

AUDIT REPORT



CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
BUREAU OF FINANCIAL AUDIT
WILLIAM C. THOMPSON, JR., COMPTROLLER

Audit Report on the Compliance of RCN Telecom Services of New York, Inc., With Its Franchise and Open Video Agreements January 1, 1999–December 31, 2005

FN06-078A

November 5, 2007



THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER
1 CENTRE STREET
NEW YORK, N.Y. 10007-2341

WILLIAM C. THOMPSON, JR.
COMPTROLLER

To the Citizens of the City of New York

Ladies and Gentlemen:

In accordance with the Comptroller's responsibilities contained in Chapter 5, §93, of the New York City Charter, my office has audited the compliance of RCN Telecom Services of New York, Inc. (RCN) with the terms of its Franchise and Open Video System (OVS) Agreements with the New York City Department of Information Technology and Telecommunications (DoITT).

Under the OVS agreement, RCN is permitted to construct and operate OVS communication services, including the operation of its microwave-satellite system within the City. The franchise agreement grants RCN franchise rights for the occupation of City property in connection with the provision of its telecommunications services. We audit private parties that are lessees of the City to ensure that they comply with the terms of their agreements, properly report revenue, and pay all fees due the City.

The results of our audit, which are presented in this report, have been discussed with officials of RCN and DoITT, and their comments have been considered in preparing this report. Their complete written responses are attached to this report.

I trust that this report contains information that is of interest to you. If you have any questions concerning this report, please e-mail my audit bureau at audit@Comptroller.nyc.gov or telephone my office at 212-669-3747.

Very truly yours,

A handwritten signature in black ink, appearing to read "Will C. Thompson, Jr.", written over a horizontal line.

William C. Thompson, Jr.

WCT/FH

Report: FN06-078A

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*The City of New York
Office of the Comptroller
Bureau of Financial Audit*

**Audit Report on the Compliance of
RCN Telecom Services of New York, Inc.,
With Its Franchise and Open Video Agreements
January 1, 1999–December 31, 2005**

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AUDIT REPORT IN BRIEF

The Department of Information Technology and Telecommunications (DoITT) has two agreements with RCN Telecom Services of New York, Inc. (RCN). The first agreement, a 10-year Open Video System (OVS) agreement signed on December 29, 1997, permits RCN to construct and operate OVS communication services, including the operation of its microwave-satellite system,¹ within the City. The second agreement, a 15-year franchise agreement signed on January 5, 1999, grants RCN franchise rights for the occupation of City property in connection with the provision of its telecommunication services. Under the OVS agreement, RCN is required to pay the City an OVS operator fee equal to five percent of gross revenue. Based on the franchise agreement, RCN is required to pay the City a franchise fee consisting of the greater of either \$200,000 or five percent of its annual gross revenue.

The audit determined whether RCN accurately reported its total revenue, calculated and paid the appropriate fee amounts to the City, and made the required payments on time; and complied with certain non-revenue-related requirements of its agreements (i.e., maintained the required insurance and security deposits, and made the required payments to the community access organizations (CAOs)).²

Audit Findings and Conclusions

RCN complied with certain non-revenue-related requirements of the agreements, such as maintaining the required \$50 million property and liability insurance that named the City as an additional insured party, paying the \$1 million in a security deposit, and remitting the required

¹ Microwave-satellite affords the transmission of signals via the airwaves, without the use of wires, fiber-optic, etc.

² Community Access Organizations are nonprofit corporations designated by each Borough President pursuant to provisions of the cable television franchise agreements. CAOs are responsible for the use of public channels.

payments to the CAOs and to the City for education and government access and for subscriber services to government facilities.

However, RCN failed to report \$26,431,624 in revenue to the City for the period January 1, 1999, to December 31, 2005; it therefore owes the City an additional \$1,784,594 in fees and interest. RCN did not report to the City any of the revenue generated from its microwave-satellite operations, advertising sales commissions, resale services, and other revenue categories required to be reported to the City under the OVS and franchise agreements. In addition, RCN did not provide sufficient documentation that would allow us to ascertain whether its books and records accurately reflected the results of all its revenue activities. As noted in the scope limitation section of the report, RCN did not provide its building activity reports for calendar years 1999 and 2000. Consequently, we were not able to determine whether additional revenues should have been reported for these periods or whether additional fees are due the City.

As a result of the findings of our preliminary audit report, RCN remitted a check for \$1,286,637 representing a portion of the principal amount assessed by our audit. Therefore, after adjusting for the amount paid, RCN owes the City \$497,957 (\$1,784,594 - \$1,286,637).

Audit Recommendations

To address the issues raised by this audit, we make five recommendations to RCN, including that it:

- pays the remaining \$497,957 in fees and late charges due the City, and
- reports all its revenue to the City as required in its OVS and franchise agreements.

We make five recommendations to DoITT, including that it:

- ensures that RCN pays the City \$497,597 in fees and late charges,
- complies with the report's other recommendations, and
- establishes proper guidelines to monitor RCN's compliance with its City agreements.

INTRODUCTION

Background

RCN Telecom Services of New York, Inc., (RCN) provides a variety of telecommunication services through its local high-capacity and microwave-satellite video system operations in the City. RCN offers multiple service options to approximately 77,000 subscribers throughout Manhattan, Queens, and Brooklyn. Services consist of basic service TV channels, premium service TV channels, pay service TV channels, telephone connection, and high-speed Internet connection. In addition to revenue from subscribers, RCN generates revenue from home-shopping channels, advertising, and resale³ activities.

RCN operates under two agreements with the City of New York through the Department of Information Technology and Telecommunications (DoITT), which is responsible for monitoring RCN's compliance with the terms of its agreements.

The first agreement, a 10-year Open Video System (OVS) agreement signed on December 29, 1997, permits RCN to construct and operate OVS communication services, including the operation of its microwave-satellite system within the City. The second agreement, a 15-year franchise agreement signed on January 5, 1999, grants RCN franchise rights for the occupation of City property in connection with the provision of its telecommunication services.

Under the OVS agreement, RCN is required to pay the City an OVS operator fee equal to five percent of gross revenue from or in connection with the distribution of any service on the system or the provisions of any service-related activity in connection with the system. This requirement is affected by Appendix H of the OVS agreement, which provides for RCN to report its gross revenue derived from microwave-satellite activities on an escalating scale (from 20 to 100 percent) over the first five years of the OVS agreement (through December 29, 2002). The OVS agreement also requires RCN to submit to the City a gross revenue report no later than 45 days after the last day of each March, June, September, and December throughout the term of this agreement. In addition, §9.4 of the agreement provides that "in the event that any payment required by this agreement is not actually received by the City on or before the applicable date fixed in this agreement, interest thereon shall accrue from such date at a rate equal to the then prevailing prime rate of interest charged by Chase Manhattan Bank (or other national bank selected by the Comptroller) for commercial loans, compounded daily."

Under the franchise agreement, RCN is required to pay the City a franchise fee consisting of the greater of either \$200,000 or five percent of its annual gross revenue from telecommunication services not covered under the OVS agreement. The franchise agreement also requires RCN to submit to the City quarterly gross revenue statements with payments made no later than 45 days after the last day of March, June, September, and December. Additionally, §7.4 of the franchise agreement provides that "in the event that any payment required by this agreement is not actually received by the City on or before the date fixed in this agreement, interest thereon shall

³ Resale services involve the sale of services by RCN using the fiber-optic or other transmission facilities of an independent third party.

accrue from such date until received at a rate equal to the rate of interest then in effect charged by the City for late payments of real estate taxes.”

In addition, RCN is required to:

- maintain a minimum combined amount of \$50,000,000 in insurance for bodily injury and property damage to comply with provisions of both the OVS and the franchise agreements;
- maintain a performance bond in the amount of \$800,000 in the form of a surety bond for the term of the OVS agreement;
- maintain a security fund deposit of \$1,000,000 in the form of an irrevocable letter of credit or other form of secure deposit acceptable under the OVS agreement;
- maintain a security fund deposit of \$2,000,000 in the form of an irrevocable letter of credit or other form of secure deposit acceptable under the franchise agreement. However, the franchise agreement further states that this amount may be reduced to \$1,000,000 provided that RCN maintains its \$800,000 performance bond; and
- make quarterly payments to the community access organizations (CAOs) and to the City for education and government access and for subscriber services to government facilities, as specified in Appendix C of the OVS agreement.

For calendar years 1999–2005 (January 1, 1999, through December 31, 2005), RCN reported gross revenues to the City totaling \$367.7 million and paid related fees totaling \$18.4 million, as shown in Table I, following:

Table I

Schedule of Gross Revenue Reported to the City
And Related Fees Paid
January 1, 1999, to December 31, 2005

Calendar Year	Gross Revenue		Total Gross Revenue	Total Fees
	OVS Agreement	Franchise Agreement		
1999	\$ 11,654,820	\$ 13,035,900	\$ 24,690,720	\$1,234,536
2000	18,947,312	13,958,855	32,906,167	1,645,308
2001	26,949,173	18,644,581	45,593,754	2,279,688
2002	33,221,524	22,878,899	56,100,423	2,805,021
2003	38,534,641	26,221,433	64,756,074	3,237,804
2004	44,604,561	25,511,032	70,115,593	3,505,780
2005	47,724,882	25,814,077	73,538,959	3,676,948
TOTAL	\$ 221,636,913	\$ 146,064,777	\$ 367,701,690	\$18,385,085

Objectives

The objectives of this audit were to determine whether RCN:

- accurately reported its total revenue, calculated and paid the appropriate fee amounts to the City, and made the required payments on time; and
- complied with certain non-revenue-related requirements of its agreements (i.e., maintained required insurance and security deposits, and made the required payments to the CAOs).

Scope and Methodology

The scope of this audit was calendar years 1999 through 2005 (January 1, 1999, through December 31, 2005). To achieve our audit objectives, we reviewed the OVS and franchise agreements between RCN and the City and identified relevant terms and conditions. We reviewed correspondence, RCN's quarterly gross revenue statements, and other relevant documents on file at DoITT to ascertain whether RCN submitted the required revenue reports and paid the fees due the City on time.

To obtain an understanding of RCN operating procedures, we conducted walk-through and meetings with RCN officials and familiarized ourselves with the accounting and record-keeping functions, documenting our understanding in memoranda. In addition, we reviewed the company's chart of accounts, general ledger, trial balance, and statement of operations, and performed a

preliminary review of the RCN building activity reports⁴ to identify unusual trends and to use as a basis for our detailed testing.

In conducting our audit work, we relied upon several opinions issued by various external auditors, including PricewaterhouseCoopers LLP, Friedman LLP, and Ernst & Young LLP, that covered the financial statements of RCN's parent, RCN Corporation, for the years 2003, 2004, and 2005 and RCN Corporation's internal controls over financial reporting for 2004 and 2005. We also relied upon the "Independent Service Auditor's Report" prepared for Convergys Information Management Group (as of October 31, 2001) as it applied to the ICOMS applications and data processing. RCN uses Convergys⁵ Information Management Group to manage its monthly subscriber billings.

Based on the this information, we assessed the reliability of the revenue data generated by RCN's billing system by conducting limited tests of transactions in the basic programming account for Manhattan residential subscribers, the highest revenue account in the RCN general ledger for 2004. We judgmentally selected transactions from the accounts receivable billing report, and traced the amounts to the customer ledger for accuracy.

To determine whether RCN accurately reported gross revenue to the City, we judgmentally selected all revenue transactions for 2004 (one of the years with the highest revenue) totaling \$70.1 million, or 19 percent of the \$367.7 million reported to the City by RCN for the period January 1, 1999, through December 31, 2005. We reconciled the amounts in the RCN trial balance, detailed general ledger, and the building activity report. We also reviewed all the billed revenue transactions generated by the RCN Convergys CableMaster 2000 ICOMS Application System (ICOMS) billing system that were reported in the detailed general ledger. To ascertain whether all billed revenue was properly accounted for and reported, we identified all revenue accounts in the chart of accounts and traced the accounts to the detailed general ledger. We then recalculated for accuracy the amounts in the accounts-receivable billed revenue (ARB051) account, deferred revenue account (ARB070S), and the revenue adjustments (ARB028), and, to determine their consistency, traced the amounts to the trial balance, the building activity report, and the revenue data that RCN reported to the City.

In addition, we analyzed detailed revenue transactions and revenue category totals reported in the building activity reports, reconciled the amounts to the trial balance and the statement of operations, and compared these to the revenue amounts reported to the City for 2001, 2002, 2003, and 2005. We also analyzed all revenue discrepancies identified to determine whether the exclusion of certain revenue categories from the quarterly revenue statements submitted to the City was appropriate. Finally, we reviewed RCN's bad-debt account and determined whether RCN properly

⁴ The building activity report details RCN's billing revenue activities by customer and by revenue category and reports all subscriber and non-subscriber revenue generated by Convergys/ICOMS. The building activity report serves as the basis for the revenue RCN reports to the City.

⁵ RCN uses Convergys Information Management Group to manage its monthly subscriber billings through ICOMS. This system processes subscriber billings and payments. The system also generates various management reports used by RCN to complete its financial data. ICOMS interfaces with the general ledger, trial balance, and building activity report.

recorded its bad-debt expenses and whether the amounts were appropriately excluded from the gross revenue statements submitted to the City.

To determine whether RCN correctly reported its advertising revenue, as required in the OVS agreements, we reviewed the advertising revenue reported in the building activity reports and traced the amounts to the trial balance. We also reviewed the RCN advertising agreement with ViaMedia, the firm responsible for handling RCN's advertising, and conducted limited tests on the amounts reported on ViaMedia's commission reports for the period January 1, 2004, through December 31, 2005.

To determine whether RCN properly reported to the City the value of the courtesy service ("free service") it offers, as required in the OVS agreement, we reviewed RCN's list of all customers receiving free service and the schedule of rates to determine the reasonableness of the amounts of courtesy service reported. We then reviewed the revenue categories RCN reported in its quarterly revenue statements submitted to the City to determine whether the free service category was properly included.

To determine whether revenue from resale services was accurately calculated and reported to the City, as required in the agreement, we reviewed RCN's statement of operations and identified related amounts. In addition, we reviewed the agreement between RCN and the third-party provider, and also reviewed RCN's schedule of payments to the provider to ascertain whether the amount of resale revenue retained by RCN was accurately determined. We then compared the resale amount RCN retained to the quarterly revenue statements submitted to the City to determine whether the amount was appropriately included in the total revenue reported to the City.

The results of our tests, while not projectable to all RCN revenue, provided a reasonable basis to evaluate the appropriateness of the amounts that RCN reported and the fees it paid to the City.

Finally, to determine whether RCN complied with the non-revenue-related terms and conditions of its agreements, we reviewed insurance certificates to determine whether RCN maintained the required insurance coverage. We also reviewed security deposit records to determine whether RCN maintained the required security deposits. In addition, we examined RCN's schedule of payments to verify that the proper payments were made to the CAOs and to the City for education and government access and for subscriber services to government facilities.

Scope Limitation

To conduct our audit of the franchise and OVS agreements between RCN and the City, we requested specific data and detailed documentation to verify that RCN reported all its revenue and paid the appropriate fees to the City for the audit scope period from January 1, 1999, through December 31, 2005.

RCN did not provide the building activity reports for the period January 1, 1999, through December 31, 2000, and for the month of October, 2002. The building activity report provides

critical detailed information of all revenue billed, recorded, and reported by RCN. It is also used to identify the revenue RCN reports in its statement of operations and in its quarterly revenue reports submitted to the City. Therefore, without the building activity reports for these periods, we were not able to determine the amount of RCN revenue from resale, microwave-satellite, and other sources that should have—but might not have—been reported to the City for calendar years 1999 and 2000 and for the month of October 2002.

Likewise, we were unable to determine whether additional fees were due the City for any of the above sources of revenue that might not have been reported. We note that our audit disclosed significant amounts of unreported revenue in these revenue areas for the years in which we had access to the building activity reports (see Table II for the audit exceptions and additional fees owed the City). In addition, RCN's failure to provide critical documents represents a departure from compliance with specific requirements of its agreements with the City. According to §8.7.1 of the franchise agreement and §10.5.1 of the OVS agreement, "Throughout the Term of the agreement, the Company shall maintain complete and accurate books of account and records of the business, ownership, and operations of the Company with respect to the System in a manner that allows the City at all times to determine whether the Company is in compliance with the Agreement."

This audit was conducted in accordance with generally accepted government auditing standards (GAGAS) and, with the exception of the lacking data cited in the scope limitation, included all tests considered necessary. The audit was performed in accordance with the audit responsibilities of the City Comptroller as set forth in Chapter 5, §93, of the New York City Charter.

Discussion of Audit Results

The matters covered in this report were discussed with RCN officials during and at the conclusion of this audit. A preliminary draft report was sent to RCN and DoITT officials on July 23, 2007. Subsequently, RCN provided us with additional information related to the issues discussed in the preliminary report. An exit conference was held on August 27, 2007, at which RCN remitted a payment of \$1,286,637 representing a portion of the principal balance owed the City. On September 12, 2007, we submitted a draft report to RCN and DoITT with request for comments.

We received written responses from DoITT on September 26, 2007, and from RCN on September 27, 2007. RCN officials agreed with the audit report findings and recommendations. In their response, RCN officials noted that significant changes in their business restructuring, and internal operations may have impacted their ability to accurately report all revenue to the City and pay the appropriate fees. They also stated that "in any event, RCN is committed to cooperating fully with DoITT to resolve any and all outstanding issues arising from the audit report, including, without limitation, late charges."

DoITT officials agreed with the report's recommendations; however, they took exception to the report's other issue regarding the adequacy of DoITT's oversight.

The full texts of the DoITT and RCN responses are included as addenda to this report.

FINDINGS

RCN complied with certain non-revenue-related requirements of its agreements with the City, such as maintaining the required \$50 million property and liability insurance that named the City as an additional insured party, paying the \$1 million in a security deposit, and remitting the required payments to the CAOs and to the City for education and government access and for subscriber services to government facilities.

However, RCN failed to report \$26,431,624 in revenue to the City for the period January 1, 1999, to December 31, 2005; it therefore owes the City an additional \$1,784,594 in fees and interest.⁶ Specifically, RCN did not report to the City any of the revenue generated from its microwave-satellite operations, advertising sales commissions, resale services, and other revenue categories required to be reported to the City under the OVS and franchise agreements. In addition, RCN did not provide sufficient documentation that would allow us to ascertain whether its books and records accurately reflected the results of all its revenue generating activities. As noted in the scope limitation section, RCN did not provide its building activity reports for calendar years 1999 and 2000 and October 2002. As a result, we were not able to determine whether additional revenues should have been reported for these periods or whether additional fees are due the City. See Table II, which follows, for the details.

⁶ As a result of the findings of our preliminary audit report, RCN remitted a check for \$1,286,637 representing a portion of the principal amount assessed by our audit. Therefore, after adjusting for the amount paid, RCN owes the City \$497,957 (\$1,784,594 - \$1,286,637).

Table II
Additional Fees and Interest Owed
Based on Unreported Revenue
Calendar Years 1999 through 2005

Calendar Year	Microwave	Advertising	Resale	Free Service	Other Revenue Categories	Revenue Omission	Bad Debt Write-Offs	Total Unreported Revenue Amount
1999		\$46,077		\$73,920				\$119,997
2000		161,886		131,915				293,801
2001	\$5,056,932	165,607	2,926,720	261,288	\$1,009,923	\$7,664	(\$2,182,936)	7,245,198
2002	5,008,570	248,116	1,930,016	380,046	1,282,981	201,855	(2,112,827)	6,938,757
2003	3,310,895	190,410		455,552	2,112,014	102,330	(1,507,266)	4,663,935
2004	3,274,070	218,495	310,828	515,591	666,800	325,579	(931,429)	4,379,934
2005	2,099,886	581,115	210,174	559,703	57,109		(717,985)	2,790,002
TOTAL UNDER-REPORTED REVENUE	\$18,750,353	\$1,611,706	\$5,377,738	\$2,378,015	\$5,128,827	\$637,428	(\$7,452,443)	\$26,431,624
FEES DUE THE CITY	937,518	80,585	268,887	118,901	256,441	31,871	(372,622)	1,321,581
LATE CHARGES	250,732	19,618	381,070	29,722	89,857	19,674	(327,660)	463,013
TOTAL OWED THE CITY	\$1,188,250	\$100,203	\$649,957	\$148,623	\$346,298	\$51,545	(\$700,282)*	\$1,784,594**

* The total revenue RCN did not report to the City has been adjusted to reflect the amount of bad-debt write-offs that RCN did not deduct in its revenue reports to the City from calendar years 2001 through 2005.

** As a result of the findings of our preliminary audit report, RCN remitted a check for \$1,286,637 representing a portion of the principal amount due the City, as illustrated in this table. Therefore, after adjusting for the amount paid, RCN owes the City \$497,957 (\$1,784,594 -\$1,286,637).

As illustrated in Table II, except for advertising and free-service activities, RCN did not provide revenue information for calendar years 1999 and 2000. We based our calculations of the amounts of unreported revenue and additional fees owed the City on the records that were provided. However, as disclosed in the scope limitation, we were not able to determine the total amount of revenue from RCN's operations that may not have been reported to the City, or any resulting additional fees, if any, that may be due.

These matters are discussed in detail in the following sections of this report.

**RCN Failed to Report \$18,750,353
In Microwave-Satellite Revenue**

Our review of RCN's books and records for the period January 1, 2001, to December 31, 2005, found that RCN inappropriately excluded \$18,750,353 in microwave-satellite revenue from the gross revenue it reported to the City. Consequently, RCN owes the City \$1,188,250 in additional fees and late interest payment, as detailed in Table II.

RCN is required to pay an operator fee of five percent of gross revenue under its OVS agreement and to make payments (referred to as "Phase-In-Amounts") to the City equal to five percent of an escalating amount⁷ of gross revenue from its microwave-satellite operations over the first five years of the OVS agreement. However, our reconciliation of RCN's building activity reports and the quarterly revenue statements submitted to the City revealed that from January 1, 2001, through December 31, 2005, RCN failed to report a total of \$18,750,353 in microwave-satellite revenue to the City, which resulted in RCN owing the City \$1,188,250 in additional fees and late interest.

**RCN Inappropriately Excluded \$12,755,699
From the Revenue It Reported to the City**

RCN failed to report to the City a total of \$12,755,699 in revenue generated from various operating activities that are specifically identified in the gross revenue definition of the agreements with the City, as follows:

**\$1,611,706 in Advertising Revenue
Was Not Reported to the City**

RCN did not report a total of \$1,611,706 in advertising revenue in the quarterly revenue statements submitted to the City from January 1, 1999, to December 31, 2005. Consequently, RCN owes the City \$100,203 in additional fees and late interest payment, as detailed in Table II.

According to the definition of gross revenue in §1.26 of the OVS agreement, "Gross Revenue shall also include all advertising revenue which is derived directly or indirectly by the Company." However, our review of the RCN trial balance and statement of operations report from January 1, 1999, to December 31, 2005, revealed that RCN earned a total of \$1,691,647 in advertising revenue. Moreover, RCN quarterly revenue statements submitted to the City did not report advertising revenue from January 1, 1999, through December 31, 2003, and reported only \$79,941 in its quarterly gross revenue statements for 2004 and 2005. Therefore, RCN failed to report the remaining \$1,611,706 in advertising revenue to the City. As a result, RCN owes the City \$100,203 in additional fees and late interest payment, as detailed in Table II.

⁷ Based on the schedule of the phase-in amounts provided in Appendix H of the OVS agreement, RCN is required to pay five percent of: 20 percent of all microwave-satellite revenue of RCN and its affiliates on initial signing of the agreement; 40 percent on the first anniversary; 60 percent on the second anniversary; 80 percent on the third anniversary; and 100 percent thereafter.

**\$5,377,738 in Resale Revenue
Was Not Reported to the City**

RCN did not report to the City a total of \$5,377,738 in revenue it generated from its resale activities. As a result, RCN owes the City \$649,957 in additional fees and late interest payment, as detailed in Table II.

RCN generates resale revenue by selling services that are then provided to the public through a third-party provider. According to the provisions of the franchise agreement, RCN is permitted to reduce gross revenue from resale by the amount RCN paid to its third-party provider. Our review of RCN's building activity reports and the schedule of payments to the provider found that for the period of January 1, 2001, to December 31, 2005, RCN reported total revenue from resale in the amount of \$15,570,705, and paid its third-party provider a total of \$10,192,967 for the cost of resale services. Since RCN is allowed to reduce its gross revenue from resale by the amount it paid to its third-party provider, RCN should have reported the difference of \$5,377,738 to the City. However, RCN quarterly revenue statements submitted to the City did not report revenue from resale. As a result, RCN owes an additional \$649,957 in fees and interest on late payments, as detailed in Table II.

**\$5,128,827 in Other Revenue Categories Excluded
From the Revenue Reported to the City**

RCN did not report a total of \$5,128,827 in revenue categories classified as "other" in its building activity. Consequently, it owes the City \$346,298 in additional fees and interest on late payments, as detailed in Table II.

Our analysis of RCN's building activity reports identified several revenue categories that were not included in the report submitted to the City. In the category classified as "other," RCN did not report revenue from commissions received from the home shopping channel, franchise fees RCN passes on to the customers, installation and reconnection fees, and other, related revenue. According to the gross revenue definition in §1.16 of the franchise agreement and §1.26 of the OVS agreement, "Gross Revenue shall include all revenue, as determined in accordance with generally accepted accounting principles, that is received directly or indirectly by the Company . . . from or in connection with any Telecommunication Services provided in accordance with this agreement which originate in and/or terminate in the City." However, for the period 2001 through 2005, RCN did not report to the City a total of \$5,128,827 in revenue it generated from other sale activities, contrary to its franchise agreement. As a result, RCN owes the City \$346,298 in additional fees and interest on late payments, as detailed in Table II.

**\$637,428 Was Incorrectly Excluded
From the Revenue Reported to the City**

RCN omitted a total of \$637,428 from the gross revenue it submitted to the City. As a result, RCN owes the City \$51,545 in additional fees and interest on late payments, as detailed in Table II.

Our reconciliation of the RCN building activity report and the quarterly revenue statements found that RCN understated its gross revenue by incorrectly excluding the following revenue transactions:

- \$7,664 in revenue transactions during the months of August and September 2001.
- \$201,855 in revenue transactions during the months of July, August, September, and December 2002.
- \$102,330 in revenue transactions during January 2003.
- \$325,579 in revenue transactions during April, 2004.

As a result, RCN owes the City \$51,545 in additional fees and interest on late payment.

**RCN Failed to Report Free Service
With a Value of \$2,378,015**

RCN did not report to the City the value of the free services it provided in the amount of \$2,378,015. Therefore, RCN owes \$148,623 in additional fees and late interest payment to the City, as detailed in Table II.

According to the OVS agreement, RCN is required to include the value of free services it provides in the calculation of gross revenue it reports to the City. However, we found that from 1999 to 2005, RCN provided courtesy services with a total value of \$2,378,015 to its employees and apartment building managers. This amount, however, was not reported in RCN's quarterly revenue statements submitted to the City. Consequently, RCN owes the City \$148,623 in additional fees and interest on late payments, as detailed in Table II.

**RCN Did Not Report Its Bad-Debt
Write-Offs to the City**

According to the OVS agreement, RCN is permitted to exclude bad-debt write-offs from the gross revenue amounts it reports to the City. Based on our review of RCN's bad-debt account from calendar years 2001 through 2005, we found that RCN recorded bad-debt write-offs totaling \$7,452,443. However, RCN did not include deductions for bad-debts in its revenue statements submitted to the City. As a result, we adjusted the amount of unreported revenue to the City to reflect a reduction of \$7,452,443 in bad-debt expense and a corresponding credit of \$700,282 to RCN, as detailed in Table II.

Other Issue

Inadequate Oversight by DoITT

DoITT did not exercise its responsibility to ensure that RCN reported its revenue to the City in accordance with the agreements. Under the City Charter, every agreement memorializing the terms and conditions of a franchise, irrevocable consent, or concession must contain adequate provisions to secure efficiency of the services provided, assure the maintenance of the property of the City, and provide for adequate compensation to the City. The City Charter also requires that the agency designated to have primary expertise and responsibility for the franchise must monitor the performance of the grantee and enforce the terms and conditions of the franchise under its jurisdiction.⁸ The agreements between RCN and the City require RCN to establish and maintain managerial and operational records, standards, procedures, and controls to enable it to prove in reasonable detail and to the reasonable satisfaction of the oversight agency, in this case DoITT, that RCN is in compliance with the agreements at all times throughout the term.

However, our audit found no evidence that DoITT had required RCN to submit detailed financial records to support the revenue reported to the City. Instead, DoITT accepted the amounts RCN reported as well as the related payments RCN made without exercising the proper oversight review. Such oversight review would have determined the accuracy and completeness of the revenue amounts that RCN reported to the City. As our audit disclosed, for the period covered, calendar years 1999 to 2005, RCN understated its revenue to the City by excluding \$26,331,753 in revenue from microwave-satellite, advertising, resale, and other activities specifically required to be reported under the definition of gross revenue in the agreements.

For 1999 to 2000, RCN did not provide books and records that would have enabled us to verify the accuracy of the revenue reported to the City or the extent of additional fees that may be due the City resulting from unreported revenue. According to the agreements, “the Company shall keep comprehensive itemized records of all revenues received and of all services provided, in sufficient detail to enable the City to determine whether all compensation owed to the City is being paid to the City.”

Because of RCN’s departure from certain significant compliance provisions of the agreements, specifically as it relates to the gross revenue provisions, we recommend that DoITT actively monitor RCN’s compliance with the agreements and establish proper procedures to ensure that RCN reports all its revenue and that it maintains detailed and accurate books and records in support of all its business activities, as required by the agreements.

⁸ These requirements are contained in Chapter 14 §365 (a)(c), Terms of Agreements: Enforcement.

RECOMMENDATIONS

We recommend that RCN:

1. Pay the City the balance of \$497,957, which includes \$34,944 in additional OVS and franchise fees and \$463,013 in late charges.

RCN Response: “Although the City is permitted to impose such charges under the respective agreements, we hope that the City would offer some leniency with RCN in this regard, because RCN did not intentionally or fraudulently withhold any amounts due the City during the review period or thereafter. In fact, as stated above, any failure to pay amounts due the City resulted from oversight on RCN’s part. Secondly, due to the constant state of flux in RCN’s financial status and operations during the review period, we are certain that it was difficult for DOITT (or any other third party) to ascertain whether RCN had fully complied with all of its revenue and non-revenue obligations during the review period. In any event, now that we have delivered payment for a majority of the past due OVS and franchise fees, we are committed to cooperating fully with DOITT to resolve any and all outstanding issues arising from the audit report, including, without limitation, late charges.”

2. Ensure that all future revenue from microwave-satellite, advertising, resale, and other business operations are accurately reported and that the appropriate fees are paid to the City, in accordance with the OVS and franchise agreements.

RCN Response: “Agreed. We have revised our process to include all revenue required, in accordance with the OVS and franchise agreement, to properly calculate fees.”

3. Ensure that bad-debt expenses are properly deducted from gross revenue reported to the City.

RCN Response: “Agreed. Bad debt expenses will be factored into all future reporting.”

4. Ensure that all revenue reported in its books and records is properly reconciled and included in the quarterly revenue statements it submits to the City.

RCN Response: “Agreed. We will put a process in place to provide the proper reconciliation for our quarterly revenue statements.”

5. Maintain complete and accurate books of accounts and records of business in a manner that would allow the DoITT to determine whether RCN is in compliance with the agreements.

RCN Response: “Agreed. We will maintain accurate records and work closely with DoITT to ensure RCN is in compliance with the agreements.”

We recommend that DoITT:

6. Ensure that RCN pays the City the balance of \$497,957.

DoITT Response: “DoITT will aggressively pursue immediate payment of the full balance. Moreover, it should be noted that RCN’s Open Video System (OVS) franchise with the City expires in December of this year. Payment of the balance will be a precondition of DoITT’s approval of any new franchise or other franchise-related action that may be sought by RCN. Finally, if necessary, DoITT will pursue an affirmative legal claim against RCN for the balance.”

7. Ensure that RCN complies with the other recommendations, especially those relating to potential unreported revenue and additional fees due the City.

DoITT Response: “DoITT will negotiate a franchise provision with RCN whereby a designated RCN senior executive must certify the completeness and accuracy of quarterly revenue submissions, with the same certified annually by RCN’s chief financial officer. In addition, DoITT will designate in-house personnel to examine revenue reports from RCN and other franchisees. DoITT will also consider the utility of engaging outside auditors to augment these operations.”

8. Ensure that RCN reports to the City any additional revenue for the period January 1, 1999, through December 31, 2000, and for the month of October 2002, as required by the terms of the OVS and franchise agreements, and that RCN pays the City additional fees that may be due based on any additional revenue reported resulting from the implementation of this recommendation.

DoITT Response: “DoITT will continue to aggressively pursue revenue reports from RCN for the above noted periods, as well as any associated fees and late charges owed to the City.”

9. Establish the proper guidelines and a review process to monitor RCN’s compliance with the City agreements. DoITT should ensure that RCN reports all its subsequent revenue to the City in compliance with the revenue provisions of the agreements and that it pays its fees accordingly.

DoITT Response: “DoITT will issue to appropriate staff a written franchise review procedure, ‘formalizing’ established practices and implementing new best practices. The procedure will reinforce the requirement that responsible DoITT staff maintain thorough knowledge of the revenue provisions of the franchise agreements and require that such staff document, on a quarterly basis, the actions that they may have taken to ensure compliance with the agreements. In addition, DoITT will negotiate to include new remedy provisions in any future RCN franchise(s), in the event that the company is found to be substantially out of compliance with the revenue provisions of the agreements.”

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported Microwave Revenue
January 1, 2001, through December 31, 2005

Date	Additional \$7,455 Due City	Unpaid Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	Interest Rate	Late Interest Charge
				From	To			
2001								
1st Quarter	\$ 65,641	\$ 65,641	05/15/01	5/16/2001	6/27/2001	43	7.50%	\$ 582
		66,223		6/28/2001	8/14/2001	48	7.00%	612
		66,836						
2nd Quarter	64,170	131,006	08/14/01	8/15/2001	8/21/2001	7	6.75%	170
		131,176		8/22/2001	9/17/2001	27	6.50%	632
		131,808		9/18/2001	10/2/2001	15	6.00%	325
		132,133		10/3/2001	11/6/2001	35	5.50%	699
		132,832		11/7/2001	11/14/2001	8	5.00%	146
		132,977						
3rd Quarter	63,013	195,990	11/14/01	11/15/2001	12/11/2001	27	5.00%	726
		196,717		12/12/2001	2/14/2002	65	4.75%	1,671
		198,388						
4th Quarter	60,023	258,411	02/14/02	2/15/2002	5/15/2002	90	4.75%	3,044
2002		261,455						
1st Quarter	74,945	336,400	05/15/02	5/16/2002	8/14/2002	91	4.75%	4,007
		340,407						
2nd Quarter	72,325	412,732	08/14/02	8/15/2002	11/6/2002	84	4.75%	4,536
		417,268		11/7/2002	11/14/2002	8	4.25%	389
		417,657						
3rd Quarter	72,229	489,886	11/14/02	11/15/2002	2/14/2003	92	4.25%	5,276
		495,162						
4th Quarter	30,929	526,091	02/14/03	2/15/2003	5/15/2003	90	4.25%	5,542
2003		531,633						
1st Quarter	28,001	559,634	05/15/03	5/16/2003	6/26/2003	42	4.25%	2,743
		562,377		6/27/2003	8/14/2003	49	4.00%	3,028
		565,405						
2nd Quarter	41,310	606,715	08/14/03	8/15/2003	11/14/2003	92	4.00%	6,148
		612,862						
3rd Quarter	48,641	661,503	11/14/03	11/15/2003	2/14/2004	92	4.00%	6,703
		668,206						
4th Quarter	47,593	715,799	02/14/04	2/15/2004	5/15/2004	91	4.00%	7,174
2004		722,973						
1st Quarter	44,531	767,504	05/15/04	5/16/2004	6/29/2004	45	4.00%	3,794
		771,298		6/30/2004	8/9/2004	41	4.25%	3,691
		774,989		8/10/2004	8/14/2004	5	4.50%	478
		775,467						
2nd Quarter	42,495	817,962	08/14/04	8/15/2004	9/20/2004	37	4.50%	3,740
		821,701		9/21/2004	11/9/2004	50	4.75%	5,364
		827,065		11/10/2004	11/14/2004	5	5.00%	567
		827,632						

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported Microwave Revenue
January 1, 2001, through December 31, 2005

Date	Additional Fees Due City	Accumulated Balance Due	Payment Due Date	Over Period		Number of Days Overdue	Interest Rate	Late Interest Charge
				From	To			
3rd Quarter	38,051	865,683	11/14/04	11/15/2004	12/13/2004	29	5.00%	3,446
		869,128		12/14/2004	2/1/2005	50	5.25%	6,273
		875,401		2/2/2005	2/14/2005	13	5.50%	1,716
4th Quarter	38,627	877,117	02/14/05	2/15/2005	3/21/2005	35	5.50%	4,842
		915,744		3/22/2005	5/2/2005	42	5.75%	6,111
		920,586		5/3/2005	5/15/2005	13	6.00%	1,982
		926,697						
2005		928,679						
1st Quarter	36,139	964,818	05/15/05	5/16/2005	6/29/2005	45	6.00%	7,163
		971,981		6/30/2005	8/8/2005	40	6.25%	6,680
		978,661		8/9/2005	8/14/2005	6	6.50%	1,046
2nd Quarter	30,840	979,707	08/14/05	8/15/2005	9/19/2005	36	6.50%	6,499
		1,010,547		9/20/2005	10/31/2005	42	6.75%	7,930
		1,017,046		11/1/2005	11/14/2005	14	7.00%	2,755
3rd Quarter	22,415	1,024,975	11/14/05	11/15/2005	12/12/2005	28	7.00%	5,654
		1,027,731		12/13/2005	1/30/2006	49	7.25%	10,325
		1,050,146		1/31/2006	2/14/2006	15	7.50%	3,291
4th Quarter	15,600	1,055,799	02/14/06	2/15/2006	3/27/2006	41	7.50%	9,179
		1,066,125		3/28/2006	5/9/2006	43	7.75%	10,035
		1,069,415		5/10/2006	6/28/2006	50	8.00%	12,166
		1,085,015						
		1,094,194						
		1,104,229						
		1,116,395						
Total	\$ 937,518							\$ 250,732

- (a) The "number of days overdue" fluctuates depending on the interest rate that should be applied to the specific day, to calculate the late interest charge.
- (b) Section 9.4 of the OVS agreement requires that "in the event that any payment required by this agreement is not actually received by the City on or before the applicable dated fixed in this agreement, interest thereon shall accrue from such date at a rate equal to the then prevailing prime rate of interest charged by Chase Manhattan Bank (or any other national bank selected by the Comptroller) for commercial loans, compounded daily).
- (c) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported Advertising Revenue
January 1, 1999, through December 31, 2005

Date	Additional 5% Fees Due City	Accumulated Balance Due	Payment Due Date	Covered Period		Number of Days Overdue	Interest Rate	Late Interest Charge
				From	To			
1999								
1st Quarter	\$ 576	\$ 576	5/15/1999	5/16/1999	6/30/1999	46	7.75%	\$ 6
		582		7/1/1999	8/14/1999	45	8.00%	6
2nd Quarter	576	587	8/14/1999	8/15/1999	8/24/1999	10	8.00%	3
		1,163		8/25/1999	11/14/1999	82	8.25%	22
3rd Quarter	576	1,166	11/14/1999	11/15/1999	11/16/1999	2	8.25%	1
		1,188		11/17/1999	2/2/2000	78	8.50%	32
4th Quarter	576	1,764	2/14/2000	2/3/2000	2/13/2000	11	8.75%	5
		1,765		2/15/2000	3/21/2000	36	8.75%	21
		1,802		3/22/2000	5/15/2000	55	9.00%	33
2000								
1st Quarter	2,023	2,431	5/15/2000	5/16/2000	5/16/2000	1	9.00%	1
		4,454		5/17/2000	8/14/2000	90	9.50%	106
2nd Quarter	2,023	4,455	8/14/2000	8/15/2000	11/14/2000	92	9.50%	160
		4,561		11/14/2000	11/15/2000	1/3/2001	50	9.50%
3rd Quarter	2,024	6,584	11/14/2000	1/4/2001	1/31/2001	28	9.00%	62
		6,743		2/1/2001	2/14/2001	14	8.50%	29
4th Quarter	2,024	8,767	2/14/2001	2/15/2001	3/20/2001	34	8.50%	87
		8,882		2/1/2001	3/20/2001	48	8.00%	117
		8,944		3/21/2001	4/18/2001	29	8.00%	71
		8,973		4/19/2001	5/15/2001	27	7.50%	63
2001								
1st Quarter	1,694	11,336	5/15/2001	5/16/2001	6/27/2001	43	7.50%	116
		13,030		6/28/2001	8/14/2001	48	7.00%	122
2nd Quarter	1,679	13,145	8/14/2001	8/15/2001	8/21/2001	7	6.75%	19
		13,267		8/22/2001	9/17/2001	27	6.50%	72
3rd Quarter	2,241	14,946	11/14/2001	9/18/2001	10/2/2001	15	6.00%	37
		14,965		10/3/2001	11/6/2001	35	5.50%	80
4th Quarter	2,666	15,037	2/14/2002	11/7/2001	11/14/2001	8	5.00%	17
		15,074		11/15/2001	12/11/2001	27	5.00%	65
		15,154		12/12/2001	2/14/2002	65	4.75%	148
		15,171		2/15/2002	5/15/2002	90	4.75%	239
		17,412						
		17,476						
		17,625						
		20,291						

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported Advertising Revenue
January 1, 1999, through December 31, 2005

Date	Additional 5% Fees Due City	Accumulated Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	Interest Rate	Late Interest Charge
				From	To			
2002		20,530						
1st Quarter	3,732	24,262	5/15/2002	5/16/2002	8/14/2002	91	4.75%	289
2nd Quarter	2,124	24,551	8/14/2002	8/15/2002	11/6/2002	84	4.75%	293
		26,675		11/7/2002	11/14/2002	8	4.25%	25
3rd Quarter	1,888	26,968	11/14/2002	11/15/2002	2/14/2003	92	4.25%	311
		26,993						
4th Quarter	4,662	29,192	2/14/2003	2/15/2003	5/15/2003	90	4.25%	357
		33,854						
2003		34,211						
1st Quarter	4,194	38,405	5/15/2003	5/16/2003	6/26/2003	42	4.25%	188
		38,593		6/27/2003	8/14/2003	49	4.00%	208
2nd Quarter	1,496	38,801	8/14/2003	8/15/2003	11/14/2003	92	4.00%	408
		40,297						
3rd Quarter	2,328	40,705	11/14/2003	11/15/2003	2/14/2004	92	4.00%	436
		43,033						
4th Quarter	1,502	43,469	2/14/2004	2/15/2004	5/15/2004	91	4.00%	451
		44,971						
2004		45,422						
1st Quarter	4,328	49,750	5/15/2004	5/16/2004	6/29/2004	45	4.00%	246
		49,996		6/30/2004	8/9/2004	41	4.25%	239
		50,235		8/10/2004	8/14/2004	5	4.50%	31
2nd Quarter	3,400	50,266	8/14/2004	8/15/2004	9/20/2004	37	4.50%	245
		53,666		9/21/2004	11/9/2004	50	4.75%	352
		53,911		11/10/2004	11/14/2004	5	5.00%	37
3rd Quarter	3,197	54,263	11/14/2004	11/15/2004	12/13/2004	29	5.00%	229
		54,300		12/14/2004	2/1/2005	50	5.25%	417
		57,497		2/2/2005	2/14/2005	13	5.50%	114
4th Quarter		58,257	2/14/2005	2/15/2005	3/21/2005	35	5.50%	308
		58,257		3/22/2005	5/2/2005	42	5.75%	389
		58,565		5/3/2005	5/15/2005	13	6.00%	126
		58,953						
2005		59,080						
1st Quarter	2,895	61,975	5/15/2005	5/16/2005	6/29/2005	45	6.00%	460
		62,435		6/30/2005	8/8/2005	40	6.25%	429
		62,864		8/9/2005	8/14/2005	6	6.50%	67
2nd Quarter	3,364	62,931	8/14/2005	8/15/2005	9/19/2005	36	6.50%	426
		66,295		9/20/2005	10/31/2005	42	6.75%	520
		66,721		11/1/2005	11/14/2005	14	7.00%	181
		67,241						
		67,422						

**RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported Advertising Revenue
January 1, 1999, through December 31, 2005**

Date	Additional % Fees Due City	Accumulated Balance Due	Payment Due Date	Overdue Period		(a) Number of Days Overdue	(b) Interest Rate	(c) Late Interest Charge
				From	To			
3rd Quarter	2,254	69,676	11/14/2005	11/15/2005	12/12/2005	28	7.00%	375
		70,051		12/13/2005	1/30/2006	49	7.25%	685
		70,736		1/31/2006	2/14/2006	15	7.50%	218
4th Quarter	20,543	70,955	2/14/2006	2/15/2006	3/27/2006	41	7.50%	774
		91,498		3/28/2006	5/9/2006	43	7.75%	846
		92,272		5/10/2006	6/28/2006	50	8.00%	1,026
		93,118		6/29/2006	3/31/2007	276	8.25%	6,059
Total	\$ 80,585							\$ 19,618

- (a) The "number of days overdue" fluctuates depending on the interest rate that should be applied to the specific day, to calculate the late interest charge.
- (b) Section 9.4 of the OVS agreement requires that "in the event that any payment required by this agreement is not actually received by the City on or before the applicable dated fixed in this agreement, interest thereon shall accrue from such date at a rate equal to the then prevailing prime rate of interest charged by Chase Manhattan Bank (or any other national bank selected by the Comptroller) for commercial loans, compounded daily).
- (c) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported Resale Revenue
January 1, 2001, through December 31, 2005

Date	Additional \$ Fees Due City	Accumulated Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	(a) Interest Rate	(b) Late Interest Charge
				From	To			
2001								
1st Quarter	\$ 36,584	\$ 36,584	5/15/2001	5/16/2001	8/14/2001	91	18.00%	\$ 1,679
2nd Quarter	36,584	38,263 74,847	8/14/2001	8/15/2001	11/14/2001	92	18.00%	3,473
3rd Quarter	36,584	78,320 114,904	11/14/2001	11/15/2001	2/14/2002	92	18.00%	5,332
4th Quarter	36,584	120,236 156,820	2/14/2002	2/15/2002	5/15/2002	90	18.00%	7,115
2002		163,935						
1st Quarter	24,125	188,060	5/15/2002	5/16/2002	8/14/2002	91	18.00%	8,630
2nd Quarter	24,125	196,690 220,815	8/14/2002	8/15/2002	11/14/2002	92	18.00%	10,246
3rd Quarter	24,125	231,061 255,186	11/14/2002	11/15/2002	2/14/2003	92	18.00%	11,841
4th Quarter	24,126	267,027 291,153	2/14/2003	2/15/2003	5/15/2003	90	18.00%	13,210
2003		304,364						
1st Quarter	-	304,364	5/15/2003	5/16/2003	8/14/2003	91	18.00%	13,966
2nd Quarter	-	318,330 318,330	8/14/2003	8/15/2003	11/14/2003	92	18.00%	14,772
3rd Quarter	-	333,102 333,102	11/14/2003	11/15/2003	2/14/2004	92	18.00%	15,457
4th Quarter	-	348,558 348,558	2/14/2004	2/15/2004	5/15/2004	91	18.00%	15,994
2004		364,553						
1st Quarter	3,885	368,438	5/15/2004	5/16/2004	8/14/2004	91	18.00%	16,907
2nd Quarter	3,885	385,345 389,230	8/14/2004	8/15/2004	11/14/2004	92	18.00%	18,061
3rd Quarter	3,885	407,291 411,176	11/14/2004	11/15/2004	2/14/2005	92	18.00%	19,080
4th Quarter	3,886	430,256 434,142	2/14/2005	2/15/2005	5/15/2005	90	18.00%	19,698
2005		453,840						
1st Quarter	2,627	456,467	5/15/2005	5/16/2005	8/14/2005	91	18.00%	20,946
2nd Quarter	2,627	477,413 480,040	8/14/2005	8/15/2005	11/14/2005	92	18.00%	22,275
3rd Quarter	2,627	502,315 504,942	11/14/2005	11/15/2005	2/14/2006	92	18.00%	23,431
4th Quarter	2,628	528,373 531,001	2/14/2006	2/15/2006	3/31/2007	410	18.00%	118,956
Total	\$ 268,887							\$ 381,070

(a) Section 7.4 of the Franchise agreement requires that "in the event that any payment required by this Agreement is not actually received by the City on or before the applicable date fixed in this Agreement, interest thereon shall accrue from such date until received at a rate equal to rate of interest then in effect charged by the City for late payments of real estate taxes.

(b) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported "Other" Revenue - OVS Agreement
January 1, 2001, through December 31, 2005

Date	Additional 5% Fees Due On	Accumulated Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	Interest Rate	Late Interest Charge	
				From	To				
2001									
1st Quarter	\$ 10,272	\$ 10,272	5/15/2001	5/16/2001	6/27/2001	43	7.50%	\$ 91	
				6/28/2001	8/14/2001	48	7.00%	96	
2nd Quarter	13,786	10,459	8/14/2001	8/15/2001	8/21/2001	7	6.75%	31	
		24,245		8/22/2001	9/17/2001	27	6.50%	117	
		24,276		9/18/2001	10/2/2001	15	6.00%	60	
		24,393		10/3/2001	11/6/2001	35	5.50%	129	
		24,454		11/7/2001	11/14/2001	8	5.00%	27	
3rd Quarter	6,727	24,583	11/14/2001	11/15/2001	12/11/2001	27	5.00%	116	
		24,610		12/12/2001	2/14/2002	65	4.75%	267	
		31,337		2/15/2002	5/15/2002	90	4.75%	574	
4th Quarter	16,999	48,719	2/14/2002	2/15/2002	5/15/2002	90	4.75%	574	
2002									
1st Quarter	16,572	49,293	5/15/2002	5/16/2002	8/14/2002	91	4.75%	785	
		65,865		8/15/2002	11/6/2002	84	4.75%	902	
2nd Quarter	15,379	66,650	8/14/2002	11/7/2002	11/14/2002	8	4.25%	77	
		82,029		11/15/2002	2/14/2003	92	4.25%	1,090	
3rd Quarter	18,182	101,189	11/14/2002	11/15/2002	2/14/2003	92	4.25%	1,090	
4th Quarter	14,936	102,279	2/14/2003	2/15/2003	5/15/2003	90	4.25%	1,235	
		117,215		2/15/2003	5/15/2003	90	4.25%	1,235	
2003									
1st Quarter	17,571	118,450	5/15/2003	5/16/2003	6/26/2003	42	4.25%	667	
		136,021		6/27/2003	8/14/2003	49	4.00%	736	
2nd Quarter	28,159	136,688	8/14/2003	8/15/2003	11/14/2003	92	4.00%	1,678	
		137,424		11/15/2003	2/14/2004	92	4.00%	1,896	
3rd Quarter	19,864	165,583	11/14/2003	11/15/2003	2/14/2004	92	4.00%	1,896	
4th Quarter	13,758	167,260	2/14/2004	2/15/2004	5/15/2004	91	4.00%	2,032	
		187,124		2/15/2004	5/15/2004	91	4.00%	2,032	
2004									
1st Quarter	24,864	204,811	5/15/2004	5/16/2004	6/29/2004	45	4.00%	1,135	
		229,675		6/30/2004	8/9/2004	41	4.25%	1,104	
		230,810		8/10/2004	8/14/2004	5	4.50%	143	
2nd Quarter	8,252	231,915	8/14/2004	8/15/2004	9/20/2004	37	4.50%	1,099	
		232,058		9/21/2004	11/9/2004	50	4.75%	1,576	
		240,310		11/10/2004	11/14/2004	5	5.00%	166	
		241,408		11/15/2004	12/13/2004	29	5.00%	966	
3rd Quarter	(533)	242,984	11/14/2004	12/14/2004	2/1/2005	50	5.25%	1,758	
		243,151		2/2/2005	2/14/2005	13	5.50%	481	
		242,618							
		243,583							
		245,341							
		245,822							

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported "Other" Revenue - OVS Agreement
January 1, 2001, through December 31, 2005

Date	Additional \$ Fee	Accumulated Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	Interest Rate	Late Interest Charge
				From	To			
4th Quarter	(1,495)	244,327	2/14/2005	2/15/2005	3/21/2005	35	5.50%	1,292
		245,619		3/22/2005	5/2/2005	42	5.75%	1,630
		247,249		5/3/2005	5/15/2005	13	6.00%	529
2005		247,778						
1st Quarter	-	247,778	5/15/2005	5/16/2005	6/29/2005	45	6.00%	1,840
		249,618		6/30/2005	8/8/2005	40	6.25%	1,715
		251,333		8/9/2005	8/14/2005	6	6.50%	269
2nd Quarter	103	251,602	8/14/2005	8/15/2005	9/19/2005	36	6.50%	1,619
		251,705		9/20/2005	10/31/2005	42	6.75%	1,975
		253,324		11/1/2005	11/14/2005	14	7.00%	686
3rd Quarter	-	255,299	11/14/2005	11/15/2005	12/12/2005	28	7.00%	1,378
		255,985		12/13/2005	1/30/2006	49	7.25%	2,517
		257,363		1/31/2006	2/14/2006	15	7.50%	802
4th Quarter		259,880	2/14/2006	2/15/2006	3/27/2006	41	7.50%	2,205
		260,682		3/28/2006	5/9/2006	43	7.75%	2,411
		262,888		5/10/2006	6/28/2006	50	8.00%	2,923
		265,298		6/29/2006	3/31/2007	276	8.25%	17,264
		268,221						
Sub-Total	\$ 223,396							\$ 62,089

- (a) The "number of days overdue" fluctuates depending on the interest rate that should be applied to the specific day, to calculate the late interest charge.
- (b) Section 9.4 of the OVS agreement requires that "in the event that any payment required by this agreement is not actually received by the City on or before the applicable dated fixed in this agreement, interest thereon shall accrue from such date at a rate equal to the then prevailing prime rate of interest charged by Chase Manhattan Bank (or any other national bank selected by the Comptroller) for commercial loans, compounded daily).
- (c) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported "Other" Revenue - Franchise Agreement
January 1, 2001, through December 31, 2005

Date	Additional 5% Fees Due City	Accumulated Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	(a) Interest Rate	(b) Late Interest Charge
				From	To			
2001								
1st Quarter	\$ (618)	\$ (618)						
2nd Quarter	3,484	2,866	8/14/2001	8/15/2001	11/14/2001	92	18.00%	\$ 133
3rd Quarter	-	2,999	11/14/2001	11/15/2001	2/14/2002	92	18.00%	139
4th Quarter	(153)	3,138	2/14/2002	2/15/2002	5/15/2002	90	18.00%	135
2002								
1st Quarter	(1,293)	3,121	5/15/2002	5/16/2002	8/14/2002	91	18.00%	84
2nd Quarter	-	1,828	8/14/2002	8/15/2002	11/14/2002	92	18.00%	89
3rd Quarter	307	1,911	11/14/2002	11/15/2002	2/14/2003	92	18.00%	107
4th Quarter	66	2,000	2/14/2003	2/15/2003	5/15/2003	90	18.00%	113
2003								
1st Quarter	5,389	2,593	5/15/2003	5/16/2003	8/14/2003	91	18.00%	366
2nd Quarter	1,113	7,982	8/14/2003	8/15/2003	11/14/2003	92	18.00%	439
3rd Quarter	8,617	8,348	11/14/2003	11/15/2003	2/14/2004	92	18.00%	859
4th Quarter	11,129	9,461	2/14/2004	2/15/2004	5/15/2004	91	18.00%	1,400
2004								
1st Quarter	2,977	31,905	5/15/2004	5/16/2004	8/14/2004	91	18.00%	1,601
2nd Quarter	(773)	34,882	8/14/2004	8/15/2004	11/14/2004	92	18.00%	1,657
3rd Quarter	(259)	36,483	11/14/2004	11/15/2004	2/14/2005	92	18.00%	1,722
4th Quarter	307	37,367	2/14/2005	2/15/2005	5/15/2005	90	18.00%	1,776
2005								
1st Quarter	319	40,912	5/15/2005	5/16/2005	8/14/2005	91	18.00%	1,892
2nd Quarter	99	41,231	8/14/2005	8/15/2005	11/14/2005	92	18.00%	2,006
3rd Quarter	475	43,123	11/14/2005	11/15/2005	2/14/2006	92	18.00%	2,121
4th Quarter	1,859	45,228	2/14/2006	2/15/2006	3/31/2007	410	18.00%	11,130
Sub-Total	\$ 33,045							\$ 27,768
Add OVS:	\$ 223,396							\$ 62,089
Total	\$ 256,441							\$ 89,857

(a) Section 7.4 of the Franchise agreement requires that "in the event that any payment required by this Agreement is not actually received by the City on or before the applicable dated fixed in this Agreement, interest thereon shall accrue from such date until received at a rate equal to rate of interest then in effect charged by the City for late payments of real estate taxes.

(b) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due From Revenue Omissions - OVS Agreement
January 1, 2001, through December 31, 2005

Date	Additional 5% Fee Due City	Accumulated Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	Interest Rate	Late Interest Charge
				From	To			
2003								
1st Quarter	\$ 5,116	\$ 5,116	5/15/2003	5/16/2003	6/26/2003	42	4.25%	\$ 25
				6/27/2003	8/14/2003	49	4.00%	28
2nd Quarter		5,169	8/14/2003	8/15/2003	11/14/2003	92	4.00%	52
		5,169		11/14/2003	11/15/2003	2/14/2004	92	4.00%
3rd Quarter		5,221	2/14/2004	2/15/2004	5/15/2004	91	4.00%	53
		5,221						
4th Quarter		5,274						
		5,274						
2004								
1st Quarter		5,327	5/15/2004	5/16/2004	6/29/2004	45	4.00%	26
		5,327		6/30/2004	8/9/2004	41	4.25%	26
		5,353		8/10/2004	8/14/2004	5	4.50%	3
		5,379						
2nd Quarter	7,835	5,382	8/14/2004	8/15/2004	9/20/2004	37	4.50%	60
		13,217		9/21/2004	11/9/2004	50	4.75%	87
		13,278		11/10/2004	11/14/2004	5	5.00%	9
		13,364						
3rd Quarter		13,373	11/14/2004	11/15/2004	12/13/2004	29	5.00%	53
		13,373		12/14/2004	2/1/2005	50	5.25%	97
		13,427		2/2/2005	2/14/2005	13	5.50%	27
		13,524						
4th Quarter		13,550	2/14/2005	2/15/2005	3/21/2005	35	5.50%	72
		13,550		3/22/2005	5/2/2005	42	5.75%	90
		13,622		5/3/2005	5/15/2005	13	6.00%	29
		13,712						
2005								
1st Quarter		13,741	5/15/2005	5/16/2005	6/29/2005	45	6.00%	102
		13,741		6/30/2005	8/8/2005	40	6.25%	95
		13,843		8/9/2005	8/14/2005	6	6.50%	15
		13,939						
2nd Quarter		13,954	8/14/2005	8/15/2005	9/19/2005	36	6.50%	90
		13,954		9/20/2005	10/31/2005	42	6.75%	109
		14,043		11/1/2005	11/14/2005	14	7.00%	38
		14,153						
3rd Quarter		14,191	11/14/2005	11/15/2005	12/12/2005	28	7.00%	76
		14,191		12/13/2005	1/30/2006	49	7.25%	140
		14,267		1/31/2006	2/14/2006	15	7.50%	44
		14,407						
4th Quarter		14,451	2/14/2006	2/15/2006	3/27/2006	41	7.50%	122
		14,451		3/28/2006	5/9/2006	43	7.75%	134
		14,573		5/10/2006	6/28/2006	50	8.00%	162
		14,707		6/29/2006	3/31/2007	276	8.25%	957
14,869								
Sub-Total	\$ 12,951							\$ 2,875

- (a) The "number of days overdue" fluctuates depending on the interest rate that should be applied to the specific day, to calculate the late interest charge.
- (b) Section 9.4 of the OVS agreement requires that "in the event that any payment required by this agreement is not actually received by the City on or before the applicable dated fixed in this agreement, interest thereon shall accrue from such date at a rate equal to the then prevailing prime rate of interest charged by Chase Manhattan Bank (or any other national bank selected by the Comptroller) for commercial loans, compounded daily).
- (c) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due From Revenue Omissions - Franchise Agreement
January 1, 2001, through December 31, 2005

Date	Additional 5% Fees Due City	Accumulated Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	(a) Interest Rate	(b) Late Interest Charge
				From	To			
2001								
1st Quarter	-	-	5/15/2001	5/16/2001	8/14/2001	91	18.00%	-
2nd Quarter	-	-	8/14/2001	8/15/2001	11/14/2001	92	18.00%	-
3rd Quarter	\$ 383	\$ 383	11/14/2001	11/15/2001	2/14/2002	92	18.00%	\$ 18
4th Quarter	-	401	2/14/2002	2/15/2002	5/15/2002	90	18.00%	18
2002		419						
1st Quarter		419	5/15/2002	5/16/2002	8/14/2002	91	18.00%	19
		438						
2nd Quarter		438	8/14/2002	8/15/2002	11/14/2002	92	18.00%	20
3rd Quarter	(517)	-	11/14/2002	11/15/2002	2/14/2003	92	18.00%	-
4th Quarter	10,610	10,552	2/14/2003	2/15/2003	5/15/2003	90	18.00%	479
2003		11,030						
1st Quarter		11,030	5/15/2003	5/16/2003	8/14/2003	91	18.00%	506
		11,536						
2nd Quarter		11,536	8/14/2003	8/15/2003	11/14/2003	92	18.00%	535
		12,072						
3rd Quarter		12,072	11/14/2003	11/15/2003	2/14/2004	92	18.00%	560
		12,632						
4th Quarter		12,632	2/14/2004	2/15/2004	5/15/2004	91	18.00%	580
2004		13,212						
1st Quarter		13,212	5/15/2004	5/16/2004	8/14/2004	91	18.00%	606
		13,818						
2nd Quarter	8,444	22,262	8/14/2004	8/15/2004	11/14/2004	92	18.00%	1,033
		23,295						
3rd Quarter		23,295	11/14/2004	11/15/2004	2/14/2005	92	18.00%	1,081
		24,376						
4th Quarter		24,376	2/14/2005	2/15/2005	5/15/2005	90	18.00%	1,106
2005		25,482						
1st Quarter		25,482	5/15/2005	5/16/2005	8/14/2005	91	18.00%	1,169
		26,651						
2nd Quarter		26,651	8/14/2005	8/15/2005	11/14/2005	92	18.00%	1,237
		27,888						
3rd Quarter		27,888	11/14/2005	11/15/2005	2/14/2006	92	18.00%	1,294
		29,182						
4th Quarter		29,182	2/14/2006	2/15/2006	3/31/2007	410	18.00%	6,537
Sub-Total	\$ 18,920							\$ 16,799
Add OVS	\$ 12,951							\$ 2,875
Total	\$ 31,871							\$ 19,674

(a) Section 7.4 of the Franchise agreement requires that "in the event that any payment required by this Agreement is not actually received by the City on or before the applicable date fixed in this Agreement, interest thereon shall accrue from such date until received at a rate equal to rate of interest then in effect charged by the City for late payments of real estate taxes.

(b) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported Free Service Revenue
January 1, 1999, through December 31, 2005

DATE	Additional Service Due City	Unreported Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	Interest Rate	Interest Charge
1999								
1st Quarter	\$ 924	\$ 924	5/15/1999	5/16/1999	6/30/1999	46	7.75%	\$ 9
		933		7/1/1999	8/14/1999	45	8.00%	9
2nd Quarter	924	942	8/14/1999	8/15/1999	8/24/1999	10	8.00%	4
		1,866		8/25/1999	11/14/1999	82	8.25%	35
		1,870						
3rd Quarter	924	1,905	11/14/1999	11/15/1999	11/16/1999	2	8.25%	1
		2,829		11/17/1999	2/2/2000	78	8.50%	52
		2,831		2/3/2000	2/13/2000	11	8.75%	8
		2,883						
4th Quarter	924	2,890	2/14/2000	2/15/2000	3/21/2000	36	8.75%	33
		3,814		3/22/2000	5/15/2000	55	9.00%	53
		3,847						
2000								
1st Quarter	1,649	3,900	5/15/2000	5/16/2000	5/16/2000	1	9.00%	1
		5,549		5/17/2000	8/14/2000	90	9.50%	132
		5,550						
2nd Quarter	1,649	5,682	8/14/2000	8/15/2000	11/14/2000	92	9.50%	178
		7,331						
3rd Quarter	1,649	7,508	11/14/2000	11/15/2000	1/3/2001	50	9.50%	120
		9,157		1/4/2001	1/31/2001	28	9.00%	64
		9,277		2/1/2001	2/14/2001	14	8.50%	31
		9,341						
4th Quarter	1,649	9,372	2/14/2001	2/15/2001	3/20/2001	34	8.50%	88
		11,021		2/1/2001	3/20/2001	48	8.00%	117
		11,109		3/21/2001	4/18/2001	29	8.00%	72
		11,226		4/19/2001	5/15/2001	27	7.50%	63
		11,298						
2001								
1st Quarter	3,266	11,360	5/15/2001	5/16/2001	6/27/2001	43	7.50%	130
		14,626		6/28/2001	8/14/2001	48	7.00%	136
		14,756						
2nd Quarter	3,266	14,893	8/14/2001	8/15/2001	8/21/2001	7	6.75%	24
		18,159		8/22/2001	9/17/2001	27	6.50%	88
		18,182		9/18/2001	10/2/2001	15	6.00%	45
		18,270		10/3/2001	11/6/2001	35	5.50%	97
		18,315		11/7/2001	11/14/2001	8	5.00%	20
		18,412						
3rd Quarter	3,266	18,432	11/14/2001	11/15/2001	12/11/2001	27	5.00%	80
		21,698		12/12/2001	2/14/2002	65	4.75%	185
		21,778						
4th Quarter	3,266	21,963	2/14/2002	2/15/2002	5/15/2002	90	4.75%	297
		25,229						
2002								
1st Quarter	4,751	25,527	5/15/2002	5/16/2002	8/14/2002	91	4.75%	361
		30,278						
2nd Quarter	4,751	30,638	8/14/2002	8/15/2002	11/6/2002	84	4.75%	389
		35,389		11/7/2002	11/14/2002	8	4.25%	33
		35,778						
3rd Quarter	4,751	35,812	11/14/2002	11/15/2002	2/14/2003	92	4.25%	437
		40,563						
4th Quarter	4,751	40,999	2/14/2003	2/15/2003	5/15/2003	90	4.25%	482
		45,750						

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Due on Unreported Free Service Revenue
January 1, 1999, through December 31, 2005

Date	Annual Due City	Accumulated Balance Due	Payment Due Date	Grace Period		Number of Days Overdue	Interest Rate	Late Interest Charge
				From	To			
2003								
1st Quarter	5,694	46,232	5/15/2003	5/16/2003	6/26/2003	42	4.25%	255
		51,926		6/27/2003	8/14/2003	49	4.00%	281
2nd Quarter	5,694	52,462	8/14/2003	8/15/2003	11/14/2003	92	4.00%	589
		58,156		11/14/2003	11/15/2003	2/14/2004	92	4.00%
3rd Quarter	5,694	58,745	11/14/2003	11/15/2003	2/14/2004	92	4.00%	653
		64,439		2/14/2004	2/15/2004	5/15/2004	91	4.00%
4th Quarter	5,695	65,092						
		70,787						
2004								
1st Quarter	6,445	71,496	5/15/2004	5/16/2004	6/29/2004	45	4.00%	385
		77,941		6/30/2004	8/9/2004	41	4.25%	375
2nd Quarter	6,445	78,327	8/14/2004	8/10/2004	8/14/2004	5	4.50%	49
		78,702		8/15/2004	9/20/2004	37	4.50%	389
3rd Quarter	6,445	78,750	11/14/2004	9/21/2004	11/9/2004	50	4.75%	559
		85,195		11/10/2004	11/14/2004	5	5.00%	59
4th Quarter	6,445	85,585	11/14/2004	11/15/2004	12/13/2004	29	5.00%	369
		86,143		12/14/2004	2/1/2005	50	5.25%	671
1st Quarter	6,445	86,202	2/2/2005	2/2/2005	2/14/2005	13	5.50%	184
		92,647		2/15/2005	3/21/2005	35	5.50%	530
2nd Quarter	6,445	93,016	2/14/2005	3/22/2005	5/2/2005	42	5.75%	669
		93,687		5/3/2005	5/15/2005	13	6.00%	217
3rd Quarter		93,871						
4th Quarter		100,316						
		100,846						
		101,516						
2005								
1st Quarter	6,996	101,733	5/15/2005	5/16/2005	6/29/2005	45	6.00%	807
		108,729		6/30/2005	8/8/2005	40	6.25%	753
2nd Quarter	6,996	109,536	8/14/2005	8/9/2005	8/14/2005	6	6.50%	118
		110,289		8/15/2005	9/19/2005	36	6.50%	755
3rd Quarter	6,996	110,407	11/14/2005	9/20/2005	10/31/2005	42	6.75%	921
		117,403		11/1/2005	11/14/2005	14	7.00%	320
4th Quarter	6,996	118,158	11/14/2005	11/15/2005	12/12/2005	28	7.00%	680
		119,079		12/13/2005	1/30/2006	49	7.25%	1,243
1st Quarter	6,996	119,399	2/14/2006	1/31/2006	2/14/2006	15	7.50%	396
		126,395		2/15/2006	3/27/2006	41	7.50%	1,148
2nd Quarter	6,996	127,076	3/28/2006	3/28/2006	5/9/2006	43	7.75%	1,255
		128,318		5/10/2006	6/28/2006	50	8.00%	1,522
3rd Quarter	6,996	128,714	6/29/2006	6/29/2006	3/31/2007	276	8.25%	8,987
		128,714						
4th Quarter		135,710						
		136,859						
		138,114						
		139,635						
Total	\$ 118,901							\$ 29,722

- (a) The "number of days overdue" fluctuates depending on the interest rate that should be applied to the specific day, to calculate the late interest charge.
- (b) Section 9.4 of the OVS agreement requires that "in the event that any payment required by this agreement is not actually received by the City on or before the applicable dated fixed in this agreement, interest thereon shall accrue from such date at a rate equal to the then prevailing prime rate of interest charged by Chase Manhattan Bank (or any other national bank selected by the Comptroller) for commercial loans, compounded daily".
- (c) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Adjustment for Bad Debt - OVS Agreement
January 1, 2001, through December 31, 2005

Date	Additional Due City	Cumulative Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	Interest Rate	Late Interest Change	
				From	To				
2001									
1st Quarter	\$ (3,170)	\$ (3,170)	05/15/01	5/16/2001	6/27/2001	43	7.50%	\$ (28)	
		(3,198)		6/28/2001	8/14/2001	48	7.00%	(30)	
2nd Quarter	(5,528)	(3,228)	08/14/01	8/15/2001	8/21/2001	7	6.75%	(11)	
		(8,756)		8/22/2001	9/17/2001	27	6.50%	(42)	
		(8,767)		9/18/2001	10/2/2001	15	6.00%	(22)	
		(8,809)		10/3/2001	11/6/2001	35	5.50%	(47)	
		(8,831)		11/7/2001	11/14/2001	8	5.00%	(10)	
3rd Quarter	(4,149)	(8,878)	11/14/01	11/15/2001	12/11/2001	27	5.00%	(48)	
		(8,887)		12/12/2001	2/14/2002	65	4.75%	(111)	
4th Quarter	370	(13,036)							
		(13,085)							
		(13,196)							
		(12,826)	02/14/02	2/15/2002	5/15/2002	90	4.75%	(151)	
2002									
1st Quarter	(7,163)	(12,977)	05/15/02	5/16/2002	8/14/2002	91	4.75%	(240)	
2nd Quarter	(7,113)	(20,140)	08/14/02	8/15/2002	11/6/2002	84	4.75%	(302)	
		(20,380)		11/7/2002	11/14/2002	8	4.25%	(26)	
3rd Quarter	(9,839)	(27,493)	11/14/02	11/15/2002	2/14/2003	92	4.25%	(406)	
		(27,795)							
4th Quarter	(30,887)	(27,821)							
		(37,660)							
		(38,066)							
		(68,953)	02/14/03	2/15/2003	5/15/2003	90	4.25%	(726)	
2003									
1st Quarter	(11,539)	(69,679)	05/15/03	5/16/2003	6/26/2003	42	4.25%	(398)	
		(81,218)		6/27/2003	8/14/2003	49	4.00%	(439)	
2nd Quarter	(10,853)	(81,616)	08/14/03	8/15/2003	11/14/2003	92	4.00%	(941)	
		(82,055)							
3rd Quarter	(3,174)	(92,908)	11/14/03	11/15/2003	2/14/2004	92	4.00%	(983)	
		(93,850)							
4th Quarter	(7,515)	(97,024)							
		(98,007)	02/14/04	2/15/2004	5/15/2004	91	4.00%	(1,058)	
2004									
1st Quarter	(10,165)	(106,580)	05/15/04	5/16/2004	6/29/2004	45	4.00%	(577)	
		(116,745)		6/30/2004	8/9/2004	41	4.25%	(561)	
		(117,322)		8/10/2004	8/14/2004	5	4.50%	(73)	
2nd Quarter	(3,501)	(117,883)	08/14/04	8/15/2004	9/20/2004	37	4.50%	(555)	
		(117,956)		9/21/2004	11/9/2004	50	4.75%	(796)	
		(121,457)		11/10/2004	11/14/2004	5	5.00%	(84)	
		(122,012)							
		(122,808)							
3rd Quarter	(5,371)	(122,893)	11/14/04	11/15/2004	12/13/2004	29	5.00%	(511)	
		(128,264)		12/14/2004	2/1/2005	50	5.25%	(929)	
		(128,774)		2/2/2005	2/14/2005	13	5.50%	(254)	
4th Quarter	(5,080)	(129,703)	02/14/05	2/15/2005	3/21/2005	35	5.50%	(714)	
		(129,958)		3/22/2005	5/2/2005	42	5.75%	(901)	
		(135,038)		5/3/2005	5/15/2005	13	6.00%	(292)	
		(135,752)							
		(136,653)							

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Adjustment for Bad Debt - OVS Agreement
January 1, 2001, through December 31, 2005

Date	Additional Due City	Accumulated Balance Due	Payment Due Date	Cover Period		Number of Days Overdue	Interest Rate	Late Interest Charge
				From	To			
2005		(136,945)						
1st Quarter	(1,852)	(138,797)	05/15/05	5/16/2005	6/29/2005	45	6.00%	(1,030)
		(139,828)		6/30/2005	8/8/2005	40	6.25%	(961)
		(140,789)		8/9/2005	8/14/2005	6	6.50%	(150)
2nd Quarter	(6,109)	(140,939)	08/14/05	8/15/2005	9/19/2005	36	6.50%	(946)
		(147,048)		9/20/2005	10/31/2005	42	6.75%	(1,154)
		(147,994)		11/1/2005	11/14/2005	14	7.00%	(401)
3rd Quarter	(4,582)	(149,549)	11/14/05	11/15/2005	12/12/2005	28	7.00%	(830)
		(154,131)		12/13/2005	1/30/2006	49	7.25%	(1,515)
		(154,960)		1/31/2006	2/14/2006	15	7.50%	(483)
4th Quarter	(5,829)	(156,476)	02/14/06	2/15/2006	3/27/2006	41	7.50%	(1,377)
		(156,959)		3/28/2006	5/9/2006	43	7.75%	(1,506)
		(162,788)		5/10/2006	6/28/2006	50	8.00%	(1,825)
		(164,165)		6/29/2006	3/31/2007	276	8.25%	(10,781)
		(165,670)						
		(167,496)						
Sub-Total	\$ (143,049)							\$ (35,227)

- (a) The "number of days overdue" fluctuates depending on the interest rate that should be applied to the specific day, to calculate the late interest charge.
- (b) Section 9.4 of the OVS agreement requires that "in the event that any payment required by this agreement is not actually received by the City on or before the applicable dated fixed in this agreement, interest thereon shall accrue from such date at a rate equal to the then prevailing prime rate of interest charged by Chase Manhattan Bank (or any other national bank selected by the Comptroller) for commercial loans, compounded daily).
- (c) Late interest charges were calculated through March 31, 2007.

RCN Telecom Services of New York City, Inc.
Schedule of Late Fees Adjustment for Bad Debt - Franchise Agreement
January 1, 2001, through December 31, 2005

Date	Additional 5% Fees Due City	Accumulated Balance Due	Payment Due Date	Coverage Period		Number of Days Over Due	(a) Interest Rate	(b) Late Interest Charge
				From	To			
2001								
1st Quarter	\$ (71,170)	\$ (71,170)	5/15/2001	5/16/2001	8/14/2001	91	18.00%	\$ (3,266)
2nd Quarter	(6,469)	(74,436)	8/14/2001	8/15/2001	11/14/2001	92	18.00%	(3,754)
3rd Quarter	(11,440)	(84,659)	11/14/2001	11/15/2001	2/14/2002	92	18.00%	(4,459)
4th Quarter	(7,592)	(96,099)	2/14/2002	2/15/2002	5/15/2002	90	18.00%	(4,907)
		(100,558)						
		(108,150)						
2002		(113,057)						
1st Quarter	(10,312)	(123,369)	5/15/2002	5/16/2002	8/14/2002	91	18.00%	(5,661)
2nd Quarter	(9,651)	(129,030)	8/14/2002	8/15/2002	11/14/2002	92	18.00%	(6,435)
3rd Quarter	(3,590)	(138,681)	11/14/2002	11/15/2002	2/14/2003	92	18.00%	(6,900)
4th Quarter	(27,086)	(145,117)	2/14/2003	2/15/2003	5/15/2003	90	18.00%	(8,289)
		(148,707)						
		(155,607)						
		(182,693)						
2003		(190,982)						
1st Quarter	(9,153)	(200,135)	5/15/2003	5/16/2003	8/14/2003	91	18.00%	(9,184)
2nd Quarter	(14,665)	(209,319)	8/14/2003	8/15/2003	11/14/2003	92	18.00%	(10,394)
3rd Quarter	(10,154)	(223,984)	11/14/2003	11/15/2003	2/14/2004	92	18.00%	(11,347)
4th Quarter	(8,310)	(234,377)	2/14/2004	2/15/2004	5/15/2004	91	18.00%	(12,123)
		(244,531)						
		(255,878)						
		(264,188)						
2004		(276,311)						
1st Quarter	(8,393)	(284,704)	5/15/2004	5/16/2004	8/14/2004	91	18.00%	(13,064)
2nd Quarter	(3,681)	(297,769)	8/14/2004	8/15/2004	11/14/2004	92	18.00%	(13,988)
3rd Quarter	(4,477)	(301,450)	11/14/2004	11/15/2004	2/14/2005	92	18.00%	(14,845)
4th Quarter	(5,902)	(315,438)	2/14/2005	2/15/2005	5/15/2005	90	18.00%	(15,456)
		(319,915)						
		(334,760)						
		(340,662)						
2005		(356,118)						
1st Quarter	(3,482)	(359,600)	5/15/2005	5/16/2005	8/14/2005	91	18.00%	(16,501)
2nd Quarter	(3,706)	(376,101)	8/14/2005	8/15/2005	11/14/2005	92	18.00%	(17,624)
3rd Quarter	(5,470)	(379,807)	11/14/2005	11/15/2005	2/14/2006	92	18.00%	(18,696)
4th Quarter	(4,870)	(397,432)	2/14/2006	2/15/2006	3/31/2007	410	18.00%	(95,538)
		(402,902)						
		(421,598)						
		(426,468)						
Sub-Total	\$ (229,573)							\$ (292,433)
Add OVS:	\$ (143,049)							\$ (35,227)
Total	\$ (372,622)							\$ (327,660)

(a) Section 7.4 of the Franchise agreement requires that "in the event that any payment required by this Agreement is not actually received by the City on or before the applicable dated fixed in this Agreement, interest thereon shall accrue from such date until received at a rate equal to rate of interest then in effect charged by the City for late payments of real estate taxes.

(b) Late interest charges were calculated through March 31, 2007.



September 27, 2007

John Graham
Deputy Comptroller
Audits, Accountancy & Contracts
The City of New York
Office of the Comptroller
1 Centre Street
New York, New York 10007

Re: New York City Office of the Comptroller Audit Report on Compliance of RCN Telecom Services, Inc. with its Franchise and Open Video Systems Agreements for the Period of January 1, 1999 through December 31, 2005; FN06-178A

Dear Mr. Graham:

I have reviewed the above-captioned draft report and I am writing to you to provide my comments and response to your recommendations based on your findings following the audit.

First, I would like to provide you with some background information regarding RCN's history and state of operations during the audit review period. As stated in the audit report, about one (1) year prior to the review period, RCN had just entered into a ten (10) year OVS agreement for the operation of OVS communications services and a microwave satellite system in the City. Towards the beginning of the review period, around January 1999, RCN had just entered into its fifteen (15) year franchise agreement with the City for the provision of its telecommunications services. From the effective date of the OVS agreement through the beginning of the review period, RCN was able to obtain a substantial amount of capital investments into its business. These investments enabled RCN to aggressively build out its network, dedicate a substantial amount of internal and external resources towards the conduct of its business operations, and otherwise devote meaningful capital expenditures towards constructing and operating its own fiber optic cable network within the City. From the period of 1997 through 1999, we anticipated growing our business and providing City residents with a competitive choice of cable, telephone, and Internet providers. (In fact, despite market circumstances, we believe that we have substantially delivered on our objective in this regard.)

Unfortunately, during most of the review period, from about January 2000 through March 2005, RCN experienced a downturn in the communications and telecommunications market. During this period, we were not able to obtain enough capital investments, nor sustain the necessary customer and revenue growth, to continue to aggressively build out our network. Accordingly, we ceased expanding our network within the City. During year 2001, we began to further scale back our costs, which

unfortunately included reductions in workforce. For the next two (2) years, although RCN was able to continue its operations in a limited capacity, we were not able to secure the necessary capital investments to grow the business, nor were we able to meet our revenue goals. As a result, during year 2003, RCN further scaled back its general and administrative costs by further reducing its workforce, halting capital investments for network construction, and closing offices and operations in several locations. For example, our Queens and Manhattan markets were merged into a single operating group. We also sold our cable systems in Central New Jersey and Carmel, New York. During the period of January 2000 through March 2005, executive management and control of our operations in the City changed five (5) times. This period of turmoil in the communications and telecommunications market ultimately led to the Chapter 11 restructuring of RCN Corporation, the parent company of RCN Telecom Services, Inc.

Considering the state of our business (and generally, the entire telecommunications industry) during most of the review period, we believe that any failure on our part to accurately report revenues and pay the appropriate percentages thereof was unintentional and a result of the overall confusion caused by the turmoil in the telecommunication industry which caused the restructuring of our business. Despite this fact, RCN still paid approximately \$30 million to the City in OVS, franchise and public, educational, and governmental ("PEG") fees during the review period.

With respect to RCN's revenue obligations under the franchise and OVS agreements, we do not disagree with the Comptroller's Office's general statement of facts. Indeed, under Appendix H of the OVS agreement, RCN was obligated to pay franchise fees with respect to revenues received from its microwave satellite customers according to the five (5) year "Phase In Amount" schedule set forth therein, beginning with twenty percent (20%) of such revenues. From the fourth (4th) anniversary of the effective date through the remainder of the term of the OVS agreement, RCN is obligated to pay to the City franchise fees based on one hundred percent (100%) of revenues received from its microwave satellite customers. Unfortunately, as previously stated, although we have otherwise remitted gross revenue, PEG, and CAO payments to the City with respect to our video subscriber revenues, we never set up the appropriate administrative processes and procedures to remit microwave satellite revenues to the City. Furthermore, although we expected to convert our microwave satellite customers to our fiber optic network during the phase in period, we were unsuccessful in doing so and, in fact, continue to maintain approximately 750 microwave satellite customers at present. Additionally, it is important to note that we also have not collected any such franchise, PEG, CAO, or other similar "pass through" fees from our microwave subscribers throughout the term of the relevant agreements. Due to frequent executive management changes, and the distraction of dealing with financial issues during the review period, one may understand why we missed passing such fees through to our microwave subscribers, and thereby didn't include microwave satellite revenues within our OVS fee calculations to the City.

As the new vice president and general manager of the New York market, I apologize for this past oversight and can assure you that I will work to make sure it does not happen again. As you are aware, RCN has already paid over 97% of the OVS and franchise fees owed and is in the process of paying the balance of the fees.

I hope that this brief historical summary provides a glimpse into the tumultuous times at RCN.

I have reviewed the audit recommendations and offer the following responses:

Audit Recommendation

1. *Pay the City the balance of \$497,957, which includes \$34,944 in additional OVS and franchise fees and \$463,013 in late charges*

Although the City is permitted to impose such charges under the respective agreements, we hope that the City would offer some leniency with RCN in this regard, because RCN did not intentionally or fraudulently withhold any amounts due to the City during the review period or thereafter. In fact, as stated above, any failure to pay amounts due to the City resulted from oversight on RCN's part. Secondly, due to the constant state of flux in RCN's financial status and operations during the review period, we are certain that it was difficult for DOITT (or any other third party) to ascertain whether RCN had fully complied with all of its revenue and non-revenue obligations during the review period. In any event, now that we have delivered payment for a majority of the past due OVS and franchise fees, we are committed to cooperating fully with DOITT to resolve any and all outstanding issues arising from the audit report, including, without limitation, late charges.

2. *Ensure that all future revenue from microwave-satellite, advertising, resale, and other business operations are accurately reported and that the appropriate fees are paid to the City, in accordance with the OVS and franchise agreements*

Agreed. We have revised our process to include all revenues required, in accordance with the OVS and franchise agreement, to properly calculate fees.

3. *Ensure that bad-debt expenses are properly deducted from gross revenue reported to the City.*

Agreed. Bad debt expenses will be factored into all future reporting.

4. *Ensure that all revenue reported in its books and records is properly reconciled and included in the quarterly revenue statements it submits to the City.*

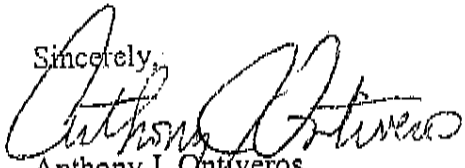
Agreed. We will put a process in place to provide the proper reconciliation for our quarterly revenue statements.

5. *Maintain complete and accurate books of accounts and records of business in a manner that would allow the DoITT to determine whether RCN is in compliance with the agreements.*

Agreed. We will maintain accurate records and work closely with the DoITT to ensure RCN is in compliance with our agreements.

If you have any questions about this correspondence, please feel free to contact me. I may be reached at (212) 842-7706. As always, thank you for your continued cooperation and support. I look forward to resolving this matter promptly.

Sincerely,



Anthony J. Ontiveros
Vice President / General Manager
RCN of New York City

c: Alma Fana, Audit Manager



THE CITY OF NEW YORK
DEPARTMENT OF INFORMATION TECHNOLOGY & TELECOMMUNICATIONS
Paul J. Cosgrave, Commissioner

MITCHEL AHLBAUM
*Deputy Commissioner
Franchise Administration and
Planning/General Counsel*

September 26, 2007

Mr. John Graham
Deputy Comptroller
The New York City Office of the Comptroller
Audits, Accountancy & Contracts
1 Centre Street, 5th Floor South
New York, NY 10007

Re: Audit Report of the Compliance of
RCN Telecom Services of New York, Inc.,
With Its Franchise and Open Video Agreements
January 1, 1999-December 31, 2005
FN06-078A

Dear Deputy Comptroller Graham:

I am writing in response to the above-captioned draft report ("RCN" audit) dated September 12, 2007.

First, on behalf of the Department of Information Technology and Telecommunications ("DoITT"), I would like to recognize the diligent efforts by your audit staff, who determined that, from calendar years 1999 to 2005, RCN's "unpaid fees" due to the City of New York ("City") were \$1,321,581 (plus late charges of \$463,013). Further, DoITT has reviewed the audit's proposed underpayment and late charges, and will direct RCN to comply with the financial determination.

In addition, before responding to the audit recommendations, I would like to comment briefly on the section of the draft report that discusses DoITT's oversight activities. In pertinent part, this section states that "DoITT accepted the amounts RCN reported as well as the related payments RCN made without exercising the proper oversight review." Specifically, the section faults DoITT for not verifying the accuracy of revenues reported to the City. In fact, over the six-year period covered by the audit, DoITT successfully collected about \$719 million in franchise fees, on several billions of dollars in franchise revenues reported to, and verified by, the agency. We therefore request, without at all diminishing the significance of the approximately \$1.3 million in underpayments identified in the audit, that this section of the report be amended to point out that DoITT collected approximately \$719 million in franchise revenues during the audit period.

In exercising its oversight responsibilities, DoITT does indeed assess the reasonableness of the revenues reported by its franchisees. Such activities include the reconciliation of revenues reported by cable operators against their subscriber counts. DoITT acknowledges the audit's finding that, with respect to microwave revenues, the agency did not receive reports that RCN is required to provide. However, this was not related to inadequate oversight by DoITT; but, rather, due to protracted delays by RCN in responding to DoITT's repeated requests for such records. Indeed, as stated in the draft audit, for the period 1999 to 2000, RCN did not provide certain books and records to the Comptroller's audit staff. We believe these difficulties are attributable to the substantial restructuring activities and bankruptcy proceedings that took place at RCN during the audit period. Nonetheless, DoITT will continue to work aggressively to obtain the required reports and any other data to substantiate franchise revenues owed to the City.

I assure you that DoITT takes the reporting requirements of the franchises it oversees very seriously, and will carefully review the recommendations contained in the audit report with the goal of further strengthening these controls and procedures. Accordingly, I would like to address DoITT's planned initiatives in response to the audit's recommendations.

Audit Recommendation: Ensure that RCN pays the City the balance of \$497,957.

Proposed Action: DoITT will aggressively pursue immediate payment of the full balance. Moreover, it should be noted that RCN's Open Video System ("OVS") franchise with the City expires in December of this year. Payment of the balance will be a precondition of DoITT's approval of any new franchise or other franchise-related action that may be sought by RCN. Finally, if necessary, DoITT will pursue an affirmative legal claim against RCN for the balance.

Audit Recommendation: Ensure that RCN complies with the other recommendations, especially those relating to potential unreported revenue and additional fees due to the City.

Agency Response: DoITT will negotiate a franchise provision with RCN whereby a designated RCN senior executive must certify the completeness and accuracy of quarterly revenue submissions, with the same certified annually by RCN's chief financial officer. In addition, DoITT will designate in-house personnel to examine revenue reports from RCN and other franchisees. DoITT will also consider the utility of engaging outside auditors to augment these operations.

Audit Recommendation: Ensure that RCN reports to the City any additional revenue for the period January 1, 1999, through December 31, 2000, and for the month of October 2002, as required by the terms of the OVS and franchise agreements [and] that RCN pays the City additional fees that may be due based on any additional revenue reported resulting from the implementation of [this recommendation].

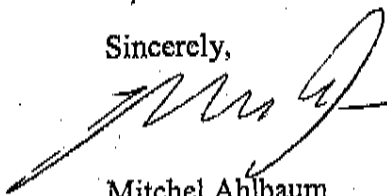
Agency Response: DoITT will continue to aggressively pursue revenue reports from RCN for the above noted periods, as well as any associated fees and late charges owed to the City.

Audit Recommendation: Establish the proper guidelines and a review process to monitor RCN's compliance with the City agreements. DoITT should ensure that RCN reports all its subsequent revenue to the City in compliance with the revenue provisions of the agreements and that it pays its fees accordingly.

Agency Response: DoITT will issue to appropriate staff a written franchise review procedure, "formalizing" established practices and implementing new best practices. The procedure will reinforce the requirement that responsible DoITT staff maintain thorough knowledge of the revenue provisions of franchise agreements and require that such staff document, on a quarterly basis, the actions that they have taken to ensure compliance with the agreements. In addition, DoITT will negotiate to include new remedy provisions in any future RCN franchise(s), in the event that the company is found to be substantially out of compliance with the revenue provisions of the agreements.

Thank you for the opportunity to comment on the RCN audit. If you have questions regarding this response or wish to discuss the audit further, I can be reached at (212) 788-6640.

Sincerely,



Mitchel Ahlbaum

c: Paul J. Cosgrave
John Winker
Peter J. Schwab
Linda Mercurio
George Davis, III
Tracy Bloch
Bruce Regal
Emily Rubenstein
Alma Fana