	0.0%	936	0.0%	804	0.0%	1,237	0.1%	2,000	0.1%	1,406	0.1%
6,902	0.2%	8,714	0.2%	15,686	0.6%	18,488	0.6%	21,477	0.8%	24,259	1.0%
3,746,808	95.8%	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%
144,416	3.7%	132,395	3.6%	141,856	5.3%	130,098	4.8%	121,930	4.6%	144,345	5.5%
4,534	0.1%	5,930	0.2%	9,259	0.3%	9,014	0.3%	9,291	0.4%	7,139	0.2%
148,950	3.8%	138,325	3.8%	151,115	5.6%	139,112	5.1%	131,221	5.0%	151,484	5.7%
14,103	0.4%	21,604	0.6%	36,813	1.4%	32,392	1.2%	26,204	1.0%	44,885	1.7%
703	0.0%	2,813	0.1%	7,849	0.2%	7,304	0.3%	9,918	0.3%	11,334	0.5%
14,806	0.4%	24,417	0.7%	44,662	1.6%	39,696	1.5%	36,122	1.3%	56,219	2.2%
3,910,564	100.0%	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%

LANDED WEIGHT
LAST TEN YEARS (EXPRESSED IN THOUSAND POUND UNITS)

	FY 2007		FY 2006		FY 2005		FY 2004	
AIRLINE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE
MAJOR/NATIONAL								
Northwest Airlines	3,667,471	13.8%	3,645,688	14.0%	4,173,077	16.3%	4,027,714	16.1%
AirTran	209,664	0.8%	182,650	0.7%	182,208	0.7%	169,684	0.7%
American Airlines	193,212	0.7%	142,037	0.5%	104,428	0.4%	106,426	0.4%
Delta Air Lines	169,367	0.6%	343,854	1.3%	386,830	1.5%	372,802	1.5%
Frontier	21,077	0.1%						
Continental	1,629	0.0%	9,070	0.3%	26,074	0.1%	34,760	0.1%
Other (1)			23,108	0.1%	30,631	0.1%	423	0.0%
Total Major/National	4,262,420	16.0%	4,346,407	16.9%	4,903,248	19.1%	4,711,809	18.8%
REGIONAL								
Pinnacle Airlines	1,838,734	6.9%	1,696,089	6.5%	1,365,679	5.3%	1,270,551	5.1%
Mesaba	293,391	1.1%	548,226	2.1%	646,572	2.5%	823,742	3.3%
United Express (3)	142,229	0.6%	178,181	0.4%	145,972	0.6%	129,908	0.5%
Continental Express	136,581	0.5%	122,303	0.5%	133,742	0.5%	120,182	0.5%
Delta Connection (2)	136,173	0.5%	36,523	0.1%	77,798	0.3%	107,384	0.4%
American Eagle	117,541	0.5%	141,608	0.5%	126,356	0.5%	112,328	0.4%
Comair	62,557	0.2%	78,443	0.3%	60,019	0.2%	61,382	0.2%
America West Express (4)	58,560	0.2%	53,977	0.2%	13,377	0.1%		
USAirways Express	52,335	0.2%	56,872	0.2%	61,827	0.2%	102,874	0.4%
Other (1)	111,543	0.4%	91,756	0.7%	126,093	0.5%	157,228	0.7%
Total Regional	2,949,644	11.1%	3,003,978	11.5%	2,757,435	10.7%	2,885,578	11.5%
CARGO								
Federal Express	18,899,281	71.1%	18,098,283	69.7%	17,398,021	68.0%	16,896,344	67.5%
United Parcel Service	152,691	0.6%	153,161	0.6%	140,871	0.6%	178,982	0.7%
Kalitta Air	101,880	0.4%	54,720	0.2%	39,735	0.2%	31,905	0.1%
Air Transport International	76,568	0.3%	78,262	0.3%	84,380	0.3%	75,161	0.3%
DHL Worldwide Express	41,358	0.2%	39,734	0.1%	13,584	0.1%	13,260	0.1%
Mountain Air Cargo	27,023	0.1%	29,803	0.1%	47,887	0.2%	51,870	0.2%
ABX	26,961	0.1%	34,861	0.1%	81,589	0.3%	71,230	0.3%
Other (1)	27,504	0.1%	120,821	0.5%	127,911	0.5%	124,407	0.5%
Total Cargo	19,353,266	72.9%	18,609,645	71.6%	17,933,978	70.2%	17,443,159	69.7%
Total Landed Weight	26,565,330	100.0%	25,960,030	100.0%	25,594,661	100.0%	25,040,546	100.0%

Source: Memphis-Shelby County Airport Authority Activity Reports

(1) May include activity by airlines no longer serving Memphis.
(2) Operated by Comair, Atlantic Coast, Atlantic Southeast, Skywest Airlines and Chautauqua.
(3) Operated by Air Wisconsin, Atlantic Coast and Skywest Airlines.
(4) Operated by America West and Freedom Airlines.

FY 2003		FY 2002		FY 2001		FY 2000		FY 1999		FY 1998	
LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE	LANDED WEIGHT	SHARE
4,690,885	18.4%	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%
141,128	0.6%	141,273	0.6%	141,174	0.7%	142,560	0.7%	137,808	0.7%	131,274	0.7%
145,874	0.6%	139,339	0.6%	156,322	0.7%	158,490	0.8%	171,061	0.9%	144,498	0.8%
391,599	1.5%	513,245	2.1%	688,567	3.2%	745,043	3.8%	744,379	4.0%	751,019	4.1%
33,550	0.1%	31,680	0.1%	17,710	0.1%						
209,478	0.9%	306,883	1.3%	504,081	2.4%	470,588	2.3%	467,103	2.5%	450,982	2.4%
5,612,514	22.1%	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%
978,739	3.8%	958,194	3.9%	1,199,072	5.6%	751,203	3.8%	734,081	3.9%	845,242	4.6%
928,975	3.6%	513,413	2.1%	699,930	3.3%	328,125	1.6%	25,358	0.1%		
104,763	0.4%	96,444	0.4%	7,972	0.0%	33,476	0.2%	12,925	0.1%		
116,939	0.5%	125,566	0.5%	131,796	0.6%	102,853	0.5%	78,292	0.4%	55,072	0.3%
59,636	0.2%	48,957	0.2%	44,775	0.2%	37,541	0.2%	26,531	0.1%	16,701	0.1%
66,979	0.2%	24,487	0.1%								
83,566	0.3%	73,414	0.3%	50,055	0.2%	65,001	0.3%	52,712	0.3%	46,978	0.3%
69,894	0.3%	48,365	0.2%	7,148	0.0%						
117,285	0.5%	110,928	0.5%	130,802	0.7%	165,976	0.8%	158,841	0.9%	182,971	0.9%
2,526,776	9.8%	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%
16,721,927	65.6%	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%
255,214	1.0%	257,356	1.1%	259,746	1.2%	252,649	1.3%	245,640	1.3%	267,169	1.4%
		585	0.0%								
82,776	0.3%	82,820	0.3%	71,341	0.3%	128,873	0.6%	138,469	0.7%	119,324	0.7%
13,104	0.1%	13,136	0.1%	13,118	0.1%	7,735	0.0%				
57,834	0.2%	63,378	0.3%	64,988	0.3%	51,917	0.3%	56,908	0.3%	63,347	0.3%
73,661	0.3%	72,875	0.3%	101,660	0.5%	80,085	0.4%	49,496	0.3%	31,194	0.2%
147,938	0.6%	156,479	0.6%	259,569	1.2%	279,425	1.4%	241,701	1.3%	222,786	1.2%
17,352,454	68.1%	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%
25,491,744	100.0%	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%

AIRCRAFT OPERATIONS (1)
LAST TEN YEARS

FISCAL YEAR	MAJOR/ NATIONAL	REGIONAL	CARGO	GENERAL AVIATION	MILITARY	TOTAL
2007	68,730	129,254	135,882	42,999	1,622	378,487
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

Source: Memphis-Shelby County Airport Authority, Activity Reports
(1) Takeoffs and Landings

DEBT SERVICE COVERAGE
LAST TEN YEARS (IN THOUSANDS)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
REVENUES:										
(AS DEFINED IN										
BOND INDENTURE)										
Operating Revenues	$112,634	$111,015	$108,393	$93,200	$103,451	$92,386	$83,981	$67,230	$62,286	$62,008
Application of										
Prior Year Surplus	6,171	5,148	3,653	7,266			2,974	6,858	5,122	4,061
Coverage Carryforward	9,780	9,780	9,280	9,841	9,841	3,831				
Total	128,585	125,943	121,326	110,307	113,292	96,217	86,955	74,088	67,408	66,069
Operating Expenses	51,486	46,795	42,002	40,389	40,732	38,274	41,180	38,172	31,728	30,257
Net Revenues										
Before Adjustments	77,099	79,148	79,324	69,918	72,560	57,943	45,775	35,916	35,680	35,812
Restricted Interest										
Earnings (a)	5,293	4,336	3,556	4,580	3,601	4,227	4,099	2,603	1,958	2,421
Operating Grants	171	163	118	239	151	1,117	81	18	18	18
Bond Reserves – 1999C						1,132				
Other Revenue	531	530	569	525	522	740	894	915	819	945
Capital Outlay	(2,333)	(1,924)	(2,273)	(2,760)	(1,624)	(4,470)	(1,482)	(3,414)	(2,861)	(1,933)
Special Facilities Lease	(4,525)	(4,525)	(4,525)	(4,396)	(5,290)	(5,290)	(5,290)	(5,290)	(5,290)	(5,290)
Notes Payable										
(Principal and Interest)	(352)	(658)	(525)	(331)	(416)	(355)	(66)	(49)		
Net Revenues	$ 75,884	$ 77,070	$ 76,244	$ 67,775	$ 69,504	$55,044	$44,011	$30,699	$30,324	$31,973
DEBT SERVICE ON:										
Airport Revenue Bonds	55,361	56,747	57,067	50,178	48,192	41,142	35,215	23,009	16,773	18,734
General Obligation Bonds	3,989	3,927	3,843	3,661	3,623	3,641	3,784	3,756	6,663	8,058
Total Debt Service (b)	$ 59,350	$ 60,674	$ 60,910	$ 53,839	$ 51,815	$44,783	$38,999	$26,765	$23,436	$26,792
COVERAGE RATIO:										
Airport Revenue Bonds	137%	136%	134%	135%	144%	134%	125%	133%	181%	171%
All Bonds (c)	128%	127%	125%	126%	134%	123%	113%	115%	129%	119%

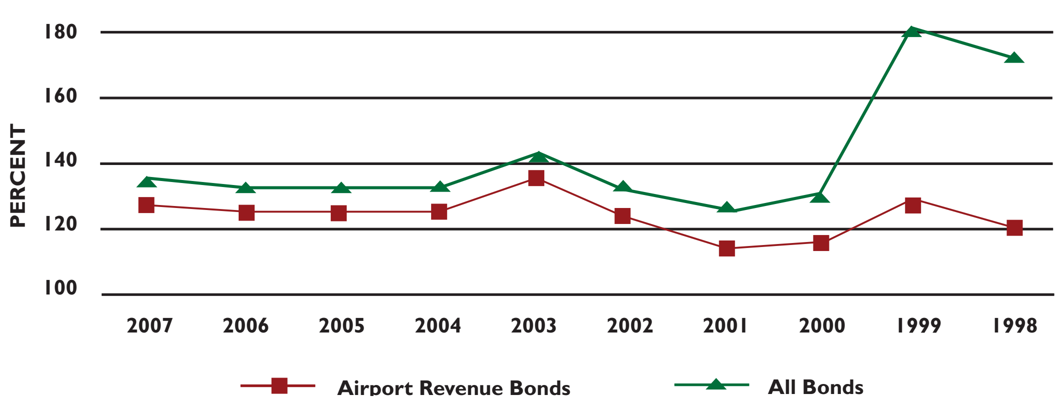
(a) Restricted interest earnings represents earnings on current debt service funds and operating funds.

(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.

DEBT SERVICE COVERAGE



RATIO OF ANNUAL BOND DEBT SERVICE TO TOTAL EXPENSES EXCLUDING DEPRECIATION AND AMORTIZATION LAST TEN YEARS (IN THOUSANDS)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Principal	$ 28,213	$ 28,059	$ 26,937	$ 21,384	$ 18,392	$ 16,227	$ 15,180	$ 12,220	$ 14,280	$ 16,615
Interest (1)	31,137	32,615	33,973	32,454	33,423	28,556	23,819	14,545	9,156	10,177
Total Debt Service (2)	59,350	60,674	60,910	$ 53,838	$ 51,815	$44,783	$ 38,999	$ 26,765	$ 23,436	$ 26,792
Total Expenses (3)	135,205	125,906	120,583	115,698	114,941	107,952	101,157	78,695	70,430	68,203
Less Gain or Loss on Property Disposals and Depreciation and Amortization	(54,167)	(44,202)	(44,463)	(43,469)	(41,104)	(38,227)	(31,365)	(24,534)	(24,114)	(22,754)
Add Principal	28,213	28,059	26,937	21,384	18,392	16,227	15,180	12,220	14,280	16,615
Add Net Capitalized Interest			1,627	5,117	4,002	4,624	2,975	6,079	3,419	2,682
Total General Expenditures	$109,251	$109,763	$104,684	$98,730	$96,231	$90,576	$87,947	$ 72,460	$64,015	$64,746
Ratio of Debt Service to Expenditures	54.3%	55.3%	58.2%	54.5%	53.8%	49.4%	44.3%	36.9%	36.6%	41.4%

(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)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Airport Revenue Bond Debt	$ 526,765	$ 552,165	$ 576,615	$ 600,150	$ 616,500	$ 634,340	$ 483,625	$ 496,030	$ 256,065	$ 267,190
Enplaned Passengers	5,264	5,349	5,403	5,193	5,500	5,072	6,181	5,262	4,885	4,960
Airport Revenue Bond Debt Per Enplaned Passenger	$ 100	$ 103	$ 107	$ 116	$ 112	$ 125	$ 78	$ 94	$ 52	$ 54

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.

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

USE OF BOND PROCEEDS (CONTINUED)

AIRPORT REVENUE BONDS (Continued)

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 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.

USE OF BOND PROCEEDS (CONTINUED)

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, 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 (2)	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 (3)	912,300	1,261,500	5,965,300	295,507,000
Forecast 2010 (3)	926,200	1,314,400	6,230,900	308,936,000

TEN LARGEST EMPLOYERS METROPOLITAN STATISTICAL AREA (1)

NAME OF EMPLOYER (4)	NUMBER OF EMPLOYEES (4)
FedEx Corporation	30,000
Memphis City Schools	15,240
U. S. Government	14,700
Methodist Healthcare	8,717
Memphis City Government	6,741
Baptist Memorial Healthcare Corp.	6,585
Shelby County Government	6,513
Naval Support Activity Mid-South	6,372
Wal-mart Stores, Inc.	6,000
Harrah's Entertainment, Inc.	5,541

(1) Metropolitan Statistical Area consists of Shelby, Tipton and Fayette Counties, Tennessee: Crittenden County, Arkansas; and Desoto County, Mississippi.
(2) Source: Tennessee Department of Economic and Community Development, and U.S. Department of Commerce, Bureau of the Census, Current Population Reports, 2000.
(3) Estimates based on growth rates published by NPA Data Service, Inc., Key indicators of County growth, 1970-2025, 2000 edition.
(4) Source: Memphis Business Journal, April 27-May 3, 2007 publication.

AIRLINES SERVING MEMPHIS INTERNATIONAL AIRPORT JUNE 30, 2007

CARGO AIRLINES

ABX Air dba Airborne Express, Inc.
Air Transport International
Bankair, Inc.
Baron Aviation Services
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.
Frontier Arlines
Northwest Airlines, Inc.

CHARTER

Champion Air
Miami Air International
Palm Air
Phoenix Air Group

REGIONAL/COMMUTER

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

EMPLOYER LOCATED ON AIRPORT PROPERTY JUNE 30, 2007

CONCESSIONAIRES AND TENANTS

Aircraft Services International, Inc.
Airport Fast Park
Airport Rentals, Inc. dba Budget Rent-a-Car
Airserv
Anton Airfood
Cockrum Clark Delivery
Creative Host, Inc.
Delaware North Companies
DTG dba Dollar Rent-a-Car/Thrifty Rent-a-Car
Enterprise Rent-a-Car
Fast Track Parking
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
International Business Services
Memphis Airport Hotel Partners
Motorent, Inc. dba Avis Rent-a-Car, Licensee
The Paradies Shops
Parking Co. of America
Regions Bank
Republic Parking System
Service Management Systems, Inc.
Service Master Management
Shoeshine Shop
Smart Carte, Inc.
Swissport Fueling
Swissport USA
U S Security Associates, Inc
Vanguard Car Rental USA, Inc. dba
Alamo Rent-a-Car/National Car Rental Systems
Wing's Financial Federal Credit Union

CARGO AIRLINES

ABX Air dba Airborne Express, Inc.
Air Transport International
DHL Worldwide Express
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.
Frontier Airlines
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 USAirways Express
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	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Terminal areas										
Maintenance	56	56	56	57	57	57	52	50	48	48
Airfield areas										
Maintenance	78	78	78	77	80	80	76	76	74	74
Administration area	85	83	83	81	75	75	70	68	66	64
Police & Operations areas										
Officers	44	44	44	44	44	43	43	42	41	41
Support Staff	29	29	29	28	28	27	27	27	27	21
General Aviation Airports										
Maintenance	3	3	3	2	2	2	2	2	2	2
Total	295	293	293	289	286	284	270	265	258	250

INSURANCE IN FORCE JUNE 30, 2007

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 Deductible: $5,000 per occurrence $100,000 aggregate	April 1, 2008	Old Republic Insurance Company and Lloyds of London	Personal injury and property damage
Aircraft non-ownership liability	250,000,000 total liability Deductible: $5,000	April 1, 2008	Old Republic Insurance Company and Lloyds of London	Personal injury and property damage
Employee benefits liability	$1,000,000 aggregate Deductible: $1,000	April 1, 2008	Old Republic Insurance Company	Negligent act, error or omission damages
Automobile liability - bodily injury and property damage	$1,000,000 each occurrence	April 1, 2008	Travelers	Bodily injury and property damage
Automobile - physical damage	Actual cash value at time of loss	April 1, 2008	Travelers	Automobile physical damage
Property	$500,000,000 aggregate losses $10,000,000 earthquake, $10,000,000 flood, $5,000,000 Terrorism. Deductibles: Terrorism - $100,000 Flood-$500,000 per occurrence, $1,000,000 aggregate earthquake - 5% of value 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 Deductible: $10,000	Until cancelled	Hartford Fire Insurance Company	Employee theft, forgery, robbery, and computer fraud
Employment practices liability	$10,000,000 Deductible: $50,000	April 1, 2008	State National Insurance Company	Wrongful termination, discrimination, sexual harassment and workplace torts
Public officials liability	$10,000,000 Deductible: $25,000	April 1, 2008	Chubb Indemnity Company	Board of Commissioners, management and professional liability
Worker's compensation	$1,000,000 Statutory coverage – State of TN Employers Liability	April 1, 2008	State National Insurance Company	Workers' compensation for on-the-job injuries
OWNER CONTROLLED INSURANCE PROGRAM - (CONSTRUCTION INSURANCE):				
General Liability	$1,000,000 per occurrence $2,000,000 aggregate Deductible: $250,000	October 1, 2009	Zurich Insurance	Personal injury and property damage
Excess liability insurance	$10,000,000 per occurrence $10,000,000 aggregate Deductible: $250,000	October 1, 2009	Zurich Insurance	Personal injury and property damage
Workers' compensation	$1,000,000 each occurrence $1,000,000 aggregate 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, 2007 (IN THOUSANDS)

Grantor/Number Pass-Through Grantor	Federal CFDA Number	Grant and Contract Number	Project Description	Percentage of Participation	Grants as Amended June 30, 2006
FEDERAL AWARDS					
U.S. Department of Transportation					
Federal Aviation Administration (FAA):					
Airport Improvement Programs	20.106	3-47-0049-56	Airport Security Enhancements	90%	$ 2,530
		3-47-0049-60	Airport Development Rehabilitate Taxiway - C and N, Winchester Slip Ramp	75%	5,144
		3-47-0049-61	Aircraft Rescue and Fire Fighting Facility	75%	2,225
		3-47-0049-63	Improvements, Rehabilitate Runway 9/27 Taxiway C and V	75%	22,120
		3-47-0049-65	Airport Development - Service Road over Winchester	75%	1,328
		3-47-0049-67	Snow Removal Equipment and Airport-Development FY 2005 Improvement Projects	75%	22,639
		3-47-0049-69	Airport Development Upgrade-for Group VI Aircraft Reconstruction and Taxiway Construction	75%	
		3-47-0049-70	Airport Development - In-bound Road Construction	75%	
		3-47-0049-71	Airport Development - LOI for West Runway Reconstruction	75%	
U.S. Department of Transportation					
Security Administration		DTSA20-03-H-01003	K9 Grant	100%	153
		HSTS04-06-A-DEP247	Checkpoint Improvements	100%	
		HSTS04-07-A-CTO206	Perimiter Security Improvements	100%	
					56,139
U. S. Department of Transportation					
(FAA) Tennessee Department					
of Transportation	20.106	79-555-0163-04	Baker - Pavement Overlay	90%	482
		79-555-0162-04	Spain - Pavement Overlay	90%	450
		99-555-0177-04	Baker Utility Expansion and Upgrade Phase I	90%	9
		79-555-0185-04	Baker - Utility Expansion Phase II	90%	
		79-555-0197-04	Spain - T-Hangar Construction	90%	
					941
Total Federal Awards					57,080
STATE AWARDS					
Tennessee Department of Transportation:					
		79-555-0771-04	Spain - Security	90%	135
		79-555-0772-04	Baker - Security	90%	135
		99-555-1145-04	Baker - Maintenance	50%	10
		99-555-1145-04	Spain - Maintenance	50%	10
		79-555-0786-04	Site Improvements for Runway & Apron, Phase III	90%	4,379
		79-555-0795-04	Baker - Security (part of Util Exp)	90%	
		99-555-1156-04	Spain - Maintenance	50%	
		99-555-1156-04	Baker - Maintenance	50%	
		79-555-1005-04	Spain - Ramp and Taxilane	90%	
		79-555-1006-04	Spain - Security (part of T-Hangars)	90%	
		79-555-0799-04	MEM Projects (half of owner share)	13%	
		79-555-1010-04	SE Area Cargo Building	90%	
Total State Awards					4,669
TOTAL FEDERAL AND STATE AWARDS					$ 61,749

(1) Grant Expenditures contain $14,397 from prior years.

(Reduced) Awarded	Total June 30, 2007	Grants Receivable June 30, 2006	Expenditures (1)	Cash Receipts	Grants Receivable June 30, 2007
	$ 2,530	$ 419		$ 419	
	5,144	117	1,212	1,204	$ 125
	2,225	330	(14)	198	118
	22,120	831	787	1,597	21
$ (175)	1,153	21		21	
	22,639	4,856	10,677	15,261	272
20,367	20,367		17,476	16,981	495
18,292	18,292		11,294	9,746	1,548
4,402	4,402		4,402	4,402	
151	304	40	151	135	56
1,079	1,079		980	938	42
657	657				
44,773	100,912	6,614	46,965	50,902	2,677
(39)	443	5			5
	450	95			95
	9	9			9
450	450		398		398
633	633		496		496
1,044	1,985	109	894		1,003
45,817	102,897	6,723	47,859	50,902	3,680
(10)	125	125			125
(19)	116	116			116
	10	10		10	
	10	10		10	
	4,379	1,555	886		2,441
82	82		82		82
10	10		10		10
10	10		10		10
411	411		201		201
12	12				
4,831	4,831				
1,719	1,719		375		375
7,046	11,715	1,816	1,564	20	3,360
$ 52,863	$ 114,612	$ 8,539	$ 49,423	$ 50,922	$ 7,040

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
YEAR ENDED JUNE 30, 2007

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 and state 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, 2007, and have issued our report thereon dated October 26, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 October 26, 2007.

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.

Moore Stephens Rhea&Ivy, PLC

October 26, 2007

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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, 2007. 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, 2007.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Commissioners, management, 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.

Moore Stephens Rhea&Ivy, PLC

October 26, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

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 October 26, 2007, expressed an unqualified opinion.

2. No significant deficiencies 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 October 26, 2007).

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

4. No significant deficiencies 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 October 26, 2007).

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 October 26, 2007, 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

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PART II – FINDINGS – FINANCIAL STATEMENTS AUDIT

None

PART III – FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS

None