



DELTA AIR LINES CORPORATION

02-000-02 P. 14:46

Delta Air Lines, Inc.
Post Office Box 20706
Atlanta, Georgia 30320-6001

205765

FAA-02-13918-7

January 5, 2001

Passenger Facility Charge Branch (APP-530)
ATTN: Joseph Hebert
Airports Financial Assistance Division, Room 619
Federal Aviation Administration
800 Independence Avenue, S.W.
Washington, DC 20591

Dear Mr. Hebert:

Enclosed you will find Delta Air Lines, Inc.'s PFC Handling Fee cost data along with Arthur Andersen's independent audit report.

Should you have any questions or concerns, please contact me at 404-715-8170.

Sincerely,

Gwen Shepard
Manager, Revenue Accounting and Control

Enclosures



ARTHURANDERSEN

Delta Air Lines, Inc.

Agreed-Upon Procedures on Passenger

Facility Charges Incremental Costs

December 31, 1999

Together with Independent Public Accountants' Report

**INDEPENDENT PUBLIC ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES**

To Delta Air Lines, Inc. and
the Federal Aviation Administration:

We have performed the procedures enumerated in Attachment I, which were agreed to by **DELTA AIR LINES, INC.** (the "Company") and the Federal Aviation Administration ("FAA"), solely to assist you in evaluating the accompanying schedule of incremental costs directly associated with Passenger Facility Charges ("PFC") collection, handling, remittance, reporting, recordkeeping and auditing for the year ended December 31, 1999. This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the FAA and the Company. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment I either for the purpose for which this report has been requested or for any other purpose.

See Attachment I for the procedures performed on this engagement and the related results.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the accompanying schedules. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Further, with respect to the calculations described in Attachment I, we express no assurance as to the propriety of the methodologies employed in determining the amounts expressed in the accompanying schedule of incremental costs, or on the assumptions and estimates used in the specific calculations.

This report is intended solely for the information and use of the Board of Directors and management of the Company and the FAA, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Arthur Andersen LLP

Atlanta, Georgia
January 2, 2001

As determined by Delta Air Lines, Inc. ("Delta") and the Federal Aviation Administration ("FAA"), Arthur Andersen LLP ("AALLP") performed the following procedures:

1. We obtained a summary schedule from Delta of all costs attributed to the collection and administration of passenger facility charges ("PFC"), by expense caption, for the year ended December 31, 1999 (this schedule, which is attached, is entitled "**1999 Actual, 2000-2002 Forecast**" and also details projections of costs to be attributed to the collection and administration of PFCs for the years 2000-2002, as well as pro-forma costs for 1999).
2. We recalculated the total dollar amount of PFCs collected, refunded, and remitted for the year ended December 31, 1999 by multiplying the total number of PFC's collected, refunded, and remitted per the "**1999 Actual, 2000-2002 Forecast**," obtained in step 1., by \$3 (the average PFC charge). We agreed the recalculated total dollar amount of PFCs collected, refunded, and remitted for the year ended December 31, 1999 to the total amounts per the "**Passenger Facility Charges**" system generated report.
3. We obtained a schedule from Delta of the total dollar amount of interest income earned by the company on PFC funds it held between the time of collection from passengers and the time of remittance to and receipt by the airport(s) (or the refund of the PFC funds to passengers) for the year ended December 31, 1999 (the "**Investment Income on 1999 PFC Deposits**" schedule).
4. We tested the summation of the total 1999 net costs, as reported on the "**1999 Actual, 2000-2002 Forecast**" schedule obtained in step 1., for clerical accuracy.
5. We performed the following procedures related to each expense caption, as listed on the "**1999 Actual, 2000-2002 Forecast**" schedule obtained in step 1., and the "*Total Interest*" earned amount as reported on page 3 of the "**Investment Income on 1999 PFC Deposits**" schedule obtained in step 3., for the year ended December 31, 1999:

<u>Cost Caption</u>	<u>Procedures</u>
a. Credit Card Fees	<ol style="list-style-type: none"> i. We obtained from Delta, a schedule containing the breakout of credit card sales by month, for the year ended December 31, 1999, and compared it with a schedule containing total sales by month, for the year ended December 31, 1999. Using this schedule, we recalculated credit card sales as a percentage of total sales for the year. We agreed this percentage to the "<i>Percentage of Sales</i>" per the "Credit Card Fees" schedule obtained from Delta. ii. We agreed the dollar amount of net PFCs collected in 1999 per the "Passenger Facility Charges" schedule, as calculated in step 2., to the amount of net collected PFCs ("<i>Net Collected</i>") in 1999 per the "Credit Card Fees" schedule obtained in step 5.a.i. We recalculated the estimated PFC dollars collected via credit card sales ("<i>Est. CC Sales</i>") per the "Credit Card Fees" schedule for the year ended December 31, 1999 by multiplying net PFC dollars collected ("<i>Net Collected</i>") by the percentage of credit card sales to total sales ("<i>% of Sales</i>"). iii. We recalculated the credit card discount expense related to PFCs ("<i>CC Fee</i>") for 1999 per the "Credit Card Fees" schedule by multiplying the PFC dollars collected via credit card sales ("<i>Est CC Sales</i>"), as calculated in step 5.a.ii., by the average credit card discount percentage ("<i>Avg. Discount Rate</i>"), as determined by Delta on the "Credit Card Fees" schedule.

<u>Cost Caption</u>	<u>Procedures</u>
	<p>iv. We recalculated bad debt expense related to PFC's ("<i>Est. Charge Backs</i>") for 1999 per the "Credit Card Fees" schedule, by multiplying the PFC dollars collected via credit card sales ("<i>Est. CC Sales</i>"), as calculated in step 5.a.ii., by the bad debt rate ("<i>Avg. Percentage of Charge Backs</i>"), as determined by Delta on the "Credit Card Fees" schedule.</p> <p>v. We summed the credit card discount expense ("<i>CC Fee</i>"), calculated in step 5.a.iii., and the bad debt expense ("<i>Est. Charge Backs</i>"), calculated in step 5.a.iv., to arrive at the total credit card PFC costs ("<i>CC PFC Costs</i>") on the "Credit Card Fees" schedule, for 1999 and agreed the total to the "<i>Credit Card Fees</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p>
b. Audit Fees	<p>i. We obtained from Delta Internal Audit a summary of all internal and external audit fees relating to PFCs for 1999 (the "Audit Fees" schedule).</p> <p>ii. We agreed the "<i>External Audit</i>" fees, as reported on the "Audit Fees" schedule, to "<i>Passenger Facility Charge Audit</i>" fees, as reported on "Appendix III—Arthur Andersen FY 99 Fee Summary."</p> <p>iii. We agreed the summation of the "<i>internal audit</i>" and "<i>external audit</i>" fees as reported on the "Audit Fees" schedule to the "<i>Audit Fees</i>" as reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p>
c. PFC Disclosure	<p>i. We obtained from Delta a summary of all disclosure cost components related to PFC's for 1999 (the "Disclosure Costs" schedule).</p> <p>ii. We agreed the total disclosure costs ("<i>PFC Disclosure Costs</i>") per the "Disclosure Costs" schedule obtained in step 5.c.i. to the "<i>Disclosure Costs</i>" as reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p> <p>iii. We recalculated disclosure costs ("<i>PFC Disclosure Costs</i>") per the "Disclosure Costs" schedule, using Delta's methodology and assumptions.</p>
d. Reservations	<p>i. We obtained from Delta, a summary of all reservations cost components related to PFC's for 1999 (the "Reservations" schedule).</p> <p>ii. We agreed the total reservations costs ("<i>5% for PFC Cost</i>") per the "Reservations" schedule obtained in step 5.d.i. to the "<i>Reservations (RSSRs) (fully allocated)</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p>

Cost Caption	Procedures
	<ul style="list-style-type: none"> iii. We recalculated the total reservations costs for 1999 ("<i>5% for PFC Cost</i>"), as reported on the "Reservations" schedule, based on Delta's methodology and assumptions.
e. Passenger Services	<ul style="list-style-type: none"> i. We obtained from Delta a summary of all passenger services cost components related to PFC's for 1999 (the "Passenger Service" schedule). ii. We agreed the total passenger services costs ("<i>Total Cost per Year</i>") for 1999 per the "Passenger Service" schedule obtained in step 5.e.i. to the "<i>Passenger Services (CSRs)</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1. iii. We recalculated passenger service expense ("<i>Total Cost per Year</i>") for 1999 per the "Passenger Service" schedule based on Delta's methodology and assumptions.
f. Revenue Accounting, Data Entry, Accounts Payable, and Tax	<p>Data Entry</p> <ul style="list-style-type: none"> i. We obtained from Delta a summary of all data entry cost components related to PFC's for 1999 (the "Data Entry" schedule). ii. We selected two months' charges from 1999 and agreed the monthly charges to the respective ARC invoices and tested for reasonableness. iii. We agreed the total ARC data entry costs ("<i>PFC Cost (5% of Total Cost)</i>") for 1999, and the total BSP data entry costs ("<i>BSP Data Entry</i>") for 1999 per the "Data Entry" schedule obtained in step 5.f.i. to the ARC data entry costs ("<i>Data Entry: ARC</i>") and the BSP data entry costs ("<i>Data Entry: BSP</i>") reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1. iv. We recalculated both the ARC and BSP data entry costs ("<i>PFC Cost (5% of Total Cost)</i>") and ("<i>BSP Data Entry</i>"), respectively, for 1999 per the "Data Entry" schedule, based on Delta's methodology and assumptions. <p>Revenue Accounting</p> <ul style="list-style-type: none"> v. We obtained from Delta, a summary of all revenue accounting cost components related to PFC's for 1999 (the "Revenue Accounting" schedule). vi. We agreed the total revenue accounting costs ("<i>Total Revenue Accounting</i>") per the "Revenue Accounting" schedule obtained in step 5.f.v. to the "<i>Revenue Accounting</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.

Cost Caption	Procedures
	<p>vii. We recalculated the total revenue accounting costs ("<i>Total Revenue Accounting</i>") for 1999 per the "Revenue Accounting" schedule, based on Delta's methodology and assumptions.</p>
	<p>Accounts Payable</p>
	<p>viii. We obtained from Delta, a summary of all accounts payable cost components related to PFC's for 1999 (the "Accounts Payable" schedule).</p>
	<p>ix. We agreed the total accounts payable costs ("<i>Total Cost</i>") for 1999 per the "Accounts Payable" schedule obtained in step 5.f.viii. to the "<i>Accounts Payable</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p>
	<p>x. We recalculated the total accounts payable costs ("<i>Total Cost</i>") for 1999 per the "Accounts Payable" schedule, based on Delta's methodology and assumptions.</p>
<p>g. Corporate Property</p>	<p>i. We obtained from Delta, a summary of all corporate property cost components related to PFC's for 1999 (the "Corporate Property Department" schedule).</p> <p>ii. We agreed the total corporate property related costs for 1999 ("<i>Cost per year</i>") per the "Corporate Property Department" schedule obtained in step 5.g.i. to the "<i>Corporate Property Dept</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p> <p>iii. We recalculated the total corporate property related costs for 1999 ("<i>Cost per year</i>") per the "Corporate Property Department" schedule based on Delta's methodology and assumptions.</p>
<p>h. Training--Reservations, Ticket Agents, and Other Departments</p>	<p>i. We obtained from Delta, a summary of all departmental training costs allocated to PFC's (the "Training" schedule).</p> <p>ii. We agreed the total departmental training costs ("<i>Apx. Training cost (design/development/printing/webb/study guides)</i>") per the "Training" schedule obtained in step 5.h.i. to the "<i>Training: Passenger Service (CSRs)</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p> <p>iii. We recalculated the total departmental training costs ("<i>Apx. Training cost (design/development/printing/webb/study guides)</i>") per the "Training" schedule based on Delta's methodology and assumptions.</p>
	<p>Note: No specific training costs were recognized in 1999 as all PFC-related training costs are projected costs classified as "Implementation Costs" on the "1999 Actual, 2000-2002 Forecast"</p>

Cost Caption	Procedures
	schedule obtained in step 1.
i. Airline Reporting Corporation (ARC)	<p data-bbox="615 394 1341 453">i. We obtained from Delta, a schedule of all ARC 'one-time' charges incurred in 1999 (the "ARC" schedule).</p> <p data-bbox="615 485 1430 636">ii. We agreed the total ARC costs incurred in 1999 related to PFCs ("<i>Delta's approximate share of the one time cost</i>") per the "ARC" schedule obtained in step 5.i.i. to the "<i>ARC (one-time charge)</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p> <p data-bbox="615 667 1414 758">iii. We recalculated the total costs for 1999 ("<i>Delta's approximate share of the one time cost</i>") based on Delta's methodology and assumptions.</p>
j. Interest Income	<p data-bbox="615 793 1435 945">i. We obtained from Delta a schedule containing the breakout of the total dollar amount of interest earned on PFC funds held by the company, by month, for the year ended December 31, 1999 (the "Investment Income on 1999 PFC Deposits" schedule, as discussed in step 3).</p> <p data-bbox="615 976 1438 1157">ii. We obtained from Delta a schedule showing the average number of days that a PFC collected in each month was held between time of receipt by the airline and time of receipt by the airport(s); or (in the case of refunded tickets) time of refund to the passenger (the "Passenger Facility Charge Number of Days Held Before Remittance" schedule).</p> <p data-bbox="615 1188 1427 1278">iii. We obtained from Delta a schedule of the average interest rates earned for each month in 1999 on its short-term investment portfolio (the "Interest Rates" schedule).</p> <p data-bbox="615 1310 1435 1556">iv. We performed an interest income reasonableness test by recalculating two months of interest earned on net PFC dollars collected for the year ended December 31, 1999, by multiplying the net PFC dollars collected for each month per the "Passenger Facility Charges" schedule, obtained in step 2., by the ratio of days per the respective month divided by 360, and then multiplying by the respective month's interest rate as reported in the "Interest Rates" schedule obtained in step 5.j.iii.</p> <p data-bbox="615 1587 1414 1709">v. We agreed the two months of interest earned on PFC dollars collected as calculated in step 5.j.iv. to the "<i>Total Interest</i>" earned for each month tested per the "Investment Income on 1999 PFC Deposits" schedule.</p> <p data-bbox="615 1740 1427 1894">vi. We agreed the total interest earned on PFC dollars held in 1999 ("<i>Total Interest</i>") per the "Investment Income on 1999 PFC Deposits" schedule, obtained in step 3. to the respective line ("<i>Interest Revenue (Net)</i>") on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1.</p>

Cost Caption	Procedures
k. Internal One-Time IT Update	<ul style="list-style-type: none"> i. We obtained from Delta a schedule of all projected one-time IT update costs (the "Internal One-Time IT Update" schedule). ii. We agreed the projected total IT update costs ("<i>Total DT and WSP hours</i>") per the "Internal One-Time Update" schedule obtained in step 5.k.i. to the "<i>Internal One-Time IT update</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1. iii. We recalculated the total costs for 1999 ("<i>Total DT and WSP</i>") costs, based on Delta's methodology and assumptions.
l. Carrier Ongoing Information Systems	<ul style="list-style-type: none"> i. We obtained from Delta a summary of all carrier ongoing information systems costs allocated to PFC's for 1999 (the "Data Storage Costs" internal correspondence). ii. We agreed the total costs for 1999 from the "Data Storage Costs" internal correspondence obtained in step 5.l.i. to the "<i>Internal On-Going IT</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1. iii. We recalculated the carrier ongoing information systems costs allocated to PFC's for 1999 based on Delta's methodology and assumptions.
m. CRS On-Going Costs	<ul style="list-style-type: none"> i. We obtained from Delta a summary of all costs related to ongoing maintenance of PFC data for 1999 (the "CY99 CRS Ongoing Costs" schedule). ii. We agreed the 1999 total of the "<i>0.5% Related to PFCs</i>" column from the "CY99 CRS Ongoing Costs" schedule obtained in step 5.m.i. to the "<i>CRS On-Going Fees</i>" amount reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1. iii. We tested the "CY99 CRS Ongoing Costs" schedule by selecting five entities from the schedule and agreeing the total of one month's costs for each entity to respective invoices. iv. We recalculated the total CRS On-Going Costs (total "<i>0.5% Related to PFCs</i>") for 1999 based on Delta's methodology and assumptions.
6.	<p>We recalculated the average cost per PFC Collected and per PFC Remitted for the year ended December 31, 1999 by dividing the total net costs for the year ("<i>Total Cost</i>"), as reported on the "1999 Actual, 2000-2002 Forecast" schedule obtained in step 1 (which is presented net of the interest earned on collected PFC's, as reported in step 3), by the number of PFC's collected ("<i>PFCs collected</i>") and the number of PFC's remitted ("<i>PFCs remitted</i>"), as detailed on the "1999 Actual, 2000-2002 Forecast" schedule.</p>

Delta Air Lines, Inc.
"1999 Actual, 2000-2002 Forecast"

	Actual Costs 1999 ¹	1999 Pro-Forma ²	Implementation Costs ³	2000 Costs ⁴	Forecast 2001 ^{5,6}	Forecast 2002 ^{5,7}			
Credit Card Fees	5,596,018.56	49%	8,394,027.84	6,140,063.20	52%	7,858,483.44	58%	10,438,713.07	65%
Audit Fees	25,000.00	0%	25,000.00	25,000.00	0%	25,000.00	0%	25,000.00	0%
Disclosure Costs	244,120.45	2%	244,120.45	77,800.85	1%	77,800.85	1%	77,800.85	0%
Reservations (RSSRs) (fully allocated)	1,845,012.00	16%	1,845,012.00	1,834,607.00	15%	1,824,261.65	13%	1,813,974.27	11%
Passenger Services (CSRs)	3,060,000.00	27%	3,060,000.00	3,151,800.00	26%	3,246,354.00	24%	3,343,744.62	21%
Data Entry:									
Internal	-	0%	-	-	0%	-	0%	-	0%
ARC	94,406.00	1%	94,406.00	91,532.04	1%	90,283.96	1%	88,336.72	1%
BSP	16,344.48	0%	16,344.48	16,344.48	0%	16,344.48	0%	16,344.48	0%
Revenue Accounting	189,559.08	2%	189,559.08	176,707.16	1%	167,418.73	1%	183,228.72	1%
Tax Department	-	0%	-	-	0%	-	0%	-	0%
Accounts Payable	3,348.00	0%	3,348.00	4,950.00	0%	-	0%	-	0%
Corporate Property Dept	60,192.00	1%	60,192.00	60,192.00	1%	60,192.00	1%	60,192.00	0%
Training:									
RSSRs	-	0%	-	-	0%	-	0%	-	0%
Data Entry	-	0%	-	-	0%	-	0%	-	0%
Passenger Service (CSRs)	-	0%	-	5,000.00	0%	-	0%	-	0%
Internal One-Time IT update	-	0%	-	2,358,510.00	99%	-	0%	-	0%
Internal On-Going IT	17,200.00	0%	17,200.00	17,200.00	0%	17,200.00	0%	17,200.00	0%
CRS One-Time update	-	0%	-	-	0%	-	0%	-	0%
CRS On-Going fees	1,799,350.42	16%	1,799,350.42	1,957,504.69	16%	2,129,559.96	18%	2,316,738.06	14%
ATPCO	-	0%	-	-	0%	-	0%	-	0%
ARC (one-time change)	-	0%	-	14,012.50	1%	-	0%	-	0%
Interest Revenue (Net)	(1,512,899.71)	n/a	(2,271,232.02)	(1,643,355.28)	n/a	(1,966,760.47)	n/a	(2,297,376.40)	n/a
TOTAL COSTS	11,437,651.28	113%	13,477,328.25	2,377,522.50	100%	11,910,346.15	114%	13,546,138.60	117%
Number of PFCs Remitted	97,153,100		97,153,100	104,433,500		109,822,269		115,489,098	
Number of PFCs Collected	104,796,816		104,796,816	116,323,316		122,325,599		128,637,600	
Cost / PFC Remitted	0.12		0.14	0.11		0.12		0.14	
YQY Change				-3.1%		8.2%		12.9%	
Cost / PFC Collected	0.11		0.13	0.10		0.11		0.13	
YQY Change				-6.2%		8.2%		12.9%	

Notes:

- 1 - Actual costs incurred. Costs have been audited by independent auditor.
- 2 - Assumes the same volume as 1999, but with 100% of PFCs Collected at \$4.50 per PFC -- this **only** impacts Credit Card Fees and Interest Revenue.
- 3 - For any costs associated with the implementation of the new maximum \$4.50 PFC rate. This column is not year specific.
- 4 - 6 months of 2000 are actual with 6 months of forecast
- 5 - Does not include any Implementation Costs
- 6 - Assumes 3 months with 100% of PFCs Collected at \$3. Assumes 9 months with 50% at \$3 and 50% at \$4.50.
- 7 - Assumes 12 months with 100% of PFCs at \$4.50