METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

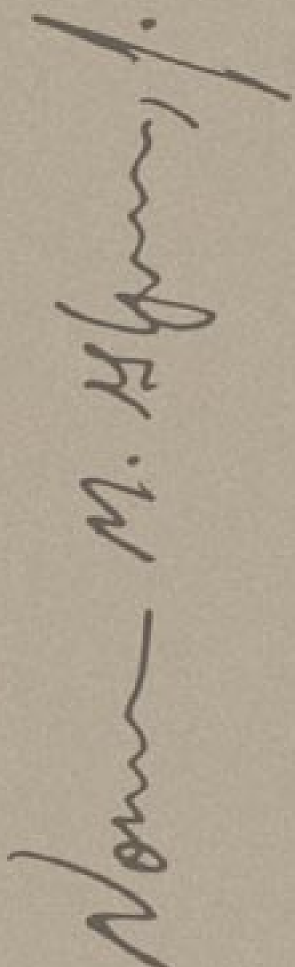
ADVANCING with Changing Times

2003 Annual Report

Contents

Chairman's Message

Norman M. Glasgow, Jr.



In 2003, while facing rapidly changing times, the aviation industry reflected on the first century of aviation. Throughout the nation, we had the opportunity to reacquaint ourselves with the story of the Wright brothers and to celebrate a century of ingenuity and invention during which the United States led the rest of the world in aviation. One should note from the centennial of aviation the speed with which air transportation has developed and how it has shaped the world economy.

At the Metropolitan Washington Airports Authority, we have been mindful of the accelerating pace of change in the aviation industry and are doing our best to keep one step ahead of it. A major change for the Authority came in April 2003, when the Board of Directors selected James E. Bennett as President and Chief Executive Officer, to fill the vacancy created with the retirement of James A. Wilding, who had headed the airports since 1979.

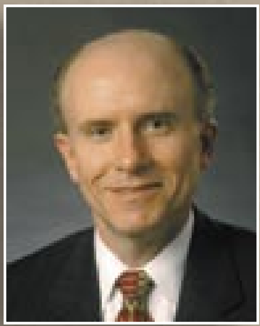
As traffic growth began to accelerate in the second half of the year, we continued with our capital construction program at Washington Dulles International in order to ensure adequate airport capacity for the Metropolitan Washington region. On November 19, 2003, Atlantic Coast Airlines announced that it would transform itself into a low-fare carrier based at Washington Dulles. United Airlines, as it prepared to emerge from bankruptcy protection, affirmed its commitment to maintain its Washington Dulles hub operation. New low-fare services were introduced at Ronald Reagan Washington National and other low-fare and international services started at Washington Dulles. These developments affirmed the course the Authority is taking with its capital program at both airports.

Standing (L-R): Robert C. Brown, The Hon. H.R. Crawford, Mame Reiley, David T. Ralston, Jr. Seated (L-R): Norman M. Glasgow, Jr., Mayor Anthony A. Williams (District of Columbia), Governor Mark R. Warner (Commonwealth of Virginia), James E. Bennett

Two major developments of 2003 will ensure our ability to deal with the growth that change brings. First, Secretary of Transportation Norman Y. Mineta, on behalf of the United States, and I, on behalf of the Authority, executed an amendment to extend the lease of the two airports for an additional 30 years, to 2067. The longer-term agreement allows the Authority to fund the expansion of Washington Dulles without interruption and to grant sufficient property rights to appropriate tenants, such as the Smithsonian's Steven F. Udvar-Hazy Center. The chief executives of our parent jurisdictions, Governor Mark R. Warner of the Commonwealth of Virginia, and Mayor Anthony A. Williams of the District of Columbia, jointly approved the extension at the Authority offices on June 17, thereby making a public statement on the economic importance of the airports to the region they serve.

Second, the three financial rating agencies confirmed both the strength of the Washington market and the Authority's sound business practices by awarding us some of the highest airport bond ratings since September 11. These ratings also reflect the confidence of the financial community in the Authority's management, and enable us to continue to finance our capital program at the lowest possible cost to our customers.

With a new leader in place, potential impediments to future financing removed, a strong market and solid financial ratings, the Authority finished 2003 equipped to assure that the Metropolitan Washington region is well served, whatever changes we must face in the aviation environment.



James E. Bennett

President's Message

Change is integral to the business of aviation. In 2003, the Authority embraced both change and ensuing challenges by improving operations, advancing airport improvement projects and responding to the needs of customers — passengers, airlines and shippers — for new services and facilities.

A transition year, 2003 dealt dramatic blows to aviation early in the year with the start of the war in Iraq and the devastating SARS epidemic in the Far East, Canada and Europe. While airlines struggled to adapt to these global events, the Authority weathered the changes. By mid-year, passenger travel through Washington Dulles and Reagan National had begun to stabilize and by the end of the year, signs of growth were clear. The FAA Reauthorization Bill ("Vision 100 – Century of Aviation Reauthorization Act"), a major industry issue in 2003, was signed into law in December. Elements of this bill set the stage for potential growth at Reagan National by mandating 20 additional slots and redefining the term "commuter slot" to increase the seating capacity of commuter planes to 76.

Customer service enhancements were put in place to provide an improved environment for passengers who now must spend a bit more time at the airports because of more stringent government security requirements. At Washington Dulles, a second garage opened, providing 4,700 public parking spaces, bringing the total number to 25,000. A climate-controlled underground passageway with moving walkways now connects the garage to the Main Terminal. Ticket counters were pushed away from the windows in the Main Terminal to create more space for check-in passengers. At Reagan National, the security checkpoint in Historic Terminal A was moved and expanded to alleviate congestion by separating departing passengers from those arriving in the baggage claim area.

As in the previous year, employees worked hard in the face of tight budgets and a continuing focus on airport security. The strength of our Authority was enhanced by technological innovations that improved the workplace environment. An independent Internet Technology (IT) security firm was retained to probe for external vulnerabilities on the Authority's network while employees were trained in Internet security. Among other improvements was the installation of a state-of-the-art voice/data system for logging the Authority's radio transmissions, including police and fire emergency telephone lines. The Authority revamped its orientation sessions for new staff, continued to refine its compensation system and offered retirement planning seminars.

We celebrated the first 100 years of flight with a variety of events. At Reagan National, the annual Wright Memorial Dinner was held in the general aviation hangar, honoring John Glenn, former astronaut and U.S. Senator. At Washington Dulles, the Smithsonian Institution opened its vast annex, the Steven F. Udvar-Hazy Center of the National Air and Space Museum, a testament to the history of aviation. Another notable event was our sponsorship of a student art competition among the Authority's four school partners. Awards were presented at an evening reception and all entries were displayed at each airport with the top three winners ultimately exhibited at the Udvar-Hazy Center.

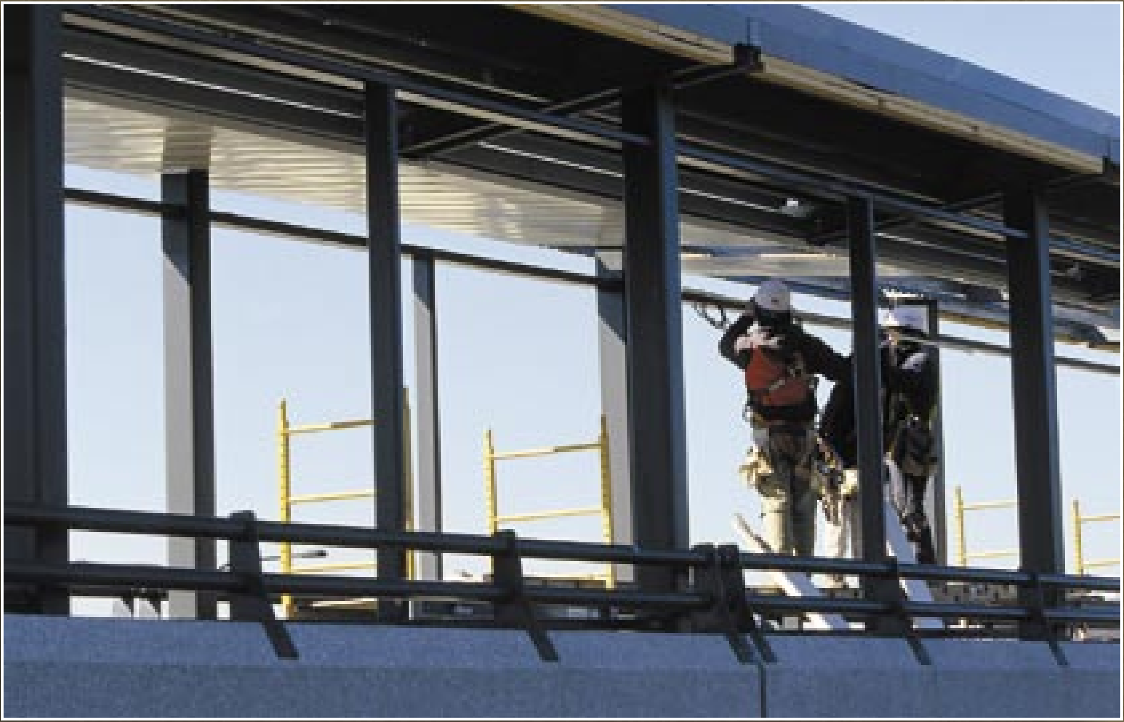
The two airports have proudly participated in this national and global travel adventure of aviation for more than 60 years. Reagan National opened its gates to the traveling public in 1941, with 43,068 operations and 344,257 passengers, followed by Washington Dulles in 1962, with 8,016 operations serving 52,846 passengers. Our combined airport system ended 2003 with 586,199 operations serving 31.2 million passengers.

My first year as President was a busy one filled with change and challenge on many fronts. I'm struck by the number of great employees who comprise the Authority and by the dedication of both the Board of Directors and the staff to improving aviation in the region and serving our customers. But we could not do so without widespread support of community leaders and businesses. As this report goes to press, I am pleased to report the Board's appointment of Margaret E. McKeough as Executive Vice President and Chief Operating Officer. The Authority will continue to manage world-class access to the global aviation system in a way that anticipates and serves the needs of the Metropolitan Washington region. I look forward to 2004 with gratitude and optimism.

Capital Construction Program

Advancing with Changing Times

Dulles Development



The Authority continued the development of new facilities and terminal renovations at Washington Dulles. Plans for the expansion of Washington Dulles have been reaffirmed by the rebound in the aviation industry and the continuing interest in the airport by a growing number of air carriers. Competition among airlines is essential for maintaining the optimum level of service for the consumer, and the Authority is dedicated to assuring that its facilities foster this activity.

In 2003, the pace of the $2.6 billion Capital Construction Program (d^2) at Washington Dulles moved forward aggressively, following revisions in 2002 undertaken to reflect the new realities of the airline industry. In addition to completing the second garage (Daily Garage 1) with underground access to the Main Terminal, the Authority awarded a contract to construct the pedestrian walkway canopy at Daily Garage 2 that will provide protection from the elements between the Main Terminal and this garage.

Several other projects were either completed or advanced to a construction start at Washington Dulles in 2003, including a new airport traffic control tower, airfield pavement and the construction of a haul road. In addition, four new gates were added to the west end of Concourse B. Preparation of an Environmental Impact Statement (EIS) for two new runways continued in 2003. The Federal Aviation Administration (FAA) held a series of community briefings during the year on the project's potential impact on residents and businesses in the vicinity of the airport.


EXIT

Infrastructure projects designed to accommodate greater ease of passenger movement at Washington Dulles are at the forefront of planned construction activities. A significant component of the d^2 program is the Automated People Mover (APM) system, which will, over time, replace the mobile lounges. The APM will consist of an inner-airport train system to transport passengers between the Main Terminal and the Midfield Concourses. Sumitomo Corporation of America has been awarded a $165 million contract to design and build the trains and install all operating systems. The contract also provides an option to maintain and operate the system for five years. The base contract includes APM vehicles, guideways, vehicle controls and operating systems, and system electric power. A major milestone in building the APM system was the start of construction for the Main Terminal station. This contract was awarded to Turner Construction.

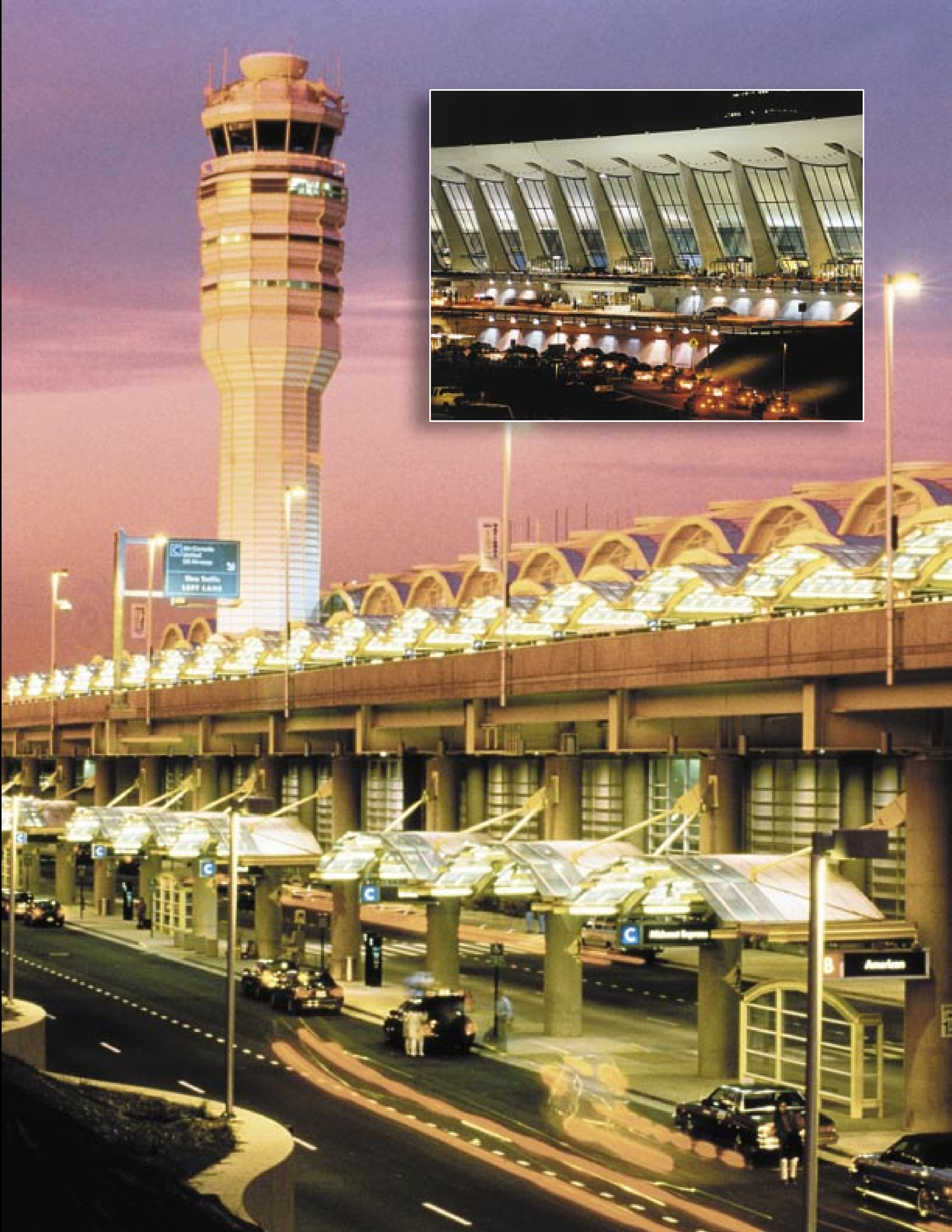
A contract to construct the initial phase of permanent gates at the Main Terminal was also awarded. This contract is for five new gates with loading bridges. Contracts to be awarded for future phases will include an additional fifteen gates. Projects nearing design completion included west and east APM tunnels, three Midfield Concourse APM stations, and the APM vehicle maintenance and storage facility. A preliminary engineering study for design of the fourth and fifth runways with associated taxiways was completed in preparation for the design of the fourth runway.

Management of the Capital Construction Program was strengthened by the Airport Construction and Operations Plan (ACOP) whose purpose is to maintain passenger/operator convenience and safety and uninterrupted airport operations while assuring maximum construction efficiency and work site safety. ACOP became interactive in 2003, providing a geographic information

system, which enables planning, design and construction officials to assess progress in real-time mode. It simultaneously allows airport officials to manage and direct aircraft parking configurations, the safe flow of mobile lounges, baggage carts and mobile ground servicing equipment in the presence of up to four excavation sites, five miles of tunneling, and rebuilding one runway alongside construction of another. In short, this tool is critical for keeping the airport fully operational and serving the public while the Authority prepares Washington Dulles to meet expected growth in passengers and aviation operations.

Mindful of a construction workforce that is 60% Spanish-speaking, the Authority initiated two construction safety-training sessions in Spanish, addressing general construction safety and Occupational Safety and Health Administration (OSHA) certification training. The wrap-up insurance program provided coverage to more than 1,098 contractors working on 168 construction projects. The Authority's construction safety record was notable, with an injury rate of 0.27% compared to a national average of 4.0%.

At Reagan National, the installation of bollards and police kiosks enhanced security for Terminals B and C. Exterior concrete restoration work continued at the Historic Terminal A as part of the Authority's ongoing efforts to restore the structure's 1940s design. Studies continued on parking needs, the expansion of the parking structures and an Airport Rescue and Firefighting Facility.



Air Service

Advancing with Changing Times

Maintaining stable levels of service for the region during what could be called at times a chaotic industry environment over the past two years was challenging for the Authority. Washington Dulles weathered the downturn in worldwide travel because of the war in Iraq, the SARS epidemic and a shaky economy. The airport held fairly steady in passengers and operations, and its international traffic growth stayed ahead of the national average. Fully operational in commercial traffic and with new airlines adding service, Reagan National experienced an increase in operations and passengers over the previous year. Most notable was the increase in regional airline operations.

The ongoing quest for growth in air service and passenger traffic at the Authority's two airports involves cooperation with regional tourism and economic development partners. The Authority is engaged in cooperative advertising, trade shows, sales missions and trade seminars to promote support for international air service, boost tourism, and encourage business relocation and travel to our region. This year, these activities targeted markets in South America, Asia and Europe.

At Washington Dulles, domestic and international service increased as follows:

- JetBlue expanded its service to include nonstop flights to Long Beach in May and nonstop service to Ft. Lauderdale in September;
- United Express added nonstop flights to Charlotte and Montreal;
- Northwest Airline's daily nonstop Amsterdam flight was replaced by its alliance partner KLM in June;
- LAB Bolivian Airlines upgraded its summer charter service with twice-weekly scheduled flights to Santa Cruz, Bolivia;
- Grupo Taca added another flight to San Salvador, El Salvador, doubling its daily service;
- Korean Airlines started operating a daily nonstop service to Seoul during the summer;
- US Airways and United Airlines launched service to San Juan, Puerto Rico, with a weekly departure and daily service, respectively, late in the year;
- British airline bmi resumed service to Manchester, England in June; and
- HL Airways began cargo operations in October.

The era of supersonic passenger air service ended this year, as the Authority hosted the final landing of the Air France Concorde on June 12th at Washington Dulles. British Airways Concorde made one final stop here en route to New York for its last flight in October. The 34-year history of the Concorde had come to a close. Air France donated a Concorde to the Smithsonian Institution's National Air and Space Museum. It is now on display at the new Steven F. Udvar-Hazy Center.

Service was enhanced at Reagan National with the following:

- Spirit and AirTran commenced service in October with seven daily departures to the Florida markets;
- Delta Air Lines increased service with nonstop flights to Salt Lake City in January;
- Northwest Airlines started nonstop service to Milwaukee in July; and
- US Airways expanded service to Bermuda from one weekly flight to daily flights while also adding nonstop service to Birmingham, Ft. Myers, Jacksonville and San Juan in April.

In response to national security concerns, the Department of Homeland Security continued to defer resumption of general aviation operations for an unspecified period of time at Reagan National; those operations have shifted, in part, to Washington Dulles and other regional airports.

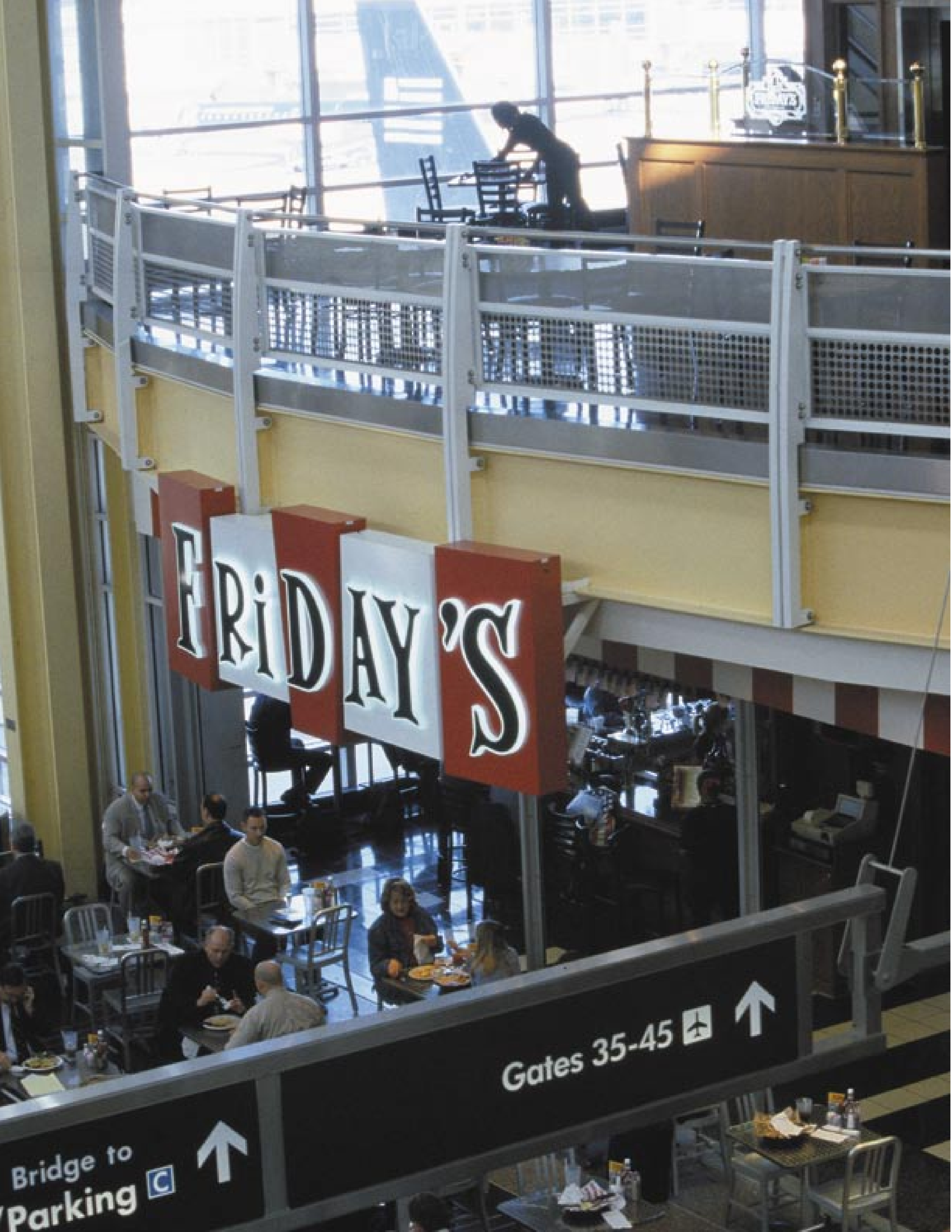
Business and Operations

Advancing with Changing Times

In its day-to-day management of the Airports, the Authority strives to provide a welcoming environment for arriving passengers and a positive last impression for departing passengers. Overall, retail activities continued to improve and grew with the recovery of the airline industry and air travel. Food and beverage sales increased 13.6% and retail sales increased by 6% over the previous year at Reagan National. Food and beverage sales at Washington Dulles also improved slightly over the 2002 levels; however, retail sales were below 2002 levels, mostly due to the loss of sales space to facilitate construction activity in the Main Terminal. At Washington Dulles, the opening of a Brooks Brothers store on Concourse B, and the re-leasing of all newsstands in the Main Terminal and Concourses B, C and D contributed positively to this sector of airport activity. In addition, duty-free operations were awarded to a new firm, Dulles Duty Free LLC. Total receipts for airport retail, food and beverage, and terminal service concessions amounted to $120.8 million in 2003.

Use of Pay & Go, a new pre-paid parking system implemented in 2002, increased to a 38% share of all exits as a result of improved and simplified signage, reconfigured traffic exit lanes in the hourly lot, relocated Pay & Go cash-only machines in the heavy-use areas of the Terminal and a promotional campaign.

Maintaining close ties to the business community in the Metropolitan Washington area is among the Authority's top priorities. Board and staff members initiated or participated in a variety of events designed to enhance these relationships.


FRiDAY'S
Gates 35-45
Bridge to
Parking C

The Authority's Equal Opportunity Program staff continued to reach out to the local, small, minority- and woman-owned business community. In November, the Authority hosted its 13th Annual Business Opportunity Seminar for Local Disadvantaged Business Enterprises (LDBE), Disadvantaged Business Enterprises (DBE), and Minority- and Woman-Owned Business Enterprises (MBE/WBE).

Activity rebounded on the procurement side of the Authority in 2003 after more than a year of conservative measures undertaken to weather the precarious state of the industry. More than $461 million in construction and other goods and services were procured. LDBE firms received approximately $93 million or 20.1% of the total. MBE/WBE firms accounted for approximately $68 million or 14.7% of the total. DBE/MBE/WBE firms generated a total of $33.7 million or 32.5% of all retail and food and beverage receipts and $4 million or 24.2% of all terminal service concession receipts. The latter included pay phone, duty free, business travel services, advertising and baggage carts.

The Authority added tools to increase the efficiency of maintenance activities at Washington Dulles, including a computerized system for maintenance that interfaces with systems in use and enables airport tenants to submit work requests electronically. This complements the system in place at Reagan National. Washington Dulles initiated the Maintenance Excellence Program to implement industry standards for best maintenance practices and excellence. Development continued for the Authority-wide Geographic Information System (GIS), which will be applied to the d^2 Program to enable effective time management. For example, a survey-grade GIS interface will allow precise location of taxiway and runway repairs, roof repairs, and roadway locations needing a sign or surface repair. The initial phase of implementing the GIS was completed in May; second-phase tasks are nearing completion.

Despite a snow season that saw record levels in our region (40.3" at Reagan National and 50.1" at Washington Dulles), the Authority's snow removal teams kept traffic moving. The Authority received the 2003 Balchen/Post Award for Outstanding Achievement in Airport Snow and Ice Control, recognizing its exceptional teamwork, dedication and efficiency in maintaining safe and on-going operations at Washington Dulles. The award was presented at the 37th Annual International Aviation Snow Symposium held in Buffalo, NY.

Safety and Security

Advancing with Changing Times

The Authority responded to changes in security levels, including Code Orange, on three occasions. Mindful of the goal to provide the highest public safety for passengers, airport workers and checked baggage, the Authority instituted additional employee training and enhanced safety measures. Elapsed time for baggage inspection and passenger check-in was improved, even though security procedures were tightened at both airports to comply with Transportation Security Administration (TSA) regulations.

To provide the best emergency response possible, Public Safety staff received more than 23,000 hours of training during the year. All ten of the Authority's Police K-9 teams passed their evaluations and were fully certified to detect the potential presence of explosives in aircraft, cargo, baggage, vehicles and terminals.

In 2003, nearly 25,000 airport identification badges were issued and fingerprinting and criminal history and background record checks were completed for more than 5,000 newly hired employees at both airports. Additionally, security training was conducted for over 12,000 airport staff.

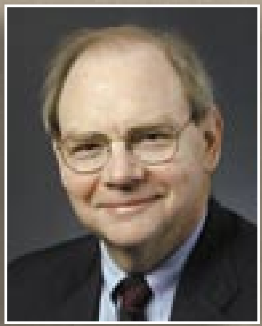
The Authority's Fire and Rescue Department trained hundreds of people in first aid and the use of fire extinguishers and continued to promote the Automatic External Defibrillator (AED) and Cardiopulmonary Resuscitation (CPR) programs. In addition, progress was made at both airports and throughout the Authority's facilities to ensure that the AED equipment is readily available when needed in an emergency. For the second time in three years, one individual, a mobile lounge operator at Washington Dulles, saved a life. In total, three lives have been saved at Washington Dulles since 2000 as a result of these training programs.

The Fire and Rescue Department placed a Hazardous Materials Emergency Response Team in service at Reagan National. This team — along with the team at Washington Dulles — is made up of technicians trained to conduct offensive operations to mitigate a hazardous materials emergency. The department also assumed responsibility for the River Rescue Program, designed to respond to emergencies at Reagan National. Under this structure, seven department employees, trained in boat operations, support civilian River Rescue Specialists. The Fire Code Enforcement Division conducted more than 1,000 inspections to ensure the continued safety of airport buildings, travelers and airport workers.

Board of Directors


Norman M. Glasgow, Jr.


Mame Reiley


David T. Ralston, Jr.


Robert Clarke Brown


The Honorable H.R. Crawford

Norman M. Glasgow, Jr., *Chairman,* is a Partner in the law firm of Holland & Knight LLP, specializing in general real estate, particularly zoning, land use, building code and historic preservation law. He served previously as Vice Chairman, Chairman of the Planning Committee, and Chairman of the Finance Committee. He is a member of the Executive Committee of the Federal City Council and the Greater Washington Board of Trade. (Maryland)

Mame Reiley, *Vice Chairman,* serves as Governor Mark Warner's political advisor and heads OneVirginia, his political action committee. Previously, she headed PGI Washington, an events and communications agency. She has also served as Chief of Staff to Representative Jim Moran (D-VA) and as a staff member of the House Committee on Appropriations. (Virginia)

David T. Ralston, Jr., *Vice Chairman in 2003,* was Chairman of the Authority from 1997 through 2000. He is a Partner in the law firm of Foley & Lardner, where he is co-chair of the firm's Washington litigation department. He specializes in civil, criminal, government contracts and aviation litigation. He is a member of the Greater Washington Board of Trade and served on the Virginia Debt Capacity Advisory Committee. (Virginia)

Robert Clarke Brown is a consultant and capital markets advisor to the U.S. Department of Transportation. From June 2000 through October 2003 he served as Chairman of the Finance Committee. He was previously the Managing Director of Public Finance at Key Capital Markets, the investment banking subsidiary of KeyCorp, a bank holding company based in Cleveland, Ohio, and a senior investment banker at Lehman Brothers. He has served as Ohio's Assistant Director of Transportation and as counsel to two Congressional investigating committees. (United States)

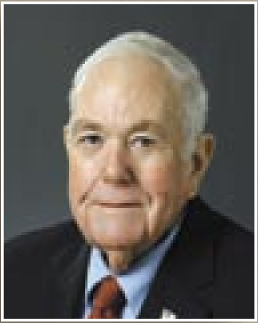
The Honorable H. R. Crawford, Chairman of the Business Administration Committee, is the President of Crawford Edgewood Managers, Inc., a real estate firm that develops and manages residential properties throughout the District of Columbia. He was an Assistant Secretary of Housing and Urban Development from 1973 to 1976, and a member of the Greater Washington Council of Governments for three terms, serving as both President and Chairman. From 1980 to 1992, he represented Ward 7 as a Member of the Council of the District of Columbia, where he chaired several committees. He is a member of the Executive Committee of the Federal City Council, and currently serves on the boards of Gilda's Club Greater Washington and the National Alzheimer's Association. (District of Columbia)

Anne Crossman is the President of Completed Systems, Inc., a software development firm she founded in 1996. She serves on the boards of the Leukemia and Lymphoma Society, the Northern Virginia Technology Council and the Fairfax Chamber of Commerce. She was named 1998 Bloomingdale's Woman of the Year, and co-founded MindShare, the NVTC Anti-Establishment Awards and the Board of Trade's CIO Forum. (Virginia)

Mamadi Diané is the President/Chief Executive Officer and founder of AMEX International. He is active in the planning, promotion, development and management of several business enterprises in the U.S., Europe and Africa, as well as in the worldwide import and export trade of agricultural and manufactured goods. He is currently a member of the U.S. Industry Policy Board and serves on a number of international finance, insurance and import/export companies. (District of Columbia)

The Honorable John Paul Hammerschmidt represented the Third District of Arkansas in the House of Representatives from 1967 to 1993, and retired from the Congress as the Ranking Republican Member of the Committee on Public Works and Transportation. He is active in public


The Honorable John Paul Hammerschmidt


William A. Hazel


Anne Crossman


Mamadi Diané

and private enterprises in Arkansas, currently serving on the boards of several corporations, as well as Arkansas State University and the University of the Ozarks at Clarksville. He was a decorated combat pilot in World War II, awarded the Distinguished Flying Cross four times, and has been awarded the highest honors by eight national veterans service organizations. (United States)

William A. Hazel, Chairman of the Planning Committee, is the Chairman of the Board of William A. Hazel, Inc., a total site development contractor. He currently serves on several Boards of Directors including the Virginia Literacy Foundation and the Washington Airports Task Force. He is a past member of the Board of Visitors for the Virginia Military Institute and a former Trustee of the Virginia Foundation for Independent Colleges. (Virginia)

Weldon H. Latham, Chairman of the Legal Committee, is a Senior Partner in the law firm of Holland & Knight LLP and Practice Group Leader of the firm's Corporate Diversity Counseling Group. He served as Assistant General Counsel, Office of Management and Budget, during the Ford Administration, and as General Deputy Assistant Secretary of the Department of Housing and Urban Development during the Carter Administration. He chairs the Deloitte & Touche Diversity Advisory Board, serves on the Corporate Advisory Council of the Congressional Black Caucus Foundation, is a member of the Economic Club of Washington, and is a Subject Matter Expert to the Federal Communications Commission Diversity Advisory Committee. (Maryland)

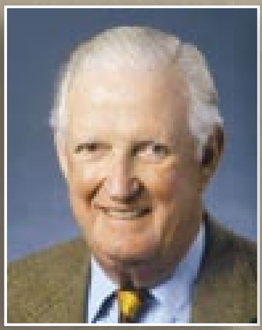
Robert M. Rosenthal is the Chairman of Rosenthal Automotive, one of America's largest automotive dealership groups. He has been the recipient of the Time Magazine Quality Dealer Award and the International American Automobile Dealers/Sports Illustrated Dealer of Distinction. He served on the Board of Directors of First Virginia Banks, Inc., and on the Board of the Phillips Collection Museum. He is also a founding member of the Capital Automotive REIT and is currently serving on the Trustees' Council of the National Gallery of Art. (Virginia)

Charles D. Snelling is an inventor, the holder of 18 patents, a venture capitalist, a real estate developer and an independent businessman. He has founded a number of businesses, most of them high-tech. He now serves on the boards of Cedar Crest College and the Athenaeum of Philadelphia, is a member of the Council and Past President of the Pennsylvania Society, is a member of the Board and Past President of the Antique Boat Museum, and is a member of the Republican State Committee of Pennsylvania. He has served on many boards, including the Allentown City Council (President), the Allentown Art Museum, the Lehigh Valley Hospital, the Lehigh Valley International Airport, and the Lehigh Valley United Way. (United States)

The Honorable David G. Speck is Managing Director for Investments at Wachovia Securities. He was named one of the ten outstanding brokers in the U.S. by Registered Representative Magazine. He served as a member of the Alexandria City Council from 1991–1994 and 1996–2003 and as a member of the Virginia House of Delegates from 1980–1982. Mr. Speck serves as Regional Chairman of the Sorensen Institute for Political Leadership at the University of Virginia, is a founding trustee of the Robert S. Rixse Foundation, and is a director of Stop Child Abuse Now, Carpenter's Shelter and the Alexandria Community Development Foundation. (Virginia)

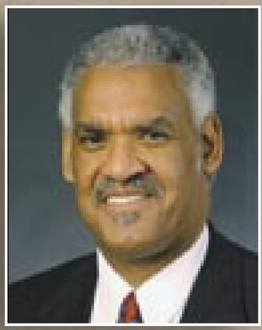
Jeffrey Earl Thompson, Chairman of the Audit Committee, is the Founder, President and CEO of Thompson, Cobb, Bazilio & Associates, P.C., one of the largest minority-owned accounting, management, information technology and financial consulting firms with headquarters in Washington, D.C. The firm has a major specialization in asset securitization, financial management systems and management accounting services. Mr. Thompson is also the Owner, Chairman and CEO of DC Healthcare Systems, Inc., and DC Chartered Health Plan, Inc., the largest minority-owned HMO in the D.C. area. (District of Columbia)


Weldon H. Latham


Robert M. Rosenthal

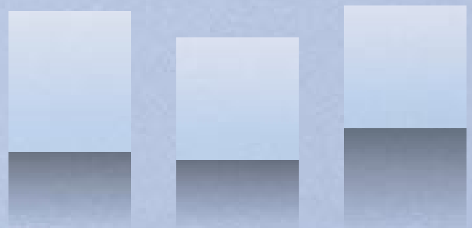

Charles D. Snelling

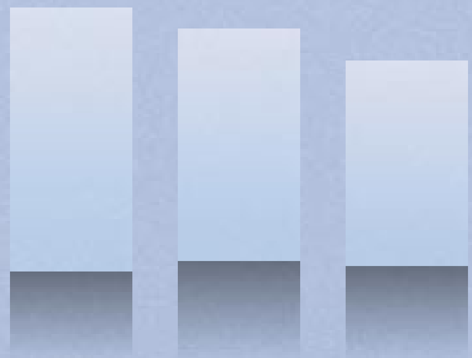

The Honorable David G. Speck


Jeffrey Earl Thompson

Ronald Reagan Washington National Airport

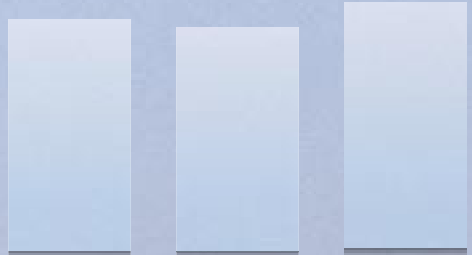
Washington Dulles International Airport





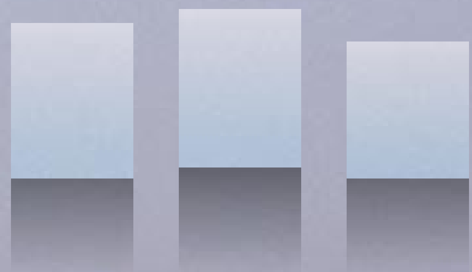
OPERATIONS

	Ronald Reagan Washington National 2001	2002	2003	Washington Dulles International 2001	2002	2003
Air Carrier	159,347	139,259	139,343	300,061	262,063	232,112
Regional	84,661	76,432	111,459	96,825	110,573	103,285
	244,008	215,691	250,802	396,886	372,636	335,397



PASSENGERS

	Ronald Reagan Washington National 2001	2002	2003	Washington Dulles International 2001	2002	2003
Domestic	13,096,080	12,670,866	13,960,612	14,020,710	13,145,607	12,928,047
International/Transborder	169,307	210,735	262,511	3,981,609	4,089,556	4,022,334
	13,265,387	12,881,601	14,223,123	18,002,319	17,235,163	16,950,381



CARGO
(Tonnes)

	Washington Dulles International 2001	2002	2003
Domestic	170,170	175,460	149,424
International/Transborder	118,025	128,543	118,093
	288,195	304,003	267,517

2003 Financial Report

Report of Independent Auditors

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 Authority) as of December 31, 2003 and 2002, 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 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 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.

The Management's Discussion and Analysis (MD&A) on pages 26 to 35 is presented for the purpose of additional analysis and is not required as part of the financial statements of the Authority, but the MD&A is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

March 30, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)

INTRODUCTION

The following discussion and analysis of the financial performance and activity of the Metropolitan Washington Airports Authority (the Authority) is to provide an introduction and understanding of the basic financial statements of the Authority for the year ended December 31, 2003 with selected comparative information for the years ended December 31, 2002 and December 31, 2001. This discussion has been prepared by the management and is unaudited; and should be read in conjunction with the financial statements, and the notes thereto, which follow this section.

The Authority is an independent interstate agency responsible for the operation of two airports, Ronald Reagan Washington National (Reagan National) and Washington Dulles International (Washington Dulles) – collectively, the Airports. The 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, the Airports were transferred to the Authority under a 50-year lease authorized by the Metropolitan Washington Airports Act of 1986, Title VI of Public Law 99-500. The Airport Use Agreement and Premises Lease (the Agreement) has been amended and extended to 2067. All property was transferred to the Authority. Prior to the transfer, the Airports were owned and operated by the Federal Aviation Administration (FAA) an agency of the United States Department of Transportation.

The Authority operates a two-airport system that provides domestic and international air service for the mid-Atlantic region. The organization consists of 1,224 full- and part-time employees in a structure that includes central administration, airports management and operations, and public safety.

In addition to operating Reagan National and Washington Dulles, the Authority is responsible for capital improvements at both Airports. Reagan 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 Washington Dulles terminal has been expanded to double its former size and a midfield concourse has been built and expanded. At Washington Dulles, land has been acquired and an environmental impact statement is underway for the construction of a new runway to meet the need for increased capacity.

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

Using the Financial Statements

The Authority's 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 *Governmental Accounting Standards Board* (GASB) principles. For the fiscal year ended December 31, 2001, the 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 were no new GASB standards adopted by the Authority in 2003.

The Statements of Net Assets depict the Authority's financial position as of one point in time – December 31, 2003 – and include all assets and liabilities of the Authority. The Statements of Net Assets demonstrate that the Authority's assets equal liabilities plus net assets. Net assets represent the residual interest in the Authority's assets after liabilities are deducted. Net assets are displayed in three components – invested in capital assets, net of related debt, restricted, and unrestricted.

The Statements of Revenues, Expenses and Changes in Net Assets report total operating revenues, operating expenses, non-operating revenues and expenses and other changes in net assets. Revenues and expenses are categorized as either operating or non-operating based upon management's policy as established in accordance with definitions set forth in GASB 33 and GASB 34. Significant recurring sources of the Authority's revenues, including PFCs, investment income and federal, state and local grants, are reported as non-operating revenues. The Authority's interest expense is reported as non-operating expense.

The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents position changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments as resulting from operating activities, capital and related financing activities and investing activities. Cash and cash equivalents on December 31, 2003 were $289.1 million and on December 31, 2002 were $193.9 million.

The Authority's Activity Highlights

Reaction to the terrorist attacks that occurred in New York, Pennsylvania and Washington, D.C., on September 11, 2001, along with economic downturn, continue to adversely affect the nation's air transportation system. The 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 airport activity and consequently had a significant effect on the financial performance of the Authority. The aviation industry began to recover in 2002 and the recovery continued in 2003. In the spring of 2003, the conflict in Iraq and Afganistan, and the occurrence of Sudden Acute Respiratory Syndrome (SARS), initially in Asia then spreading to North America, had a profound impact on international flight activity at Washington Dulles. As the year-end 2003 approached, the monthly activity levels at Washington Dulles rebounded. For the full year 2003, passenger activity at Washington Dulles decreased 1.7% from 2002. At Reagan National, passengers for December 2002 reached 1.2 million, or 92.6% of the pre-September 11, 2001 levels and in 2003, reached 90.5% of the passenger levels in 2000, a notable year for aviation activity. 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 Authority in 2003 and 2002.

Following September 11, 2001, the FAA instituted numerous security measures for all U. S. airports, including Reagan National and Washington Dulles. The measures include, but are not limited to, prohibiting access beyond security checkpoints to persons who do not hold a valid airline ticket 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. Overall, air carriers experienced record financial losses in 2001 and 2002. Overall aviation passenger traffic decreased by 2.8%, when compared to 2002. In North America, international passenger traffic for the twelve months of 2003 decreased by 1.8%.

Immediately after September 11, 2001, Reagan 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 Reagan National was authorized to resume its previous air carrier operations. General aviation activity of non-scheduled, privately owned aircraft was prohibited at Reagan National after the events of September 11, 2001 and the prohibition continues today. Enplanements for the 12 months of 2003 were 7,102,415 compared to 6,448,970 for the year 2002, an increase of 10.1%. The average annual enplanements at Reagan National from 1991 to 2000 were 7,728,336.

Washington Dulles, like most airports, was closed from September 11-13, 2001, and re-opened on September 14, 2001. Air carrier activity at Washington Dulles was effected in a manner comparable with the total air transportation system. Total commercial enplanements for the 12 months of 2003 were 8,366,486 compared to 8,515,498 in 2002, a 1.7% decrease. International enplanements for the 12 months of 2003 were 1,994,840 compared to 2,017,724 in 2002, a 1.5% decrease. Average annual international enplanements at Washington Dulles from 1991 to 2000 were 1,538,149.

Enplanements and Operations Activity for 2001 to 2003

	2003	2002	2001
Enplanements			
Washington Dulles Commercial Domestic	6,371,646	6,497,774	6,958,802
Washington Dulles	1,994,840	2,017,724	1,961,394
Reagan National	7,102,415	6,448,970	6,563,151
Operations			
Washington Dulles	335,397	372,636	396,886
Reagan National	250,802	215,691	244,008

In comparing Reagan National and Washington Dulles to North American aviation industry, the Airports exceeded industry trends. In 2003, domestic traffic exceeded trends by 12.8% at Reagan National. In 2003, domestic traffic at Washington Dulles exceeded the trends by 0.8% in domestic passenger traffic and 0.3% in international passenger traffic.

	MWAA	North America	Difference
Enplanements Growth			
Washington Dulles Domestic	-1.9%	-2.7%	0.8%
Washington Dulles International	-1.5%	-1.8%	0.3%
Reagan National	10.1%	-2.7%	12.8%

By year-end 2003, daily air carrier departures increased to 340 from 291 departures in 2002 at Reagan National. At Washington Dulles, by year-end 2003, daily air carrier departures of 356 decreased from 395 in 2002. International departures decreased to 58 per day in 2003 from 59 per day in 2002.

The aviation industry has experienced three years of economic distress. To assist its tenants, the Authority reduced its charges to the airlines serving the Airports in 2003 and 2002 by allocating $13 million and $4.5 million respectively of its net revenue to offset expenses normally paid by the air carriers. Further, in 2001, the Authority received $40 million from the federal government to compensate for the closure and subsequent reduced flight activity at Reagan National. The federal compensation was used by the Authority in 2002 and 2001 to replenish its unencumbered reserve, and at Reagan National, to replace lost revenues, compensate concessionaires for losses and supplement landing fees paid by those airlines that continued to operate. The application to replace revenues and offset expenses for purposes of the Agreement is through the annual airline settlement process (See Note K).

Financial Highlights

The financial results of 2003 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. Operating revenues of $389.6 million are $20.8 million greater than operating revenues of 2002, and reflect a turnaround in aviation activity at the Airports. The Authority has contractual agreements requiring the airlines to pay actual cost while the majority of concessionaires pay a percentage of revenue or a minimum annual guarantee payment.

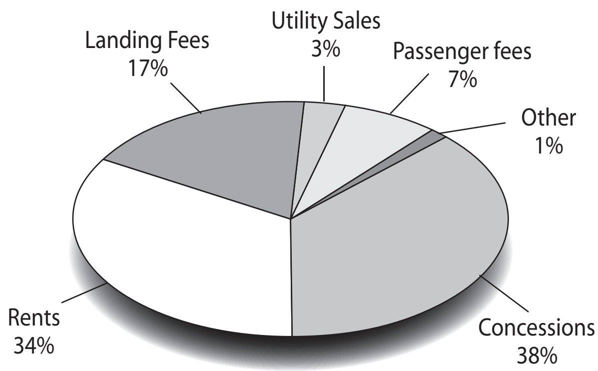
In 2003, the Authority changed the presentation of concession management expenses to include them as a component of materials, equipment, supplies, contract services and other expenses rather than as a direct offset to concession revenue as had been previously shown. Operating Revenues – Concessions and Operating Expenses – materials, equipment, supplies, contract services and other expenses each increased by $31,445,448 for 2002 and $32,263,180 for 2001. There was no change in operating income, net assets or cash flows for either year.

The increase in landing fees in 2003 reflects the cost of snow removal for the record snow falls experienced in 2003, increased security-related costs and an increase in debt service related to airfield projects at Washington Dulles. Utility sales revenue increased as a result of higher gas and electric fees. Passenger fees in 2003 and 2002 now include fees paid by the Transportation Security Administration (TSA).

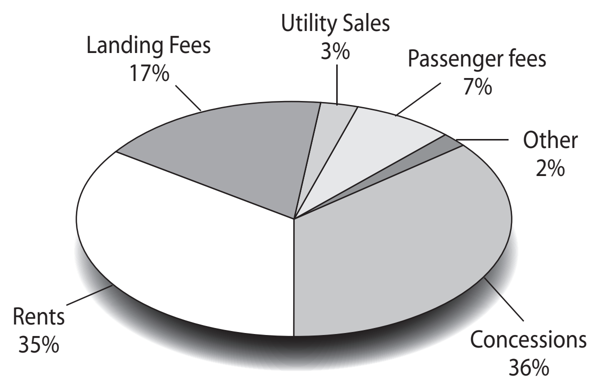
Classifications	2003 Revenue Amount	2002 Revenue Amount	Increase (Decrease) from 2002	Percent of Increase (Decrease) from 2002
Concessions	$ 146,095,903	$ 132,817,916	$ 13,277,987	10.0 %
Rents	130,802,693	127,554,998	3,247,695	2.5 %
Landing fees	67,637,206	63,967,382	3,669,824	5.7 %
Utility sales	11,867,943	10,589,091	1,278,852	12.1 %
Passenger fees	27,878,919	27,521,305	357,614	1.3 %
Other	5,355,589	6,387,300	(1,031,711)	(16.2)%
Total	$ 389,638,253	$ 368,837,992	$ 20,800,261	5.6 %

The following is a graphic illustration of operating revenues by source for the years ended December 31, 2003 and 2002:

2003 Revenues



2002 Revenues



In 2003, concession revenues increased 10.0% and as a percent of total revenues, increased to 37.5% from 36.0% in 2002. Automobile parking revenue and rental car revenue represent 72.8% of concession revenue and 27.3% of total revenue. A second structured parking garage was opened at Washington Dulles increasing the number of daily parking spaces to 8,325. Car parking rates were raised at Reagan National and Washington Dulles to manage the supply of parking spaces and to raise revenues. The following table details concession revenue by type.

Concession Revenues (in thousands)

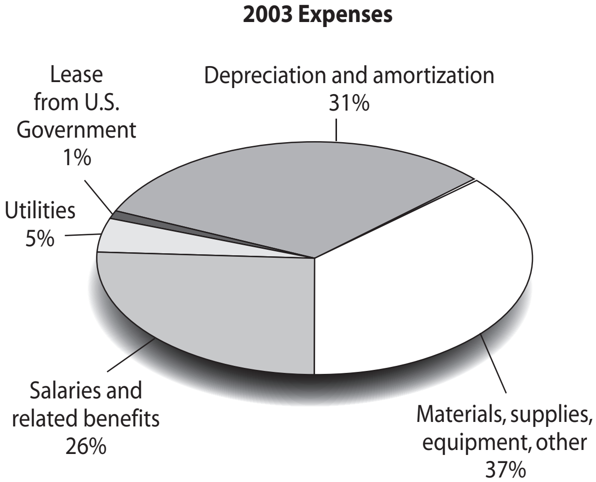
	2003	2002	Increase (Decrease) from 2002	Percent of Increase (Decrease) from 2002
Parking	$ 79,789.9	$ 71,156.5	$ 8,633.4	12.1 %
Rental Cars	26,502.9	25,650.6	852.3	3.3 %
Food and Beverage	6,938.0	6,240.1	697.9	11.2 %
Newsstand and Retail	6,637.3	6,119.4	517.9	8.5 %
Duty Free	2,016.9	1,732.4	284.5	16.4 %
Display Advertising	6,342.4	5,432.2	910.2	16.8 %
Inflight Caterers	5,205.7	6,228.1	(1,022.4)	(16.4)%
Fixed Base Operator	4,381.6	4,020.2	361.4	9.0 %
All Other	8,281.2	6,238.4	2,042.8	32.7 %
Total	$146,095.9	$132,817.9	$13,278.0	10.0 %

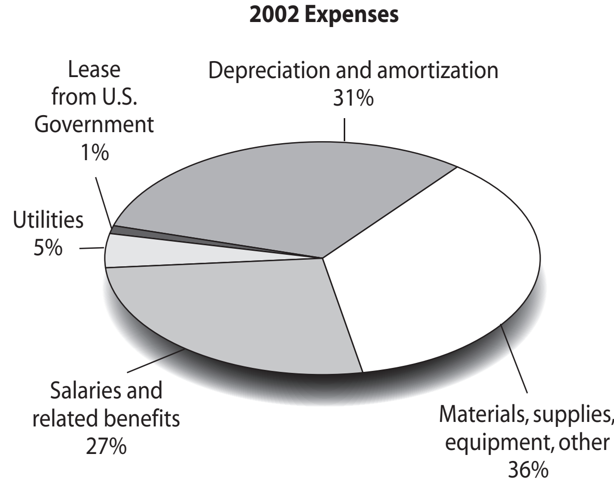
For the year ended December 31, 2002, the Authority's accounts receivable included $4.5 million in pre- and post-petition debt from United and $1.3 million in pre-petition debt from US Airways. As of January 2004, all of the US Airways pre-petition debt was paid. On March 19, 2004, the U.S. Bankruptcy Court for the Northern District of Illinois, Eastern Division, approved UAL Corporation's assumption of leases and cure of all defaults at Washington Dulles and Reagan National. The court's order among other things (See Note U) approved payment of $4,476,143 by United Airlines (United) to the Authority to cure all defaults under these leases. The Authority has not established a reserve for the United pre-petition debt. United is current with its post-bankruptcy obligations. The Authority's expectation regarding United is influenced by the Authority's experience with other large airline bankruptcies. In the cases of Eastern Airlines, Pan American 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 judgment of the posture of United, the 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 through 2002 and 2003. A hiring freeze implemented in September 2001 continued through 2003. All operational expenses are carefully reviewed during the budget development and procurement processes. After September 11, 2001, Reagan National and Washington Dulles were required by the federal government to provide increased police presence. The Authority contracted in 2002 and 2003 with the Virginia State Police, Arlington County Police and Loudoun County Police to provide the supplemental police services. The third-party security service was ended in September 2003 after which the Authority's public safety personnel have provided the additional security. The cost for the contract police service in 2003 and 2002 was $4,052,669 and $5,994,538, respectively. The Authority incurred significant legal fees of $1.4 million in 2003 associated with the defense of a protest by a bidder in the Automated People Mover (APM) contract award. The Authority's legal team successfully defended the protest and the APM contract has been awarded. The Authority expensed in 2003, $2.7 million in design costs associated with the East Baggage Basement, Phase II project when it was determined that this project would not be constructed. The hardening insurance market resulted in quotes for insurance that were significantly higher than in prior years. The Authority responded to the increase in insurance cost by negotiating higher retention levels while increasing related insurance reserves. General liability, property insurance and workers compensation insurance costs in 2003, 2002 and 2001 were $5.4 million, $3.3 million and $2.4 million, respectively. The claims paid directly by the Authority also increased over the past three years. Claims paid in 2003, 2002 and 2001 were $2,589,088, $2,167,113 and $866,155, respectively. Salaries and related benefits increases for 2003 and 2002 are principally related to the increased security needs for public safety personnel and related overtime and overtime required for snow removal to keep the Airports operating during the record snowfalls of 2003. Utility costs increased because of higher utility rates. Depreciation expense increased 9.4% primarily from the capitalization of projects and the reclassification of some capital assets to shorter depreciation schedules.

Expense Classification	2003	2002	Increase (Decrease) from 2002	Percent of Increase (Decrease) from 2002
Materials, supplies, equipment, contract services and other	$ 134,105,363	$ 123,970,251	$ 10,135,112	8.18%
Salaries and related benefits	95,192,233	91,748,027	3,444,206	3.75%
Utilities	16,754,386	15,657,374	1,097,012	7.01%
Lease from United States Government	4,303,764	4,238,185	65,579	1.55%
Depreciation and amortization	114,950,487	105,035,788	9,914,699	9.40%
Total	$ 365,306,233	$ 340,649,625	$ 24,656,608	7.24%

The following is a graphic illustration of the total operating expenses by source for the years ended December 31, 2003 and 2002:





Changes in Net Assets

The fiscal year 2003 operating income for the Authority was $24.3 million, a decrease of $3.9 million when compared to the prior fiscal year. As noted earlier, the Authority's decision to waive certain concession rents and landing fees and offset expenses with the Authority share of net revenues resulted in reduced operating income in 2003, 2002 and 2001. In 2003, non-operating revenues of $11.5 million were $4.9 million lower than in 2002, principally because of lower interest rates earned on the Authority's investment portfolio offset by a gain in the swap transaction. In 2001, the Authority received $40 million from the federal government in compensation for lost revenues related to the closure and phased reopening of Reagan National. In 2002, the Authority received a federal payment of $3.1 million as reimbursement for certain security related expenses incurred from September 11, 2001 through May 2002. Non-operating expenses of $96.7 million decreased by $29.8 million principally from the swap transaction's positive performance. The swap transaction represents risk management activity taken in August 2001 to assure that the interest on the refunding of the Series 1992A Bonds would not exceed an interest cost of 5.0%. Generally accepted accounting principles (GAAP) require that the future value of the swap be reported at prevailing rates in the Authority's financial statements. The change in the market value of the swap in 2003 was an increase of $5.6 million and in 2002, a loss of $26.0 million.

Capital contributions include PFCs, federal and state grants and other capital property acquired. PFCs collected in 2003 in the amount of $58.4 million were $633,000 lower than in 2002. PFCs are imposed when an airline ticket is purchased and do not mirror the enplanement activity of an airport. Federal and state grants of $14.4 million were $200,000 less than 2002 grant revenues. PFCs, federal and state grants provide partial funding of certain capital construction projects.

The Authority recorded $6.0 million in capital contributions in 2003 in recognition of a portion of a haul road and a portion of the museum access road built by the Smithsonian and the Virginia Department of Transportation during the construction of the Stephen F. Udvar-Hazy Center (Center). The title to these access ways vests with the Authority upon completion of the Center and acceptance by the Authority. The Authority is required to maintain these roadways and allow Smithsonian patrons and invitees access to and from the Center premises for the movement of aircraft and vehicles.

Change in net assets is an indicator of whether the overall fiscal condition of the Authority has improved or declined during the year. The change in net assets for the years ended December 31, 2003 and 2002 was an increase of $17.9 million and a decrease of $8.4 million, respectively. In 2002, without the loss on 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:

	2003	2002	2001
Operating Revenues			
Concessions	$ 146,095,903	$ 132,817,916	$ 124,641,449
Rents	130,802,693	127,554,998	122,382,146
Landing fees	67,637,206	63,967,382	55,780,359
Utility sales	11,867,943	10,589,091	12,322,825
Passenger fees	27,878,919	27,521,305	24,445,948
Other	5,355,589	6,387,300	7,242,324
	389,638,253	368,837,992	346,815,051
Operating Expenses			
Material, equipment, supplies contract services and others	134,105,363	123,970,251	113,922,626
Salaries and related benefits	95,192,233	91,748,027	84,481,594
Utilities	16,754,386	15,657,374	17,568,654
Lease from U.S. Government	4,303,764	4,238,185	4,169,260
Depreciation and amortization	114,950,487	105,035,788	99,325,739
	365,306,233	340,649,625	319,467,873
Operating Income	24,332,020	28,188,367	27,347,178
Non-Operating Revenues			
Investment income	5,896,185	13,277,813	17,536,753
Federal compensation	—	3,064,970	40,000,000
Unrealized swap income	5,572,334	—	—
Total Non-Operating Revenues	11,468,519	16,342,783	57,536,753
Non-Operating Expense			
Interest expense	(96,747,842)	(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	(96,747,842)	(126,588,936)	(100,888,816)
Capital Contributions	78,861,263	73,684,812	64,290,210
(Decrease) Increase in Net Assets	$ 17,913,960	$ (8,372,974)	$ 48,285,325

Statements of Net Assets

The Statements of Net Assets present the financial position of the Authority at the end of the fiscal year. The Statements include all assets and liabilities of the Authority. Net assets is the difference between total assets and total liabilities and is an indicator of the current fiscal health of the Authority. A summarized comparison of the Authority's assets, liabilities and net assets on December 31, 2003, 2002 and 2001 is as follows:

	2003	2002	2001
Assets			
Current assets	$ 449,659,857	$ 449,320,863	$ 304,895,604
Non-current assets			
Capital assets, net	2,744,063,040	2,553,672,786	2,350,172,546
Other non-current assets	234,145,211	191,793,059	182,669,302
Total Assets	3,427,868,108	3,194,786,708	2,837,737,452
Liabilities			
Current liabilities	158,404,817	160,109,417	153,306,969
Non-current liabilities			
Long-term debt outstanding and Other restricted	2,608,973,128	2,391,468,324	2,034,987,613
Other non-current liabilities, unrestricted	5,541,839	6,174,603	4,035,532
Total Liabilities	2,772,919,784	2,557,752,344	2,192,330,114
Net Assets			
Invested in capital assets, net of debt	428,497,669	418,037,820	418,474,478
Restricted	36,158,318	34,646,503	44,033,502
Unrestricted	190,292,337	184,350,041	182,899,358
Total Net Assets	$ 654,948,324	$ 637,034,364	$ 645,407,338

In its sixteenth full year of operations, the Authority's financial position remained strong on December 31, 2003, with assets of $3.43 billion and liabilities of $2.77 billion. Current assets increased slightly by $0.3 million from 2002. The Authority has maintained five months of its operating cash portfolio in securities that mature within six months since the events of September 11, 2001 to provide extra liquidity. The Authority has $2.74 billion in capital assets (net of depreciation), an increase of $190.4 million from 2002. Capital projects that were completed in 2003 include the second structured parking garage at Washington Dulles and the four-gate addition to Concourse B, also at Washington Dulles. The Authority's capital assets are principally built from the proceeds of revenue bonds, but also include property acquired through leases, the Authority net 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 2003, the Authority conducted four bond transactions. In September 2003, $185 million Series 2003A Revenue and Refunding Bonds, $44.1 million Series 2003B Revenue and Refunding Bonds and $52.6 million Series 2003C Revenue and Refunding Bonds were issued to provide for capital improvements at Washington Dulles and Reagan National and to refund a portion of the Series 1993A Bonds, the Series B Bond Anticipation Commercial Paper Notes and the Series 1993B Bonds. Also, in September 2003, $150 million Series 2003D Airport Revenue Variable Rate Bonds were issued to provide for capital improvements at Washington Dulles and Reagan National . The Authority estimates the present value savings of the refundings to be $6.1 million. During 2003, the Authority increased its borrowing on the PFC Notes by $17.5 million to $187.7 million. The Authority continues to have $100 million Series One CP Notes available for construction needs. As a result of these transactions, as well as principal payments of $45.7 million, long-term debt outstanding increased by $299.8 million and short-term CP Notes and PFC Notes outstanding of $337.7 decreased by $82.5 million. Current liabilities decreased by $1.7 million, principally related to a $13.0 million decrease in unrestricted and restricted accounts payable, offset by an increase of $10.5 million in the current portion of bonds payable.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $654.9 million on December 31, 2003, an increase of $17.9 million from 2002 and $9.5 million from 2001. The account "Invested in Capital Assets, Net of Debt," increased by $10.5 million to $428.5 million. Debt service reserve of $144.7 million, maintained in accounts held by the Authority's Trustee, offset by the corresponding debt, is included in Restricted Net Assets.

The restricted and unrestricted remaining net assets are derived from the Authority's operations since the Authority's inception in 1987, as well as grant and PFC collections. The 2003 restricted net assets of $36.2 million are subject to external restrictions on how they may be used under the Master Indenture and federal regulations. The remaining unrestricted assets of $190.3 million, an increase of $5.9 million from 2002, may be used to meet any of the Authority's ongoing operations, subject to approval of the Authority's Board.

Cash and Investment Management

The Authority's cash and cash equivalents increased to $289.1 million for the year ended December 31, 2003, from $192.9 million for the year ended December 31, 2002, as a result of a significant number of maturing investments at year-end. The funds were immediately invested in money market funds. 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 $15.4 million while unrestricted investments increased by $9 million. The decrease in unrestricted cash and cash equivalents corresponds with the decrease in accounts payable and accrued expenses.

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

	2003	2002
Cash received from operations	$ 354,418,565	$ 332,077,426
Cash expended from operations	(226,763,638)	(204,043,800)
Net cash provided by operations	127,654,927	128,033,626
Net cash provided (used) in capital and related financing activities	(112,479,002)	20,569,266
Net cash provided (used) by investing activities	81,053,185	(187,985,336)
Net cash used by capital financing and investing activities	(31,425,817)	(167,416,070)
Net increase (decrease) in cash and cash equivalents	96,229,110	(39,382,444)
Cash and cash equivalents, beginning of year	192,857,774	232,240,218
Cash and cash equivalents, end of year	$ 289,086,884	$ 192,857,774

Cash temporarily idle during 2003 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 Authority's outstanding bonds. During 2003, the Authority's operating account average portfolio balance was $161.7 million and the average yield on investments was 1.50%. The capital funds are held by an agent for the Trustee but managed by the Authority. For 2003, the capital funds had an average portfolio balance of $255.2 million and an average yield of 2.905%.

Certain 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 Authority's Board. An investment committee meets quarterly to review the portfolios for compliance with the investment policy (See Note B).

Capital Construction

During 2003, the Authority expended $282.9 million in its ongoing CCP compared to an original budget of $329.4 million. During the year the record snowfalls combined with record rainfalls reduced the number of available construction days. The Authority capitalized $220.2 million in projects in 2003, including a second structured parking garage and a four-gate addition to Concourse B at Washington Dulles. Projects at Washington Dulles, which began or continued in 2003, and were scheduled for completion in 2004 or beyond, include 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 2003 was approximately $23.6 million (See Note F).

Capital Financing and Debt Management

The 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 Authority's rating on "Watch List" effective September 18, 2001 and on February 15, 2002, removed the Authority from the "Watch List" and affirmed the Authority's "Aa3" rating with negative outlook. S&P placed the Authority's debt on "Credit Watch Negative" effective September 20, 2001 and downgraded the Authority to "A+" with "Stable Outlook," effective February 28, 2002. Fitch placed the Authority's debt on "Rating Watch Negative" effective October 5, 2001, and on May 15, 2002, confirmed the Authority's "AA-" rating with outlook "Stable." As of December 31, 2003, the Authority has $2,370 million outstanding Airport System Revenue Bonds, $150 million in outstanding Series A Bond Anticipation Notes (BANs) and $187.7 million in PFC notes (See Note J). Of the $2,370 million in outstanding Senior Bonds, $259.2 million is uninsured. The insured debt is rated "AAA" by S&P and Fitch, and "Aaa" by Moody's.

The 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 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 Authority has maintained a coverage ratio significantly higher than its requirement. During 2003 and 2002, respectively, the Authority's debt service coverage was 1.41 and 1.47. The decrease in coverage in 2003, is related to the debt service for the structured parking garages at Washington Dulles, which opened in March 2002 and April 2003 (See Note J).

Contacting the Authority's Financial Management

The financial report is designed to provide the Authority's Board, management, investors, creditors and customers with a general view of the Authority's finances and to demonstrate the 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.

STATEMENTS OF NET ASSETS

As of December 31

	2003	2002
ASSETS		
Current Assets		
Unrestricted Assets:		
Cash and cash equivalents	$ 35,682,214	$ 51,069,154
Investments	106,325,974	97,313,765
Accounts receivables, net	19,294,775	18,084,191
Inventory	1,890,063	1,961,744
Prepaid expenses and other current assets	3,641,957	2,537,820
Total Unrestricted Assets	166,834,983	170,966,674
Restricted Assets:		
Cash and cash equivalents, restricted	238,607,369	135,112,168
Passenger facility charges, cash, restricted	14,797,301	6,676,452
Passenger facility charges, receivables, restricted	8,588,515	8,476,074
Investments, restricted	20,831,689	128,089,495
Total Restricted Assets	282,824,874	278,354,189
Total Current Assets	449,659,857	449,320,863
Non-Current Assets		
Capital Assets:		
Land	49,066,610	49,679,736
Construction in progress	619,050,895	538,890,637
Buildings, systems and equipment	2,894,632,093	2,671,901,652
Less: Accumulated Depreciation	(818,686,558)	(706,799,239)
Capital Assets, Net	2,744,063,040	2,553,672,786
Long-term investments	50,511,329	48,696,006
Long-term investments, restricted	144,682,412	113,837,927
Other long-term assets	2,045,311	2,177,918
Net Pension Asset	2,115,285	1,717,426
Bond issuance costs, net	34,790,874	25,363,782
Total Non-Current Assets	2,978,208,251	2,745,465,845
Total Assets	$ 3,427,868,108	$ 3,194,786,708

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

STATEMENTS OF NET ASSETS

	2003	2002
LIABILITIES AND NET ASSETS		
Current Liabilities		
Payable from unrestricted:		
Accounts payable and accrued expenses	$ 25,331,592	$ 32,692,240
Operating lease obligations	341,140	341,140
Total unrestricted	25,672,732	33,033,380
Current liabilities payable from restricted assets:		
Accounts payable and accrued expenses	48,829,027	54,462,182
Accrued interest payable	27,798,058	26,958,855
Bonds payable	56,105,000	45,655,000
Total restricted	132,732,085	127,076,037
Total current liabilities	158,404,817	160,109,417
Non-Current Liabilities		
Payable from unrestricted:		
Other liabilities	5,541,839	6,174,603
Payable from restricted:		
Other liabilities	209,550	—
PFC Bank participation notes	187,700,000	170,200,000
Commercial paper notes	150,000,000	250,000,000
Bonds payable, net	2,271,063,578	1,971,268,324
Total restricted	2,608,973,128	2,391,468,324
Total non-current liabilities	2,614,514,967	2,397,642,927
Total Liabilities	2,772,919,784	2,557,752,344
NET ASSETS		
Invested in capital assets, net of related debt	428,497,669	418,037,820
Restricted	36,158,318	34,646,503
Unrestricted	190,292,337	184,350,041
Total net assets	$ 654,948,324	$ 637,034,364

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended	
	December 31, 2003	December 31, 2002
OPERATING REVENUES		
Concessions	$ 146,095,903	$ 132,817,916
Rents	130,802,693	127,554,998
Landing Fees	67,637,206	63,967,382
Utility sales	11,867,943	10,589,091
Passenger fees	27,878,919	27,521,305
Other	5,355,589	6,387,300
	389,638,253	368,837,992
OPERATING EXPENSES		
Materials, equipment, supplies, contract services, and other	134,105,363	123,970,251
Salaries and related benefits	95,192,233	91,748,027
Utilities	16,754,386	15,657,374
Lease from U. S. Government	4,303,764	4,238,185
Depreciation and amortization	114,950,487	105,035,788
	365,306,233	340,649,625
OPERATING INCOME	24,332,020	28,188,367
NON-OPERATING REVENUES (EXPENSES)		
Passenger facility charges, financing costs	(1,137,715)	(2,029,218)
Investment income	5,896,185	13,277,813
Interest expense	(95,610,127)	(98,256,099)
Federal compensation	—	3,064,970
Federal compensation transfers	—	(279,370)
Unrealized swap income (loss)	5,572,334	(26,024,249)
	(85,279,323)	(110,246,153)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(60,947,303)	(82,057,786)
CAPITAL CONTRIBUTIONS		
Passenger facility charges	58,438,038	59,071,341
Federal and State grants	14,378,325	14,613,471
Other capital property contributed	6,044,900	—
	78,861,263	73,684,812
NET ASSETS		
Increase in net assets	17,913,960	(8,372,974)
Total net assets, beginning of year	637,034,364	645,407,338
Total net assets, end of year	$ 654,948,324	$ 637,034,364

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

STATEMENTS OF CASH FLOWS (Continued)

	Years Ended	
	December 31, 2003	December 31, 2002
NET CASH FROM OPERATING ACTIVITIES:		
Operating cash receipts from customers	$ 354,418,565	$ 332,077,426
Cash payments to suppliers for goods and services	(131,384,806)	(115,256,436)
Cash payments to employees for services	(95,378,832)	(88,787,364)
NET CASH PROVIDED BY OPERATING ACTIVITIES	127,654,927	128,033,626
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	430,857,024	619,600,469
Payments (Proceeds) net from the issuance of commercial paper	(100,000,000)	44,000,000
Principal payments on bonds	(122,945,000)	(297,915,000)
Payments for capital expenditures and construction In progress	(280,713,825)	(299,712,830)
Proceeds from sale of fixed assets	110,119	2,763,440
Payments of bond issuance costs	(13,229,911)	(9,940,732)
Interest paid on bonds	(113,504,071)	(108,852,508)
Rebate to Treasury	(1,112,613)	(346,481)
Government grants in aid of construction	14,223,836	17,672,008
Passenger facility charge receipts	58,481,505	56,487,797
Passenger facility charge borrowing from line of credit	17,500,000	
Passenger facility charge expenses and other	(2,146,066)	(3,186,897)
NET CASH PROVIDED OR (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(112,479,002)	20,569,266
NET CASH FROM INVESTING ACTIVITIES:		
Interest received on investments	7,450,115	10,538,151
(Increase) Decrease in short-term investments, net	103,571,093	(171,258,963)
Proceeds from long-term investment maturities	116,609,214	230,383,212
Purchase of long-term investments	(146,577,237)	(257,647,736)
NET CASH PROVIDED OR (USED) BY INVESTING ACTIVITIES	81,053,185	(187,985,336)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	96,229,110	(39,382,444)
CASH AND CASH EQUIVALENTS, Beginning of Period	192,857,774	232,240,218
CASH AND CASH EQUIVALENTS, End of Period	$ 289,086,884	$ 192,857,774

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

STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2003	Years Ended December 31, 2002
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 24,332,020	$ 28,188,367
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	114,950,487	105,035,788
(Decrease) Increase in allowance for doubtful accounts	(336,330)	295,133
(Gain) Loss on sale of assets	(78,388)	204,069
Decrease (Increase) in accounts receivable	(1,921,742)	(5,386,814)
Decrease (Increase) in inventory	71,681	(213,636)
Decrease (Increase) in prepaid expenses and other current assets	(1,104,137)	(781,476)
Decrease (Increase) in other long-term assets	(265,252)	(231,613)
Increase (Decrease) in long-term liabilities	(632,764)	2,139,071
(Decrease) Increase in accounts payable and accrued expenses	(7,360,648)	(1,215,263)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 127,654,927	$ 128,033,626
Noncash and related financing transactions		
Unrealized Gain (Loss)	2,691,787	(22,592,638)
Total noncash and related financing transactions	$ 2,691,787	$ (22,592,638)

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

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metropolitan Washington Airports Authority (the 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 Authority for the purpose of operating Ronald Reagan Washington National (Reagan National) and Washington Dulles International Airports (Washington Dulles), – collectively, the Airports. The 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, Reagan National's and Washington Dulles' properties were transferred to the Authority under a long-term lease authorized by the Metropolitan Washington Airports Act of 1986, Title VI of Public Law 99-500 (See Note M). All personal property was transferred to the 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 Authority are included in the reporting entity. There are no U.S. government agency finances that should be considered for inclusion in the Authority's financial reporting entity.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis. The 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 Authority's activities are accounted for similar to those often found in the private sector using the flow of an 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 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 Authority's assets after liabilities are deducted and consist of three sections: Invested in capital assets, net of related debt, restricted, and unrestricted. Net assets invested in capital assets, net of related debt include 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 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 Authority follows all GASB pronouncements issued on, before, or after November 30, 1989, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principal Board Opinions and Accounting Research Bulletins issued on, before, or after November 30, 1989, unless they contradict GASB guidance.

Budgeting Requirements

The 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, 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 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 the financial section of this report.

Revenue Recognition

Rentals and concession fees are generated from airlines, parking structures and lots, food, rental cars, fixed-base operators, and other commercial tenants. Leases with the airlines are based on full cost recovery, through rates and charges as described below. 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 aircraft. The scheduled airline fee structure is determined annually based on full cost recovery pursuant to an agreement between the Authority and the signatory airlines. Landing fees are recognized as part of operating revenues when airline-related facilities are utilized.

Several airlines represent concentrations of revenues for the Authority. At Reagan National, US Airways, Delta Air Lines, and American Airlines comprise approximately 59.2% of annual airline revenues. At Washington Dulles, United, Delta Air Lines and Atlantic Coast Airlines comprise approximately 52.8% of annual airline revenues. These airlines combined represent approximately 55% of the total annual airline revenues for the Authority. Actual airline revenues for 2003 represent approximately 54% of the Authority's total 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 which approximates fair value.

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 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 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 J). Tenants have funded construction and improvements of airport facilities from their own working capital. Under agreements with the Authority, the property reverts to the Authority upon termination or expiration of the Agreement. Terms range from 15 to 40 years. These assets obtained by the 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 as incurred.

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
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

The 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 Authority temporarily invests the proceeds of tax exempt debt in securities with higher yields. The Authority estimated a liability on December 31, 2003 and 2002, of approximately $209,550 and $1,506,464, 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 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 Authority was granted permission to begin collecting a $3.00 PFC effective November 1, 1993, at Reagan National and January 1, 1994, at Washington 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 Authority. Due to their restricted use, PFCs are categorized as non-operating revenues and are accounted for on the accrual basis. The Authority applied for and received 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 Authority receives federal and state grants in support of its Capital Construction Program (CCP). 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 effect 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.

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 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 Authority or its agent in the Authority's name; Category 2 includes collateralized cash with securities held by the pledging financial institutions' trust department or agent in the 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 Authority's name. The table below presents the Authority's deposit risk classifications in accordance with GASB Statement No. 3:

	December 31,	
	2003	2002
Deposits		
Carrying Amount	$ 22,959,678	$ 2,130,603
Bank Balance	929,045	2,929,183
FDIC Insured or collateralized (Category 1)	910,045	2,913,183
Uncollateralized or uninsured (Category 3)	19,000	16,000
Certificates of Deposit/Investments		
Carrying Amount	$ 5,100,000	$ 3,119,148
FDIC Insured or collateralized (Category 1)	400,000	400,000
Uncollateralized or uninsured (Category 3)	4,700,000	2,719,148

To assure the safety of demand deposits not covered by FDIC insurance, the Authority utilizes the LACE (Liquidity, Asset Quality, Capital and Earnings) Financial Institutions Rating Service to determine the stability of the financial institutions.

Investments

The primary objectives of the Authority's investment policy are the safety of capital, the liquidity of the portfolio and the yield of investments. Bond proceeds (See Note E) may be invested in securities as permitted in the bond indentures; otherwise, assets of the 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 consists of the foregoing; money market or mutual funds whose underlying collateral consists of the foregoing; or other such securities or obligations that may be approved by the Finance Committee by modification of the Authority's policy.

In accordance with GASB Statement No. 3, the Authority classifies its investments according to the credit risk by the following three categories: Category 1 includes insured or registered investments, or securities held by the Authority or its agent in the Authority's name; Category 2 includes uninsured and unregistered investments, with securities held by the counter party's trust department or agent in the 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 Authority's name.

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

	December 31, 2003				
	Category				
	1	2	3	Cost	Carrying Value
Repurchase Agreements	$ 19,383,786	$ —	$ —	$ 19,383,786	$ 19,383,786
United States Government and agency obligations	291,015,232	—	—	291,015,232	288,929,750
Guaranteed Investment Contracts	12,014,825	—	—	12,014,825	12,014,825
Commercial Paper	9,970,007	—	—	9,970,007	9,989,725
	$ 332,383,850	$ —	$ —	332,383,850	330,318,086
Money market funds (invested in United States Government and agency obligations)				253,060,524	253,060,524
Certificate of Deposit				5,100,000	5,100,000
				$ 590,544,374	$ 588,478,610

	December 31, 2002				
	Category				
	1	2	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

The fair value of the collateral for these Repurchase Agreements was $20,165,935 and $12,960,277 on December 31, 2003 and 2002, respectively. The collateral for the Repurchase Agreements was held by the Authority's agent in the Authority's name.

During 1998, the Authority implemented GASB Statement No. 31, *Accounting and Financial Reporting For Certain Investments and For External Investment 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 Authority's investments in accordance with GASB Statement No. 31:

	December 31, 2003	
	Cost	**Carrying Value**
Securities with original maturity 1 year and over	$ 185,414,825	$ 187,553,835
Securities with original maturity less than 1 year	143,383,786	142,764,251
	$ 328,798,611	$ 330,318,086

	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

Change in carrying value from December 2002 to December 2003

Carrying value at December 31, 2003	$ 330,318,086
Add: Proceeds from investments sold in 2003	1,181,826,350
Less: Cost of investments purchased in 2003	(1,102,254,693)
Less: Carrying value at December 31, 2002	(412,722,390)
Change in carrying value of investments	$ (2,832,647)

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

Reconciliation to Comparative Statements of Net Assets

A reconciliation of the amounts reported above to the comparative statements of net assets is as follows:

	December 31,	
	2003	2002
Deposits	$ 22,959,678	$ 2,130,603
Investments	588,478,610	578,664,364
	$ 611,438,288	$ 580,794,967
Cash and cash equivalents	$ 35,682,214	$ 51,069,154
Cash and cash equivalents, restricted	238,607,369	135,112,168
Passenger facility charges, cash, restricted	14,797,301	6,676,452
Investments	106,325,974	97,313,765
Investments, restricted	20,831,689	128,089,495
Long-term investments	50,511,329	48,696,006
Long-term investments, restricted	144,682,412	113,837,927
	$ 611,438,288	$ 580,794,967

C. INTEREST RATE SWAP

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

In connection with the Swaps, the 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, 2003, the fair value of the Swaps was an unrealized loss of $22,018,870. An unrealized gain of $5,572,334 was recognized for the year ended December 31, 2003; an unrealized loss of $26,024,249 was recognized for the year ended December 31, 2002; and an unrealized loss of $1,566,958 was recognized for the 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,	
	2003	2002
Trade accounts receivable	$ 20,665,348	$ 19,791,094
Less: allowance for doubtful accounts	(1,370,573)	(1,706,903)
	$ 19,294,775	$ 18,084,191

For the year ended December 31, 2003, the Authority's accounts receivable included $4.5 million in pre- and post-petition debt from United. On March 19, 2004, the U.S. Bankruptcy Court for the Northern District of Illinois, Eastern Division, approved UAL Corporation's assumption of leases and cure of all defaults at Reagan National and Washington Dulles. The court's order among other things (See Note U) approved payment of $4,476,143 by United to the Authority to cure all defaults under these leases. The Authority has not established a reserve for the United pre-petition debt. United is current on its post-bankruptcy obligations.

The Authority's accounts receivables are 89% trade receivables due from concessionaires and airlines. The remaining 11% are notes receivables; 4% due from an insurance company on a large claim, payment received in 2004, and 2% from an airline in payment for some studies done for a new commuter concourse.

E. RESTRICTED ASSETS

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

	December 31,	
	2003	2002
Construction	$ 210,736,302	$ 184,438,008
Debt service reserve accounts	144,682,412	113,837,927
Interest accounts	26,802,915	25,874,284
Sinking fund accounts	21,899,841	18,880,654
Passenger facility charge accounts	14,797,301	40,685,169
Passenger facility charges and grant receivables	8,588,515	8,476,074
	$ 427,507,286	$ 392,192,116

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 debt service reserve accounts are revalued each year on September 30. Any amounts in excess of the debt service requirements are transferred to the applicable construction fund or taken into the revenue funds of the Authority if the construction funds have been expended. If the debt service reserve is undervalued, the Authority transfers funds into the accounts. The debt service funds were over funded by approximately $755,000 and $4,233,000, as of December 31, 2003 and December 31, 2002, respectively. The interest account contains the interest amounts required for the semiannual interest payments. The sinking fund accounts represent the principal for the annual October bond payments. The PFC and grant receivables represent amounts collectable at the years ended December 31, 2003 and 2002.

F. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the years ending December 31, 2003 and 2002 are as follows:

	Beginning Balance January 1, 2003	Transfers and Additions	Transfers and Deletions	Ending Balance December 31, 2003
Capital Assets Not Being Depreciated				
Construction in Progress	$ 538,890,637	$ 303,484,023	$ (223,323,765)	$ 619,050,895
Land	49,679,736	0	(613,126)	49,066,610
Total Capital Assets Not Being Depreciated	588,570,373	303,484,023	(223,936,891)	668,117,505
Other Capital Assets				
Equipment	42,017,646	1,607,862	(396,510)	43,228,998
Motor Vehicles	73,930,199	2,955,771	(153,277)	76,732,693
Buildings	1,677,275,466	149,749,986	0	1,827,025,452
Systems and Structures	878,678,341	70,327,529	(1,360,920)	947,644,950
Total Other Capital Assets	2,671,901,652	224,641,148	(1,910,707)	2,894,632,093
Less accumulated depreciation:				
A/D Equipment	29,748,443	4,291,911	(393,268)	33,647,086
A/D Motor Vehicles	56,288,840	6,115,344	(124,787)	62,279,397
A/D Buildings	287,420,528	53,703,960	0	341,124,488
A/D Systems & Structures	333,341,428	48,917,776	(623,617)	381,635,587
Total Accumulated Depreciation	706,799,239	113,028,991	(1,141,672)	818,686,558
Other Capital Assets, Net	1,965,102,413	111,612,157	(769,035)	2,075,945,535
Totals	$ 2,553,672,786	$ 415,096,180	$ (224,705,926)	$ 2,744,063,040

	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 Assets 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

For the year ended December 31, 2003, interest costs of $11,544,327 less interest earned of $5,888,938 were capitalized as part of the cost of construction in progress. 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. Depreciation and amortization expense for the years ended December 31, 2003 and 2002 was $114,950,487 and $105,035,788, respectively, which includes amortization associated with bond issuance costs of $2,545,112 and $2,862,896, respectively.

The Authority's construction in progress account includes approximately $63.1 million in costs expended on design work for projects that are currently in a deferred status. In 2000, as part of its CCP, the Authority approved an expansion of the CCP for Washington Dulles, referred to as the d^2 Program. The d^2 Program, and certain other CCP projects at Reagan National and Washington Dulles, was expected to be completed between 2001 and 2006 and to total $4.2 billion in inflated dollars.

In the aftermath of September 11, 2001, and in the face of the deteriorating financial condition of many airlines, the Authority reexamined plans for the CCP in the spring of 2002, and the current estimated cost for the 2001-2011 CCP in inflated dollars is $3.1 billion. The Authority continues to assess the CCP on an ongoing basis. As a result, the Authority delayed the start dates of several projects, deferred some projects until it determines that demand and circumstances warrant reactivation of each project and added three new projects to the CCP. The major projects deferred as a result of the events of September 11, 2001, relate primarily to the planned Tier 2 Concourse and associated facilities and the 12-gate addition to Concourse B. The designs for the deferred projects have been reviewed by the Authority's management and are of such nature that they are still currently applicable and will be of use for the deferred projects when they commence construction. These design plans and costs will be evaluated on a periodic basis and should it be determined that the projects will not go forward or the designs are no longer usable, the associated costs will be written off.

G. ACCOUNTS PAYABLE

The accounts payable and accrued expenses balance is 66% payable from restricted funds and 34% payable from the general operating fund. The restricted fund payables are primarily trade accounts payable related to the Authority's ongoing construction program. Building construction costs payable are $48.8 million as of December 31, 2003. The unrestricted accounts payables and accrued expenses are accrued salaries and benefits (17%), payables to vendors (74%) with the remaining in reserves for insurance claims and deferred revenue (9%).

H. PENSION PLANS

The 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 Authority maintains single employer-defined benefit pension plans that cover 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 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% depending on years of service. Effective April 1, 1987, the CSRS added a Thrift Savings Plan where CSRS participants can now contribute up to 9.0% of their salary on a tax-deferred basis up to the statutory limit of $13,000 in 2004. There are 81 regular employees and 19 police and firefighter employees currently enrolled in CSRS, as of December 31, 2003.

The FERS provides benefits from three sources: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan. The Basic Benefit Plan employees' deduction ranges from 0.8% of base pay for regular employees to 1.3% for firefighters. The Authority contributes from 10.7% for regular employees to 23.3% for firefighters. There are 82 regular employees and 19 police and firefighter employees currently enrolled in the FERS, as of December 31, 2003.

Employees retiring under the FERS 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 a 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 Savings Plan can now contribute up to 14% of their salary on a tax-deferred basis.

The Authority's base payroll for employees covered by the CSRS and the FERS for the year ended December 31, 2003 was approximately $12,778,661. The Authority's total base payroll for all employees was approximately $66,630,899. Employee contributions for these federal pension plans were $638,933 (5.0% of covered payroll for 2003) and $833,741 (5% of covered payroll) for 2002.

The employer contributions for these plans were $1,425,519 for 2003, $1,527,365 for 2002, and $1,457,932 for 2001. 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 Authority that it had completed the calculation of the cost of providing enhanced retirement benefits to the Authority's police officers under Public Law 106-554. Provisions of this law allowed the Authority's police officers that were employed while the 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, which was made on May 31, 2003. The second annual installment of $646,493 will be made on or before May 31, 2004.

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.

The Authority Pension Plans

Effective January 1, 1989, the 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 Authority Retirement Plan (covering regular employees) and the 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 Authority's Board. As of December 31, 2003, the number of employees participating in the Plans was:

Current Participants	Regular	Police/Fire	Total
Vested	506	132	638
Non-vested	203	98	301
Retirees/Disabled employees currently receiving benefits	71	4	75
Terminated vested participant	204	45	249
Total	984	279	1,263

The Authority contributed 6.4% to the Regular Plan and 11.8% to the Police and Fire Plans. The Authority's base payroll in 2003 for the Regular Plan was approximately $38,397,296 and $11,030,058 for the Police and Fire Plans. In 2002, the base payroll for the Regular Plan was $35,267,265 and $8,599,784 for the Police and Fire Plans. In 2003, the Authority contributed $2,370,976 to the Regular Plan and $1,443,351 to the Police and Fire Plans. In 2002, the Authority contributed $2,237,639 to the Regular Plan and $1,023,374 to the Police and Fire Plans. Employees do not contribute to the Regular Plan.

The Plans provide retirement benefits as well as death benefits. Regular employees who retire at or after age 60 with five 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 preretirement surviving-spouse benefit is payable in the event of death, equal to 50% 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% 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 Authority contributes 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 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 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 Authority's annual pension obligations (asset) for its General Employees and Police and Firefighters Pension Plans for fiscal 2002, 2001 and 2000, the latest years for which data are available, were as follows:

	2002	
	General Employees	Police and Firefighters
Annual required contribution	$ 2,084,956	$ 1,280,205
Interest on net pension obligation (asset)	(106,714)	(30,680)
Adjustment to annual required contribution	109,712	31,542
Annual pension cost	2,087,954	1,281,067
Contributions made	2,410,730	1,356,150
Increase in net pension obligation (asset)	(322,776)	(75,083)
Net pension obligation (asset) beginning of year	(1,333,922)	(383,504)
Net pension obligation (asset) end of year	$ (1,656,698)	$ (458,587)

	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)

Three year trend information is as follows:

	General Employees Retirement Plan			Police Officers and Firefighters Retirement 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)
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)
2002	$2,087,954	115.6%	($1,656,698)	$1,281,067	105.9%	($458,587)

Funding Status

The actuarial accrued liability was determined as part of an actuarial valuation of the Plans at December 31, 2002. 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 5.5% to 9.5% based on years of service and anticipated inflation, (c) postretirement benefit increases of 1.75% 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 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 Actuarial Value of Assets	Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
General Employees Retirement Plan						
12/31/98	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)%
12/31/02	48,332,275	37,975,594	(10,356,681)	127.3%	39,377,221	(26.3)%
Police Officers and Firefighters Retirement Plan						
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)%
12/31/02	21,744,019	19,020,653	(2,723,366)	114.3%	11,487,047	(23.7)%

Net Pension Obligation

	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
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%
2002	2,084,956	2,410,731	115.6%	1,280,205	1,356,150	105.9%

I. POSTEMPLOYMENT BENEFITS AND DEFERRED COMPENSATION PLAN

In addition to pension benefits, the Authority provides post-employment benefits of health and life insurance. The Authority's Board initially provided the benefits package to meet requirements of the federal enabling legislation. Through the budget approval process, the Authority has continued to provide these benefits of insurance to retired employees under the Authority's group plans for health insurance and life insurance. As of December 31, 2003, 223 retired employees were receiving life insurance benefits and 201 retired employees were receiving health insurance benefits under these Authority programs. Both programs are funded on a "pay-as-you-go" basis through payment of monthly premiums to the insurance carriers.

The Authority pays 80% of the total health insurance premium costs with the remainder paid by the retired employee. For the years ended December 31, 2003 and 2002, the Authority health insurance costs for retired employees totaled $1,333,087 and $1,008,606, respectively.

The Authority pays the full cost of the retired employee's reduced basic and supplemental life insurance. Basic life insurance coverage is reduced to 25% of the employee's life insurance in force at the time of retirement. Supplemental life insurance is a multiple of the basic life insurance (one to five 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 223 retired employees, 27 had supplemental insurance coverage as of December 31, 2003. For the year ended December 31, 2003, the life insurance costs for retired employees totaled $202,721. 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.

Deferred Compensation Plan

Effective July 2, 1989, the 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 – now Manufacturers and Traders Trust Company (M&T) – for the assets of the Deferred Compensation Plan. All assets were transferred to Allfirst Trust during 1997 and accordingly, are not included in the Authority's assets and liabilities.

Investments are managed by the Plan's trustee (M&T) under one of several investment options or a combination thereof. The choice of the investment option(s) is made by the participant.

J. CAPITAL DEBT

Bond Anticipation Commercial Paper Notes

The Authority issued Bond Anticipation Commercial Paper Notes pursuant to Resolution No. 00-1 adopted by the Board of the Authority on April 5, 2000, with a principal amount not to exceed $250,000,000 outstanding at any time. On April 26, 2000 the Authority sold the first tranche of Series A commercial paper for $20,000,000. The Notes are issued to provide interim financing for authorized projects at Reagan National and Washington Dulles. On August 29, 2000 a second tranche of the Series A commercial paper for $130,000,000 was sold. The Notes were issued to refund a portion of the Series 1990A senior bonds. The Notes are supported by a Liquidity Agreement between the 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 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 Authority sold the first tranche of Series B commercial paper for $40,000,000. The Notes were issued to refund a portion of the Series 1990A senior bonds. On February 27, 2001, a second tranche of the Series B commercial paper for $16,000,000 was sold. The Notes were 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 for $44,000,000 was sold. The Notes are issued to provide interim financing for authorized projects at Reagan National and Washington Dulles. The Notes were supported by a Liquidity Agreement between the Authority and Landesbank Baden Wurttemberg, New York Branch (LBBW), in the amount of $100,000,000 dated October 25, 2000 that expired on October 18, 2003. The source of payment is proceeds of Notes sold, Take-Out Bonds, Construction Account funds, Liquidity Facility and other funds determined by the Authority to be legally available. On October 1, 2003, a portion of the Series 2003A Bonds was used to repay the outstanding balance of these Notes.

The Notes were issued and remarketed under a Commercial Paper Dealer Agreement between the Authority, Merrill Lynch and M.R. Beal & Company. Series A and B Commercial Paper were originally issued and remarketed through Merrill Lynch and M.R. Beal & Company on an 80/20 split; Series A Merrill Lynch $120,000,000, M.R. Beal & Company $30,000,000; and 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 and Series B Merrill Lynch $100,000,000. This redistribution maintains the original 80/20 split among the brokers.

The Notes are variable rate based on the current market rate. As of December 31, 2003, the weighted average interest rate on outstanding Series A Notes were 1.10%. On October 1, 2003, the Authority issued Airport System Revenue and Refunding Bonds, Series 2003A and a portion of this issue was used to refund all $100,000,000 of the Series B Bond Anticipation Notes. The weighted average interest rate on the outstanding Series B Notes at refunding was 1.15%.

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 not to exceed of Commercial Paper Notes was increased to $500,000,000.

On March 11, 2002, the 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 Reagan National and Washington Dulles. The Notes are backed by a direct pay Letter of Credit between the Authority and JP Morgan Chase Bank that expires on March 13, 2005, with provisions for extensions. In August 2002, the Authority issued Series 2002D Refunding Bonds which were used to refund the Series One Notes. All $100,000,000 of the Series One Notes were repaid as of November 11, 2002. The weighted average interest rate on the Notes at the time of repayment was 1.43%.

All of the 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 Authority expects to redeem the Series A Notes by April 2005.

Bonds Payable

The Authority's long-term bonds issued and outstanding as of December 31, 2003 and 2002 were as follows:

Airport System Senior Debt	Issue Date	Interest Rates	Maturing on October 1	Amount	Outstanding at December 31, 2003	2002
Series 1993A *						
Revenue & Refunding Bonds	03/01/93					
Serial		4.800%	2004	$ 1,895,000		
Term		5.250%	2022	13,440,000		
					$ 15,335,000	$ 60,495,000
Series 1993B *						
Revenue & Refunding Bonds	03/01/93					
					$ 0	$ 34,760,000
Series 1994A Revenue Bonds	06/15/94					
Serial		5.400%-5.900%	2004-2011	$ 109,810,000		
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		
					$ 436,540,000	$ 447,225,000
Series 1997A Revenue Bonds	05/15/97					
Serial		4.700%-5.300%	2004-2012	$ 11,785,000		
Term		5.375%	2017	9,275,000		
Term		5.375%	2023	14,865,000		
					$ 35,925,000	$ 36,945,000

Airport System Senior Debt	Issue Date	Interest Rates	Maturing on October 1	Amount	Outstanding at December 31, 2003	2002
Series 1997B Revenue Bonds	05/15/97					
Serial		4.900%-6.000%	2004-2014	$ 77,410,000		
Term		5.500%	2016	19,735,000		
Term		5.750%	2020	46,590,000		
Term		5.500%	2023	42,350,000		
					$ 186,085,000	$ 191,085,000
Series 1998A Revenue Bonds	06/15/98					
Serial		4.000%-4.700%	2004-2013	$ 5,105,000		
Term		5.000%	2018	3,560,000		
Term		5.000%	2023	4,540,000		
Term		5.000%	2028	5,795,000		
					$ 19,000,000	$ 19,405,000
Series 1998B						
Revenue & Refunding Bonds	06/15/98					
Serial		4.300%-5.500%	2004-2014	$ 107,515,000		
Term		5.000%	2018	56,040,000		
Term		5.000%	2028	85,660,000		
					$ 249,215,000	$ 256,365,000
Series 1999A						
Revenue Refunding Bonds	04/15/99					
Serial		3.900%-4.500%	2004-2010	$ 10,135,000		
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		
					$ 95,330,000	$ 96,565,000
Series 2001A Revenue Bonds	04/01/01					
Serial		3.600%-5.200%	2004-2022	$ 142,550,000		
Term		5.500%	2027	67,190,000		
Term		5.000%	2031	67,820,000		
					$ 277,560,000	$ 281,965,000
Series 2001B Revenue Bonds	04/01/01					
Serial		3.400%-4.750%	2004-2017	$ 4,595,000		
Term		5.000%	2021	1,920,000		
Term		5.000%	2026	3,005,000		
Term		5.000%	2031	3,830,000		
					$ 13,350,000	$ 13,595,000

Airport System Senior Debt	Issue Date	Interest Rates	Maturing on October 1	Amount	Outstanding at December 31, 2003	2002
Series 2002A Revenue Bonds	06/04/02					
Serial		3.000%-5.750%	2004-2022	$ 104,965,000		
Term		5.125%	2026	38,780,000		
Term		5.250%	2032	75,075,000		
					$ 218,820,000	$ 222,085,000
Series 2002B Revenue Bonds	06/04/02					
Serial		3.000%-5.200%	2004-2024	$ 15,785,000		
Term		5.250%	2032	11,650,000		
					$ 27,435,000	$ 27,915,000
Series 2002C Refunding Bonds	08/28/02					
Term		Variable	2004-2021	$ 257,895,000		
					$ 257,895,000	$ 265,735,000
Series 2002D Refunding Bonds	08/28/02					
Serial		3.250%-5.375%	2004-2020	$ 43,985,000		
Term		5.000%	2023	12,270,000		
Term		5.000%	2032	49,685,000		
					$ 105,940,000	$ 107,235,000
Series 2003A						
Revenue & Refunding Bonds	10/01/03					
Serial		3.000%-5.125%	2004-2025	$ 107,475,000		
Term		5.125%	2029	34,935,000		
Term		5.000%	2033	42,590,000		
					$ 185,000,000	$ 0
Series 2003B Refunding Bonds	10/01/03					
Serial		2.000%-5.250%	2004-2019	$ 44,135,000		
					$ 44,135,000	$ 0
Series 2003C						
Revenue & Refunding Bonds	10/01/03					
Serial		1.560%-5.390%	2004-2015	$ 26,750,000		
Term		5.740%	2019	12,935,000		
Term		6.000%	2023	12,880,000		
					$ 52,565,000	$ 0
Series 2003D Revenue Bonds	10/01/03					
Term		Variable	2004-2033	$ 150,000,000		
					$ 150,000,000	$ 0
					2,370,130,000	2,061,375,000
Less unamortized discount/premium					42,961,422	44,451,676
					$ 2,327,168,578	$ 2,016,923,324

** A portion of Series 1993A Revenue & Refunding Bonds refunded on October 1, 2003 with fixed rate debt. Series 1993B Revenue & Refunding Bonds were refunded on October 1, 2003 with fixed rate debt.*

Changes in Long Term Liability Balances

Balance as of December 31, 2002			$ 2,016,923,324
Bonds Issued			
Series 2003A	Revenue & Refunding Bonds	$185,000,000	
Series 2003B	Refunding Bonds	44,135,000	
Series 2003C	Revenue & Refunding Bonds	52,565,000	
Series 2003D	Revenue Variable Rate Bonds	150,000,000	
			431,700,000
Bonds Refunded			
Series 1993A	Revenue & Refunding Bonds	(43,360,000)	
Series 1993B	Revenue & Refunding Bonds	(33,930,000)	
			(77,290,000)
Principal Payments			(45,655,000)
Change in Unamortized Discount/Premium net			1,490,254
Balance as of December 31, 2003			$ 2,327,168,578

Senior Debt

A new Master Indenture was created in 1990 for the 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 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 Authority investments. Under this amended Master Indenture, all bonds are collateralized by a pledge of Net Revenues of the Authority, which is "senior" to the "subordinated" pledge given by the Authority in connection with the issuance of its bonds prior to 1990. A total of $3,264,360,000 of senior bonds excluding the commercial paper, has been issued by the Authority on 12 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; $372,970,000 in August 2002 and $431,000,000 in October 2003.

The proceeds of the Bonds issued are being used to finance a portion of the costs of the Authority's CCP. Portions of both the Series 1993A and Series 1993B Bonds were used (a) to refund the Authority's Series 1988B Subordinated, variable rate bonds, and (b) to finance the costs of certain service, parking, office, and other facilities at Reagan National that are used by rental car companies serving the airport. Portions of the Series 1997C Bonds were used to retire the Authority's Series 1989A Subordinated Bonds. Portions of the Series 1998B Bonds were used to retire the Authority's Series 1988A Subordinated Bonds. The proceeds of the Series 1999A Bonds were used to refund the 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 Notes. A portion of the Series 2003A Bonds were used to repay all of the Authority's Series B Bond Anticipation Commercial Paper Notes. Proceeds of the Series 2003B Bonds were used to refund a portion of the Authority's Series 1993A Bonds. Proceeds of the Series 2003C Bonds were used to refund all of the Authority's outstanding Series 1993B Bonds and provide reimbursement for the Vastera Office Building at Washington Dulles.

On October 1, 2003, the Authority issued $281,700,000 of Airport System Revenue, Bonds Series 2003A-B-C and $150,000,000 Airport System Revenue Variable Rate Bonds, Series 2003D. The proceeds of $185,000,000 of the Series 2003A Bonds together with other available funds (the Sinking Fund Account of the refunded Commercial Paper Notes) were used to finance capital improvements at Reagan National and Washington Dulles and to repay the Authority's outstanding Series B Bond Anticipation Commercial Paper Notes. The outstanding balance of Series B Notes, $100,000,000, was repaid on October 1, 2003. The commercial paper was repaid at par plus accrued interest. The proceeds of $44,135,000 of the Series 2003B Bonds were used to refund a portion of the Authority's outstanding

Airport System Revenue and Refunding Bonds, Series 1993A. The outstanding Bonds maturing 2005 through 2019 of Series 1992A, $43,360,000, were refunded on October 31, 2003. The Authority estimates the present value savings of this refunding to be $1.9 million. The refunded Series 1992A Bonds were scheduled to mature on October 1, 2005 through 2019 and were subject to optional redemption on October 1, 2003. The Bonds were redeemed at a price of 102% plus accrued interest. The proceeds of $52,565,000 of the Taxable Series 2003C Bonds were used to reimburse the Authority for the costs of certain capital projects at Washington Dulles and for the refunding of the Authority's outstanding Airport System Taxable Revenue and Refunding Bonds, Series 1993B. The outstanding balance of Series 1993B, $33,930,000, was refunded on October 31, 2003. The Authority estimates the present value savings of this refunding to be $4.2 million. The refunded Series 1993B Bonds were scheduled to mature on October 1, 2022 and were subject to optional redemption on October 1, 2003. The Bonds were redeemed at a price of 102% plus accrued interest. The proceeds of $150,000,000 of the Variable Rate Series 2003D Bonds will be used to finance capital improvements at Reagan National and Washington Dulles. The Series 2003D Bonds will be issued as auction rate securities in two subseries: Series 2003D-1, $75,000,000, with Goldman, Sachs & Co. as underwriter and broker-dealer and Series 2003D-2, $75,000,000, with Morgan Stanley as underwriter and broker-dealer.

On June 6, 2002, the 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 Reagan National and Washington Dulles. On August 28, 2002, the 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 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 Authority entered into a synthetic advance refunding using a forward interest rate swap (See Note C) on the Series 1992A Bonds that went live in August 2002. The 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% plus accrued interest. Also on August 28, 2002, the 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 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 Authority's commercial paper capacity to provide back-up liquidity to meet CCP expenditures. The commercial paper was repaid at par plus accrued interest.

Both series of 1993 Bonds were insured by Municipal Bond Investors Assurance Corporation (MBIA). All but $29,125,000 of the Series 1994A Bonds (those maturing in the year 2021) are insured by MBIA. 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 (FGIC). 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. All Series 1999A Bonds are insured by FGIC. 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 MBIA. All $250,000,000 of the Series 2002A-B Bonds are insured by FGIC. All $372,970,000 of the Series 2002C-D Bonds are insured by Financial Security Assurance (FSA). All $185,000,000 of the Series 2003A Bonds are insured by FGIC. All but $12,440,000 (those maturing in the years 2004 through 2009) of the Series 2003B Bonds are insured by FGIC. All but $7,600,000 (those maturing in the years 2004 through 2007) of the Series 2003C Bonds are insured by FGIC. All $150,000,000 of the Series 2003D Bonds are insured by XL Capital Assurance.

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
2004	$ 56,105,000	$ 120,104,517	$ 176,209,517
2005	58,590,000	117,622,892	176,212,892
2006	61,395,000	114,914,026	176,309,026
2007	64,335,000	112,034,546	176,369,546
2008	67,540,000	108,916,019	176,456,019
2009 - 2013	392,420,000	491,163,506	883,583,506
2014 - 2018	505,965,000	379,960,786	885,925,786
2019 - 2023	557,530,000	238,110,624	795,640,624
2024 - 2028	372,125,000	109,450,269	481,575,269
Thereafter	234,125,000	30,292,542	264,417,542
	$ 2,370,130,000	$ 1,822,569,727	$ 4,192,699,727

Total interest costs for the years ended December 31, 2003 and 2002 were $110,289,313 and $104,208,736, respectively. The current portion of the Authority's bonds payable, in the amount of $56,105,000, is due on October 1, 2004.

Special Facility Revenue Bonds

In March 1991, the 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 Reagan 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 Authority's assets, nor do they require the Authority to incur future obligations, they have not been recorded in the Authority's financial statements.

K. AIRPORT USE AGREEMENT AND PREMISES LEASE

In February 1990, the Authority entered into a long-term agreement with the major airlines serving the Airports. The Agreement is for a term of 25 years, subject to cancellation rights by the Authority after 15 years, and annually thereafter, at the option of the Authority. The Agreement provides for the calculation of annual rates and charges, with rate adjustments at mid-year, or any time revenues fall 5% 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, 2003, the settlement resulted in a charge to the airlines of $6,024,150, which is reflected as a reduction in accounts payable and accrued expenses. For the year ended December 31, 2002, the settlement resulted in a charge to the airlines of $454,451 which was reflected in accounts payable and accrued expenses.

Rates and charges are established to provide net revenues of at least 125% 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 Authority and the airlines in accordance with the Agreement which shares NRR approximately 50/50 between the Authority and the airlines. The Authority's share of NRR is reflected in the 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.

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% to the airlines and 25 percent to the Authority. For the years ended December 31, 2003 and 2002, at Washington Dulles, the transfer amount exceeded the plateau amount by $3,861,556 and $5,554,237, respectively. This amount was allocated accordingly and is included in the airlines' and the

Authority's share. For the years ended December 31, 2003 and 2002, at Reagan National , the transfer amount exceeded the plateau amount by $1,615,506 and $294,237, respectively. For the years ended December 31, 2003 and 2002, the airlines' share of NRR was $27,681,635, and $32,463,674, respectively, and the Authority's share was $25,591,988 and $25,480,671, respectively.

L. NET ASSETS

Net Assets consist of the following:

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

	2003	2002
Long-term assets		
Capital assets		
Land	$ 49,066,610	$ 49,679,736
Construction in progress	619,050,895	538,890,637
Buildings and equipment	2,894,632,093	2,671,901,652
Less: Accumulated depreciation	(818,686,558)	(706,799,239)
Capital assets, net	2,744,063,040	2,553,672,786
Bond issuance costs, net	34,790,874	25,363,782
Total Capital Assets	2,778,853,914	2,579,036,568
Less: related liabilities		
Other liabilities, current	209,550	1,506,464
Other liabilities, noncurrent	—	—
Current portion bonds payable	56,105,000	45,655,000
Bank participation notes	187,700,000	170,200,000
Commercial paper notes	150,000,000	250,000,000
Bonds payable, net	1,956,341,695	1,693,637,284
Total Liabilities	2,350,356,245	2,160,998,748
Invested in capital assets, net of debt	$ 428,497,669	$ 418,037,820

Restricted Assets consist of the following:

	2003	2002
Restricted assets		
Cash and cash equivalents, restricted	$ 238,607,369	$ 135,112,168
Passenger facility charges, cash, restricted	14,797,301	6,676,452
Passenger facility charges and grants, receivables, restricted	8,588,515	8,476,074
Long-term investments, restricted	144,682,412	113,837,927
Investments, restricted	20,831,689	128,089,495
Total Assets	427,507,286	392,192,116
Less: Liabilities from restricted assets		
Accounts payable and accrued expenses	48,829,027	52,955,718
Debt Related to Unspent Bond Proceeds	314,721,883	277,631,040
Accrued interest payable	27,798,058	26,958,855
Total Liabilities	391,348,968	357,545,613
Restricted Net Assets	$ 36,158,318	$ 34,646,503

Unrestricted Assets consist of the following:

	2003	2002
Current Assets		
Cash and cash equivalents	$ 35,682,214	$ 51,069,154
Investments	106,325,974	97,313,765
Accounts receivables, net	19,294,775	18,084,191
Inventory	1,890,063	1,961,744
Prepaid expenses and other current assets	3,641,957	2,537,820
Total Current Assets	166,834,983	170,966,674
Long-term Assets		
Long-term investments	50,511,329	48,696,006
Net Pension Asset	2,115,285	1,717,426
Other long-term assets	2,045,311	2,177,918
Total Unrestricted Assets	221,506,908	223,558,024
Less: Current Liabilities		
Accounts payable and accrued expenses	25,331,592	32,692,240
Operating lease obligations	341,140	341,140
Total Current Liabilities	25,672,732	33,033,380
Less: Other Liabilities	5,541,839	6,174,603
Total Liabilities Payable from Unrestricted Assets	31,214,571	39,207,983
Unrestricted Assets	$ 190,292,337	$ 184,350,041

M. LEASE COMMITMENTS

Property Held for Lease

The Authority has entered into various operating leases with tenants for the use of space at the Authority's 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,	
2004	$ 232,006,558
2005	250,770,897
2006	245,319,263
2007	252,489,874
2008	263,737,695
2009 and thereafter	2,017,581,309
Total minimum future rentals	$ 3,261,905,596

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to $11,865,990 for the year ended December 31, 2003. 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 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 Authority.

On December 15, 2003, the operating period of the lease of land and provision for services to the Stephen F. Udvar-Hazy Center (Center) began. The lease agreement grants the Smithsonian the right to occupy, develop, operate, control and use the Center premises located on land at Washington Dulles and obtain services from the Authority for police, fire, emergency, and ambulance needs. This lease expires in 2054. The operating period was preceded by a construction period. Commencing with the operating period, the Smithsonian will pay the Authority for the services provided. The lease provides for periodic reconciliation payments and updated payments for services provided.

Property Leased from Others

On June 7, 1987, the United States Government transferred Reagan National's and Washington Dulles' real properties to the Authority under a 50-year lease, with extensions negotiable. The lease was amended effective June 17, 2003, to extend the term from 50 to 80 years, with an expiration date of June 6, 2067. 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 2003 federal lease expense was $4,303,764. The 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, 2003, as calculated in 2003 dollars are:

Year ending December 31,	
2004	$ 4,312,430
2005	4,312,430
2006	4,312,430
2007	4,312,430
2008	4,312,430
2009 and thereafter	253,922,089
Total minimum future rentals	$ 275,484,239

Total rental expense for the years ended December 31, 2003 and 2002 were $4,312,430 and $4,258,464 respectively.

N. OTHER COMMITMENTS AND CONTINGENCIES

Line of Credit

The Authority issued Flexible Term PFC Revenue Notes (bank participation notes) of $255,000,000 to finance PFC approved projects. The bank participation notes have various maturity dates and interest rates that vary from 0.80% to 1.20%. The bank participation notes require the Authority to maintain a reserve account. The reserve account on December 31, 2003 and 2002 was $1,529,885 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 on December 31, 2003 and 2002 were $187,700,000 and $170,200,000, respectively. Total interest cost for the years ended December 31, 2003 and 2002 were $2,316,822 and $3,186,897, respectively.

Construction Commitments

At December 31, 2003, the Authority had outstanding commitments for capital expenditures in connection with its CCP in the amount of $537.1 million. However, services have not been provided as of December 31, 2003, and accordingly no liability has been recorded in the financial statements. In connection with the CCP and Capital, Operating and Maintenance Investment Programs (COMIP), and normal operations of Reagan National and Washington Dulles, the 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 Authority has budgeted and expects to fund any remaining costs principally through the CCP.

O. GOVERNMENT GRANTS

In Aid of Construction

The 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 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, 2003 and 2002 was $12,308,939 and $14,212,971, respectively. All grants are subject to financial and compliance audits by the grantors. However, the Authority estimates that no material disallowances will result from such audits.

Federal and State Grants

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

Operating Programs

	2003	2002
FAA K-9 Program	$ 400,500	$ 400,500
Drug Enforcement Agency (DEA) Drug Seizures Program	4,748	42,063
Federal Emergency Management Agency (FEMA)	1,659,541	—
Prince William County Anti-Terrorism Grant	9,345	—

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 Authority's police department wherein both entities share in the proceeds from the sale of confiscated items. The Authority's proceeds may only be used for certain types of expenses defined by the DEA. In February 2003, the Authority was impacted by the largest snowstorm to hit the greater Metropolitan Washington area in decades. The Airports were blanketed by 16.6 inches of snow at Reagan National and 24.6 inches of snowfall at Washington Dulles. As a result, FEMA reimbursed the Authority in 2003 for certain expenses, including overtime, supplies and equipment. All of the amounts above were reported as grant revenue in the Statements of Revenues, Expenses and Changes in Net Assets for the years ended December 31, 2003 and 2002.

Capital Program

	2003	2002
Federal Grants for Construction	$ 11,067,245	$ 11,939,165
State Grants for Construction	1,241,694	2,273,806

The Authority receives federal and state grants in support of its CCP. 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.

Other Capital Property Acquired

The Authority recorded $6.0 million in capital contributions in 2003, in recognition of a portion of the haul road and a portion of the museum access road built by the Smithsonian and the Virginia Department of Transportation during the construction of the Center. The title to these access ways vests with the Authority upon completion of the Center and acceptance by the Authority. The Authority is required to maintain these roadways and allow Smithsonian patrons and invitees access to and from the Center premises for the movement of aircraft and vehicles.

Federal Compensation

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

In December 2001, the federal government provided $40 million (Public Law 107-38) in federal compensation to the Authority to help offset some of the lost airline and concession revenues for the closed and reduced operations at Reagan National. The agreement between the 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 Reagan 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 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 was 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 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.

P. 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 Authority.

Q. PASSENGER FACILITY CHARGES

As described in Note A, PFCs are collected in accordance with the FAA regulations allowing airports to impose a $4.50 PFC. For the years ended December 31, 2003 and 2002, the Authority earned PFCs of $27,901,618 and $24,993,068 for Reagan National, respectively, and $30,536,420 and $34,078,273 for Washington Dulles, respectively. In accordance with the regulations, based on the approval date from the FAA and continuing through the PFC collection period, the Authority's share of entitlement grants will be reduced 75%.

R. RISK MANAGEMENT

The 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 Authority's property). During fiscal years 2003 and 2002, the Authority maintained accruals to finance its self-insured risk of loss. The Authority purchases commercial insurance for claims in excess of amounts provided by these accounts.

All offices within the 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 $3,206,795 as of December 31, 2003, 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 years 2003 and 2002 were:

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2003	$ 1,845,162	$ 3,485,871	$ 2,124,238	$ 3,206,795
2002	$ 815,023	$ 1,719,863	$ 689,724	$ 1,845,162

Settlements did not exceed insurance coverages for the past three years.

S. 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 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 Authority for debt of the same remaining maturities.

The carrying value of the Authority's Bonds Payable and Notes Payable as of December 31, 2003, is $2,707,830,000 with a market value of $2,864,781,897.

Interest Rate Swap

The fair value of the swaps (used for hedging purposes) is the estimated amount that the 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).

T. RECLASSIFICATION

In 2003, the Authority changed the presentation of concession management expenses to include them as a component of materials, equipment, supplies, contract services and other expenses rather than as a direct offset to concession revenue as had been previously shown. The Operating Revenues – concessions and Operating Expenses – materials, equipment, supplies, contract services and other expenses each increased by $31,445,448 for 2002. There was no change in operating income, net assets or cash flows for the year.

U. SUBSEQUENT EVENTS

Forward Interest Rate Swap

On January 6, 2004, the Authority completed a synthetic advance refunding of a portion of the Series 1994A Bonds through a forward starting fixed interest rate Swap agreement. The notional amount of the Swap is $227.9 million and was issued to assure lower interest rates on $219.5 million of Series 1994A Bonds. The Swap achieves an interest rate of 3.64% for a period of 15 years. The Swap will be activated in August 2004 unless the Authority terminates the deal before that time. The Authority's 2004 Plan of Finance includes refunding of the Series 1994A Bonds either via issuance of variable or fixed rate debt, depending on whether the Swap goes live or is terminated.

United Airlines

On March 19, 2004, the U.S. Bankruptcy Court for the Northern District of Illinois, Eastern Division, approved UAL Corporation's assumption of leases and cure of all defaults at Reagan National and Washington Dulles. The court's order included the following principal provisions: the court's order approved United's assumption of the Agreement (MWAA-4-90-A020), the Hangar 3 Lease Agreement at Reagan National (MWAA-LN-92-06), the Concourse B Space Permit at Washington Dulles (MWAA-B-99-10S), the Airline Cargo Complex Lease Agreement at Washington Dulles (MWAA-LD-00-05), and the Ground Equipment Maintenance Facility Lease at Washington Dulles (MWAA-LD-88-06). The court's order also approved payment of $4,476,143 by United to the Authority to cure all defaults under these leases. Of this amount, $250,000 will be paid to the Authority within thirty days after the date the Court's order becomes final and non-appealable; another $250,000 will be paid within sixty days after the date the Court's order becomes final and non-appealable; and the remaining $3,976,143 will be payable to the Authority within thirty days after the entry of a final and non-appealable order confirming United's reorganization plan. In addition, the court approved the termination of Amendment No. 36 to United's Use and Lease Agreement (relating to Washington Dulles Tier 2) and United's reimbursement of $20,363,189 to the Authority design fees incurred in connection with the Tier 2 Package. This is to be paid over ten years after United's exit from bankruptcy, except these payments will cease if United proceeds with a Tier 2 project at a later date. In that event, the remaining amount of the design fees will be recouped through the rents, fees and charges for Tier 2. The court's order also approved the Authority's buyout of the United Express Facility at Washington Dulles, with payment to occur as defined in the order; United's release of space in Hangar 3 at Reagan National , and the Authority's reinstatement of Phase II of the Concourse C-D Rehabilitation Project.

MANAGEMENT

James E. Bennett [1]
President and Chief Executive Officer

James A. Wilding [2]
President and Chief Executive Officer

Margaret E. McKeough [3]
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

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

BOARD OF DIRECTORS

Norman M. Glasgow, Jr.
Chairman

Mame Reiley [4]
Vice Chairman

David T. Ralston, Jr.
Vice Chairman

Robert Clarke Brown

The Honorable H. R. Crawford

Anne Crossman

Mamadi Diané

The Honorable John Paul Hammerschmidt

William A. Hazel

Weldon H. Latham

Robert M. Rosenthal [5]

Charles D. Snelling [6]

The Honorable David G. Speck [7]

Jeffrey Earl Thompson

[1] Effective May 1, 2003
[2] Retired May 1, 2003
[3] Effective April 1, 2004
[4] Effective January 1, 2004
[5] Resigned effective June 30, 2003
[6] Appointed by President Bush December 9, 2003
[7] Appointed by Governor Warner June 30, 2003

THE AIRPORTS ADVISORY COMMITTEE

Warner Session, Esq.
Chairman

Jacqueline North
Vice Chairman

James P. Anderson

Santiago Caballero

Alex DeBoissiere

Mary Downs

Diana E. Hudson-Taylor

Edward T. Morgan

Steve Ogunwo

Eric Peterson

Marc Weiss

METROPOLITAN WASHINGTON AIRPORTS AUTHORITY

1 Aviation Circle, Washington, D.C. 20001-6000
(703) 417-8745, www.mwaa.com