REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of the Metropolitan Washington Airports Authority

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets, and cash flows, present fairly, in all material respects, the financial position of the Metropolitan Washington Airports Authority (the Airports Authority) as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years than ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Airports Authority management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2003 on our consideration of the Airports Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 30 to 39 is presented for the purpose of additional analysis and are not required as part of the financial statements of the Airports Authority, but the MD&A is supplemental information required by the Governmental Accounting Standards Board. The information in the MD&A has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on the information.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Washington, D.C.

April 7, 2003

The following discussion and analysis of the financial performance and activity of the Metropolitan Washington Airports Authority (the Airports Authority) is to provide an introduction and understanding of the basic financial statements of the Airports Authority for the year ended December 31, 2002 with selected comparative information for the year ended December 31, 2001. This discussion has been prepared by management and is unaudited; and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

The Airports Authority is an independent interstate agency responsible for the operation of two airports, Ronald Reagan Washington National Airport (National) and Washington Dulles International Airport (Dulles). The Airports Authority is governed by a 13-member Board of Directors (Board) with five members appointed by the Governor of Virginia, three by the Mayor of the District of Columbia, two by the Governor of Maryland and three by the President of the United States.

On June 7, 1987, Dulles and National were transferred to the Airports Authority under a 50-year lease authorized by the Metropolitan Washington Airports Act of 1986, Title VI of Public Law 99-500. All property was transferred to the Airports Authority. Prior to the transfer, the Airports were owned and operated by the Federal Aviation Administration (FAA) a component of the United States Department of Transportation.

The Airports Authority operates a two-airport system that provides domestic and international air service for the mid-Atlantic region. The organization consists of more than 1,100 employees in a structure that includes central administration, airports management and operations, and public safety.

In addition to operating National and Dulles, the Airports Authority is responsible for capital improvements at both Airports. National has undergone major renovations including the opening in July, 1997, of a new terminal, providing more comfortable and efficient passenger facilities that are convenient to the Metrorail station. The Dulles terminal has been expanded to double its former size and a midfield concourse has been built and expanded. At Dulles, land has been acquired for the construction of a new runway to meet the need for increased capacity.

The Airports Authority is self-supporting, using aircraft landing fees, fees from terminal and other rentals, and revenue from concessions to fund operating expenses. The Airports Authority is not taxpayer-funded. The Capital Construction Program (CCP) is funded by bonds issued by the Airports Authority, federal and state grants, Passenger Facility Charges (PFCs) and the Airports Authority revenues.

Using the Financial Statements

The Airports Authority financial report includes three financial statements: the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) principles. For the fiscal year ended December 31, 2001, the Airports Authority adopted GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB 33) as amended by GASB Statement No. 36, and elected to early adopt GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* (GASB 34) as amended by GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and GASB Statement No. 38, *Certain Financial Statements Note Disclosures*. There are no new standards adopted in 2002. The objective of the GASB in developing the new reporting standards is to "enhance the understandability and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies and investors and creditors."[1]

Airports Authority's Activity Highlights

The terrorist attacks that occurred in New York, Pennsylvania and Washington on September 11, 2001 adversely affected the nation's air transportation system. The Airports Authority has activity-based revenues which in part include parking, rental car, landing fees, international arrival fees and passenger conveyance fees. The events of September 11, 2001 reduced activity and consequently had a significant affect on the financial performance of the Airports Authority in 2002 and 2001. By the end of 2002, aviation activity at Dulles returned to previous levels, with December passenger levels the second best month on record. At National, passengers for December 2002 reached 1.2 million, or 92.6 percent of the 2000 level. This section includes a discussion of the activity since September 11, 2001 in order to better understand its affect on the financial performance of the Airports Authority in 2002.

[1] Governmental Accounting Standards Board, *Guide to Implementation of GASB 34 on Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments-Questions and Answers* ("Implementation Guide").

Following September 11, 2001, the FAA instituted numerous security measures for all U.S. airports, including National and Dulles. The measures include, but are not limited to, prohibiting persons who do not hold a valid airline ticket access beyond security checkpoints, and enhancing the search and security screening of all passengers and baggage. Congress also enacted legislation to address the financial impact of these attacks on the airline industry and strengthen aviation security. The aviation industry passenger traffic declined 4.7 percent for the twelve months of 2002 when compared to 2001. In North America, international passenger traffic for the twelve months of 2002 grew by 0.9%.

Immediately after September 11, 2001, National was closed and did not reopen until October 4, 2001, when the government allowed limited commercial air carrier activity to resume. A phased resumption of flight activity was permitted and the federal government imposed limits on the number of flights, the size of aircraft, the flight path, the number of cities served and the hours of operation. As of April 27, 2002, all of these restrictions on air carrier activity were removed and National was authorized to resume its previous air carrier operations. General aviation activity of non-scheduled, privately owned aircraft was prohibited at National after the events of September 11, 2001 and the prohibition continues today. Enplanements for the 12 months of 2002 were 6,465,387 compared to 6,563,151 for the year 2001, a decrease of 1.5%. The average annual enplanements at National from 1991 to 2000 were 7,728,336. At National, 2002 and 2001 passenger levels reflect the phased reopening of the Airport and the continued constraints on aviation activity.

Dulles, like most airports, was closed from September 11-13, 2001 and re-opened on September 14, 2001. Air carrier activity at Dulles was affected in a manner comparable with the total air transportation system. Total enplanements for the 12 months of 2002 were 8,595,966 compared to 8,920,092 in 2001, a 3.6% decrease. International enplanements for the 12 months of 2002 were 2,017,724 compared to 1,961,394 in 2001, a 2.9% increase. For the 12-months prior to December 31, 2002, domestic enplanements declined 5.5%.

Enplanements and Operations Activity for 2000 to 2002

	2002	2001	2000
Enplanements			
Dulles Domestic	6,578,242	6,958,698	7,888,431
Dulles International	2,017,724	1,961,394	2,083,201
National	6,465,387	6,563,151	7,855,373
Operations			
Dulles	372,636	396,876	456,436
National	215,691	244,008	297,879

In comparing Dulles and National to the North American aviation industry, the Airports exceeded the trends. Domestically, Dulles exceeded the trends by 0.4% in domestic passenger traffic and 2.4% in international passenger traffic. National exceeded domestic trends by 1.8%.

Enplanements Growth	MWAA	North America	Difference
Dulles Domestic	-4.3%	-4.7%	0.4%
Dulles International	3.3%	0.9%	2.4%
National	-2.9%	-4.7%	1.8%

By year-end 2002, at National, daily air carrier departures increased to 380 from 193 departures in 2001. At Dulles, by year-end 2002, daily air carrier departures of 399 decreased from 404 in 2001, although international departures increased to 47 per day in 2002 from 34 per day in 2001.

In December 2001, the Airports Authority received $40 million (federal compensation) from the federal government to compensate for the closure and subsequent reduced flight activity at National. The federal compensation was used by the Airports Authority to replenish unencumbered reserve, and at National, to replace lost revenues, compensate concessionaires for losses and supplement landing fees paid by those airlines that remained operating. The $40 million federal compensation is shown as non-operating revenues in the 2001 Statements of Revenues, Expenses and Changes in Net Assets. The Airports Authority's Board adopted Resolution No. 02-2 in January 2002, allocating the federal compensation to replace certain activity-based revenues at National in 2002 and 2001. In particular, at National, concession minimum guarantees were waived for the first six months of 2002 and concession fees were waived in total from September to December of 2001. Additionally, settlement of airfield charges for 2001 was waived. A total of $5 million was allocated to supplement 2002 revenues and offset expenses, and $17.1 million in federal compensation was allocated to supplement 2001 revenues, $1.9 million was allocated for direct payment to concessionaires, and $16.7 million was allocated to replenish unencumbered reserves. The application to replace revenues for purposes of the Airport Use Agreement and Premises Lease (the Agreement) is through the annual airline settlement process (See Note J).

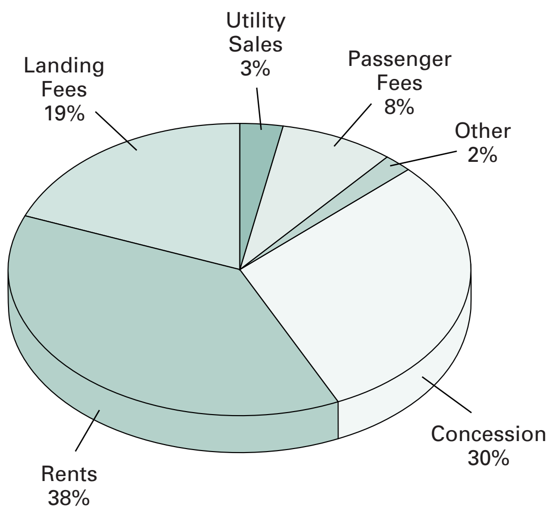
Financial Highlights

The financial results of 2002 continued to be shaped largely by the events of September 11, 2001 and resulting passenger and aviation activity changes described previously. The majority of the operating revenues at the Airports are directly related to the number of passengers and aircraft operations in 2002. Operating revenues of $337.4 million are $22.8 million greater than operating revenues of 2001, and show a turnaround in aviation activity at the Airports. The Airports Authority has contractual agreements requiring the Airlines to pay actual cost with a majority of concessionaires requiring a minimum guarantee payment.

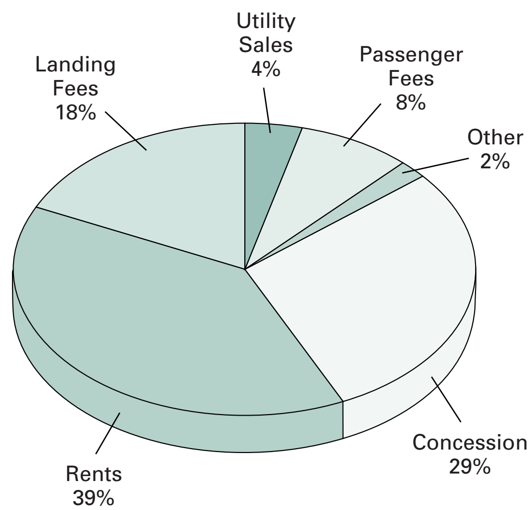
Classifications	**2002 Revenue Amount**	**2001 Revenue Amount**	**Increase (Decrease) from 2001**	**Percent of Increase (Decrease) from 2001**
Concessions	$ 101,372,468	$ 92,378,269	$ 8,994,199	9.74 %
Rents	127,554,998	122,382,146	5,172,852	4.23 %
Landing fees	63,967,382	55,780,359	8,187,023	14.68 %
Utility sales	10,589,091	12,322,825	(1,733,734)	(14.07)%
Passenger fees	27,521,305	24,445,948	3,075,357	12.58 %
Other	6,387,300	7,242,324	(855,024)	(11.81)%
Total	$ 337,392,544	$ 314,551,871	$ 22,840,673	7.26 %

The following is a graphic illustration of operating revenues by source for the years ended December 31, 2002 and 2001:

2002 Revenues



2001 Revenues



Concession revenue, as a percent of total revenues, increased to 30.0% in 2002 from 29.4% in 2001. Automobile parking revenue and rental car revenue represents 68.5% of concession revenue. In 2002, Dulles implemented a Pay and Go parking system where customers are able to pay in the terminal and exit the parking lots via a special prepaid lane. By year end, 45.0% of all auto parking was paid by Pay and Go. The following table details concession revenue by type.

Concession Revenues
(In '000)

	2002	2001	Increase (Decrease)
Parking	$ 43,747.8	$ 39,728.3	$ 4,019.5
Rental Cars	25,650.6	21,314.0	4,336.6
Food and Beverage	5,312.4	4,310.4	1,002.0
News Stand and Retail	5,161.5	4,452.3	709.2
Duty Free	1,732.4	1,919.5	(187.1)
Display Advertising	5,432.2	5,612.4	(180.2)
Inflight Caterers	6,228.1	7,080.1	(852.0)
Fixed Base Operator	4,020.2	4,238.3	(218.1)
All Other	4,087.3	3,723.0	364.3
Total	$ 101,372.5	$ 92,378.3	$ 8,994.2

The increase in rents in 2002 reflects the decrease in the Airline's share of net remaining revenues (NRR) and an increase in security-related costs. The increase in landing fees reflects an increase in activity and an increase in debt service related to airfield projects at Dulles. Utility sales revenue decreased as a result of lower gas and electric fees and conservation. Passenger fees now include fees paid by the Transportation Security Administration and increased principally related to increased security cost.

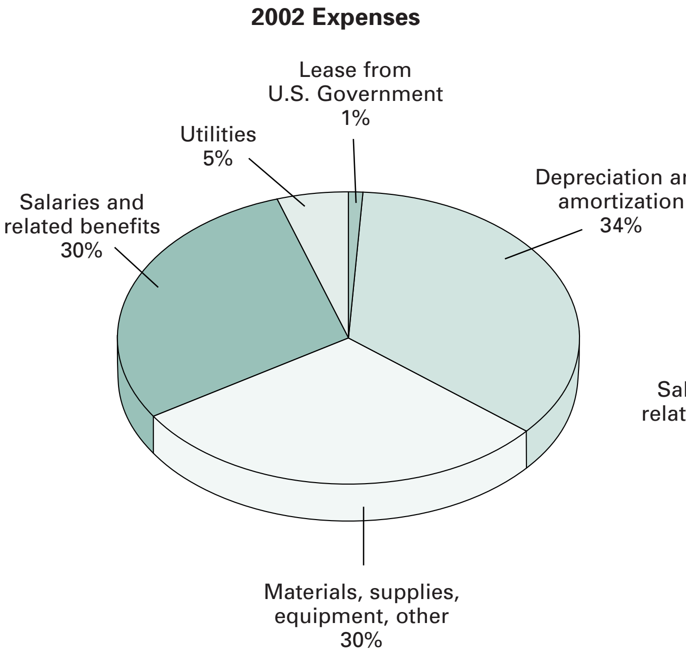
For the year ended December 31, 2002, the Airports Authority's accounts receivable included $3.5 million in pre- and post-petition debt from United Airlines and $1.3 million in pre-petition accounts receivable from US Airways. The Airports Authority petitioned the bankruptcy court asserting that $2.1 million of United Airlines' accounts receivable is post-petition and is payable. On March 27, 2003, the court ruled in the Airports Authority's favor on this matter. The Airports Authority has not established a reserve for the United or US Airways accounts receivable. The Airports Authority believes that it is more likely than not that both of these Airlines will continue to operate at the Washington Airports and will cure their defaults with the Airports Authority as required by bankruptcy law. In fact, as of February 24, 2003, US Airways entered into a non-interest bearing agreement to pay its entire pre-petition debt in nine monthly installments that will commence on the first day of the month that is more than sixty days after the effective date of its reorganization plan. Both carriers are current on their post bankruptcy obligations. The Airports Authority's expectation regarding US Airways and United is influenced by the Airports Authority's experience with other large airline bankruptcies. In the cases of Pan American, Eastern Airlines and most recently TWA, the airlines cured their defaults in order to assume and then transfer their leasehold assets to other carriers as part of their liquidation. Based upon its experience and its judgement of posture of United and US Airways, the Airports Authority has concluded that reserves need not be established.

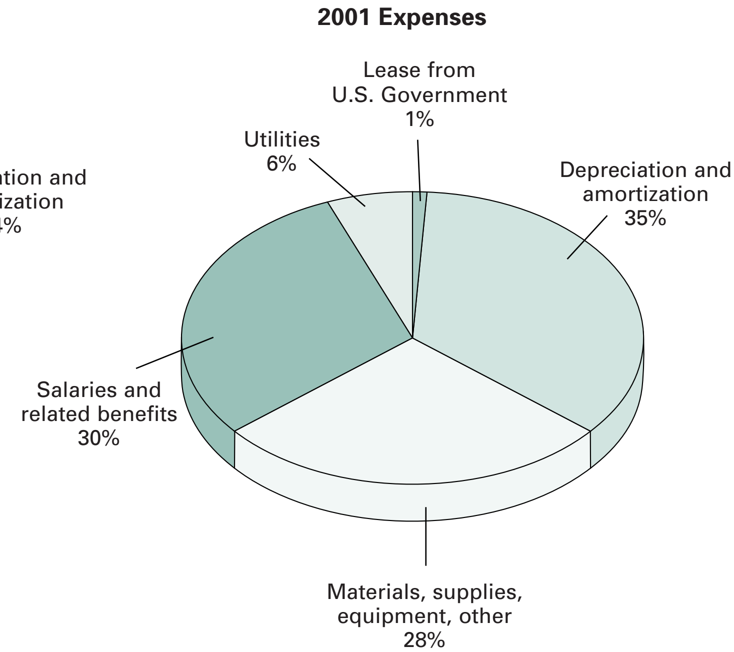
Operating expenses at both Airports, other than security related expenditures, were considerably reduced immediately following September 11, 2001 and continued into 2002. A hiring freeze was immediately implemented, all non-essential procurements were delayed and travel was restricted. In 2002, the increase in materials, supplies, equipment, contract services and other expenditures of $10.9 million is primarily related to the need to contract with the Virginia State Police and Loudoun County Police to provide supplemental support for security, as well as increased insurance costs. With the hardening insurance market, the quotes for insurance were significantly higher than in prior years. The Airports Authority responded to the increase in insurance cost by negotiating higher retention levels while increasing related insurance reserves. The $4.7 million increase in salaries and related benefits is principally related to the need for additional public safety personnel and related overtime, also as a result of increased security. Utility costs declined $1.9 million due to conservation and lower utility rates.

In March 2003, the United States Office of Personnel Management (OPM) notified the Airports Authority that they had completed the calculation of the cost of providing enhanced retirement benefits to the Airports Authority's police officers under Public Law 106-554. Provisions of this law allowed the Airports Authority's police officers that were employed while the Airports Authority was part of the United States Department of Transportation, to elect to be treated as "law enforcement officers" for purposes of retirement. OPM calculated that the past service cost with interest is $2.8 million and according to the law, is payable in five annual installments with the first payment of $646,493 due on May 31, 2003.

Expense Classification	2002	2001	Increase (Decrease) from 2001	Percent of Increase (Decrease) from 2001
Materials, supplies, equipment, contract services and other	$ 92,524,803	$ 81,659,446	$ 10,865,357	13.31 %
Salaries and related benefits	91,748,027	84,481,594	7,266,433	8.60 %
Utilities	15,657,374	17,568,654	(1,911,280)	(10.88)%
Lease from United States Government	4,238,185	4,169,260	68,925	1.65 %
Depreciation and amortization	105,035,788	99,325,739	5,710,049	5.75 %
Total	$ 309,204,177	$ 287,204,693	$ 21,999,484	7.66 %

The following is a graphic illustration of the total operating expenses by source for the year ended December 31, 2002 and 2001:





Changes in Net Assets

The fiscal year 2002 operating income for the Airports Authority was $28.2 million, an increase of $0.8 million when compared to the prior fiscal year. The Airports Authority's decision to waive certain concession rents and landing fees because of the closure of National and supplement the loss of revenues with federal compensation received in 2001, resulted in reduced operating income in both 2002 and 2001. Non-operating revenues of $16.3 million decreased by $41.2 million in 2001, because of the one-time receipt of the $40 million federal compensation for lost revenues in 2001. The Airports Authority received a federal payment of $3.1 million in 2002 as reimbursement for certain security related expenses incurred from September 11, 2001 through May 2002. Nonoperating expenses of $126.6 million increased by $25.7 million principally from the change in market value of the swap transaction. The swap transaction represents risk management activity taken in August 2001 to assure that the interest on a future refunding of the Series 1992A Bonds would not exceed an interest cost of 5.0 percent. Generally accepted accounting principles (GAAP) require that the future value of the swap be reported at prevailing rates in the Airports Authority's financial statements. The change in the market value of the swap in 2002 was a decrease of $26 million because actual interest rates declined from the time the swap was enacted to the end of fiscal year 2002.

Capital contributions include PFCs, and federal and state grants. PFCs collected in 2002 in the amount of $59.1 million were $11.8 million higher than in 2001 due to a full year of collections at the $4.50 level. Federal grants and state grants of $14.6 million were $2.2 million less than 2001 grant revenues. Grant related construction activity decreased in 2002 by $55 million. Federal and state grants provide partial funding of certain projects.

The change in net assets is an indicator of whether the overall fiscal condition of the Airports Authority has improved or declined during the year. The change in net assets for the years ended December 31, 2002 and 2001 was a decrease of $8.4 million and an increase of $48.3 million, respectively. In 2002, without the loss on the market value of the swap, net assets would have increased $17.7 million.

The following represents a summary of the Statements of Revenues, Expenses and Changes in Net Assets:

	2002	2001
Operating Revenues	$ 337,392,544	$ 314,551,871
Operating Expenses	(309,204,177)	(287,204,693)
Operating Income	28,188,367	27,347,178
Non-Operating Revenues		
Investment Income	13,277,813	17,536,753
Federal Compensation	3,064,970	40,000,000
Total Non-Operating Revenues	16,342,783	57,536,753
Non-Operating Expense		
Interest Expense	(100,285,317)	(97,670,195)
Federal Compensation Transfers	(279,370)	(1,651,663)
Unrealized swap income (loss)	(26,024,249)	(1,566,958)
Total Non-Operating Expenses	(126,588,936)	(100,888,816)
Capital Contributions	73,684,812	64,290,210
(Decrease) Increase in Net Assets	$ (8,372,974)	$ 48,285,325

Statements of Net Assets

The Statements of Net Assets presents the financial position of the Airports Authority at the end of the fiscal year. The Statements include all assets and liabilities of the Airports Authority. Net assets is the difference between total assets and total liabilities and is an indicator of the current fiscal health of the Airports Authority. A summarized comparison of the Airports Authority's assets, liabilities and net assets at December 31, 2002 and 2001 is as follows:

Assets	**2002**	**2001**
Current assets	$ 449,320,863	$ 304,895,604
Non-current assets		
Capital assets, net	2,553,672,786	2,350,172,546
Other non-current assets	191,793,059	182,669,302
Total Assets	3,194,786,708	2,837,737,452
Liabilities		
Current liabilities	160,109,417	153,306,969
Non-current liabilities		
Long-term debt outstanding and other restricted	2,391,468,324	2,034,987,613
Other non-current liabilities, unrestricted	6,174,603	4,035,532
Total Liabilities	2,557,752,344	2,192,330,114
Net Assets		
Invested in capital assets, net of debt	418,037,820	418,474,478
Restricted	34,646,503	44,033,502
Unrestricted	184,350,041	182,899,358
Total Net Assets	$ 637,034,364	$ 645,407,338

In its fifteenth full year of operations, the Airports Authority's financial position remained strong at December 31, 2002, with assets of $3.2 billion and liabilities of $2.6 billion. Current assets increased by $144.4 million reflecting management's continued decision to keep a minimum of five months of its operating cash portfolio in highly liquid securities and the receipt of bond funds which are shown in restricted assets. The Airports Authority has $2.6 billion in capital assets (net of depreciation), an increase of $203.5 million from 2001. The Airports Authority's capital assets are principally built from the proceeds of revenue bonds, but also include property acquired through leases, the Airports Authority revenue, capital contributions from federal and state grants, and PFCs. Assets, other than capital assets which are stated at historical cost less an allowance for depreciation, and liabilities are measured using current value.

During 2002, the Airports Authority conducted four bond transactions. In June 2002, $222.1 million Series 2002A Bonds and $27.9 million Series 2002B Bonds were issued to provide for capital improvements at Dulles and National. In August 2002, $265.7 million Series 2002C Variable Rate Refunding Bonds were issued to refund the Series 1992A bonds. The Airports Authority estimates the present value savings of this refunding to be $26.0 million. A portion of the bonds are hedged with an interest rate swap to achieve a fixed interest cost of approximately 5.0%. The swap requires the Airports Authority to pay the counter parties, Merrill Lynch and Lehman Brothers, a fixed rate of 4.45% and 4.46% respectively, and the counter parties pay the Airports Authority a rate equal to 72% of LIBOR. The swap hedges $241.8 million of the Series 2002C Bonds and the remaining $23.9 million are not hedged. In August 2002, the Airports Authority issued $107.2 million Series 2002D in fixed-rate bonds to refund the amounts outstanding in its Series One Commercial Paper (CP). The $100 million Series One CP is currently available to the Airports Authority. During 2002, the Airports Authority drew down the remaining $44 million for a total of $250 million in Bond Anticipation CP Notes. As a result of these transactions, long-term debt outstanding increased by $314.3 million and CP Notes outstanding increased to $250 million. Current liabilities increased by $6.8 million, principally related to the increases in the current portion of bonds payable.

Net assets, which represent the residual interest in the Airports Authority's assets after liabilities are deducted, were $637.0 million on December 31, 2002, a decrease of $8.4 million from 2001. The account "Invested in Capital Assets, Net of Debt," increased by $0.4 million to $418.0 million. Debt service reserve of $113.8 million is maintained in accounts held by the Airports Authority's Trustee, offset by the corresponding debt which is included in Restricted Net Assets.

The restricted and unrestricted remaining net assets are derived from the Airports Authority operations since the Airports Authority's inception in 1987, as well as grant and PFC collections. The 2002 restricted net assets of $34.7 million are subject to external restrictions on how they may be used under the Master Indenture of Trust (Master Indenture) and federal regulations. The remaining unrestricted assets of $184.4 million, an increase of $1.5 million from 2001, may be used to meet any of the Airports Authority's ongoing operations subject to approval of the Airports Authority's Board.

Highlights of the 2002 Budget

A budget is prepared each year and is a financial planning tool used to estimate revenues and expenditures. The Budget is not prepared according to GAAP.

Operating revenues, plus the yearly allocated federal compensation of $6.4 million, reached 103.0% of budget expectations in 2002, while in 2001, operating revenues, including the allocated federal compensation reached 93.6% of budget expectations. Actual concession revenue of $101.4 million plus the federal compensation reached 92.9% of budget, principally because of a delay in opening the second structured parking garage at Dulles. International arrival fees of $10.5 million reached 132.9% of budget, reflecting the recovery of international travel during 2002.

Operating expenses reached 99.0% of budget authorization in 2002, while in 2001 expenditures reached 91.5% of budget authorization. The Airports Authority continued its attention to reduce operating expenses in the 2002 budget through a continued hiring freeze and strict procurement constraints. Although the Airlines and the federal government are primarily responsible for, and bear most of the cost associated with, implementing new federally mandated security measures, the Airports Authority has experienced increased operating costs in order to comply with federally mandated and other security and operating requirements. The Transportation Security Administration (TSA) of the Department of Homeland Security has a significant presence at National and Dulles. Certain responsibilities of the TSA are performed by the Airports Authority's public safety personnel and are reimbursed in total by the TSA.

	Budget	Actual[1]	As a Percentage of Budget
2002 Revenues	$ 331,562,000	$ 341,542,301	103.0%
2002 Expenses	$ 193,921,242	$ 192,058,281	99.0%
2001 Revenues	$ 350,477,000	$ 327,875,135	93.6%
2001 Expenses	$ 198,044,900	$ 181,222,642	91.5%

[1] As defined in the Airport Use and Premises Lease Agreement.

Cash and Investment Management

The Airports Authority's cash and cash equivalents decreased to $192.9 million for the year ended December 31, 2002 from $232.2 million for the year ended December 31, 2001, principally as a result of a management decision to move three months of operating account investments from short-term cash equivalents to investments of less than five months, to provide continued liquidity while offering an increased yield. Cash and cash equivalents with an original maturity of three months or less are considered highly liquid investments. Cash and cash equivalents, unrestricted, decreased by $64.2 million while unrestricted investments increased by $49 million.

The following summary shows the major sources and use of cash:

	2002	2001
Cash received from operations	$ 332,077,426	$ 336,017,189
Cash expended from operations	(204,043,800)	(183,110,520)
Net cash provided by operations	128,033,626	152,906,669
Net cash provided (used) in capital and related financing activities	20,569,266	(88,295,037)
Net cash provided (used) by investing activities	(187,985,336)	60,938,654
Net cash used by capital financing and investing activities	(167,416,070)	(27,356,383)
Net increase (decrease) in cash and cash equivalents	(39,382,444)	125,550,286
Cash and cash equivalents, beginning of year	232,240,218	106,689,932
Cash and cash equivalents, end of year	$ 192,857,774	$ 232,240,218

Cash temporarily idle during 2002 was invested in demand deposits, certificates of deposit, commercial paper, United States Government and agency obligations, mutual funds, repurchase agreements collateralized by the United States Government or agency obligations, and other permitted investments as listed in the Master Indenture for the Airports Authority's outstanding bonds. During 2002, the Airports Authority's operating account average portfolio balance was $165.3 million and the average yield on investments was 2.0%. The capital funds are held by an agent for the Trustee but managed by the Airports Authority. For 2002, the capital funds had an average portfolio balance of $181.0 million and an average yield of 4.8%.

Certain Airports Authority funds that will be used for bond requirements (See Note E) and capital projects are invested in long-term instruments. An annual cash flow projection for capital projects is developed for all bond proceeds and investments are matched to maximize investment income while ensuring cash is available for capital project expenses. All investments must be made following the investment policy that was adopted by the Airports Authority's Board. An investment committee meets quarterly to review the portfolios for compliance with the investment policy (See Note B).

Capital Construction

During 2002, the Airports Authority expended $294.9 million in its on-going CCP compared to an original budget of $371.3 million. During the year, the procurement and construction start of the automated people mover project at Dulles was delayed. Major projects completed in 2002 at Dulles were the first structured car parking garage, a new air side fire and rescue station, and renovation of an additional section of the main terminal. The Airports Authority capitalized $216.9 million in projects in 2002. Projects at Dulles, that began or continued construction in 2002, that are scheduled for completion in 2003 or beyond include an additional structured parking garage, a fourgate addition to Concourse B, the security mezzanine and Main Terminal people mover station, and renovation of the final section of the original Main Terminal. Average monthly capital construction spending in 2002 was approximately $25 million (See Note F).

Capital Financing and Debt Management

The Airports Authority's long-term uninsured bonds are rated "AA-" by Fitch, "Aa3" by Moody's, and "A+" by S&P. Following the events of September 11, 2001, Moody's placed the Airports Authority's rating on "Watch List" effective September 18, 2001 and on February 15, 2002, removed the Airports Authority from the "Watch List" and affirmed the Airports Authority's "Aa3" rating with negative outlook. S&P placed the Airports Authority's debt on "Credit Watch Negative" effective September 20, 2001 and downgraded the Airports Authority to "A+" with "Outlook Stable," effective February 28, 2002. Fitch placed the Airports Authority's debt on "Rating Watch Negative" effective October 5, 2001, and on May 15, 2002, confirmed the Airports Authority's "AA-" rating with outlook "Stable." As of December 31, 2002, the Airports Authority has $2,061,375,000 outstanding airport revenue bonds, $250 million in bond anticipation CP Notes and $170.2 million in PFC notes (See Note I). Of the $2,061,375,000 in outstanding senior bonds, $212.3 million is uninsured. The insured debt is rated "AAA" by S&P and Fitch, and "Aaa" by Moody's.

The Airports Authority is financing its construction program through a combination of revenues, entitlement, and discretionary grants received from the FAA, state grants, PFCs, and revenue bonds. Long-term debt is the principal source of funding for the CCP. The Airports Authority, through its Master Indenture, has agreed to maintain a debt service coverage of not less than 1.25. Debt service coverage is calculated based on a formula included in the Master Indenture and the Agreement with the Airlines. Historically, the Airports Authority has maintained a coverage ratio significantly higher than its requirement. During 2002 and 2001 respectively, the Airports Authority's debt service coverage was 1.46 and 1.67. The decrease in coverage in 2002, is related to the debt service for the structured parking garage at Dulles which opened in March 2002 (See Note I).

Contacting the Airports Authority's Financial Management

The financial report is designed to provide the Airports Authority's Board, management, investors, creditors and customers with a general view of the Airports Authority's finances and to demonstrate the Airports Authority's accountability for the funds it receives and expends. For additional information about this report, or for additional financial information, please contact Lynn Hampton, Vice President and Chief Financial Officer, 1 Aviation Circle, Washington, DC, 20001-6000, or email BondholdersInformation@mwaa.com.

As of December 31	2002	2001
ASSETS		
Current Assets		
Unrestricted Assets:		
Cash and cash equivalents	$ 51,069,154	$ 115,267,381
Investments	97,313,765	48,344,417
Accounts receivables, net	18,084,191	13,321,081
Inventory	1,961,744	1,748,108
Prepaid expenses and other current assets	2,537,820	1,756,344
Total Unrestricted Assets	170,966,674	180,437,331
Restricted Assets:		
Cash and cash equivalents, restricted	135,112,168	97,185,140
Passenger facility charges, cash, restricted	6,676,452	19,787,697
Passenger facility charges, receivables, restricted	8,476,074	6,177,693
Investments, restricted	128,089,495	1,307,743
Total Restricted Assets	278,354,189	124,458,273
Total Current Assets	449,320,863	304,895,604
Non-Current Assets		
Capital Assets:		
Land	49,679,736	41,330,557
Construction in progress	538,890,637	459,360,644
Buildings, systems and equipment	2,671,901,652	2,457,937,760
Less: Accumulated Depreciation	(706,799,239)	(608,456,415)
Capital Assets, Net	2,553,672,786	2,350,172,546
Long-term investments	48,696,006	37,082,471
Long-term investments, restricted	113,837,927	120,779,577
Other long-term assets	3,895,344	3,663,731
Bond issuance costs, net	25,363,782	21,143,523
Total Non-Current Assets	2,745,465,845	2,532,841,848
Total Assets	$ 3,194,786,708	$ 2,837,737,452

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

As of December 31	2002	2001
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payable from unrestricted:		
Accounts payable and accrued expenses	$ 32,692,240	$ 33,907,504
Operating lease obligations	341,140	341,139
Total unrestricted	33,033,380	34,248,643
Current liabilities payable from restricted assets:		
Accounts payable and accrued expenses	54,462,182	55,688,041
Accrued interest payable	26,958,855	25,285,285
Bonds payable	45,655,000	38,085,000
Total restricted	127,076,037	119,058,326
Total current liabilities	160,109,417	153,306,969
Non-Current Liabilities		
Payable from unrestricted:		
Other liabilities	6,174,603	4,035,532
Payable from restricted:		
Other Liabilities	0	1,806,683
Bank participation notes	170,200,000	170,200,000
Commercial paper notes	250,000,000	206,000,000
Bonds payable, net	1,971,268,324	1,656,980,930
Total restricted	2,391,468,324	2,034,987,613
Total non-current liabilities	2,397,642,927	2,039,023,145
Total Liabilities	2,557,752,344	2,192,330,114
NET ASSETS		
Invested in capital assets, net of related debt	418,037,820	418,474,478
Restricted	34,646,503	44,033,502
Unrestricted	184,350,041	182,899,358
Total net assets	$ 637,034,364	$ 645,407,338

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

	Years Ended December 31, 2002	December 31, 2001
OPERATING REVENUES		
Concessions	$ 101,372,468	$ 92,378,269
Rents	127,554,998	122,382,146
Landing Fees	63,967,382	55,780,359
Utility sales	10,589,091	12,322,825
Passenger fees	27,521,305	24,445,948
Other	6,387,300	7,242,324
	337,392,544	314,551,871
OPERATING EXPENSES		
Materials, equipment, supplies, contract services, and other	92,524,803	81,659,446
Salaries and related benefits	91,748,027	84,481,594
Utilities	15,657,374	17,568,654
Lease from U. S. Government	4,238,185	4,169,260
Depreciation and amortization	105,035,788	99,325,739
	309,204,177	287,204,693
OPERATING INCOME	28,188,367	27,347,178
NON-OPERATING REVENUES (EXPENSES)		
Passenger facility charges, financing costs	(2,029,218)	(4,537,821)
Investment income	13,277,813	17,536,753
Interest expense	(98,256,099)	(93,132,374)
Federal compensation	3,064,970	40,000,000
Federal compensation transfers	(279,370)	(1,651,663)
Unrealized swap income (loss)	(26,024,249)	(1,566,958)
	(110,246,153)	(43,352,063)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(82,057,786)	(16,004,885)
CAPITAL CONTRIBUTIONS		
Passenger facility charges	59,071,341	47,233,127
Federal and State grants	14,613,471	16,819,846
Other capital property acquired	–	237,237
	73,684,812	64,290,210
NET ASSETS		
Increase in net assets	(8,372,974)	48,285,325
Total net assets, beginning of year	645,407,338	597,122,013
Total net assets, end of year	$ 637,034,364	$ 645,407,338

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

	Years Ended December 31, 2002	December 31, 2001
NET CASH FROM OPERATING ACTIVITIES:		
Operating cash receipts from customers	$ 332,077,426	$ 336,017,189
Cash payments to suppliers for goods and services	(115,256,436)	(99,737,358)
Cash payments to employees for services	(88,787,364)	(83,373,162)
NET CASH PROVIDED BY OPERATING ACTIVITIES	128,033,626	152,906,669
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	619,600,469	303,275,759
Proceeds from the issuance of commercial paper	44,000,000	16,000,000
Principal payments on bonds	(297,915,000)	(51,540,000)
Payments for capital expenditures and construction In progress	(299,712,830)	(354,893,510)
Proceeds from sale of fixed assets	2,763,440	84,064
Payments of bond issuance costs	(9,940,732)	(3,552,554)
Interest paid on bonds	(108,852,508)	(98,030,800)
Rebate to Treasury	(346,481)	–
Government grants in aid of construction	17,672,008	15,494,643
Federal compensation for 9/11 disaster		40,000,000
Passenger facility charge receipts	56,487,797	51,034,599
Passenger facility charge borrowing from line of credit		–
Passenger facility charge expenses and other	(3,186,897)	(6,167,238)
NET CASH PROVIDED OR (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	20,569,266	(88,295,037)
NET CASH FROM INVESTING ACTIVITIES:		
Interest received on investments	10,538,151	22,574,927
(Increase) Decrease in short term investments, net	(171,258,963)	(26,899,827)
Proceeds from long-term investment maturities	230,383,212	202,034,857
Purchase of long-term investments	(257,647,736)	(136,771,303)
NET CASH PROVIDED OR (USED) BY INVESTING ACTIVITIES	(187,985,336)	60,938,654
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(39,382,444)	125,550,286
CASH AND CASH EQUIVALENTS, Beginning of Period	232,240,218	106,689,932
CASH AND CASH EQUIVALENTS, End of Period	$ 192,857,774	$ 232,240,218

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

	Years Ended December 31, 2002	Years Ended December 31, 2001
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 28,188,367	$ 27,347,178
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	105,035,788	99,325,739
(Decrease) Increase in allowance for doubtful accounts	295,133	813,728
(Gain) loss on sale of assets	204,069	1,099,095
Decrease (Increase) in accounts receivable	(5,386,814)	20,651,592
Decrease (Increase) in inventory	(213,636)	(269,214)
Decrease (Increase) in prepaid expenses and other current assets	(781,476)	(801,461)
Decrease (Increase) in other long-term assets	(231,613)	(1,288,394)
Increase (Decrease) in long-term liabilities	2,139,071	361,856
(Decrease) Increase in accounts payable and accrued expenses	(1,215,263)	5,666,550
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 128,033,626	$ 152,906,669
Noncash and related financing transactions		
Unrealized Gain (Loss)	(22,592,638)	107,521
Total noncash and related financing transactions	$ (22,592,638)	$ 107,521

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metropolitan Washington Airports Authority (the Airports Authority) is an independent interstate agency created by the Commonwealth of Virginia and the District of Columbia with the consent of the United States Congress. The Commonwealth of Virginia and the District of Columbia enacted essentially identical legislation creating the Airports Authority for the purpose of operating Ronald Reagan Washington National (National) and Washington Dulles International (Dulles) Airports (collectively the Airports). The Airports Authority is governed by a Board of Directors (Board) with members from the Commonwealth of Virginia, the District of Columbia, the State of Maryland, and three members appointed by the President of the United States.

On June 7, 1987, Dulles and National properties were transferred to the Airports Authority under a long-term lease authorized by the Metropolitan Washington Airports Act of 1986, Title VI of Public Law 99-500 (See Note L). All personal property was transferred to the Airports Authority without condition. Prior to the transfer, the Airports were operated by the Federal Aviation Administration (FAA) of the United States Department of Transportation.

Only the accounts of the Airports Authority are included in the reporting entity. There are no component units that should be considered for inclusion in the Airports Authority's financial reporting entity.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis. The Airports Authority reports as a Business Type Activity, as defined by the Governmental Accounting Standards Board (GASB). Business Type Activities are those that are financed in whole or in part by fees charged to external parties for goods or services.

The Airports Authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred. Current assets include cash and amounts convertible to cash during the next normal operating cycle or one year. Current liabilities include those obligations to be liquidated with current assets.

Revenues from airlines, concessions, rental cars and parking are reported as operating revenues. Capital, grants, financing or investing related transactions are reported as non-operating revenues. All expenses related to operating the Airports Authority are reported as operating expenses. Interest expense and financing costs are reported as non-operating.

Net Assets

Net assets represent the residual interest in the Airports Authority's assets after liabilities are deducted and consists of three sections: Invested in capital assets, net of related debt; Restricted; and Unrestricted. Net assets invested in capital assets, net of related debt includes capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt attributable to acquisition. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The Airports Authority's restricted assets are expendable. All other net assets are unrestricted.

Proprietary Accounting and Financial Reporting

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Airports Authority follows all GASB pronouncements as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principal Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with or contradict GASB pronouncements.

Budgeting Requirements

The Airports Authority's annual budgeting process is a financial planning tool used to establish the estimated revenues and expenditures for both Airports. The annual budget is developed after reviewing revenue forecasts, the impact of funding increases on landing fees, rental rates, and other rates and charges, prior year actuals, our current program levels, new operating requirements, and the overall economic climate of the region and airline industry. The budget to actual results are reviewed periodically throughout the year to ensure compliance with the provisions of the Airports Authority's entity-wide annual operating budget, which is approved by the Board.

The President and Chief Executive Officer has the authority to approve changes to the budget within all categories as long as the net changes do not result in an increase in overall budgeted expenditures. In keeping with the requirements of a proprietary fund, budget comparisons have not been included in this financial section of this report.

Revenues Recognition

Rentals and concession fees are generated from airlines, parking structures and lots, food, rental cars, fixed base operators, and other commercial tenants. Leases for the airlines are based on full cost recovery. Other leases are for terms from one to 15 years and generally require rentals based on the volume of business, with specified minimum rentals. Rental revenue is recognized over the life of the respective leases, and concession revenue is recognized partially based on reported concession revenue and partially based on minimum rental guarantee. Rental revenue and concession revenue are recognized as operating revenues on the Statements of Revenues, Expenses and Changes in Net Assets.

Landing fees are principally generated from scheduled airlines and non-scheduled commercial aviation and are based on the landed weight of the aircraft. The scheduled airline fee structure is determined annually based on full cost recovery pursuant to an agreement between the Airports Authority and the Signatory Airlines. Landing fees are recognized as part of operating revenues when the airline related facilities are utilized.

Several airlines represent concentrations of revenues for the Airports Authority. At National, US Airways, Delta Air Lines, and American Airlines comprise approximately 56 percent of annual airline revenues. At Dulles, United Airlines and Atlantic Coast Airlines comprise approximately 56 percent of annual airline revenues. These airlines combined represent approximately 56 percent of the total annual airline revenues for the Airports Authority. Actual airline revenues for 2002 represent approximately 59 percent of the Airports Authority's total budgeted revenues.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, demand deposits, certificates of deposit, commercial paper, United States Government and agency obligations, mutual funds, and repurchase agreements collateralized by United States Government or agency obligations with an original maturity of three months or less, including restricted assets.

Investments

Investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. Investments with an original maturity of less than one year are carried at amortized cost.

Investments consist of certificates of deposit, commercial paper, United States Government and agency obligations, interest rate swaps, and repurchase agreements collateralized by United States Government or agency obligations, with an original maturity greater than three months.

Inventory

Inventory consists of spare parts and is stated at the lower of cost or market value, using the first-in, first-out method.

Capital Assets

Personal property, the ownership of which was transferred from the United States Government to the Airports Authority on June 7, 1987, is recorded at fair value at the date of transfer. Assets acquired subsequent to the transfer are stated at historical cost and include the expense of Federal grants to construct and improve the facilities of the Airports Authority. The costs for property and facilities include net interest expense incurred from the date of issuance of the debt to finance construction until the completion of the capital project (See Notes F and I). Tenants have funded construction and improvements of airport facilities from their own working capital. Under agreements with the Airports Authority, the property reverts to the Airports Authority upon termination or expiration of the agreement. Terms range from 15 to 40 years. These assets obtained by the Airports Authority are recorded at fair market value as of date of transfer. Major improvements and replacements of property are capitalized. Maintenance, repairs, and minor improvements and replacements are expensed.

Provision for depreciation has been calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful lives and corresponding capitalization thresholds are as follows:

		Threshold
Equipment	5-7 years	$ 10,000
Motor Vehicles	3-5 years	10,000
Buildings	20-40 years	25,000
Systems and Structures	10-40 years	25,000

Bond Issuance Costs

Bond issuance costs represent expenses incurred in the process of issuing bonds and are amortized over the life of the related bond issue, using the interest method.

Compensated Absences

Airports Authority employees are granted vacation at rates of 13 to 30 days per year, depending on their length of employment, and may accumulate up to a maximum of 30 days. Upon termination, employees are paid for any unused accumulated vacation. Sick leave accumulates at the rate of 13 days per year. Unused sick leave for employees who transferred from the Federal Government is counted at retirement as additional time worked for calculation of pension benefit. Unused sick leave for all other employees is forfeited at time of termination of employment regardless of the reason. Compensated absences are accrued when earned and reflected in accrued expenses.

Arbitrage - Rebate Liability

The United States Treasury has issued regulations on calculating the rebate due to the United States Government on arbitrage profits and determining compliance with the arbitrage rebate provisions of the Tax Reform Act of 1986. Arbitrage profits arise when the Airports Authority temporarily invests the proceeds of tax exempt debt in securities with higher yields. The Airports Authority estimates a liability at December 31, 2002 and 2001, of approximately $1,506,464 and $2,355,238, respectively.

Capital Contributions - Passenger Facility Charges (PFCs)

In 1990, Congress approved the Aviation Safety and Capacity Expansion Act which authorized domestic airports to impose a Passenger Facility Charge (PFC) on enplaning passengers. In May 1991, the FAA issued the regulations for the use and reporting of PFCs. PFCs may be used for airport projects that meet at least one of the following criteria: preserve or enhance safety, security, or capacity of the national air transportation system; reduce noise or mitigate noise impacts resulting from an airport; or furnish opportunities for enhanced competition between or among carriers.

The Airports Authority was granted permission to begin collecting a $3.00 PFC effective November 1, 1993, at National and January 1, 1994, at Dulles. The charges, less an administrative fee charged by the Airlines for processing, are collected by the Airlines and remitted on a monthly basis to the Airports Authority. Due to their restricted use, PFCs are categorized as non-operating revenues and are accounted for on the accrual basis. The Airports Authority applied for and received the approval in February 2001, to increase the PFC collection from $3.00 to $4.50, effective May 2001.

Capital Contributions - Federal and State Grants

The Airports Authority receives federal and state grants in support of its Capital Construction Program. The federal program provides funding for airport development, airport planning and noise compatibility programs from the Airport and Airways Trust Fund in the form of both entitlement and discretionary grants for eligible projects. The Commonwealth of Virginia also provides discretionary funds for capital programs.

Grants for capital asset acquisition, facility development, rehabilitation of facilities and long-term planning are reported in the Statements of Revenues, Expenses and Changes in Net Assets, after non-operating revenues and expenses as capital contributions.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management, where necessary, 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.

Reclassification

Certain reclassifications of prior year amounts have been made to conform with the current year presentation.

B. DEPOSITS AND INVESTMENTS

Cash

In accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the Airports Authority classifies its deposits as to the credit risk by the following three categories: Category 1 includes insured or collateralized cash with securities held by the Airports Authority or its agent in the Airports Authority's name; Category 2 includes collateralized cash with securities held by the pledging financial institutions' trust department or agent in the Airports Authority's name; and Category 3 includes uncollateralized cash, including any bank balance that is collaterized with securities held by the pledging institution, or by its trust department or agent, but not in the Airports Authority's name. The table below presents the Airports Authority's deposit risk classifications in accordance with GASB Statement No. 3:

	December 31, 2002	December 31, 2001
Deposits		
Carrying Amount	$ 2,130,603	$ 5,051,438
Bank Balance	2,929,183	1,815,462
FDIC Insured or collateralized (Category 1)	2,913,183	1,801,462
Uncollateralized or uninsured (Category 3)	16,000	14,000
Certificates of Deposit/Investments		
Carrying Amount	$ 3,119,148	$ 3,100,000
FDIC Insured or collateralized (Category 1)	400,000	400,000
Uncollateralized or uninsured (Category 3)	2,719,148	2,700,000

To assure the safety of demand deposits not covered by FDIC insurance, the Airports Authority utilizes the LACE Financial Institutions Rating Service to determine the stability of the financial institutions.

Investments

The primary objectives of the Airports Authority's investment policy are the safety of capital, the liquidity of the portfolio and the yield of the investments. Bond proceeds (See Note E) may be invested in securities as permitted in the bond indentures, otherwise, assets of the Airports Authority may be invested in United States Treasury securities; short-term obligations of the United States Government agencies; short term obligations of the Commonwealth of Virginia, the State of Maryland, and the District of Columbia; certificates of deposit with banks that have a LACE rating of "B" or better, or that are fully insured or collateralized; prime commercial paper rated A1 and P1 by S&P and Moody's, respectively; prime bankers' acceptance notes; repurchase agreements whose underlying collateral consist of the foregoing; money market or mutual funds whose underlying collateral consist of the foregoing; or other such securities or obligations that may be approved by the Finance Committee by modification of the Airports Authority's policy.

In accordance with GASB Statement No. 3, the Airports Authority classifies its investments as to the credit risk by the following three categories: Category 1 includes insured or registered investments, or securities held by the Airports Authority or its' agent in the Airports Authority's name; Category 2 includes uninsured and unregistered investments, with securities held by the counter party's trust department or agent in the Airports Authority's name; and Category 3 includes uninsured and unregistered investments, with securities held by the counterpart, or by its trust department or agent, but not in the Airports Authority's name. Investments with an original maturity greater than one year are displayed at fair value.

The tables below present the Airports Authority's investment risk classifications in accordance with GASB Statement No. 3:

December 31, 2002

	Category 1	Category 2	Category 3	Cost	Carrying Value
Repurchase Agreements	$ 12,740,740	$ –	$ –	$ 12,740,740	$ 12,740,740
United States Government and agency obligations	374,478,923	–	–	374,478,923	377,510,206
Commercial Paper	22,364,491	–	–	22,364,491	22,471,444
	$409,584,154	$ –	$ –	409,584,154	412,722,390
Money market funds (invested in United States Government and agency obligations)				162,822,826	162,822,826
Certificate of Deposit				3,119,148	3,119,148
				$575,526,128	$578,664,364

	December 31, 2001				
	Category				Carrying
	1	2	3	Cost	Value
Repurchase Agreements	$ 22,660,416	$ –	$ –	$ 22,660,416	$ 22,660,416
United States Government					
and agency obligations	149,365,928	–	–	149,365,928	149,385,292
Commercial Paper	29,985,389	–	–	29,985,389	29,992,548
	$202,011,733	$ –	$ –	202,011,733	202,038,256
Money market funds				229,564,732	229,564,732
(invested in United States government and agency obligations)					
Certificate of Deposit				3,100,000	3,100,000
				$434,676,465	$434,702,988

The fair value of the collateral for these Repurchase Agreements was $12,960,277 and $23,102,183 on December 31, 2002 and 2001, respectively. The collateral for the Repurchase Agreements was held by the Airports Authority's agent in the Airports Authority's name.

During 1998, the Airports Authority implemented GASB Statement No. 31, *Accounting and Reporting For Certain Investments and For External Investments Pools*. In accordance with the provisions of this pronouncement, investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. As permitted by GASB Statement No. 31, investments with an original maturity of less than one year are carried at amortized cost. Fair values are determined through quoted market prices.

The tables below present the Airports Authority's investments in accordance with GASB Statement No. 31:

	December 31, 2002	
	Cost	Carrying Value
Securities with original maturity 1 year and over	$181,650,000	$ 188,829,984
Securities with original maturity less than 1 year	224,291,740	223,892,406
	$405,941,740	$ 412,722,390

	December 31, 2001	
	Cost	Carrying Value
Securities with original maturity 1 year and over	$132,755,000	$ 134,354,750
Securities with original maturity less than 1 year	67,904,833	67,683,506
	$200,659,833	$ 202,038,256

Change in carrying value from December 2001 to December 2002

Carrying value at December 31, 2002	$ 412,722,390
Add: Proceeds from investments sold in 2002	1,349,040,245
Less: Cost of investments purchased in 2002	(1,556,292,768)
Less: Carrying value at December 31, 2001	(202,038,256)
Change in carrying value of investments	$ 3,431,611

Change in carrying value from December 2000 to December 2001

Carrying value at December 31, 2001	$ 202,038,256
Add: Proceeds from investments sold in 2001	1,490,920,865
Less: Cost of investments purchased in 2001	(1,440,336,693)
Less: Carrying value at December 31, 2000	(245,532,524)
Change in carrying value of investments	$ 7,089,904

Reconciliation to Comparative Balance Sheets

A reconciliation of the amounts reported above to the comparative balance sheets is as follows:

	December 31,	
	2002	**2001**
Deposits	$ 2,130,603	$ 5,051,438
Investments	578,664,364	434,702,988
	$ 580,794,967	$ 439,754,426
Cash and cash equivalents	$ 51,069,154	$ 115,267,381
Cash and cash equivalents, restricted	135,112,168	97,185,140
Passenger facility charges, cash, restricted	6,676,452	19,787,697
Investments	97,313,765	48,344,417
Investments, restricted	128,089,495	1,307,743
Long-term investments	48,696,006	37,082,471
Long-term investments, restricted	113,837,927	120,779,577
	$ 580,794,967	$ 439,754,426

C. INTEREST RATE SWAP

During the year ended December 31, 2001, the Airports Authority entered into two forward starting interest rate swap agreements (the Swaps) to modify interest rates on future outstanding debt. In 2002, these Swaps were used to hedge $241.8 million of the Series 2002C Bonds. Based on the swap agreement, the Airports Authority owes interest calculated at a fixed rate of 4.45% and 4.46% to the counter parties to the Swap, Lehman Brothers and Merrill Lynch. In return, the counter parties owe the Airports Authority interest based on a variable rate equal to 72% of LIBOR. Only the net difference in interest payments is actually exchanged with the counter parties. The Airports Authority continues to pay interest to the bondholders at the variable rate provided by the bonds. However, during the term of the swap agreement, the Airports Authority pays a fixed rate on the debt and the difference between the actual rate on the Series 2002C bonds and 72% of LIBOR.

In connection with the Swaps, the Airports Authority implemented Financial Accounting Standard No. 133, *Accounting for Derivative Instruments and Hedging Activities* (FAS 133), on January 1, 2001.

The Swaps are recognized on the Statements of Net Assets in investments at fair value. Changes in the fair value of the Swaps are recorded as unrealized gains or losses on the Statements of Revenues, Expenses and Changes in Net Assets. As of December 31, 2002 the value of the Swaps was an unrealized loss of $27,591,207. An unrealized loss of $26,024,249 was recognized for year ended December 31, 2002, and an unrealized loss of $1,566,958 was recognized for year ended December 31, 2001. In addition, net interest expenditures, which began in October 2002, are recorded in the financial statements.

D. ACCOUNTS RECEIVABLE

Trade accounts receivable consists of the following:

	December 31,	
	2002	**2001**
Trade accounts receivable	$ 19,791,094	$ 14,732,851
Less: allowance for doubtful accounts	(1,706,903)	(1,411,770)
	$ 18,084,191	$ 13,321,081

For the year ended December 31, 2002, the Airports Authority's accounts receivable included $3.5 million in pre- and post-petition debt from United Airlines and $1.3 million in pre-petition accounts receivable from US Airways. The Airports Authority petitioned the bankruptcy court asserting that $2.1 million of United Airlines' accounts receivable is post-petition and is payable. On March 27, 2003, the court ruled in the Airports Authority's favor. The Airports Authority has not established a reserve for the United or US Airways accounts receivable.

E. RESTRICTED ASSETS

The Master Indenture of Trust (Master Indenture) securing the Revenue Bonds of the Airports Authority, requires segregation of certain assets into restricted accounts. The Airports Authority has also included PFC assets in restricted assets. Restricted assets consist of the following:

	December 31, 2002	December 31, 2001
Construction	$ 184,438,008	$ 62,550,085
Debt service reserve accounts	113,837,927	120,779,577
Interest accounts	25,874,284	25,323,255
Sinking fund accounts	18,880,654	10,619,543
Passenger facility charge accounts	40,685,169	19,787,697
Passenger facility charges and grant receivables	8,476,074	6,177,693
	$ 392,192,116	$ 245,237,850

The construction accounts include the funds available for the design and construction of capital improvements for the Airports. The debt service reserve accounts contain the maximum amount of required principal payments for the bonds scheduled to come due in one year. The interest account contains the interest amounts required for the semi-annual interest payments. The sinking fund accounts represent the principal for the annual October bond payments. The PFC and grant receivables represent amounts collectable at year ended December 31, 2002 and 2001.

F. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the years ending December 31, 2002 and 2001 is as follows:

	Beginning Balance January 1, 2002	Transfers and Additions	Transfers and Deletions	Ending Balance December 31, 2002
Capital Assets Not Being Depreciated				
Construction in Progress	$ 459,360,644	$ 306,572,651	$ (227,042,658)	$ 538,890,637
Land	41,330,557	10,489,780	(2,140,601)	49,679,736
Total Capital Asset Not Being Depreciated	500,691,201	317,062,431	(229,183,259)	588,570,373
Other Capital Assets				
Equipment	45,011,924	1,804,064	(4,798,342)	42,017,646
Motor Vehicles	74,165,950	1,809,122	(2,044,873)	73,930,199
Buildings	1,524,867,194	152,487,370	(79,098)	1,677,275,466
Systems and Structures	813,892,692	64,785,649	0	878,678,341
Total Other Capital Assets	2,457,937,760	220,886,205	(6,922,313)	2,671,901,652
Less accumulated depreciation:				
A/D Equipment	28,138,426	4,414,200	(2,804,183)	29,748,443
A/D Motor Vehicles	52,189,330	5,461,979	(1,362,469)	56,288,840
A/D Buildings	239,285,927	48,177,007	(42,406)	287,420,528
A/D Systems & Structures	288,842,732	44,498,696	0	333,341,428
Total Accumulated Depreciation	608,456,415	102,551,882	(4,209,058)	706,799,239
Other Capital Assets, Net	1,849,481,345	118,334,323	(2,713,255)	1,965,102,413
Totals	$ 2,350,172,546	$ 435,396,754	$ (231,896,514)	$ 2,553,672,786

	Beginning Balance January 1, 2001	Transfers and Additions	Transfers and Deletions	Ending Balance December 31, 2001
Capital Assets Not Being Depreciated				
Construction in Progress	$ 202,633,055	$377,193,741	$(120,466,152)	459,360,644
Land	40,810,981	519,576	0	41,330,557
Total Capital Asset Not Being Depreciated	243,444,036	377,713,317	(120,466,152)	500,691,201
Other Capital Assets				
Equipment	39,630,395	5,893,116	(511,587)	45,011,924
Motor Vehicles	74,440,776	1,218,899	(1,493,725)	74,165,950
Buildings	1,462,222,455	64,120,663	(1,475,924)	1,524,867,194
Systems and Structures	758,073,815	55,818,877	–	813,892,692
Total Other Capital Assets	2,334,367,441	127,051,555	(3,481,236)	2,457,937,760
Less accumulated depreciation:				
A/D Equipment	25,078,367	3,622,173	(562,114)	28,138,426
A/D Motor Vehicles	47,785,514	5,897,541	(1,493,725)	52,189,330
A/D Buildings	193,429,796	46,128,610	(272,479)	239,285,927
A/D Systems & Structures	247,059,677	41,829,308	(46,253)	288,842,732
Total Accumulated Depreciation	513,353,354	97,477,632	(2,374,571)	608,456,415
Other Capital Assets, Net	1,821,014,087	29,573,923	(1,106,665)	1,849,481,345
Totals	$2,064,458,123	$407,287,240	$(121,572,817)	$2,350,172,546

For the year ended December 31, 2002, interest costs of $3,018,654 less interest earned of $3,235,183 were capitalized as part of the cost of construction in progress. For the year ended December 31, 2001 interest costs of $5,294,866 less interest earned of $4,852,125 were capitalized as part of the cost of construction in progress. Depreciation and amortization expense for the years ended December 31, 2002 and 2001 was $105,035,788 and $99,325,739, respectively, which includes amortization associated with bond issuance costs of $2,862,896 and $1,848,106, respectively.

G. PENSION PLANS

The Airports Authority participates in two United States Government pension plans: the Civil Service Retirement System (CSRS) and the Federal Employees' Retirement System (FERS). Each is considered a cost-sharing multiple employer public employee retirement system. Employees hired before December 31, 1983 are members of the CSRS unless they elected to transfer to FERS either before December 31, 1987 or during the special enrollment period from July 1, 1998, through December 31, 1998. In addition, the Airports Authority maintains single employer-defined benefit pension plans that cover all of its police and fire employees and its regular employees hired on or after June 7, 1987, excluding employees working less than 20 hours a week and other temporary employees.

Government Pension Plans

Under the CSRS, employees contribute 7.0% of their base pay (7.5% for firefighters) and the Airports Authority matches the employees' contributions. Retirement benefits are based on length of service and the average of the employee's three highest years of base pay. Employees can retire at age 55 with 30 years of service; age 60 with 20 years of service; or age 62 with five years of service. Firefighters can retire at age 50 with 20 years of firefighting service. Retirement annuities range from 7.5% of the average high three-year base pay to a maximum of 80 percent depending on years of service. Effective April 1, 1987, the CSRS added a Thrift Savings Plan where CSRS participants can now contribute up to 8.0% of their salary on a tax-deferred basis. There are 90 regular employees and 20 police and firefighter employees currently enrolled in CSRS, as of December 31, 2002.

FERS provides benefits from three different sources: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan. The Basic Benefit Plan employee deduction ranges from 0.8% of base pay for regular employees to 1.3% for firefighters. The Airports Authority contributes from 10.7% for regular employees to 23.3% for firefighters. There are 83 regular employees and 20 police and firefighter employees currently enrolled in FERS, as of December 31, 2002.

Employees are entitled to annual maximum retirement benefits equal to 1.1% of the employee's highest three-year average salary for every year of service. Regular employees are eligible for retirement when they have 10 years of service and have reached the minimum retirement age (ranging from 55 to 57 years old), based on birth date. Firefighters can retire at age 50 with 20 years of firefighting service or at any age with 25 years of service. These employees are entitled to an annual retirement benefit of 1.7% of the employee's highest three-year average salary for every year of service up to 20 years and 1.0% for years of service over 20. FERS participants enrolled in the Thrift Saving's Plan can now contribute up to 13% of their salary on a tax-deferred basis.

The Airports Authority's base payroll for employees covered by the CSRS and the FERS for the year ended December 31, 2002 was approximately $13,837,406. The Airports Authority's total base payroll for all employees was approximately $64,633,301. Employee contributions for these federal pension plans were $833,741 (5.0% of covered payroll) for 2002, and $731,549 (5.0% of covered payroll) for 2001.

The employer contributions for these plans were $1,527,365 for 2002, $1,457,932 for 2001 and $1,395,049 for 2000. These contributions represent 100% of required contributions for each of the respective years.

In March 2003, the United States Office of Personnel Management (OPM) notified the Airports Authority that they had completed the calculation of the cost of providing enhanced retirement benefits to the Airports Authority's police officers under Public Law 106-554. Provisions of this law allowed the Airports Authority's police officers that were employed while the Airports Authority was part of the United States Department of Transportation, to elect to be treated as "law enforcement officers" for purposes of retirement. OPM calculated that the past service cost with interest is $2.8 million and according to the law, is payable in five annual installments with the first payment of $646,493 due on May 31, 2003.

Copies of the financial statements of these pension plans may be obtained from the United States OPM. Actuarial information for these federal pension plans is not available.

Airports Authority Pension Plans

Effective January 1, 1989, the Airports Authority established a retirement benefits program for employees hired on or after June 7, 1987, which provides income in the event of retirement or death where a surviving spouse remains. Employee coverage and service credit was retroactive to June 7, 1987. The program includes the Airports Authority Retirement Plan (covering regular employees) and the Airports Authority Retirement Plan for Police Officers and Firefighters (the Plans), both single employer defined benefit plans. Any amendment to these plans must be approved by the Airports Authority's Board. As of December 31, 2002 the number of employees participating in the Plans was:

	Regular	Police/ Fire	Total
Current participants			
Vested	477	165	642
Non-vested	255	70	325
Retirees/Disabled employees currently receiving benefits	53	3	56
Terminated vested participant	183	42	225
Total	968	280	1248

The Airports Authority contributed 6.6% to the Regular Plan and 11.9% to the Fire and Police Plan. The Airports Authority's base payroll in 2002 for the Regular Plan was approximately $35,267,265 and $8,599,784 for the Fire and Police Plan. In 2001, the base payroll for the Regular Plan was $35,146,370 and $8,973,807 for the Fire and Police Plan. In 2000, the base payroll for the Regular Plan was $31,851,398 and $8,032,349 for the Fire and Police Plan. In 2002, the Airports Authority contributed $2,327,639 to the Regular Plan and $1,023,374 to the Fire and Police Plan. In 2001, the Airports Authority contributed $2,600,831 to the Regular Plan and $1,121,726 to the Fire and Police Plan. In 2000, the Airports Authority contributed $2,516,260 to the Regular Plan and $1,100,432 to the Fire and Police Plan. Employees do not contribute to the regular plans.

The Plans provide retirement benefits as well as death benefits. Regular employees who retire at or after age 60 with 5 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.2% of final-average salary up to covered compensation and 1.6% of final-average salary which is above covered compensation for each year of credited service (maximum 30 years).

Final-average salary is the average of the employee's highest consecutive 78 pay periods in the most recent 260 pay periods, while covered compensation is the 35-year average of the Social Security Wage Bases ending with the year in which the participant attains Social Security normal retirement age. A pre-retirement surviving spouse benefit is payable in the event of death, equal to 50 percent of the benefit which would have been payable had the participant retired, provided the participant had at least five years of service. Benefits can be received as early as age 55 with five years of service with a 5 percent reduction for each year the participant is younger than age 60. Benefits are also adjusted to the lesser of one-half of the CPI or 4.0%.

The benefits to police officers and firefighters become payable at age 55 with five years of service or at any age with 25 years of service. Benefits are not reduced if retirement is at or after age 50. The benefit is 2.0% of the final average earnings for service up to 25 years, and 1.0% of the final average earnings for service between 25 and 30 years. Withdrawal, death, and cost of living benefits are similar to those available to regular employees. Police officers and firefighters are required to contribute 1.5% of base pay per year of participation, which is accumulated with a 5.0% interest rate and returned when a benefit is forfeited.

The Airports Authority will contribute the remaining amounts necessary to fund the Plans using the entry age normal actuarial method in addition to an amount to amortize any unfunded liability.

Contributions Required and Made

The Airports Authority's funding policy is to provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. Employer contributions are determined in accordance with the plan provisions and approved by the Airports Authority's Board. Level percentages of payroll employer contribution rates are determined using the entry age actuarial funding method shown in dollars in the following table. Unfunded actuarial accrued liabilities are being amortized over a period of 30 years on an open basis.

Annual Pension Cost and Net Pension Obligation

The Airports Authority's annual pension obligation (asset) for its General Employees and Police and Firefighters pension plans for fiscal 2001, 2000 and 1999, the latest years for which data is available, were as follows:

	2001	
	General Employees	**Police and Firefighters**
Annual required contribution	$ 2,321,148	$ 1,232,277
Interest on net pension obligation (asset)	(84,395)	(25,768)
Adjustment to annual required contribution	86,766	26,492
Annual pension cost	2,323,519	1,233,001
Contributions made	2,602,499	1,294,409
Increase in net pension obligation (asset)	(278,980)	(61,408)
Net pension obligation (asset) beginning of year	(1,054,942)	(322,096)
Net pension obligation (asset) end of year	$(1,333,922)	$ (383,504)

	2000	
	General Employees	Police and Firefighters
Annual required contribution	$ 2,093,484	$ 1,055,348
Interest on net pension obligation (asset)	(51,523)	(13,026)
Adjustment to annual required contribution	52,970	13,392
Annual pension cost	2,094,931	1,055,714
Contributions made	2,505,837	1,214,980
Increase in net pension obligation (asset)	(410,906)	(159,266)
Net pension obligation (asset) beginning of year	(644,036)	(162,830)
Net pension obligation (asset) end of year	$(1,054,942)	$ (322,096)

	1999	
	General Employees	Police and Firefighters
Annual required contribution	$ 2,139,142	$ 1,059,660
Interest on net pension obligation (asset)	(37,732)	(4,219)
Adjustment to annual required contribution	38,792	4,338
Annual pension cost	2,140,202	1,059,779
Contributions made	2,312,586	1,169,865
Increase in net pension obligation (asset)	(172,384)	(110,086)
Net pension obligation (asset) beginning of year	(471,653)	(52,744)
Net pension obligation (asset) end of year	$ (644,037)	$ (162,830)

Three year trend information is as follows:

	General Employees Retirement Plan			Police Officers and Firefighters Plan		
Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations (Assets)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations (Assets)
1999	$ 2,140,202	108.1%	($ 644,037)	$ 1,059,779	110.4%	($ 162,830)
2000	$ 2,094,931	119.6%	($ 1,054,942)	$ 1,055,714	115.1%	($ 322,096)
2001	$ 2,323,519	112.1%	($ 1,333,922)	$ 1,233,001	105.0%	($ 383,504)

Funding Status

The actuarial accrued liability was determined as part of an actuarial valuation of the Plans at December 31, 2001. Significant actuarial assumptions used in determining the actuarial accrued liability include: (a) a rate of return on the investment of the present and future assets of 7.5% per year compounded annually, (b) projected salary increases ranging from 6.0% to 11.0% based on years of service and anticipated inflation, (c) post-retirement benefit increases of 2.25% per year, (d) for inflation rate, CPI increases of 3.5% per year (e) amortization method of percentage of projected payroll, and (f) amortization period of 30 years, closed. The actuarial value of assets is determined using fair market values with changes smoothed over a five-year period. A copy of the actuarial valuation and plan document may be obtained by written request to: MWAA, Benefits and Payroll Department, 1 Aviation Circle, Washington, DC 20001-6000. There are no separate stand alone financial reports issued.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
General Employees Retirement Plan						
12/31/97	$ 22,109,331	$ 18,865,108	$ (3,244,223)	117.2%	$ 25,132,839	(12.9)%
12/31/98	27,535,024	20,885,225	(6,649,799)	131.8%	29,430,827	(22.6)%
12/31/99	33,600,084	24,021,525	(9,578,559)	139.9%	31,323,944	(30.6)%
12/31/00	39,569,099	29,069,920	(10,499,179)	136.1%	34,926,769	(30.1)%
12/31/01	44,776,250	33,126,203	(11,650,047)	135.2%	37,458,710	(31.1)%
Police Officers and Firefighters Retirement Plan						
12/31/97	$ 9,393,194	$ 8,734,631	$ (658,563)	107.5%	$ 6,937,007	(9.5)%
12/31/98	11,810,855	9,657,763	(2,153,092)	122.3%	7,170,305	(30.0)%
12/31/99	14,570,878	11,597,769	(2,973,109)	125.6%	7,908,710	(37.6)%
12/31/00	17,262,191	14,026,353	(3,235,838)	123.1%	8,882,707	(36.4)%
12/31/01	19,772,489	16,145,289	(3,627,200)	122.5%	9,705,378	(37.4)%

Schedule of Employer Contributions

	General Employees Retirement Plan			Police Officers and Firefighters Retirement Plan		
Calendar Year	Annual Required Contribution	Actual Contribution	Percentage Contribution	Annual Required Contribution	Actual Contribution	Percentage Contribution
1997	$ 2,314,913	$ 2,339,281	101.1%	$ 938,119	$ 944,589	100.7%
1998	2,082,768	2,504,594	120.3%	1,090,458	1,154,134	105.8%
1999	2,139,142	2,312,586	108.1%	1,059,660	1,169,865	110.4%
2000	2,093,484	2,505,837	119.7%	1,055,348	1,214,980	115.1%
2001	2,321,148	2,602,499	112.1%	1,232,277	1,294,409	105.0%

H. POSTEMPLOYMENT BENEFITS AND DEFERRED COMPENSATION PLAN

In addition to pension benefits, the Airports Authority provides postemployment benefits of health and life insurance. The Airports Authority's Board initially provided the benefits package to meet requirements of the federal enabling legislation. Through the budget approval process, the Airports Authority has continued to provide these benefits of insurance to retired employees under the Airports Authority's group plans for health insurance and life insurance. As of December 31, 2002, 203 retired employees were receiving life insurance benefits and 179 retired employees were receiving health insurance benefits under these Airports Authority programs. Both programs are funded on a "pay-as-you-go" basis through payment of monthly premiums to the insurance carriers.

The Airports Authority pays 80 percent of the total health insurance premium costs with the remainder paid by the retired employee. For the years ended December 31, 2002 and 2001, the Airports Authority health insurance costs for retired employees totaled $1,008,606 and $862,854, respectively.

The Airports Authority pays the full cost of the retired employee's reduced basic and supplemental life insurance. Basic life insurance coverage is reduced to 25 percent of the employee's life insurance in force at the time of retirement. Supplemental life insurance is a multiple of the basic life insurance (1 to 5 times) that the employee had selected prior to retirement. The supplemental life insurance is reduced at a rate of 2.0% each month so that at the end of 50 months, no supplemental life insurance coverage is in force. Of the 203 retired employees, 24 had supplemental insurance coverage as of December 31, 2002. For the year ended December 31, 2002, the life insurance costs for retired employees totaled $179,983. Of the 183 retired employees, 26 had supplemental insurance coverage as of December 31, 2001. For the year ended December 31, 2001, the life insurance costs for retired employees totaled $124,252.

Deferred Compensation Plan

Effective July 2, 1989, the Airports Authority offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time employees, permits employees to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is available to employees at termination, retirement, death, or an unforeseeable emergency.

Effective January 1, 1997, the Board voted to enter into a trust agreement with Allfirst Trust for the assets of the Deferred Compensation Plan. All assets were transferred to Allfirst Trust during 1997 and accordingly, are not included in the Airports Authority's assets and liabilities.

Investments are managed by the Plan's trustee under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participant.

I. CAPITAL DEBT

Bond Anticipation Commercial Paper Notes

The Airports Authority issued Bond Anticipation Commercial Paper Notes pursuant to Resolution No. 00-1 adopted by the Board of the Airports Authority on April 5, 2000, with a principal amount not to exceed $250,000,000 outstanding at any time. On April 26, 2000 the Airports Authority sold the first tranche of Series A commercial paper, $20,000,000, through Merrill Lynch and M.R. Beal & Company. The Notes are issued to provide interim financing for authorized projects at National and Dulles. On August 29, 2000 a second tranche of the Series A commercial paper, $130,000,000, was sold through Merrill Lynch and M.R. Beal & Company. The Notes are issued to refund a portion of the Series 1990A senior bonds. The Notes are supported by a Liquidity Agreement between the Airports Authority and Westdeutsche Landesbank Girozentrale, New York Branch (WestLB), in the amount of $150,000,000 dated April 1, 2000 that expires on April 18, 2005. The source of payment are proceeds of Notes sold, Take-Out Bonds, Construction Account funds, Liquidity Facility and other funds determined by the Airports Authority to be legally available.

Pursuant to Resolution No. 00-20 adopted by the Board on October 18, 2000, the remaining $100,000,000 of Bond Anticipation Commercial Paper Notes were approved for issuance. On October 25, 2000 the Airports Authority sold the first tranche of Series B commercial paper, $40,000,000, through Merrill Lynch and M.R. Beal & Company. The Notes are issued to refund a portion of the Series 1990A senior bonds. On February 27, 2001 a second tranche of the Series B commercial paper, $16,000,000, was sold through Merrill Lynch and M.R. Beal & Company. The notes are issued to refund the final portion of the Series 1990A senior bonds. On February 8, 2002 the third and final tranche of Series B commercial paper, $44,000,000 was through Merrill Lynch. The Notes are issued to provide interim financing for authorized projects at National and Dulles. The notes are supported by a Liquidity Agreement between the Airports Authority and Landesbank Baden Wurttemberg, New York Branch (LBBW), in the amount of $100,000,000 dated October 25, 2000 that expires on October 18, 2003. The source of payment are proceeds of Notes sold, Take-Out Bonds, Construction Account funds, Liquidity Facility and other funds determined by the Airports Authority to be legally available.

The Notes were issued and remarketed under a Commercial Paper Dealer Agreement between the Airports Authority, Merrill Lynch and M.R. Beal & Company. Notes are variable rate based on the current market rate. As of December 31, 2002, the weighted average interest rate on outstanding Notes was 1.25% on Series A and 1.21% on Series B.

Series A and B Commercial Paper were originally issued and remarketed through Merrill Lynch and M.R. Beal & Company on a 80/20 split. Series A Merrill Lynch $120,000,000, M.R. Beal & Company $30,000,000. Series B Merrill Lynch $44,800,000, M.R. Beal & Company $11,200,000. From February 7, 2002 to March 7, 2002 using the remarketing process the amounts were changed to Series A Merrill Lynch $100,000,000, M.R. Beal & Company $50,000,000, Series B Merrill Lynch $100,000,000. This redistribution maintains the original 80/20 split among the brokers.

Commercial Paper Notes

Resolution No. 01-6 was adopted by the Board on May 2, 2001, authorizing an additional $250,000,000 of Commercial Paper Notes. With this resolution the amount of Commercial Paper Notes amount not to exceed was increased to $500,000,000.

On March 11, 2002, the Airports Authority issued Airport System Revenue Commercial Paper Notes, Series One, in the amount of $100,000,000. All $100,000,000 of the Notes were sold through Bear, Stearns & Company, Inc., on April 14, 2002. The Notes are issued to provide financing for authorized projects at National and Dulles. The Notes are backed by a direct pay Letter of Credit between the Airports Authority and JP Morgan Chase Bank that expires on March 13, 2005, with provisions for extensions. In August 2002, the Airports Authority issued Series 2002D Refunding Bonds. This issue was used to refund the Series One Commercial Paper Notes. All $100,000,000 of Series One commercial paper was repaid as of November 11, 2002, by Series 2002D Airport System Revenue Refunding Bonds. The weighted average interest rate on the Notes at the time of repayment was 1.43%.

All of the Airports Authority's Commercial Paper Notes are rated "P-1" short-term by Moody's, "A-1+" short-term by Standard & Poor's, and "F1+" short-term by Fitch. The Airports Authority expects to redeem the Series A Notes by April 2005 and the Series B Notes by October 2003.

Bonds Payable

The Airports Authority's long-term bonds issued and outstanding as of December 31, 2002 and 2001 were as follows:

Airport System Senior Debt	Issue Date	Interest Rates	Maturing on October 1	Amount	Outstanding December 31 2002	2001
Series 1992A Revenue Bonds *	03/01/92					
					0	266,685,000
Series 1993A Revenue & Refunding Bonds	03/01/93					
Serial		4.700%-5.200%	2003-2008	$ 12,220,000		
Term		5.375%	2013	13,415,000		
Term		5.250%	2022	34,860,000		
					60,495,000	62,225,000
Series 1993B Revenue & Refunding Bonds	03/01/93					
Serial		6.500%	2003	$ 830,000		
Term		6.900%	2008	5,060,000		
Term		7.500%	2013	7,150,000		
Term		7.625%	2022	21,720,000		
					34,760,000	35,540,000
Series 1994A Revenue Bonds	06/15/94					
Serial		5.300%-5.900%	2003-2011	$ 120,495,000		
Term		5.875%	2015	76,525,000		
Term		5.750%	2020	123,510,000		
Term		5.750%	2021	29,125,000		
Term		5.550%	2024	97,570,000		
					447,225,000	457,375,000
Series 1997A Revenue Bonds	05/15/97					
Serial		4.700%-5.300%	2003-2012	$ 12,805,000		
Term		5.375%	2017	9,275,000		
Term		5.375%	2023	14,865,000		
					36,945,000	37,920,000
Series 1997B Revenue Bonds	05/15/97					
Serial		4.900%-6.000%	2003-2014	$ 82,410,000		
Term		5.500%	2016	19,735,000		
Term		5.750%	2020	46,590,000		
Term		5.500%	2023	42,350,000		
					191,085,000	195,855,000
Series 1998A Revenue Bonds	06/15/98					
Serial		4.000%-4.700%	2003-2013	$ 5,510,000		
Term		5.000%	2018	3,560,000		
Term		5.000%	2023	4,540,000		
Term		5.000%	2028	5,795,000		
					19,405,000	19,795,000

Bonds Payable (continued)

Airport System Senior Debt	Issue Date	Interest Rates	Maturing on October 1	Amount	Outstanding December 31 2002	2001
Series 1998B Revenue						
& Refunding Bonds	06/15/98					
Serial		4.200%-5.500%	2003-2014	$114,665,000		
Term		5.000%	2018	56,040,000		
Term		5.000%	2028	85,660,000		
					256,365,000	263,170,000
Series 1999A Revenue						
& Refunding Bonds	04/15/99					
Serial		3.750%-4.500%	2003-2010	$ 11,370,000		
Term		5.250%	2012	3,510,000		
Term		5.250%	2014	3,885,000		
Term		5.250%	2016	4,300,000		
Serial		5.000%	2017-2019	7,320,000		
Term		5.000%	2027	66,180,000		
					96,565,000	97,755,000
Series 2001A						
Revenue Bonds	04/01/01					
Serial		3.500%-5.200%	2003-2022	$146,955,000		
Term		5.500%	2027	67,190,000		
Term		5.000%	2031	67,820,000		
					281,965,000	286,165,000
Series 2001B						
Revenue Bonds	04/01/01					
Serial		3.300%-4.750%	2003-2017	$ 4,840,000		
Term		5.000%	2021	1,920,000		
Term		5.000%	2026	3,005,000		
Term		5.000%	2031	3,830,000		
					13,595,000	13,835,000
Series 2002A						
Revenue Bonds	06/04/02					
Serial		2.500%-5.750%	2003-2022	$108,230,000		
Term		5.125%	2026	38,780,000		
Term		5.250%	2032	75,075,000		
					222,085,000	0
Series 2002B						
Revenue Bonds	06/04/02					
Serial		2.000%-5.200%	2003-2024	$ 16,265,000		
Term		5.250%	2032	11,650,000		
					27,915,000	0
Series 2002C						
Refunding Bonds	08/28/02					
Term		Variable	2003-2021	$265,735,000		
					265,735,000	0
Series 2002D						
Refunding Bonds	08/28/02					
Serial		3.250%-5.375%	2003-2020	$ 45,280,000		
Term		5.000%	2023	12,270,000		
Term		5.000%	2032	49,685,000		
					107,235,000	0
					2,061,375,000	1,736,320,000
Less unamortized discount/premium					44,451,676	41,254,070
(G/L 2425)					$2,016,923,324	$1,695,065,930

* Series 1992A Revenue Bonds were refunded on October 1, 2002 with variable rate debt.

Changes in Long Term Liability Balances

Balance as of December 31, 2001			$ 1,695,065,930
Bonds Issued			
Series 2002A	Revenue Bonds	$ 222,085,000	
Series 2002B	Revenue Bonds	27,915,000	
Series 2002C	Refunding Bonds	265,735,000	
Series 2002D	Refunding Bonds	107,235,000	
			622,970,000
Bonds Refunded			
Series 1992A	Revenue Bonds	(266,685,000)	
			(266,685,000)
Principal Payments			(31,230,000)
Change in Unamortized Discount/Premium			(3,197,606)
Balance as of December 31, 2002			$ 2,016,923,324

Senior Debt

A new Master Indenture was created in 1990 for the Airports Authority. The Master Indenture was amended effective September 1, 2001, to in part, change the definition of Annual Debt Service to accommodate the issuance of secured commercial paper, to permit the Airports Authority to release certain revenues from the definition of revenues, and to expand the list of permitted investments to include new, safe investment vehicles designed to increase the return on the Airports Authority investments. Under this Master Indenture, all bonds are collateralized by a pledge of Net Revenues of the Airports Authority which is "senior" to the "subordinated" pledge given by the Airports Authority in connection with the issuance of its bonds prior to 1990. A total of $2,832,660,000 of senior bonds has been issued by the Airports Authority on 11 separate occasions including senior debt of: $246,000,000 in February 1990; $300,000,000 in March 1992; $113,690,000 in March 1993; $500,000,000 in June 1994; $250,000,000 in May 1997; $100,000,000 in October 1997; $300,000,000 in July 1998; $100,000,000 in April 1999; $300,000,000 in April 2001; $250,000,000 in June 2002; and $372,970,000 in August 2002.

The proceeds of the Series 1990A, 1992A, 1993B, 1994A, 1997A, 1997C, 1998A, 1998B, 2001A, 2001B, 2002A and 2002B Bond issues were used to finance a portion of the costs of the Airports Authority's Capital Construction Program (CCP). Portions of both the Series 1993A and Series 1993B Bonds were used (a) to refund the Airports Authority's Series 1988B Subordinated, variable rate bonds, and (b) to finance the costs of certain service, parking, office, and other facilities at National that are used by rental car companies serving the Airport. Portions of the Series 1997C Bonds were used to retire the Airports Authority's Series 1989A Subordinated Bonds. Portions of the Series 1998B Bonds were used to retire the Airports Authority's Series 1988A Subordinated Bonds. The proceeds of the Series 1999A Bonds were used to refund the Airports Authority's Series 1997C Senior Bonds. The proceeds of the Series 2002C Bonds were used to refund the outstanding Series 1992A Senior Bonds. Proceeds of the Series 2002D Bonds were used to repay the outstanding Series One Commercial Paper.

On June 6, 2002, the Airport's Authority issued $250,000,000 of Airport System Revenue Bonds Series 2002A-B. Proceeds of the Series 2002A-B Bonds will be used to finance capital improvements at National and Dulles. On August 28, 2002, the Airport's Authority issued $265,735,000 of Airport System Revenue Variable Rate Refunding Bonds Series 2002C. The proceeds of $240,644,415 of the Series 2002C Bonds together with other available funds (the Interest Account, Sinking Fund Account and Debt Service Reserve Account of the refunded bonds) were used for the refunding of the Airports Authority's outstanding Airport System Revenue Bonds, Series 1992A. The outstanding balance of Series 1992A, $266,685,000 was refunded on October 1, 2002. The Airports Authority entered into a synthetic advance refunding using forward interest rate swaps (See Note C) on the Series 1992A Bonds that went live in August 2002. The Airports Authority estimates the present value savings of this refunding to be $26.0 million. The refunded Series 1992A Bonds were scheduled to mature on October 1, 2021 and were subject to optional redemption on October 1, 2002. The bonds were redeemed at a price of 102 percent plus accrued interest. Also on August 28, 2002, the Airport's Authority issued $107,235,000 of Airport System Revenue Refunding Bonds

Series 2002D. The proceeds of $99,220,265 of the Series 2002D Bonds together with other available funds (the Sinking Fund Account of the repaid commercial paper) were used for the repayment of the Airports Authority's outstanding Airport System Revenue Commercial Paper Notes, Series One. The outstanding balance of Series One, $100,000,000 was repaid on five maturity dates between August 29, 2002 and November 1, 2002. This transaction will free up $100 million of the Airports Authority's commercial paper capacity to provide back-up liquidity to meet CCP expenditures. The commercial paper was repaid at par plus accrued interest.

On April 5, 2001, the Airports Authority issued $300,000,000 of Airport System Revenue Bonds, Series 2001A-B. Proceeds of the Series 2001A-B bonds were used to finance capital improvements at National and Dulles. The outstanding balance, $19,795,000 of Airport System Revenue Bonds, Series 1990A were refunded on April 6, 2001. Proceeds of $16,000,000 from the issuance of Bond Anticipation Commercial Paper Notes, Series 2000B together with other available funds (the Interest account, Sinking Fund account and Debt Service Reserve account of the refunded bonds) were used for the refunding. The Airports Authority estimates the difference in cash flows required to service Series 1990A Bonds and Commercial Paper Notes to be a savings of $9,035,842. The refunded Series 1990A Bonds were scheduled to mature on October 1, 2019, and were subject to optional redemption on October 1, 2000. The bonds were redeemed at a price of 100 percent plus accrued interest. With this action all of Airport System Revenue Bonds, Series 1990A have been refunded.

Both series of 1993 Bonds are insured by Municipal Bond Investors Assurance Corporation. All insured bonds are rated "AAA" by S&P and "Aaa" by Moody's. All but $29,125,000 of the Series 1994A Bonds (those maturing in the year 2021) are insured by Municipal Bond Investors Assurance Corporation. The uninsured Series 1994A Bonds are rated "Aa3" by Moody's, "A+" by S&P, and "AA-" by Fitch. All but $24,140,000 of the Series 1997A (those maturing in the years 2013 through 2023) and $134,505,000 of the Series 1997B Bonds (those maturing in the years 2012 through 2023) are insured by Financial Guaranty Insurance Company. The uninsured Series 1997A & B Bonds are rated "Aa3" by Moody's, "A+" by S&P, and "AA-" by Fitch. All $19,795,000 of the Series 1998A Bonds are uninsured. $46,305,000 of the Series 1998B Bonds (those maturing in the years 2002 through 2007) are uninsured. The uninsured Series 1998A-B Bonds are rated "Aa3" by Moody's, "A+" by S&P, and "AA-" by Fitch. All Series 1999A Bonds are insured by Financial Guaranty Insurance Company. The uninsured Series 1999A Bonds are rated "Aa3" by Moody's, "A+" by S&P, and "AA-" by Fitch. All but $4,200,000 of the Series 2001A (those maturing in the year 2002) and $485,000 of the Series 2001B Bonds (those maturing in the years 2002 through 2003) are insured by Financial Guaranty Insurance Company. The uninsured Series 2001A & B Bonds are rated "Aa3" by Moody's, "A+" by S&P, and "AA-" by Fitch. All of the Series 2002A-B and Series 2002C-D Bonds are insured by Financial Guaranty Insurance Company. All of the issued bonds are rated "AAA" by S&P, "Aaa" by Moody's, and "AAA" by Fitch. The Series 2002C Bonds also carry short-term ratings of "A-1+" by S&P, "VMIG 1" by Moody's and "F1+" by Fitch.

The following is a summary of the maturities and sinking fund requirements not including any unamortized discount or premium:

Year ending December 31	Principal	Interest	Total Debt Service
2003	$ 45,655,000	$ 109,316,062	$ 154,971,062
2004	49,500,000	105,606,223	155,106,223
2005	51,940,000	103,181,734	155,121,734
2006	54,610,000	100,551,962	155,161,962
2007	57,445,000	97,765,586	155,210,586
2008 - 2012	335,215,000	441,474,920	776,689,920
2013 - 2017	434,300,000	343,665,169	777,965,169
2018 - 2022	506,595,000	217,550,434	724,145,434
2023 - 2027	341,120,000	94,639,050	435,759,050
Thereafter	184,995,000	26,080,639	211,075,639
	$ 2,061,375,000	$ 1,639,831,779	$ 3,701,206,779

Total interest cost for the years ended December 31, 2002 and 2001 were $104,208,736 and $94,413,031, respectively. The current portion of the Airports Authority's bonds payable, in the amount of $45,655,000, is due on October 1, 2003.

Special Facility Revenue Bonds

In March 1991, the Airports Authority issued $14,200,000 of Special Facility Revenue Bonds on behalf of Caterair International Corporation (Caterair). The bonds were issued to finance the construction of an Inflight Kitchen Facility at National.

The Special Facility Revenue Bonds and related costs are payable only with funds from Caterair. Since these bonds do not represent a claim on the Airports Authority's assets, nor do they require the Airports Authority to incur future obligations, they have not been recorded in the Airports Authority's financial statements.

J. AIRPORT USE AGREEMENT AND PREMISES LEASE

In February 1990, the Airports Authority entered into a long-term agreement with the major airlines serving the Airports. The Airport Use Agreement and Premises Lease (the Agreement) is for a term of 25 years, subject to cancellation rights by the Airports Authority after 15 years, and annually thereafter, at the option of the Airports Authority. The Agreement provides for the calculation of annual rates and charges, with rate adjustments at mid-year, or any time revenues fall five percent or more below projections. The Agreement also provides for an annual “settlement” whereby the rates and charges are recalculated using audited financial data to determine any airline over/underpayment. For the year ended December 31, 2002, the settlement resulted in a charge to the Airlines of $454,451 which is reflected as a reduction in accounts payable and accrued expenses. For the year ended December 31, 2001, the settlement resulted in a credit to the Airlines of $6,671,149 which was reflected in accounts payable and accrued expenses.

Rates and charges are established to provide net revenues of at least 125 percent of debt service. Net remaining revenues (NRR) are defined as revenues less all operating and maintenance expenses, debt service, specified reserves, and other requirements. Subsequent to the final determination, NRR is allocated between the Airports Authority and the Airlines in accordance with the Agreement which shares NRR approximately 50/50 between the Airports Authority and the Airlines. The Airports Authority’s share of NRR is reflected in the Airports Authority Capital Fund as a reservation of retained earnings in the subsequent year, and is available for repair and rehabilitation projects or any other lawful purpose. The Airlines’ share of NRR is recorded prospectively and reduces the subsequent year’s rates and charges. All calculations are done in accordance with the Agreement and are not in conformity with generally accepted accounting principles (GAAP).

In addition, the Agreement establishes an index amount at each Airport. When the transfer amount to the Airlines reaches this level, the amount over the plateau is allocated 75 percent to the Airlines and 25 percent to the Airports Authority. For the years ended December 31, 2002 and 2001, at Dulles, the transfer amount exceeded the plateau amount by $5,554,237 and $12,198,036, respectively. This amount was allocated accordingly and is included in the Airlines’ and the Airports Authority’s share. For the years ended December 31, 2002 and 2001, at National, the transfer amount exceeded the plateau amount by $294,237 and $3,813,793, respectively. For the years ended December 31, 2002 and 2001, the Airlines’ share of NRR was $32,463,674, and $42,401,150, respectively, and the Airports Authority’s share was $25,480,671 and $34,323,080, respectively.

K. NET ASSETS

Net Assets consists of the following:
Invested in Capital Assets Net of Debt consists of the following:

	2002	2001
Long-term assets		
Capital assets		
Land	$ 49,679,736	$ 41,330,557
Construction in progress	538,890,637	459,360,644
Buildings and equipment	2,671,901,652	2,457,937,760
Less: Accumulated depreciation	(706,799,239)	(608,456,415)
Capital assets, net	2,553,672,786	2,350,172,546
Bond issuance costs, net	25,363,782	21,143,523
Total Capital Assets	2,579,036,568	2,371,316,069
Less: related liabilities		
Other liabilities, current	1,506,464	548,555
Other liabilities, noncurrent	–	1,806,683
Current portion bonds payable	45,655,000	38,085,000
Bank participation notes	170,200,000	170,200,000
Commercial paper notes	250,000,000	206,000,000
Bonds payable, net	1,693,637,284	1,536,201,353
Total Liabilities	2,160,998,748	1,952,841,591
Invested in capital assets, net of debt	$ 418,037,820	$ 418,474,478

Restricted Assets consists of the following:

	2002	2001
Restricted assets		
Cash and cash equivalents, restricted	$ 135,112,168	$ 97,185,140
Passenger facility charges, cash, restricted	6,676,452	19,787,697
Passenger facility charges and grants, receivables, restricted	8,476,074	6,177,693
Long-term investments, restricted	113,837,927	120,779,577
Investments, restricted	128,089,495	1,307,743
Total Assets	392,192,116	245,237,850
Less: Liabilities from restricted assets		
Accounts payable and accrued expenses	52,955,718	55,139,486
Debt Related to Unspent Bond Proceeds	277,631,040	120,779,577
Accrued interest payable	26,958,855	25,285,285
Total Liabilities	357,545,613	201,204,348
Restricted Net Assets	$ 34,646,503	$ 44,033,502

Unrestricted Assets consists of the following:

	2002	2001
Current Assets		
Cash and cash equivalents	$ 51,069,154	$ 115,267,381
Investments	97,313,765	48,344,417
Accounts receivables, net	18,084,191	13,321,081
Inventory	1,961,744	1,748,108
Prepaid expenses and other current assets	2,537,820	1,756,344
Total Current Assets	170,966,674	180,437,331
Long-term Assets		
Long-term investments	48,696,006	37,082,471
Other long-term assets	3,895,344	3,663,731
Total Unrestricted Assets	223,558,024	221,183,533
Less: Current Liabilities		
Accounts payable and accrued expenses	32,692,240	33,907,504
Operating lease obligations	341,140	341,139
Total Current Liabilities	33,033,380	34,248,643
Less: Other Liabilities	6,174,603	4,035,532
Total Liabilities Payable from Unrestricted Assets	39,207,983	38,284,175
Unrestricted Assets	$ 184,350,041	$ 182,899,358

L. LEASE COMMITMENTS

Property Held for Lease

The Airports Authority has entered into various operating leases with tenants for the use of space at the Airports Authority facilities including buildings, terminals, and customer service areas. The lease terms include a minimum fixed fee as well as contingent fees based on the tenants' volume of business. All the leases provide for a periodic review and redetermination of the rental amounts. Minimum future rentals scheduled to be received on operating leases that have initial or remaining noncancelable terms in excess of one year are:

Year ending December 31,	
2003	$ 217,438,290
2004	236,430,843
2005	242,023,746
2006	272,163,483
2007	251,021,202
2008-2012	1,727,731,106
2013-2017	647,599,569
2018-2022	19,292,545
2023-2027	18,051,696
2028 and thereafter	10,565,850
Total minimum future rentals	$ 3,642,318,330

The above amounts do not include contingent rentals and fees in excess of minimums, which amount to $27,331,842 for the year ended December 31, 2002. The portion of property associated with minimum rentals derived from operating leases was capitalized prior to June 7, 1987, and ownership was retained by the United States Government. Use of this property is provided to the Airports Authority under its operating lease with the United States Government. Accordingly, the cost of this property is not reflected in the financial statements of the Airports Authority.

Property Leased from Others

On June 7, 1987, the United States Government transferred the Dulles and National real properties to the Airports Authority under a 50-year lease, with extensions negotiable. Upon expiration of the lease, the Airports and facilities, including improvements, will be returned to the United States Government. The lease requires annual rental payments of $3,000,000, with subsequent annual rental payments adjusted for inflation. The 2002 federal lease expense was $4,238,185. The Airports Authority invests monthly lease payments in Repurchase Agreements or Certificates of Deposit and makes semi-annual payments, including interest, to the United States Government.

Minimum future rentals scheduled to be paid on operating leases in effect on December 31, 2002 as calculated in 2002 dollars are:

Year ending December 31,	
2003	$ 4,238,185
2004	4,238,185
2005	4,238,185
2006	4,238,185
2007	4,238,185
2008 and thereafter	118,669,180
Total minimum future rentals	$ 139,860,105

Total rental expense for the years ended December 31, 2002 and 2001 were $4,258,464 and $4,201,986 respectively.

M. OTHER COMMITMENTS AND CONTINGENCIES

Line of Credit

The Airports Authority issued Flexible Term PFC Revenue Notes of $255,000,000 to finance PFC approved projects. The bank participation notes have various maturity dates and interest rates that vary from 1.15% to 1.80%. The bank participation notes require the Airports Authority to maintain a reserve account. The reserve account at December 31, 2002 and 2001 was $1,387,248 and $1,387,248, respectively, and is included in PFCs, cash, restricted on the Statements of Net Assets. The bank participation notes are backed by a Bank of America, N.A. Letter of Credit. Bank participation notes outstanding at December 31, 2002 and 2001 were $170,200,000 and $170,200,000, respectively. Total interest cost for the years ended December 31, 2002 and 2001 were $3,186,897 and $6,167,172, respectively.

Construction Commitments

At December 31, 2002, the Airports Authority had outstanding commitments for capital expenditures in connection with its CCP in the amount of $196.8 million. In connection with the Capital Construction and Capital Maintenance and Investment Programs (CMIP), and normal operations of National and Dulles, the Airports Authority recognizes the need to address environmental concerns and currently oversees a number of ongoing environmental projects. Management has estimated that the cost to continuously monitor and inspect these environmental concerns ranges between $20 million and $25 million, of which a portion is expected to be funded by the FAA. The Airports Authority has budgeted and expects to fund any remaining costs principally through the CCP. Accordingly, no liability has been recorded in the financial statements.

N. GOVERNMENT GRANTS

In Aid of Construction

The Airports Authority receives, on a reimbursement basis, grants from the Commonwealth of Virginia and the United States Government for certain capital construction projects through the Airport Improvement Program (AIP). As a recipient of state and federal financial assistance, the Airports Authority is responsible for maintaining an internal control structure that ensures compliance with all laws and regulations related to this program. Total federal and state grant work performed for years ended December 31, 2002 and 2001 was $14,212,971 and $16,819,846, respectively. All grants are subject to financial and compliance audits by the grantors. However, the Airports Authority estimates that no material disallowances will result from such audits.

Federal and State Grants

The Airports Authority received federal and state grants for operating and capital programs as summarized in the tables below:

Operating Programs	**2002**	**2001**
FAA K-9 Program	$400,500	$400,500
Drug Enforcement Agency (DEA) Drug Seizures Program	42,063	368,158
Pentagon - Federal Emergency Management Agency (FEMA)	–	181,886

The FAA K-9 program funds are used to offset expenses of training and caring for the explosive detection dogs. The Drug Enforcement Agency Drug Seizures Program is a collaborative effort between the DEA and the Airports Authority's police department wherein both entities share in the proceeds from the sale of confiscated items. The Airports Authority's proceeds may only be used for certain types of expenses defined by the DEA. In September 2001, the Airports Authority's Fire Department was called to assist the Pentagon and other local fire departments with the disaster at the Pentagon. As a result, FEMA reimbursed the Airports Authority in 2001, for certain expenses including overtime, supplies and equipment. All of the amounts above were used to offset operating expenses in the Statements of Revenues, Expenses and Changes in Net Assets for year ended December 31, 2001.

Captial Program	**2002**	**2001**
Federal Grants for Construction	$11,939,165	$14,819,846
State Grants for Construction	2,273,806	2,000,000

The Airports Authority receives federal and state grants in support of its Capital Construction Program. The federal program provides funding for airport development, airport planning and noise compatibility programs from the Airports and Airways Trust Funds in the form of entitlement and discretionary grants for eligible projects. The Commonwealth of Virginia also provides discretionary funds for capital programs.

Grants for capital asset acquisition, facility development, rehabilitation of facilities and long-term planning are reported in the Statements of Revenues, Expenses and Changes in Net Assets as Capital Contributions.

Federal Compensation

As a result of the terrorism of September 11, 2001, due to the proximity of the airport to key government facilities, FAA prohibited all commercial and general aviation aircraft activity at National until October 4, 2001. Since then, FAA has authorized the phased resumption of activities at National.

In December 2001, the federal government provided $40 million (Public Law 107-38) in federal compensation to the Airports Authority to help offset some of the lost airline and concession revenues for the closed and reduced operations at National. The agreement between the Airports Authority and the United States Department of Transportation required that $8.1 million of the funds be used to provide relief to the concessionaires at National. The balance of the funds, $31.9 million, was not restricted. A total of $10.2 million in relief was provided to the concessionaires in values and cash assistance in 2001 and 2002. In December 2001, the Airports Authority's Board approved a plan to provide a total of $9.9 million in aid to the concessionaires. For September through December 2001, the minimum guarantees and percentage payments for the concessionaires were waived entirely. In addition, the Board approved a plan to pay the concessionaires $1.6 million for lost revenues. A total amount of $1.9 million was paid to the concessionaires in early 2002. From January 2002 through June 2002, the minimum guarantees were waived, although the concessionaires paid their usual percentages.

The $40 million payment from the Federal Government was recorded in 2001, as non-operating revenues in the Statements of Revenues, Expenses and Changes in Net Assets. This was partially offset by the cash amount of $1.6 million to be paid to the concessionaires and is shown on the federal compensation transfers line of the Statements of Revenues, Expenses and Changes in Net Assets. In 2002, an additional $279,000 was paid to concessionaires above the estimated $1.6 million and is recorded as federal compensation transfers on the Statements of Revenues, Expenses and Changes in Net Assets. The $37.9 million cash was shown in 2001, on the Statements of Net Assets as unrestricted cash, while the $2.1 million to be used in 2002 for the waived minimum guarantees from the concessionaires was recorded as restricted cash.

In July 2002, the FAA provided $3.1 million in compensation to the Airports Authority to help offset some of the additional costs incurred as a result of new security measures. The $3.1 million is recorded as federal compensation in the Statements of Revenues, Expenses and Changes in Net Assets.

O. LITIGATION

Legal counsel has advised that, while a number of claims in the normal course of business are outstanding, there were no matters outstanding which could have a material adverse effect on the financial statements of the Airports Authority.

P. PASSENGER FACILITY CHARGES

As described in Note A, Passenger Facility Charges are collected in accordance with the FAA regulations allowing airports to impose a $4.50 PFC. For the years ended December 31, 2002 and 2001, the Airports Authority earned PFCs of $24,993,068 and $22,188,067 for National, respectively, and $34,078,273 and $25,045,060 for Dulles, respectively. In accordance with the regulations, based on the approval date from FAA and continuing through the PFC collection period, the Airports Authority's share of entitlement grants will be reduced 75 percent.

Q. RISK MANAGEMENT

The Airports Authority is exposed to a variety of risks or losses related to operations (i.e., injuries to employees, injuries to members of the public or damage to their property, and damage to the Airports Authority's property). During fiscal years 2002 and 2001, the Airports Authority maintained accruals to finance its self-insured risk of loss. The Airports Authority purchases commercial insurance for claims in excess of amounts provided by these accounts.

All offices within the Airports Authority are covered under these accounts. The accruals are determined by the Risk Management Department based on insurance claim practices and actuarial estimates for prior and current-year claims. The overall accrual for losses was $1,845,162 as of December 31, 2002, and is included in the accounts payable and accrued expenses line item. This is based on the requirements of GASB Statement No. 30, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claim liability accounts amount in fiscal year 2002 and 2001 were:

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2002	$ 815,023	$ 1,719,863	$ 689,724	$ 1,845,162
2001	$ 1,357,528	$ 1,027,624	$ 1,570,129	$ 815,023

R. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Short Term Investments

The carrying amount approximates the fair value because of the short maturity of those instruments (See Note B).

Long-Term Investments

For securities held as long-term investments, fair value equals quoted market prices, if available. If a quoted market price is not available, fair value is estimated based upon quoted market prices for securities with similar characteristics (See Note B).

Long-Term Debt

The fair value of the Airports Authority's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Airports Authority for debt of the same remaining maturities.

The carrying value of the Airports Authority's Bonds Payable and Notes Payable as of December 31, 2002, is $2,481,575,000 with a market value of $2,598,778,094.

Interest Rate SWAP

The fair value of the interest rate swap (used for hedging purposes) is the estimated amount that the Airports Authority would pay (or receive) to terminate the swap agreements at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counter parties (See Note C).

MANAGEMENT

James A. Wilding
President and Chief Executive Officer

James E. Bennett
Executive Vice President and Chief Operating Officer

Christopher U. Browne
Vice President and Airport Manager Ronald Reagan Washington National Airport

George R. Ellis
Vice President for Information Systems and Telecommunications

Edward S. Faggen
Vice President and General Counsel

Jonathan Gaffney
Vice President for Communications

Lynn Hampton
Vice President for Finance and Chief Financial Officer

Frank Holly
Vice President for Engineering

Valerie Holt
Vice President for Audit

Margaret McKeough
Vice President for Business Administration

Keith W. Meurlin
Vice President and Airport Manager Washington Dulles International Airport

Elmer H. Tippett, Jr.
Vice President for Public Safety

Mark Treadaway
Vice President Air Service Planning and Development

Arl B. Williams
Vice President for Human Resources

Gregory Wolfe
Vice President and Secretary

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Chairman

David T. Ralston, Jr. [1]
Vice Chairman

The Honorable Robert L. Calhoun [2]
Vice Chairman

Robert Clarke Brown

The Honorable H.R. Crawford [3]

Anne Crossman [4]

Mamadi Diané

The Honorable John Paul Hammerschmidt

William A. Hazel

Weldon H. Latham

Mame Reiley [4]

Robert M. Rosenthal

Jeffrey Earl Thompson

Robert B. Young, Jr. [2]

[1] Elected February 2003
[2] Term expired November 2002
[3] Appointed June 2002
[4] Appointed November 2002

THE AIRPORTS ADVISORY COMMITTEE

Warner Session, Esq.
Chairman

Jacqueline North
Vice Chairman

James P. Anderson

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Alex DeBoissiere

Mary Downs

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Eric Peterson

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