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”) at December 31, 2004 and December 31, 2003, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority’s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 opinions.

The Management’s Discussion and Analysis (MD&A) on pages 26 through 31 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

McLean, Virginia

March 29, 2005

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, 2004 with selected comparative information for the years ended December 31, 2003 and December 31, 2002. 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.

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 year ended December 31, 2004, the Authority early implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Authority has allocated funding in 2005 for the early implementation of GASB Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. A trust was established in February 2005 to account for the retirees' post-employment benefits other than pensions.

The Statements of Net Assets depict the Authority's financial position as of one point in time, normally December 31, 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 as of the end of a fiscal period normally the year ended December 31. Revenues and expenses are categorized as either operating or non-operating based upon management's policy as established in accordance with definitions set forth by GASB. Significant recurring sources of the Authority's revenues, including passenger facility charges (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.

The Authority's Activity Highlights

The Authority has activity-based revenues which, in part, include parking, rental car, landing fees, international arrival fees and passenger conveyance fees. The terrorist attacks that occurred in New York, Pennsylvania and Washington, D.C. on September 11, 2001, resulted in reduced airport activity and consequently had a significant effect on the financial performance of the Authority. The aviation industry began to recover from the effects of the terrorist acts in 2002. In the spring of 2003, the conflict in Iraq and Afghanistan, 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 International Airport (Washington Dulles). As the year-end 2003 approached, the monthly activity levels at Washington Dulles and Ronald Reagan Washington National (Reagan National) – (collectively, the Airports) rebounded. For the full year 2004, passenger activity at the Airports exceeded passenger activity in all previous years. Independence Air, a new low-fare airline, began operations at Washington Dulles in June of 2004 adding significant passenger and operations activity at the Airport. This section includes a discussion of activity in order to better understand its affect on the financial performance of the Authority.

Enplanements at Reagan National for the 12 months of 2004 were 7,957,037 compared to 7,106,355 for the year 2003, an increase of 12.0%. 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. Total enplanements at Washington Dulles for the 12 months of 2004 were 11,428,867 compared to 8,458,687 in 2003, a 35.1% increase. International enplanements for the 12 months of 2004 were 2,313,662 compared to 1,997,848 in 2003, a 15.8% increase.

Enplanements and Operations Activity for 2002 to 2004

	2004	2003	2002
Enplanements			
Washington Dulles Domestic	9,115,205	6,460,839	6,571,484
Washington Dulles International	2,313,662	1,997,848	2,024,482
Reagan National	7,957,037	7,106,355	6,465,387
Operations			
Washington Dulles	469,634	335,397	372,636
Reagan National	268,556	250,802	215,691

In comparing Reagan National and Washington Dulles to the North American aviation industry, the Airports exceeded industry trends. In 2004, domestic passenger traffic exceeded trends by 7.2% at Reagan National. In 2004, domestic traffic at Washington Dulles exceeded the trends by 30.3% in domestic passenger traffic and 1.9% in international passenger traffic.

Enplanements Growth	MWAA	North America	Difference
Washington Dulles Domestic	35.1%	4.8%	30.3%
Washington Dulles International	15.8%	13.9%	1.9%
Reagan National	12.0%	4.8%	7.2%

At Reagan National, by year-end 2004, daily departures increased to 476 from 467 departures and includes an increase of 22 daily air carrier departures and a decrease of 13 daily regional departures. At Washington Dulles, by year-end 2004, daily domestic air carrier departures of 671 increased from 322 in 2003. International weekly departures decreased from 310 in 2003 to 309 in 2004, and are relatively stable.

Financial Highlights

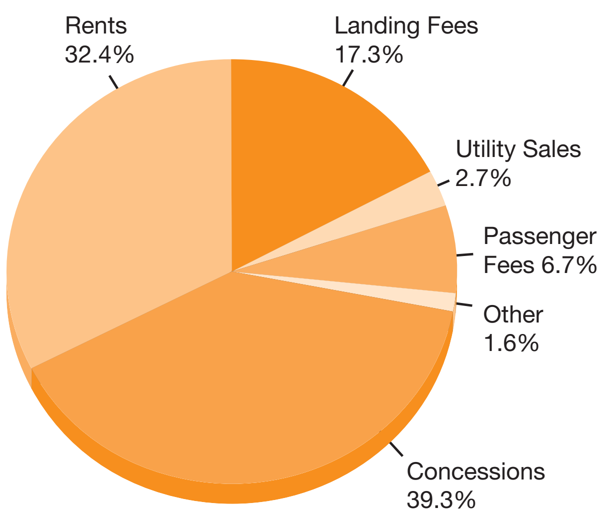
The financial results in 2004 reflect the recovery from the events of September 11, 2001, and the resulting passenger and airline activity changes. The majority of the operating revenues at the Airports are directly related to the number of passengers and aircraft operations. Operating revenues in 2004 of $442.3 million were $52.6 million greater than operating revenues in 2003, and reflect a turnaround in airline activity at the Airports. The Authority's revenues are derived primarily from rents and charges for the use of the Airport's facilities, including landing fees received from both signatory and non-signatory airlines using the Airports, and concession contracts at the Airports including off-airport rental car operations. Revenues from concessions historically have accounted for a substantial portion of the Authority's revenues. The Airport Use Agreement and Premises Lease (the Agreement) requires the Signatory Airlines to pay actual costs while the majority of concessionaires pay a percentage of revenue or a minimum annual guarantee payment.

In 2004, landing fees of $76.3 million increased $8.6 million, a 12.8% increase over 2003. This increase is related to the cost of managing increased aircraft parking positions at Washington Dulles and the cost of airfield perimeter fencing at Reagan National. Rents revenue increased $12.6 million, a 9.6% increase over 2003, reflecting the recovery of the cost of the new ticket counter and baggage areas at Washington Dulles and additional rental areas at Reagan National. Utility sales revenue increased as a result of higher gas and electric fees. Passenger fees now include fees paid by the Transportation Security Administration (TSA). In 2002 and 2003, the Authority increased the airline share of Net Remaining Revenue (NRR) in the terminal cost centers at Reagan National to maintain airline rental rates near prior year rates until the recovery of airline activity at Reagan National. In 2004, NRR was shared according to the Agreement. Passenger fees at Washington Dulles increased $1.6 million, a 5.7% increase over 2003, reflecting the increased cost of operations of the mobile lounges and the cost of busing to the temporary Concourse G.

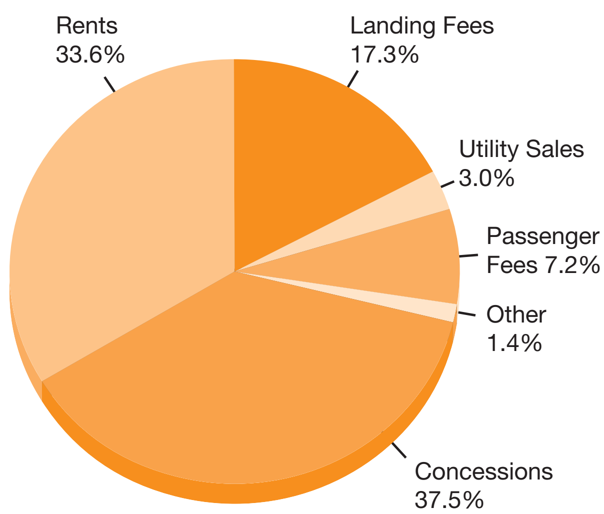
Classifications	2004 Revenue Amount	2003 Revenue Amount	Increase from 2003	Percent of Increase from 2003
Concessions	$ 173,962,671	$ 146,095,903	$ 27,866,768	19.1%
Rents	143,389,783	130,802,693	12,587,090	9.6%
Landing fees	76,274,293	67,637,206	8,637,087	12.8%
Utility sales	12,035,206	11,867,943	167,263	1.4%
Passenger fees	29,474,743	27,878,919	1,595,824	5.7%
Other	7,149,375	5,355,589	1,793,786	33.5%
Total	$ 442,286,071	$ 389,638,253	$ 52,647,818	13.5%

The following is a graphic illustration of operating revenues by source for the years ended December 31, 2004 and 2003:

2004 Revenues



2003 Revenues



Concession Revenue

In 2004, concession revenue increased $27.9 million or 19.1% from 2003, and as a percent of total revenues, increased to 39.3% from 37.5% in 2003. Automobile parking revenue and rental car revenue represented 73.4% of concession revenue and 28.9% of total revenue. The average daily occupancy of the new structured parking garages at Washington Dulles increased from 31.5% in December of 2003 to 54.5% in December of 2004. There are 25,223 parking spaces at Washington Dulles with 2,516 hourly, 8,325 daily, 1,427 valet and 12,955 economy spaces. The parking garages at Reagan National had average occupancy of 75.9%. There are 7,776 parking spaces at Reagan National with 455 hourly, 4,878 daily and 2,443 economy spaces. Average occupancy for all public parking at Reagan National was 81.9%. The following table details concession revenues by major category for the past two years.

Concession Revenues (in thousands)

	2004	2003	Increase (Decrease) from 2003	Percent of Increase (Decrease) from 2003
Parking	$ 99,681.8	$ 79,789.8	$ 19,892.0	24.9%
Rental cars	28,024.5	26,502.8	1,521.7	5.7%
Food and beverage	7,862.8	6,937.9	924.9	13.3%
Newsstand and retail	9,197.5	6,637.3	2,560.2	38.6%
Duty free	2,719.7	2,016.9	702.8	34.8%
Display advertising	6,300.0	6,342.4	(42.4)	(0.7%)
Inflight caterers	5,548.9	5,205.7	343.2	6.6%
Fixed base operator	4,802.7	4,381.6	421.1	9.6%
All other	9,824.8	8,281.5	1,543.3	18.6%
Total	$ 173,962.7	$ 146,095.9	$ 27,866.8	19.1%

Operating Expense

Operating expenses for fiscal year ended December 31, 2004, increased $13.0 million or 3.6% over 2003. Depreciation and amortization expense of $126.2 million increased $11.2 million over 2003, and accounted for 86.5% of the increase in operating expenses. Depreciation and amortization expense increased 9.8% primarily from the capitalization of projects completed in 2004. Operating expenses, other than security related expenditures, at both Airports were considerably reduced immediately following September 11, 2001. A hiring freeze implemented in September of 2001 continued through 2004. All operational expenses are carefully reviewed during the budget development and procurement processes.

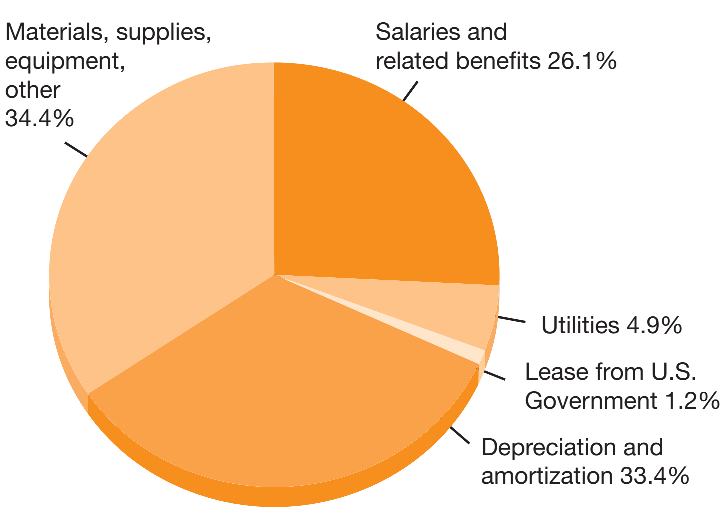
After September 11, 2001, the Airports were required by the federal government to provide increased police presence. The Authority contracted in 2002 and 2003 with the Virginia State Police, Arlington County Police and Loudoun County Police to provide supplemental police services. The third party security service engagement ended in September of 2003. The Authority's public safety personnel have been providing the required additional security since that time. The costs of the contracted police service in 2003 and 2002 were $4.1 million and $6.0 million, respectively. The increases in salaries and related benefits for 2004 and 2003 were principally related to the increased security needs for additional public safety personnel and related overtime. Utility costs increased because of higher utility rates.

Increased claims in the insurance market since September 11, 2001, 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 2004, 2003 and 2002 were $5.6 million, $5.3 million and $3.3 million, respectively. The claims paid directly by the Authority also increased over the three-year period. Claims paid in 2004, 2003, and 2002 were $2.0 million, $2.6 million, and $2.2 million, respectively.

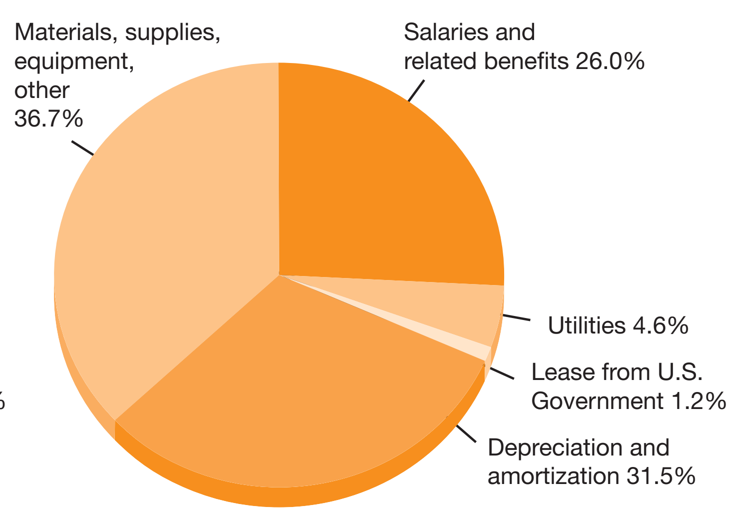
Expense Classification	2004	2003	Increase (Decrease) from 2003	Percent of Increase (Decrease) from 2003
Materials, supplies, equipment, contract services and other	$ 130,127,540	$ 134,105,363	$ (3,977,823)	(3.0%)
Salaries and related benefits	98,858,597	95,192,233	3,666,364	3.9%
Utilities	18,754,511	16,754,386	2,000,125	11.9%
Lease from United States Government	4,375,347	4,303,764	71,583	1.7%
Depreciation and amortization	126,177,767	114,950,487	11,227,280	9.8%
Total	$ 378,293,762	$ 365,306,233	$ 12,987,529	3.6%

The following is a graphic illustration of the total operating expenses by source for the years ended December 31, 2004 and 2003:

2004 Expenses



2003 Expenses



Changes in Net Assets

Fiscal year 2004 operating income was $64.0 million, an increase of $39.7 million compared to 2003. The operating results of 2004 reflect both the increased activity at the Airports and the Authority's efforts to maintain conservative airline rates and charges and increase concession revenues. The Authority's decision to waive certain concession rents and landing fees and offset expenses with the Authority's share of NRR resulted in reduced operating income in 2003 and 2002. In 2004, NRR was shared in accordance with the Agreement.

In 2004, non-operating revenues of $12.0 million were $0.5 million higher than in 2003, principally because of higher interest rates earned on the Authority's investment portfolio offset by a smaller gain on an interest rate swap transaction. The swap transaction represents risk management activity taken in August of 2001 to assure that the interest on bonds issued to refund the Series 1992A Bonds would not exceed interest rate of 5.0%. The change in the market value of the swap in 2004 was a gain of $1.6 million compared to a gain of $5.6 million in 2003. In January 2004, the Authority entered into a swap transaction to hedge against rising interest rates. In August 2004, the Authority was able to achieve its interest rates savings goal with the related Series 2004D Bonds, and therefore, terminated this swap realizing a loss of $3.7 million. 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.

In 2004, non-operating expenses of $94.6 million decreased by $2.2 million from 2003, as a result of lower interest rates achieved through the refunding of certain outstanding debt in the Authority's debt portfolio. (See Note J).

Capital contributions include PFCs, federal and state grants and other capital property acquired. PFCs revenue in 2004 of $76.1 million was $17.6 million higher than in 2003 reflecting the increased passenger activity at the Airports. PFCs are imposed when an airline ticket is purchased and do not mirror the enplanement activity of an airport. Federal and state grants of $28.7 million were $14.3 million more than 2003 grant revenues reflecting the increased grant eligible airfield activity at Washington Dulles. PFCs and federal and state grants provide partial funding for certain capital construction projects.

In 2003, the Authority recorded $6.0 million in capital contributions in recognition of a portion of the Aircraft 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 Steven F. Udva-Hazy Center (the Center) which is located on 176.5 acres of Washington Dulles. The title to these access ways vested with the Authority upon completion of the Center and acceptance by the Authority. The Authority is required to maintain these roadways and allow the Center patrons and invitees ingress to and egress from the Center.

The 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, 2004 and 2003 was an increase of $86.2 million and an increase of $17.9 million, respectively. In 2002 the change in net assets was a decrease of $8.4 million. Without the loss on the market value of the swap in 2002, net assets would have increased $17.7 million.

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

	2004	2003	2002
Operating revenues			
Concessions	$ 173,962,671	$ 146,095,903	$ 132,817,916
Rents	143,389,783	130,802,693	127,554,998
Landing fees	76,274,293	67,637,206	63,967,382
Utility sales	12,035,206	11,867,943	10,589,091
Passenger fees	29,474,743	27,878,919	27,521,305
Other	7,149,375	5,355,589	6,387,300
	442,286,071	389,638,253	368,837,992
Operating expenses			
Material, equipment, supplies contract services and others	130,127,540	134,105,363	123,970,251
Salaries and related benefits	98,858,597	95,192,233	91,748,027
Utilities	18,754,511	16,754,386	15,657,374
Lease from U.S. Government	4,375,347	4,303,764	4,238,185
Depreciation and amortization	126,177,767	114,950,487	105,035,788
	378,293,762	365,306,233	340,649,625
Operating income	63,992,309	24,332,020	28,188,367
Non-operating revenues			
Investment income	10,385,775	5,896,185	13,277,813
Federal compensation	-	-	3,064,970
Unrealized swap income	1,601,347	5,572,334	-
Total non-operating revenues	11,987,122	11,468,519	16,342,783
Non-operating expense			
Interest expense	(90,893,805)	(96,747,842)	(100,285,317)
Federal compensation transfers	-	-	(279,370)
Realized swap income (loss)	(3,662,018)	-	-
Unrealized swap income (loss)	-	-	(26,024,249)
Total non-operating expenses	(94,555,823)	(96,747,842)	(126,588,936)
Capital contributions	104,787,341	78,861,263	73,684,812
(Decrease) increase in net assets	$ 86,210,949	$ 17,913,960	$ (8,372,974)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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 are the difference between total assets and total liabilities and are 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, 2004, 2003 and 2002 is as follows:

Assets	**2004**	**2003**	**2002**
Current assets	$ 510,421,819	$ 449,659,857	$ 449,320,863
Non-current assets			
Capital assets, net	2,997,283,774	2,744,063,040	2,553,672,786
Other non-current assets	224,960,011	234,145,211	191,793,059
Total Assets	3,732,665,604	3,427,868,108	3,194,786,708
Liabilities			
Current liabilities	183,448,198	162,645,717	160,109,417
Non-current liabilities			
Long-term debt outstanding and other restricted	2,807,403,687	2,608,973,128	2,391,468,324
Other non-current liabilities, unrestricted	654,446	1,300,939	6,174,603
Total Liabilities	2,991,506,331	2,772,919,784	2,557,752,344
Net Assets			
Invested in capital assets, net of debt	344,583,615	428,497,669	418,037,820
Restricted	170,526,342	36,158,318	34,646,503
Unrestricted	226,049,316	190,292,337	184,350,041
Total Net Assets	$ 741,159,273	$ 654,948,324	$ 637,034,364

For the year ended December 31, 2004 and in its seventeenth full year of operations, the Authority's financial position remained strong with total assets of $3.7 billion and liabilities of $3.0 billion. Current assets increased by $60.8 million from 2003. Since September 11, 2001, the Authority has maintained five months of its operating cash portfolio in securities that mature within six months to provide extra liquidity. At December 31, 2004, the Authority had $3.0 billion in capital assets (net of depreciation), an increase of $253.2 million from December 31, 2003.

For the year ended December 31, 2004, the Authority's accounts receivable included $4.0 million in pre-petition debt and certain post-petition administrative claims against United Airlines (United). On March 19, 2004, the bankruptcy court approved United's assumption of leases and its plan to cure all defaults at the Airports. In September 2004, US Airways filed for bankruptcy protection for the second time. The Authority's accounts receivable for the year ended December 31, 2004, included $1.1 million in pre-petition debt owed to the Authority by US Airways. The Authority has not established a reserve for United's or US Airways' pre-petition debt. United and US Airways are current on their post-bankruptcy obligations. The Authority's expectation regarding United and US Airways 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 and US Airways, the Authority has concluded that reserves need not be established.

Current liabilities increased by $20.8 million, principally from a $16.1 million increase in unrestricted and restricted accounts payable related to increased construction activity and an increase of $2.9 million in the current portion of bonds payable.

During 2004, the Authority issued five series of bonds: April 2004, $250 million Series 2004B Revenue Bonds and $97.73 million Series 2004C-1 Revenue Refunding Bonds; in July 2004, $111.545 million Series 2004C-2 Revenue Refunding Bonds; in August 2004, $13.6 million Series 2004A Revenue Refunding Bonds and $218.855 Series 2004D Revenue Refunding Bonds. The Authority estimates that the net present value savings of the Series 2004 Revenue and Refunding Bonds is $28.2 million. In addition to refunding certain outstanding debt, the Series 2004 Revenue Bonds collectively provide additional funding for capital improvements at Washington Dulles and Reagan National. In January 2004, the Authority issued an interest rate swap in the notional amount of $227.9 million to hedge potential interest rate increases and synthetically refund a portion of the outstanding Series 1994 bonds. In August 2004, the Authority unwound the swap because it was able to achieve interest rate savings greater than the targeted savings. As of the year ended December 31, 2004, the Authority had outstanding $150.0 million Commercial Paper Series One and $187.7 million PFC Notes. Additionally, the Authority had $150.0 million authorized but not issued Commercial Paper Series One available for construction needs. As a result of these transactions, as well as principal payments of $56.1 million, long-term debt outstanding increased by $198.6 million and short-term CP Notes and PFC Notes outstanding of $337.7 remained unchanged.

Net assets, which represent the residual interest in the Authority's assets after liabilities are deducted, were $741.2 million on December 31, 2004, an increase of $86.2 million from 2003 and a $104.1 million increase from 2002. The account "Invested in Capital Assets, Net of Debt" decreased by $83.9 million to $344.6 million because the increase in total liabilities related to the Capital Construction Program (CCP) exceeded the increase in the assets in the CCP. This was caused by the decrease in unspent construction proceeds at December 31, 2004, as compared to December 31, 2003. As of December 31, 2003, $170.0 million in unspent proceeds were reclassified to "Restricted Assets" to offset the assets still available from the bond proceeds. The restricted and unrestricted remaining net assets are derived from the Authority operations since the Authority's inception in 1987, as well as grant and PFC collections. The 2004 restricted net assets of $170.5 million are subject to external restrictions on how they may be used under the Master Indenture of Trust (Master Indenture) and federal regulations. A debt service reserve of $172.3 million, maintained in accounts held by the Authority's Trustee, offset by the corresponding debt, is included in Restricted Net Assets. The remaining 2004 unrestricted assets of $226.0 million, an increase of $35.8 million from 2003, may be used to meet any of the Authority's ongoing operations subject to approval by the Board.

Cash and Investment Management

The Authority's cash and cash equivalents decreased $104.4 million to $184.7 million for the year ended December 31, 2004, from $289.1 million for the year ended December 31, 2003, as a result of increased investment activity during the year. Cash and cash equivalents with an original maturity of three months or less are considered highly liquid investments. Unrestricted investments increased by $90.9 million from 2003 and restricted investments increased by $64.8 million.

INTRODUCTION

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

	2004	2003
Cash received from operations	$ 442,774,218	$ 354,418,565
Cash expended from operations	(234,503,850)	(226,763,638)
Net cash provided by operations	208,270,368	127,654,927
Net cash provided (used) in capital and related financing activities	(184,865,715)	(112,479,002)
Net cash provided (used) by investing activities	(127,821,507)	81,053,185
Net cash used by capital financing and investing activities	312,687,222	(31,425,817)
Net increase (decrease) in cash and cash equivalents	(104,416,854)	96,229,110
Cash and cash equivalents, beginning of year	289,086,884	192,857,774
Cash and cash equivalents, end of year	$ 184,670,030	$ 289,086,884

Cash temporarily idle during 2004 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 2004, the Authority's operating account average portfolio balance was $197.6 million and the average yield on investments was 1.41%. The capital funds are held by an agent for the Trustee but managed by the Authority. For 2004, the capital funds had an average portfolio balance of $335.0 million and an average yield of 2.19%.

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 2004, the Authority expended $349.3 million in its ongoing CCP compared to an original budget of $349.9 million. The Authority capitalized $242.5 million in projects in 2004, including the Airside Walkback Tunnel at Washington Dulles. Projects at Washington Dulles, which began or continued in 2004, and were scheduled for completion in 2005, or beyond, include the security mezzanine, the automated people mover (APM) and related stations, and renovation of the final section of the original Main Terminal. Average monthly capital construction spending in 2004 was approximately $29.1 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 Standard & Poor's Rating Services (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. In April 2004, Moody's confirmed the Authority rating and changed its outlook to stable.

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, 2004, the Authority has $2.567 billion outstanding Airport System Revenue Bonds, $150.0 million in outstanding Commercial Paper Series One and $187.7 million in PFC notes (See Note J). Of the $2.567 billion in outstanding Senior Bonds, $2.315 billion is insured and $252.4 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 125%. 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 2004 and 2003, respectively, the Authority's debt service coverage was 1.68 and 1.41. The increase in coverage in 2004 is related to the increased concession revenue at Washington Dulles.

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, D.C., 20001-6000, or email BondholdersInformation@mwaa.com.

STATEMENTS OF NET ASSETS

As of December 31	2004	2003
ASSETS		
Current assets		
Unrestricted assets:		
Cash and cash equivalents	$ 33,832,942	$ 35,682,214
Investments	197,182,141	106,325,974
Accounts receivables, net	20,033,378	19,294,775
Inventory	3,633,515	1,890,063
Prepaid expenses and other current assets	3,855,483	3,641,957
Total unrestricted assets	258,537,459	166,834,983
Restricted assets:		
Cash and cash equivalents, restricted	97,351,250	238,607,369
Passenger facility charges, restricted	53,485,838	14,797,301
Accounts receivables, passenger facility charges and other, restricted	15,386,313	8,588,515
Investments, restricted	85,660,959	20,831,689
Total restricted assets	251,884,360	282,824,874
Total current assets	510,421,819	449,659,857
Non-current assets		
Capital assets:		
Land	49,069,234	49,066,610
Construction in progress	746,007,372	619,050,895
Buildings, systems and equipment	3,141,673,453	2,894,632,093
Less: accumulated depreciation	(939,466,285)	(818,686,558)
Capital assets, net	2,997,283,774	2,744,063,040
Long-term investments	9,470,986	50,511,329
Long-term investments, restricted	172,324,761	144,682,412
Other long-term assets	-	2,045,311
Net pension asset	1,750,497	2,115,285
Bond issuance costs, net	41,413,767	34,790,874
Total non-current assets	3,222,243,785	2,978,208,251
Total assets	$ 3,732,665,604	$ 3,427,868,108

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

STATEMENTS OF NET ASSETS (CONTINUED)

As of December 31	2004	2003
LIABILITIES AND NET ASSETS		
Current liabilities		
Payable from unrestricted:		
Accounts payable and accrued expenses	$ 42,714,040	$ 29,572,492
Operating lease obligations	341,140	341,140
Total unrestricted	43,055,180	29,913,632
Current liabilities payable from restricted assets:		
Accounts payable and accrued expenses	51,765,780	48,829,027
Accrued interest payable	29,592,238	27,798,058
Bonds payable	59,035,000	56,105,000
Total restricted	140,393,018	132,732,085
Total current liabilities	183,448,198	162,645,717
Non-current liabilities		
Payable from unrestricted:		
Other liabilities	654,446	1,300,939
Payable from restricted:		
Other liabilities	-	209,550
PFC bank participation notes	187,700,000	187,700,000
Commercial paper notes	150,000,000	150,000,000
Bonds payable, net	2,469,703,687	2,271,063,578
Total restricted	2,807,403,687	2,608,973,128
Total non-current liabilities	2,808,058,133	2,610,274,067
Total liabilities	2,991,506,331	2,772,919,784
NET ASSETS		
Invested in capital assets, net of related debt	344,583,615	428,497,669
Restricted	170,526,342	36,158,318
Unrestricted	226,049,316	190,292,337
Total net assets	$ 741,159,273	$ 654,948,324

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Years Ended December 31, 2004	Years Ended December 31, 2003
OPERATING REVENUES		
Concessions	$ 173,962,671	$ 146,095,903
Rents	143,389,783	130,802,693
Landing fees	76,274,293	67,637,206
Utility sales	12,035,206	11,867,943
Passenger fees	29,474,743	27,878,919
Other	7,149,375	5,355,589
	442,286,071	389,638,253
OPERATING EXPENSES		
Materials, equipment, supplies, contract services, and other	130,127,540	134,105,363
Salaries and related benefits	98,858,597	95,192,233
Utilities	18,754,511	16,754,386
Lease from U. S. Government	4,375,347	4,303,764
Depreciation and amortization	126,177,767	114,950,487
	378,293,762	365,306,233
OPERATING INCOME	63,992,309	24,332,020
NON-OPERATING REVENUES (EXPENSES)		
Passenger facility charges, financing costs	(1,525,026)	(1,137,715)
Investment income	10,385,775	5,896,185
Interest expense	(89,368,779)	(95,610,127)
Realized swap income (loss)	(3,662,018)	-
Unrealized swap income (loss)	1,601,347	5,572,334
	(82,568,701)	(85,279,323)
LOSS BEFORE CAPITAL CONTRIBUTIONS	(18,576,392)	(60,947,303)
CAPITAL CONTRIBUTIONS		
Passenger facility charges	76,060,174	58,438,038
Federal and state grants	28,727,167	14,378,325
Other capital property contributed	-	6,044,900
	104,787,341	78,861,263
NET ASSETS		
Increase in net assets	86,210,949	17,913,960
Total net assets, beginning of year	654,948,324	637,034,364
Total net assets, end of year	$ 741,159,273	$ 654,948,324

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

STATEMENTS OF CASH FLOWS

	Years Ended	
	December 31, 2004	December 31, 2003
NET CASH FROM OPERATING ACTIVITIES:		
Operating cash receipts from customers	$ 442,774,218	$ 354,418,565
Cash payments to suppliers for goods and services	(136,926,922)	(131,384,806)
Cash payments to employees for services	(97,576,928)	(95,378,832)
NET CASH PROVIDED BY OPERATING ACTIVITIES	208,270,368	127,654,927
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from issuance of bonds	693,419,749	430,857,024
Proceeds net from the issuance of commercial paper	-	(100,000,000)
Principal payments on bonds	(494,830,000)	(122,945,000)
Payments for capital expenditures and construction in progress	(337,279,253)	(280,713,825)
Proceeds from sale of fixed assets	80,881	110,119
Payments of bond issuance costs	(10,367,120)	(13,229,911)
Interest paid on bonds	(130,407,797)	(113,504,071)
Rebate to Treasury	-	(1,112,613)
Government grants in aid of construction	26,220,996	14,223,836
Passenger facility charge receipts	71,768,588	58,481,505
Passenger facility charge borrowing from line of credit	-	17,500,000
Passenger facility charge expenses and other	(3,471,759)	(2,146,066)
NET CASH PROVIDED OR (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(184,865,715)	(112,479,002)
NET CASH FROM INVESTING ACTIVITIES:		
Interest received on investments	15,932,840	7,450,115
(Increase) decrease in short term investments, net	(160,583,704)	103,571,093
Proceeds from long-term investment maturities	211,789,746	116,609,214
Purchase of long-term investments	(194,960,389)	(146,577,237)
NET CASH PROVIDED OR (USED) BY INVESTING ACTIVITIES	(127,821,507)	81,053,185
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(104,416,854)	96,229,110
CASH AND CASH EQUIVALENTS, Beginning of Period	289,086,884	192,857,774
CASH AND CASH EQUIVALENTS, End of Period	$ 184,670,030	$ 289,086,884

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

STATEMENTS OF CASH FLOWS (CONTINUED)

	Years Ended	
	December 31, 2004	December 31, 2003
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	$ 63,992,309	$ 24,332,020
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	126,177,767	114,950,487
(Decrease) increase in allowance for doubtful accounts	(289,170)	(336,330)
(Gain) loss on sale of assets	(70,222)	(78,388)
Decrease (increase) in accounts receivable	1,053,313	(1,921,742)
Decrease (increase) in inventory	(1,743,452)	71,681
Decrease (increase) in prepaid expenses and other current assets	(213,526)	(1,104,137)
Decrease (increase) in other long-term assets	2,410,099	(265,252)
Increase (decrease) in long-term liabilities	(646,493)	(4,873,664)
(Decrease) increase in accounts payable and accrued expenses	17,599,743	(3,119,748)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 208,270,368	$ 127,654,927
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Unrealized gain (loss)	$ 3,471,364	$ 2,691,787
Other capital property acquired		
Aircraft Haul Road & Museum Access Road built by Smithsonian and VA Department of Transportation	$ -	$ 6,044,900
Capital construction costs payable	$ 50,024,028	$ 48,837,145

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Metropolitan Washington Airports Authority (the 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 Airport (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 consists of three sections: Invested in capital assets, net of related debt; Restricted; and Unrestricted. Net assets invested in capital assets, net of related debt includes capital assets, restricted and unrestricted, net of accumulated depreciation, reduced by outstanding debt attributable to acquisition. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. The 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 Authority's annual budget is not prepared in accordance with generally accepted accounting principles (GAAP). 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 72.3% of annual airline revenues. At Washington Dulles, United, Delta Air Lines and Independence Air comprise approximately 70.2% of annual airline revenues. These airlines combined represent approximately 71.1% of the total annual airline revenues for the Authority. Actual airline revenues for 2004 represent approximately 51.8% 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.

Swaps

The Authority enters into interest rate swap agreements to modify interest rates on outstanding debt. The Swaps are recognized at fair value on the Statements of Net Assets in investments. 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. In addition, net interest expenditures are also recorded in the Statements of Revenues, Expenses and Changes in Net Assets.

NOTES TO FINANCIAL STATEMENTS

Inventory and Prepaid Items

Inventory consists of spare parts and is stated at the lower of cost or market value, using the first-in, first-out method. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the financial statements.

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 Airport Use Agreement and Premises Lease (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
Motor Vehicles	3-5 years	10,000
Buildings	20-40 years	25,000
Systems and Structures	10-40 years	25,000

Impaired Capital Assets

For the year ended December 31, 2004, the Authority early implemented GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. Capital assets that have potential for meeting the definition of impairment are identified and tested for impairment. Permanently impaired capital assets that will continue to be used by the Authority are written down to the measured impaired value. The carrying amount of impaired capital assets that are idle are disclosed in the notes to the financial statements and impaired capital assets that are no longer used by the Authority are reported at the lower of carrying value or fair value.

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.

Long-Term Debt Refundings

The Authority periodically refunds its debt. The difference between the reacquisition price and the net carrying amount of the old debt is deferred and amortized as a component of interest expense over the life of the old or new debt, whichever is shorter. The amount deferred is reported as a deduction from or an addition to the new debt liability.

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. The calculation of the liability accrued for compensated absences is based on the pay or salary rates in effect as of the end of the fiscal period normally the year ended December 31. An additional amount has been accrued for the liability of salary related payments. Such salary related payments include the employer's share of social security, medicare and unemployment taxes and the employer's contributions to the Authority retirement and pension plans. The liability for compensated absences as of December 31, 2004 was $5,599,399 and as of December 31, 2003 was $4,401,583.

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 had no estimated liability on December 31, 2004 and an estimated liability of $209,550 on December 31, 2003.

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, 2004	December 31, 2003
Deposits		
Carrying amount	$ 5,752,661	$ 22,959,678
Bank balance	3,008,721	929,045
FDIC insured or collateralized (Category 1)	2,881,821	910,045
Uncollateralized or uninsured (Category 3)	126,900	19,000
Certificates of deposit/investments		
Carrying amount	$ 6,000,000	$ 5,100,000
FDIC insured or collateralized (Category 1)	600,000	400,000
Uncollateralized or uninsured (Category 3)	5,400,000	4,700,000

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 Standard & Poor's Rating Services (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 as 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, 2004

	Category 1	Category 2	Category 3	Cost	Carrying Value
Repurchase Agreements	$ 57,605,236	$ -	$ -	$ 57,605,236	$ 57,605,236
United States Government and agency obligations	393,296,340	-	-	393,296,340	391,860,995
Guaranteed Investment Contracts	70,990,390	-	-	70,990,390	70,990,390
Commercial Paper	4,973,083	-	-	4,973,083	4,995,162
	$526,865,049	$ -	$ -	526,865,049	525,451,783
Money market funds (invested in United States Government and agency obligations)				112,104,433	112,104,433
Certificate of Deposit				6,000,000	6,000,000
				$ 644,969,482	$ 643,556,216

December 31, 2003

	Category 1	Category 2	Category 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

The fair value of the collateral for these Repurchase Agreements was $58,724,891 and $20,165,935 on December 31, 2004 and 2003, 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 Reporting For Certain Investments and For External Investments Pools*. In accordance with the provisions of this pronouncement, investments with an original maturity greater than one year are recorded at their fair value with all investment income, including changes in the fair value of investments, reported as investment income in the financial statements. As permitted by GASB Statement No. 31, investments with an original maturity of less than one year are carried at amortized cost. Fair values are determined through quoted market prices.

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

	December 31, Cost	Carrying Value
Securities with original maturity 1 year and over	$ 169,240,390	$ 170,949,593
Securities with original maturity less than 1 year	356,075,236	354,502,190
	$ 525,315,626	$ 525,451,783

	December 31, 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

Change in carrying value from December 2003 to December 2004

Carrying value at December 31, 2004	$ 525,451,783
Add: Proceeds from investments sold in 2004	1,503,410,946
Less: Cost of investments purchased in 2004	(1,696,704,627)
Less: Carrying value at December 31, 2003	(330,318,086)
Change in carrying value of investments	$ 1,840,016

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)

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, 2004	2003
Deposits	$ 5,752,661	$ 22,959,678
Investments	643,556,216	588,478,610
	$ 649,308,877	$ 611,438,288
Cash and cash equivalents	$ 33,832,942	$ 35,682,214
Cash and cash equivalents, restricted	97,351,250	238,607,369
Passenger facility charges, cash, restricted	53,485,838	14,797,301
Investments	197,182,141	106,325,974
Investments, restricted	85,660,959	20,831,689
Long-term investments	9,470,986	50,511,329
Long-term investments, restricted	172,324,761	144,682,412
	$ 649,308,877	$ 611,438,288

The Authority received and holds 658 shares of Ace Aviation Holding, LLC stock as a result of the Air Canada bankruptcy proceedings. The stock was valued at $35.55 (Canadian) per share on December 31, 2004. The value of the stock is de minimis and has not been recorded in the Authority's financial records.

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 Swap, 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.

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. Based on the Swap agreement, the Authority owed interest calculated at a fixed rate of 3.65%, 3.64% and 3.64% to the counter parties to the Swap, Bear Stearns, Lehman Brothers, and Merrill Lynch. In return, the counter parties owed the Authority interest based on a variable rate equal to 72% of LIBOR. Only the net difference in interest payments actually exchange with the counter parties. In connection with the Series 2004D Bonds, on August 26, 2004, this 2004 Swap was terminated with a payment of $3,662,018.

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, 2004, the fair value of the Swaps was an unrealized loss of $20,417,526. An unrealized gain of $1,601,347 was recognized for the year ended December 31, 2004. 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,	
	2004	2003
Trade accounts receivable	$ 21,114,781	$ 20,665,348
Less: allowance for doubtful accounts	(1,081,403)	(1,370,573)
	$ 20,033,378	$ 19,294,775

For the years ended December 31, 2004 and December 31, 2003, the Authority's accounts receivable included $4.0 million and $4.5 million in 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 approved payment of $4,476,143 by United to the Authority to cure all defaults under these leases; $500,000 of this payment was paid within 60 days of this court order, with the remainder due within 30 days of United's final court approved plan of reorganization. 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 87% trade receivables due from concessionaires and airlines. The remaining 13% are notes and other receivables such as interest receivable and an amount due from an airline for 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,	
	2004	2003
Construction	$ 128,736,558	$ 210,736,302
Debt service reserve accounts	172,324,761	144,682,412
Interest accounts	28,522,863	26,802,915
Sinking fund accounts	25,752,788	21,899,841
Passenger facility charge accounts	53,485,838	14,797,301
Passenger facility charges and grant receivables	15,386,313	8,588,515
	$ 424,209,121	$ 427,507,286

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 reserve accounts were over funded by approximately $1,802,223 and $755,000, as of December 31, 2004 and December 31, 2003, respectively. The interest account contains the interest amounts required for the semi-annual interest payments. The sinking fund accounts represent the principal for the annual October bond payments. The PFC and grant receivables represent amounts collectable at the years ended December 31, 2004 and 2003.

F. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the years ending December 31, 2004 and 2003 are as follows:

	Beginning Balance January 1, 2004	Transfers and Additions	Transfers and Deletions	Ending Balance December 31, 2004
Capital assets not being depreciated				
Construction in progress	$ 619,050,895	$ 370,117,910	$ (243,161,433)	$ 746,007,372
Land	49,066,610	37,718	(35,094)	49,069,234
Total capital asset not being depreciated	668,117,505	370,155,628	(243,196,527)	795,076,606
Other capital assets				
Equipment	43,228,998	3,940,932	(653,025)	46,516,905
Motor vehicles	76,732,693	4,160,481	(742,516)	80,150,658
Buildings	1,837,274,423	115,397,821	-	1,950,902,381
Systems and structures	937,395,979	126,707,530	(1,769,863)	1,064,103,509
Total other capital assets	2,894,632,093	250,206,764	(3,165,404)	3,141,673,453
Less accumulated depreciation:				
A/D equipment	33,647,086	4,206,361	(580,154)	37,273,293
A/D motor vehicles	62,279,397	5,590,800	(609,682)	67,260,515
A/D buildings	341,209,896	59,002,850	(463,978)	399,748,768
A/D systems & structures	381,550,179	53,633,530	-	435,183,709
Total accumulated depreciation	818,686,558	122,433,541	(1,653,814)	939,466,285
Other capital assets, net	2,075,945,535	127,773,223	(1,511,590)	2,202,207,168
Totals	$ 2,744,063,040	$ 497,928,851	$ (244,708,117)	$ 2,997,283,774

	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	-	(613,126)	49,066,610
Total capital asset 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	159,998,957	-	1,837,274,423
Systems and structures	878,678,341	60,078,558	(1,360,920)	937,395,979
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	53,789,368	-	341,209,896
A/D systems & structures	333,341,428	48,832,368	(623,617)	381,550,179
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

For the year ended December 31, 2004, interest costs of $10,037,007 less interest earned of $3,081,027 were capitalized as part of the cost of construction in progress. 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. Depreciation and amortization expense for the years ended December 31, 2004 and 2003 was $126,177,767 and $114,950,487, respectively, which includes amortization associated with bond issuance costs of $3,744,226 and $2,545,112, respectively.

The Authority's construction in progress account as of December 31, 2003, included approximately $63.1 million in costs expended on design work for projects that were in a deferred status. As of December 31, 2004, the Authority's construction in progress account includes only $4.5 million in costs expended on work for projects that are 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 ***d2*** Program.

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. As a result, the Authority delayed the start dates of several projects, deferred some projects until it determined that demand and circumstances warranted reactivation of each project and added three new projects to the CCP. This active portion of the CCP is referred to as the 2001-2011 CCP.

In connection with the Authority's routine reviews of the CCP, the Authority has made certain adjustments to the 2001-2011 CCP since the spring of 2002, including adding new projects, deferring some active projects, reactivating some projects that were deferred and deleting certain projects from the CCP entirely.

Based on expenditures to date and projected expenditures through 2011, Authority management currently estimates the cost of the 2001-2011 CCP at approximately $3.9 billion.

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. A significant majority of these design plans and costs were reevaluated in 2004 and it was determined that the projects should go forward with an estimated completion date of 2011.

Of the remaining projects currently deferred, 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. 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.

For the year ended December 31, 2004, the Authority early implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*

G. ACCOUNTS PAYABLE

The accounts payable and accrued expenses balance is 55% payable from restricted funds and 45% 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 $49.5 million as of December 31, 2004 and $48.8 million as of December 31, 2003. The unrestricted accounts payables and accrued expenses are 26% accrued salaries and benefits, 33% payables to vendors, 32% deferred revenue, with the remaining 9% reserves for insurance claims.

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 all of its police and fire employees and its regular employees hired on or after June 7, 1987, excluding employees working less than 20 hours a week and other temporary employees.

Government Pension Plans

Under the CSRS, employees contribute 7.0% of their base pay (7.5% for firefighters) and the 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 $14,000 in 2005. There are 75 regular employees and 17 police and firefighter employees currently enrolled in CSRS, as of December 31, 2004.

The FERS provides benefits from three different 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 51 regular employees and 39 police and firefighter employees currently enrolled in the FERS, as of December 31, 2004.

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, 2004 was approximately $11,847,604. The Authority's total base payroll for all employees was approximately $67,796,190. Employee contributions for these federal pension plans were $503,334 (5.0% of covered payroll for 2004) and $638,933 (5.0% of covered payroll for 2003).

The employer contributions for these plans were $1,349,444 for 2004, $1,425,519 for 2003, and $1,527,365 for 2002. 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 they 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, and the second payment of $646,493, which was made on February 11, 2004. The third annual installment of $646,493 will be made on or before May 31, 2005.

The U.S. Office of Personnel Management administers both the CSRS and the FERS. 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, 2004, the number of employees participating in the Plans was:

	Regular	Police/Fire	Total
Current participants			
Vested	553	161	714
Non-vested	186	89	275
Retirees/Disabled employees			
currently receiving benefits	84	5	89
Terminated vested participant	146	41	187
Total	969	296	1265

The Authority contributed 7.0% to the Regular Plan and 12.9% to the Police and Fire Plan in 2004. The Authority's base payroll in 2004 for the Regular Plan was approximately $39,812,800 and $12,162,155 for the Police and Fire Plan. 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 Plan. In 2004, the Authority contributed $2,786,896 to the Regular Plan and $1,568,918 to the Police and Fire Plan. In 2003, the Authority contributed $2,370,976 to the Regular Plan and $1,443,352 to the Police and Fire Plan. 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 5 years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 1.2% of final-average salary up to covered compensation and 1.6% of final-average salary which is above covered compensation for each year of credited service (maximum 30 years).

Final-average salary is the average of the employee's highest consecutive 78 pay periods in the most recent 260 pay periods, while covered compensation is the 35-year average of the Social Security Wage Bases ending with the year in which the participant attains Social Security normal retirement age. A pre-retirement surviving spouse benefit is payable in the event of death, equal to 50% 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 2003, 2002 and 2001, the latest years for which data is available, were as follows:

	2003	
	General Employees	**Police and Firefighters**
Annual required contribution	$ 2,593,255	$ 1,577,901
Interest on net pension obligation (asset)	(124,254)	(34,394)
Adjustment to annual required contribution	130,488	36,120
Annual pension cost	2,599,489	1,579,627
Contributions made	2,370,976	1,443,352
Increase in net pension obligation (asset)	228,513	136,275
Net pension obligation (asset) beginning of year	(1,656,698)	(458,587)
Net pension obligation (asset) end of year	$ (1,428,185)	$ (322,312)

	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)

Three year trend information is as follows:

	General Employees Retirement Plan			Police Officers and Firefighters Plan		
Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations (Assets)	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligations (Assets)
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)
2003	$2,599,491	91.2%	($1,428,183)	$1,579,627	91.4%	($322,312)

Funding Status

The actuarial accrued liability was determined as part of an actuarial valuation of the Plans at December 31, 2003. 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) post-retirement 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, D.C. 20001-6000. There are no separate stand alone financial reports issued.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)-Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
General Employees Retirement Plan						
12/31/99	$ 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)%
12/31/03	53,164,834	43,202,420	(9,962,414)	123.1%	41,524,933	(24.0)%
Police Officers and Firefighters Retirement Plan						
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)%
12/31/03	24,294,170	21,873,198	(2,420,972)	111.1%	12,679,387	(19.1)%

Net Pension Obligation

	General Employees Retirement Plan			Police Officers and Firefighters Plan		
Calendar Year	Annual Required Contribution	Actual Contribution	Percentage Contribution	Annual Required Contribution	Actual Contribution	Percentage Contribution
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	2,410,730	115.6%	1,280,205	1,356,150	105.9%
2003	2,593,255	2,370,976	91.4%	1,577,901	1,443,352	91.5%

Schedules of Funding Progress

Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability and assets in excess of actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the retirement plan. Trends in assets in excess of actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the actuarial accrued liability in excess of assets as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the lower this percentage, the stronger the retirement plan.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, the size or composition of the population covered by the Plan, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the AAL as a factor.

I. POSTEMPLOYMENT BENEFITS AND DEFERRED COMPENSATION PLAN

In addition to pension benefits, the Authority provides postemployment 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, 2004, 247 retired employees were receiving life insurance benefits and 226 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, 2004 and 2003, the Authority health insurance costs for retired employees totaled $1,952,465 and $1,333,087, 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 (1 to 5 times) that the employee had selected prior to retirement. The supplemental life insurance is reduced at a rate of 2.0% each month so that at the end of 50 months, no supplemental life insurance coverage is in force. Of the 247 retired employees, 40 had supplemental insurance coverage as of December 31, 2004. For the year ended December 31, 2004, the life insurance costs for retired employees totaled $265,248. 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.

In accordance with GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, the Authority created in February 2005 an Employee Welfare Benefits Trust. This trust will provide a funding mechanism for retiree health coverage and other post-employment benefits other than pensions. The Authority will begin funding the trust and will fully implement GASB Statement No. 43 and GASB Statement No. 45 in 2005.

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 for participants by ICMARC under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participant. The investments are held in trust by M&T.

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 were 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 would have expired 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 were 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 are 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 were used to repay the outstanding balance of these Notes.

The Notes were issued and remarketed under Commercial Paper Dealer Agreements 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 a 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, Series B Merrill Lynch $100,000,000. This redistribution maintains the original 80/20 split among the brokers.

The Notes were variable rate based on the current market rate. 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.

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 Commercial Paper Notes were authorized to an amount not to exceed $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 & Co. Inc., on April 14, 2002. The Notes are issued to provide financing for authorized projects at Reagan National and Washington Dulles. The Notes were backed by a direct pay Letter of Credit between the Authority and JP Morgan Chase Bank that would have expired 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%. In November 2004 the Authority extended the Letter of Credit on the Commercial Paper Notes, Series One with JP Morgan Chase Bank to March 13, 2008 and increased the amount to $150,000,000.

All of the Authority's Commercial Paper Notes are rated "P-1" short-term by Moody's, "A-1+" short-term by S&P, and "F1+" short-term by Fitch. The Authority redeemed the Series A Notes in January 2005.

NOTES TO FINANCIAL STATEMENTS

Bonds Payable

The Authority's long-term bonds issued and outstanding as of December 31, 2004 and 2003 were as follows:

Airport System Senior Debt	Issue Date	Interest Rates	Maturing On October 1	Amount	Outstanding at December 31, 2004	2003
Series 1993A*						
Revenue & Refunding Bonds	03/01/93					
					$ -	$ 15,335,000
Series 1994A Revenue Bonds	06/15/94					
					$ -	$ 436,540,000
Series 1997A Revenue Bonds	05/15/97					
Serial		4.800%-5.300%	2005-2012	$ 10,710,000		
Term		5.375%	2017	9,275,000		
Term		5.375%	2023	14,865,000		
					$ 34,850,000	$ 35,925,000
Series 1997B Revenue Bonds	05/15/97					
Serial		5.000%-6.000%	2005-2014	$ 72,130,000		
Term		5.500%	2016	19,735,000		
Term		5.750%	2020	46,590,000		
Term		5.500%	2023	42,350,000		
					$ 180,805,000	$ 186,085,000
Series 1998A Revenue Bonds	06/15/98					
Serial		4.100%-4.700%	2005-2013	$ 4,685,000		
Term		5.000%	2018	3,560,000		
Term		5.000%	2023	4,540,000		
Term		5.000%	2028	5,795,000		
					$ 18,580,000	$ 19,000,000
Series 1998B						
Revenue & Refunding Bonds	06/15/98					
Serial		4.300%-5.500%	2005-2014	$100,015,000		
Term		5.000%	2018	56,040,000		
Term		5.000%	2028	85,660,000		
					$ 241,715,000	$ 249,215,000
Series 1999A						
Revenue Refunding Bonds	04/15/99					
Serial		4.000%-4.500%	2005-2010	$ 8,855,000		
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		
					$ 94,050,000	$ 95,330,000
Series 2001A Revenue Bonds	04/01/01					
Serial		3.700%-5.200%	2005-2022	$137,940,000		
Term		5.500%	2027	67,190,000		
Term		5.000%	2031	67,820,000		
					$ 272,950,000	$ 277,560,000
Series 2001B Revenue Bonds	04/01/01					
Serial		3.500%-4.750%	2005-2017	$ 4,340,000		
Term		5.000%	2021	1,920,000		
Term		5.000%	2026	3,005,000		
Term		5.000%	2031	3,830,000		
					$ 13,095,000	$ 13,350,000
Series 2002A Revenue Bonds	06/04/02					
Serial		3.250%-5.750%	2005-2022	$101,580,000		
Term		5.125%	2026	38,780,000		
Term		5.250%	2032	75,075,000		
					$ 215,435,000	$ 218,820,000
Series 2002B Revenue Bonds	06/04/02					
Serial		3.000%-5.200%	2005-2024	$ 15,295,000		
Term		5.250%	2032	11,650,000		
					$ 26,945,000	$ 27,435,000
Series 2002C Refunding Bonds	08/28/02					
Term		Variable	2005-2021	$248,545,000		
					$ 248,545,000	$ 257,895,000

NOTES TO FINANCIAL STATEMENTS

Bonds Payable (continued)

Airport System Senior Debt	Issue Date	Interest Rates	Maturing On October 1	Amount	Outstanding at December 31, 2004	2003
Series 2002D Refunding Bonds	08/28/02					
Serial		3.250%-5.375%	2005-2020	$ 42,160,000		
Term		5.000%	2023	12,270,000		
Term		5.000%	2032	49,685,000		
					$ 104,115,000	$ 105,940,000
Series 2003A Revenue & Refunding Bonds	10/01/03					
Serial		2.000%-5.125%	2005-2025	$104,390,000		
Term		5.125%	2029	34,935,000		
Term		5.000%	2033	42,590,000		
					$ 181,915,000	$ 185,000,000
Series 2003B Refunding Bonds	10/01/03					
Serial		2.000%-5.250%	2005-2019	$ 43,800,000		
					$ 43,800,000	$ 44,135,000
Series 2003C Revenue & Refunding Bonds	10/01/03					
Serial		2.280%-5.390%	2005-2015	$ 24,910,000		
Term		5.740%	2019	12,935,000		
Term		6.000%	2023	12,880,000		
					$ 50,725,000	$ 52,565,000
Series 2003D Revenue Bonds	10/01/03					
Term		Variable	2005-2033	$147,775,000		
					$ 147,775,000	$ 150,000,000
Series 2004A Refunding Bonds	08/26/04					
Term		3.750%	2014	$ 90,000		
Serial		4.50%-5.000%	2015-2022	13,510,000		
					$ 13,600,000	$ -
Series 2004B Revenue Bonds	05/18/04					
Serial		5.000%	2027	$ 25,000,000		
Serial		5.050%	2028	7,330,000		
Term		5.000%	2034	217,670,000		
					$ 250,000,000	$ -
Series 2004C-1 Refunding Bonds	07/07/04					
Serial		5.000%	2006-2008	$ 40,830,000		
Serial		5.000%	2020-2021	56,900,000		
					$ 97,730,000	$ -
Series 2004C-2 Revenue Bonds	08/12/04					
Serial		6.000%	2005	$ 11,885,000		
Term		5.000%	2022	32,970,000		
Serial		5.000%	2023-2024	66,690,000		
					$ 111,545,000	$ -
Series 2004D Refunding Bonds	08/26/04					
Serial		2.000%-5.250%	2005-2019	$218,855,000		
					$ 218,855,000	$ -
					$ 2,567,030,000	$ 2,370,130,000
Less unamortized discount/premium					38,291,313	42,961,422
					$ 2,528,738,687	$ 2,327,168,578

*The final portion of Series 1993A Revenue & Refunding Bonds were refunded on October 1, 2004 with fixed rate debt. Series 1994A Revenue Bonds were refunded on October 1, 2004 with fixed rate debt.

NOTES TO FINANCIAL STATEMENTS

Changes in Long Term Liability Balances

Balance as of December 31, 2003			$ 2,327,168,578
Bonds Issued			
Series 2004A	Revenue Refunding Bonds	$ 13,600,000	
Series 2004B	Revenue Bonds	250,000,000	
Series 2004C-1	Revenue Refunding Bonds	97,730,000	
Series 2004C-2	Revenue Refunding Bonds	111,545,000	
Series 2004D	Revenue Refunding Bonds	218,855,000	
			$ 691,730,000
Bonds Refunded			
Series 1993A	Revenue & Refunding Bonds	$ (13,440,000)	
Series 1994A	Revenue Bonds	(425,285,000)	
			(438,725,000)
Principal Payments			(56,105,000)
Change in Unamortized Discount/Premium net			4,670,109
Balance as of December 31, 2004			$ 2,528,738,687

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 the 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 $3,956,090,000 of senior bonds excluding the commercial paper, has been issued by the Authority on 15 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; $431,000,000 in October 2003; $250,000,000 in May 2004; $97,730,000 in July 2004: and $344,000,000 in August 2004.

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 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 was $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 were used to finance capital improvements at Reagan National and Washington Dulles. The Series 2003D Bonds are 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.

During 2004 the Authority issued $250,000,000 of Airport System Revenue Bonds Series 2004B and $441,730,000 of Airport System Revenue Refunding Bonds, Series 2004A, C-1, C-2 and D. The proceeds of Series 2004B Bonds, issued on May18, 2004, will be used to finance capital improvements at Reagan National and Washington Dulles. The proceeds of $13,600,000 of the Series 2004A Bonds, issued August 26, 2004, together with other available funds (the Debt Service Interest Account of the refunded Bonds) were used to refund the Authority’s outstanding Airport System Revenue and Refunding Bonds, Series 1993A. The outstanding bonds maturing 2020 through 2022 of Series 1993A, $13,440,000, were refunded on October 31, 2004. The Authority’s present value savings of this refunding was $0.8 million. The Authority will realize cash flow savings of $745,484 with this transaction. The refunded Series 1993A Bonds were scheduled to mature on October 1, 2020 through 2022 and were subject to optional redemption on October 1, 2003. The bonds were redeemed at a price of 101% plus accrued interest. The proceeds of $97,730,000 of the Series 2004C-1 Bonds, issued July 7, 2004, together with other available funds (the Debt Service Interest Account of the refunded Bonds) were used to refund a portion the Authority’s outstanding Airport System Revenue Bonds, Series 1994A. The outstanding bonds maturing 2006 through 2008 and 2020 through 2021 of Series 1994A Bonds, $96,360,000, were refunded on October 31, 2004. The Authority’s present value savings of this refunding was $3.9 million. The Authority will realize cash flow savings of $5,950,254 with this transaction. The refunded Series 1994A Bonds were scheduled to mature on October 1, 2006 through 2008 and 2020 through 2021 were subject to optional redemption on October 1, 2004. The bonds were redeemed at a price of 102% plus accrued interest. The proceeds of $111,545,000 of the Series 2004C-2 Bonds, issued August 12, 2004, together with other available funds (the Debt Service Interest Account of the refunded Bonds) were used to refund a portion the Authority's outstanding Airport System Revenue Bonds, Series 1994A. The outstanding bonds maturing 2005 and 2022 through 2024 of Series 1994A Bonds, $109,430,000, were refunded on October 31, 2004. The Authority's present value savings of this refunding was $3.5 million. The Authority will realize cash flow savings of $5,708,002 with this transaction. The refunded Series 1994A Bonds were scheduled to mature on October 1, 2005 and 2022 through 2024 were subject to optional redemption on October 1, 2004. The bonds were redeemed at a price of 102% plus accrued interest. The proceeds of $218,855,000 of the Series 2004D Bonds, issued August 26, 2004, together with other available funds (the Debt Service Interest Account and the Debt Service Reserve Account of the refunded Bonds) were used to refund a portion the Authority's outstanding Airport System Revenue Bonds, Series 1994A. The outstanding bonds maturing 2009 through 2019 of Series 1994A Bonds, $219,495,000, were refunded on October 31, 2004. The Authority's present value savings of this refunding was $14.6 million. The Authority will realize cash flow savings of $20,743,430 with this transaction. The refunded Series 1994A Bonds were scheduled to mature on October 1,2009 through 2019 were subject to optional redemption on October 1, 2004. The bonds were redeemed at a price of 102% plus accrued interest.

The Authority reviews each bond sale to determine if there is value in providing investors municipal bond insurance. Insurance is provided in part by Financial Guaranty Insurance Company (FGIC), Municipal Bond Investors Assurance Corporation (MBIA), Financial Security Assurance (FSA), and XLCapital Assurance (XL). The following table details the Authority's outstanding debt noting insured and uninsured bonds.

Bond Series	Principal Outstanding	Uninsured Bonds	Insured Bonds	Insurance Provider
1997A	$ 34,850,000	$ 24,140,000	$ 10,710,000	FGIC
1997B	180,805,000	134,505,000	46,300,000	FGIC
1998A	18,580,000	18,580,000	-	n/a
1998B	241,715,000	24,850,000	216,865,000	MBIA
1999A	94,050,000	-	94,050,000	FGIC
2001A	272,950,000	-	272,950,000	MBIA
2001B	13,095,000	-	13,095,000	MBIA
2002A	215,435,000	-	215,435,000	FGIC
2002B	26,945,000	-	26,945,000	FGIC
2002C	248,545,000	-	248,545,000	FSA
2002D	104,115,000	-	104,115,000	FSA
2003A	181,915,000	-	181,915,000	FGIC
2003B	43,800,000	12,105,000	31,695,000	FGIC
2003C	50,725,000	5,760,000	44,965,000	FGIC
2003D	147,775,000	-	147,775,000	XL
2004A	13,600,000	-	13,600,000	MBIA
2004B	250,000,000	-	250,000,000	FSA
2004C-1	97,730,000	-	97,730,000	FSA
2004C-2	111,545,000	11,885,000	99,660,000	FSA
2004D	218,855,000	20,570,000	198,285,000	MBIA
	$ 2,567,030,000	$ 252,395,000	$ 2,314,635,000	

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
2005	$ 59,035,000	$ 127,359,001	$ 186,394,001
2006	62,360,000	124,517,223	186,877,223
2007	65,255,000	121,677,608	186,932,608
2008	68,405,000	118,616,585	187,021,585
2009	71,475,000	115,393,616	186,868,616
2010 - 2014	413,695,000	522,050,403	935,745,403
2015 - 2019	521,460,000	407,806,170	929,266,170
2020 - 2024	557,105,000	268,814,490	825,919,490
2025 - 2029	399,705,000	149,197,226	548,902,226
Thereafter	348,535,000	44,910,485	393,445,485
	$ 2,567,030,000	$ 2,000,342,807	$ 4,567,372,807

Total interest cost for the years ended December 31, 2004 and 2003 were $122,852,625 and $110,289,313, respectively. The current portion of the Authority's bonds payable, in the amount of $59,035,000, is due on October 1, 2005.

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 midyear, 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, 2004, the settlement resulted in a credit to the airlines of $856,126 which was reflected in accounts payable and accrued expenses. 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.

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's 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% to the Authority. For the years ended December 31, 2004 and 2003, at Washington Dulles, the transfer amount exceeded the plateau amount by $30,739,487 and $3,861,556, respectively. This amount was allocated accordingly and is included in the Airlines' and the Authority's share. For the years ended December 31, 2004 and 2003, at Reagan National, the transfer amount exceeded the plateau amount by $2,826,273 and $1,615,506, respectively. For the years ended December 31, 2004 and 2003, the Airlines' share of NRR was $53,981,019 and $27,681,635, respectively, and the Authority's share was $35,285,468 and $25,591,988, respectively.

L. NET ASSETS

Net assets consists of the following:

Invested in capital assets net of debt consists of the following:

	2004	2003
Long-term assets		
Capital assets		
Land	$ 49,069,234	$ 49,066,610
Construction in progress	746,007,372	619,050,895
Buildings and equipment	3,141,673,453	2,894,632,093
Less: accumulated depreciation	(939,466,285)	(818,686,558)
Capital assets, net	2,997,283,774	2,744,063,040
Bond issuance costs, net	41,413,767	34,790,874
Total capital assets	3,038,697,541	2,778,853,914
Less: related liabilities		
Other liabilities, current	-	209,550
Current portion bonds payable	59,035,000	56,105,000
Bank participation notes	187,700,000	187,700,000
Commercial paper notes	150,000,000	150,000,000
Bonds payable, net	2,297,378,926	1,956,341,695
Total liabilities	2,694,113,926	2,350,356,245
Invested in capital assets, net of debt	$ 344,583,615	$ 428,497,669

Restricted assets consists of the following:

	2004	2003
Restricted assets		
Cash and cash equivalents, restricted	$ 97,351,250	$ 238,607,369
Passenger facility charges, cash, restricted	53,485,838	14,797,301
Passenger facility charges and grants, receivables, restricted	15,386,313	8,588,515
Long-term investments, restricted	172,324,761	144,682,412
Investments, restricted	85,660,959	20,831,689
Total assets	424,209,121	427,507,286
Less: liabilities from restricted assets		
Accounts payable and accrued expenses	51,765,780	48,829,027
Debt related to unspent bond proceeds	172,324,761	314,721,883
Accrued interest payable	29,592,238	27,798,058
Total liabilities	253,682,779	391,348,968
Restricted net assets	$ 170,526,342	$ 36,158,318

Unrestricted assets consists of the following:

	2004	2003
Current assets		
Cash and cash equivalents	$ 33,832,942	$ 35,682,214
Investments	197,182,141	106,325,974
Accounts receivables, net	20,033,378	19,294,775
Inventory	3,633,515	1,890,063
Prepaid expenses and other current assets	3,855,483	3,641,957
Total current assets	258,537,459	166,834,983
Long-term assets		
Long-term investments	9,470,986	50,511,329
Net pension asset	1,750,497	2,115,285
Other long-term assets	-	2,045,311
Total unrestricted assets	269,758,942	221,506,908
Less: current liabilities		
Accounts payable and accrued expenses	42,714,040	29,572,492
Operating lease obligations	341,140	341,140
Total current liabilities	43,055,180	29,913,632
Less: other liabilities	654,446	1,300,939
Total liabilities payable from unrestricted assets	43,709,626	31,214,571
Unrestricted assets	$ 226,049,316	$ 190,292,337

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,	
2005	$ 236,970,025
2006	237,645,431
2007	249,532,899
2008	253,502,466
2009	318,237,719
2010 and thereafter	2,018,075,025
Total minimum future rentals	$ 3,313,963,565

The above amounts do not include contingent rentals and fees in excess of minimums, which amounted to $12,928,335 for the year ended December 31, 2004. 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 2004 federal lease expense was $4,386,037. 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, 2004, as calculated in 2004 dollars are:

Year ending December 31,	
2005	$ 4,375,347
2006	4,375,347
2007	4,375,347
2008	4,375,347
2009	4,375,347
2010 and thereafter	253,770,145
Total minimum future rentals	$ 275,646,880

Total rental expense for the years ended December 31, 2004 and 2003 were $4,375,347 and $4,312,430 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 1.39% to 2.10%. The bank participation notes require the Authority to maintain a reserve account. The reserve account at December 31, 2004 and 2003 was $1,529,885 and $1,529,885, respectively, and is included in PFCs, cash, restricted on the Statements of Net Assets. The bank participation notes are backed by a Bank of America, N.A. Letter of Credit. Bank participation notes outstanding at December 31, 2004 and 2003 were $187,700,000 and $187,700,000, respectively. Total interest cost for the years ended December 31, 2004 and 2003 were $3,571,826 and $2,316,822, respectively.

Construction Commitments

At December 31, 2004, the Authority had outstanding commitments for capital expenditures in connection with its CCP in the amount of $925.5 million. However, services have not been provided as of December 31, 2004, 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, 2004 and 2003 was $28,194,097 and $12,308,939, 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	2004	2003
FAA K-9 Program	$ 400,500	$ 400,500
Drug Enforcement Agency (DEA) Drug Seizures Program	9,521	4,748
Federal Emergency Management Agency (FEMA)	102,396	1,659,541
Prince William County Anti-Terrorism Grant	-	9,345
U.S. Customs Drug Seizures Program	50,238	-

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, and the U.S. Customs Drug Seizures Program are collaborative efforts between the agencies 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 and Customs. 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. Also, in 2003, the Greater Washington area was struck by Hurricane Isabel on September 18. The Authority was reimbursed by FEMA, $102,396, for expenses such as overtime, supplies and equipment related to this weather event. The Authority received this reimbursement in 2004. All of the amounts above were reported as grant revenue in the Statements of Revenues, Expenses and Changes in Net Assets for year ended December 31, 2004 and 2003.

Capital Program	2004	2003
Federal Grants for Construction	$ 26,199,254	$ 11,067,245
State Grants for Construction	1,701,500	1,241,694
Dept. Homeland Security-Critical Infrastructure Protection Grant	293,343	-

The Authority receives federal and state grants in support of its CCP. The federal programs provide 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 Aircraft 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 ingress to and egress from the Center premises for the movement of aircraft and vehicles.

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, 2004 and 2003, the Authority earned PFCs of $30,881,848 and $27,901,618 for Reagan National, respectively, and $45,178,326 and $30,536,420 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). Since 2002, the Authority has 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 $3,814,673 as of December 31, 2004, and is included in the accounts payable and accrued expenses line item. This is based on the requirements of GASB Statement No. 30, *Risk Financing Omnibus*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Changes in the claim liability accounts amount in fiscal year 2004 and 2003 were:

Fiscal Year	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
2004	$ 3,206,795	$ 2,032,614	$ 1,424,736	$ 3,814,673
2003	$ 1,845,162	$ 3,485,871	$ 2,124,238	$ 3,206,795

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 CP Notes Payable as of December 31, 2004, is $2,717,030,000 with an estimated market value of $2,773,068,449.

Interest Rate SWAP

The fair value of the interest rate swap (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

The Authority changed the presentation of the compensated absences in the 2004 financial statements. Analysis indicated that the full amount of the liability at year ended December 31, 2003 was consumed completely in 2004. Therefore, the Authority classified the full amount of the liability as of December 31, 2004, as current. For comparative purposes, the full amount of the long-term liability of $4,240,900 as of December 31, 2003, has been reclassified from a long-term liability to a current liability.

The Authority presented in the 2003 Comprehensive Annual Financial Report $10,248,971 in capital assets and the related depreciation of $85,408 in Systems and Structures. These should have been presented in Buildings. The presentation in the 2004 Comprehensive Annual Financial Report has been reclassified to reflect these changes.

U. SUBSEQUENT EVENTS

On January 12, 2005, the Authority closed on its $200 million CP Series Two Program. The Authority's initial draw on the CP Series Two was $141 million and was used with other available funds to refund the $150 million CP BANs Series A. The CP Series Two is secured by an irrevocable direct pay letter of credit issued by WestLB AG and Landesbank Baden-Wurttemberg, which expires in December 2015.

On March 2, 2005, the Board of Directors of the Authority issued Resolution No. 05-7 authorizing the issuance of one or more Series of Airport System Revenue Bonds in an amount not to exceed $350,000,000 to finance or refinance certain capital improvements and acquisitions at Reagan National and Washington Dulles airports with proceeds of tax-exempt and taxable bonds. The resolution also authorized the issuance of $75,000,000 Airport System Revenue Bonds to refund up to $31,310,000 principal amount of outstanding Airport System Revenue Bonds, Series 1997A, $16,720,000 principal amount of Airport System Revenue Bonds, Series 1998A, and $11,040,000 principal amount of outstanding Airport System Revenue Bonds, Series 2001B of the Authority's outstanding bonds.

The Authority purchased 830 acres of land adjacent to Washington Dulles on March 15, 2005. The purchase price was $56,000,000.

2004

MANAGEMENT

James E. Bennett
President and Chief Executive Officer

Margaret E. McKeough
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

Vacant
Vice President for Business Administration

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The Honorable David G. Speck

Jeffrey Earl Thompson

[1] *Chairman January 20, 2002 through January 1, 2005*
[2] *Election as Chairman, effective January 1, 2005*
[3] *Election as Vice Chairman, effective January 1, 2005*