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REPORT

GREATER NEW ORLEANS FREE-NET, INC.

APRIL 30, 1998

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By P. Morrison

GREATER NEW ORLEANS FREE-NET, INC.

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INDEPENDENT AUDITOR'S REPORT

June 12, 1998

Board of Directors
Greater New Orleans Free-Net, Inc.
1600 Canal St., Suite 527
New Orleans, Louisiana

We have audited the accompanying statement of financial position of Greater New Orleans Free-Net, Inc. (a Louisiana nonprofit corporation) as of April 30, 1998 and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater New Orleans Free-Net, Inc. as of April 30, 1998, and the changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 12, 1998 on our consideration of Greater New Orleans Free-Net, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Duplantier, Hrapmann, Hogan & Maher LLP

GREATER NEW ORLEANS FREE-NET, INC.
STATEMENT OF FINANCIAL POSITION
APRIL 30, 1998

ASSETS

CURRENT ASSETS:	
Cash	$ 20,410
Accounts receivable	38,033
Accounts receivable - Louisiana Free-Net (Note 3)	44,716
Total current assets	103,159
FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS: (Note 1)	
Furniture, equipment and leasehold improvements	129,219
Total	129,219
Less: accumulated depreciation	(37,749)
Net furniture, equipment and leasehold improvements	91,470
OTHER ASSETS:	
Deposit	1,000
Computer equipment (Note 6)	21,750
Total other assets	22,750
TOTAL ASSETS	$ 217,379

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 52,517
Grants received in advance (Note 7)	35,154
Contractual service fees received in advance	2,000
Payroll taxes payable	8,680
Total current liabilities	98,351
NET ASSETS:	
Unrestricted	119,028
TOTAL LIABILITIES AND NET ASSETS	$ 217,379

See accompanying notes.

GREATER NEW ORLEANS FREE-NET, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED APRIL 30, 1998

UNRESTRICTED NET ASSETS:	
REVENUE:	
Contractual services	$ 146,389
Contractual services - Louisiana Free-Net (Note 3)	92,726
Corporate underwriting	49,795
Grants (Note 7)	88,608
Contributions and gifts	3,690
Training fees	12,639
Other	1,336
Total revenue	395,183
EXPENSES: (Note 1)	
Program (Page 4)	281,469
Support services:	
Administrative and general (Page 4)	56,591
Total expenses	338,060
INCREASE IN UNRESTRICTED NET ASSETS	57,123
Net assets - beginning of year	61,905
NET ASSETS - END OF YEAR	$ 119,028

See accompanying notes.

GREATER NEW ORLEANS FREE-NET, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED APRIL 30, 1998

	PROGRAM	ADMINISTRATIVE AND GENERAL	TOTAL
EXPENSES: (Note 1)			
Salaries	$ 102,267	$ 25,567	$ 127,834
Payroll taxes	7,997	1,999	9,996
Parking	2,254	563	2,817
Health insurance	1,336	334	1,670
Professional services	62,949	15,737	78,686
Payroll service	729	182	911
Data line expense	52,940	--	52,940
Software licenses	806	--	806
Support agreement	1,356	--	1,356
Memberships	20	5	25
Occupancy costs	9,796	2,449	12,245
Office expense	1,010	253	1,263
Post office	242	61	303
Photocopies	2,766	691	3,457
Telephone	5,080	1,270	6,350
Materials	1,719	430	2,149
Equipment maintenance	853	213	1,066
Auto mileage	730	183	913
Travel	349	87	436
Meals and entertainment	2,026	506	2,532
Professional development	1,036	259	1,295
Other	4,952	1,238	6,190
Depreciation	14,528	3,632	18,160
Insurance	3,728	932	4,660
TOTAL EXPENSES	$ 281,469	$ 56,591	$ 338,060

See accompanying notes.

GREATER NEW ORLEANS FREE-NET, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED APRIL 30, 1998

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in unrestricted net assets	$ 57,123
Adjustments to reconcile increase in unrestricted net assets to cash provided by operating activities:	
Depreciation	18,160
Increase in accounts receivable	(24,933)
Increase in accounts receivable - Louisiana Free-Net	(44,716)
Increase in other assets - computer equipment	(21,750)
Increase in accounts payable	20,536
Increase in contractual service fees received in advance	2,000
Increase in grants received in advance	35,154
Increase in payroll taxes payable	6,086
Net cash provided by operating activities	47,660
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of equipment	(38,421)
Net cash used by investing activities	(38,421)
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,239
Cash and cash equivalents at beginning of year	11,171
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 20,410

See accompanying notes.

GREATER NEW ORLEANS FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1998

ORGANIZATION:

The Greater New Orleans Free-Net was organized on February 2, 1994. The Greater New Orleans Free-Net is a nonprofit electronic community network, which provides internet access and training for the nine parish Greater New Orleans area. The majority of revenues are derived from grants and contractual service fees from other nonprofits and revenues derived from corporate donations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements is as follows:

Basis of Accounting and Presentation:

The financial statements of the Organization are prepared on the accrual basis. Under the accrual method of accounting, revenue is recognized when earned and expenses are recognized when incurred.

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*.

The statement of activities presents expenses of the Organization's operations functionally between program services and administrative and general. Those expenses which cannot be functionally categorized are allocated among functions based upon management's estimate of usage applicable to conducting those functions.

Receivables:

Accounts receivable are charged off as uncollectible at the time their worthlessness is established. Use of this method does not result in a material difference from the valuation method required by generally accepted accounting principles.

Statement of Cash Flows:

As required by generally accepted accounting principles the financial statements include a statement of cash flows showing cash provided and used by operating, investment, and financing activities.

For purposes of implementing the cash flow statement, the Organization has defined cash equivalents as those amounts included in the statement of financial position caption "Cash."

The Organization paid no interest or income taxes for the year ended April 30, 1998.

GREATER NEW ORLEANS FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Promises To Give:

Gifts are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Gifts that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the gifts are recognized. All other donor-restricted gifts are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

The Organization uses the allowance method to determine unconditional promises receivable. The allowance is based on historical experience and management's analysis of specific promises made.

Furniture, Equipment and Leasehold Improvements:

Furniture, equipment and leasehold improvements are carried at cost and depreciated over their estimated useful lives of five to seven years using the straight-line method of depreciation. Depreciation expense for the year ended April 30, 1998 was $18,160. The statement of financial position classification is as follows:

	Cost Basis	Accumulated Depreciation	Net Book Value
Leasehold improvements	$ 1,858	$ 743	$ 1,115
Furniture	2,685	1,314	1,371
Equipment	124,676	35,692	88,984
	$129,219	$37,749	$91,470

Donated Services:

No amounts have been reflected in the financial statements for donated services. Donated services were not recorded due to the fact that the value of these services was not readily determinable. The amount of donated services is not considered significant. However, volunteers have donated time to the Organization's program and general and administrative services.

2. INCOME TAXES:

The Organization is exempt from income taxes under the Internal Revenue Code Section 501(c)(3).

3. RELATED PARTY:

Certain officers on the Board of Directors of the Greater New Orleans Free-Net are officers on the Board of Directors of the Louisiana Free-Net. Additionally, both the Greater New Orleans Free-Net and the Louisiana Free-Net are under certain common controls by individuals who could exercise influence over their day-to-day decisions.

GREATER NEW ORLEANS FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1998

3. RELATED PARTY: (Continued)

Louisiana Free-Net has contracted with Greater New Orleans Free-Net to provide various contractual services and subleasing of office space. Additionally Greater New Orleans Free-Net has paid certain expenses of Louisiana Free-Net prior to Louisiana Free-Net receiving its funding. The details of these contractual services and expenses are provided in the following paragraphs.

Greater New Orleans Free-Net subleases office space to Louisiana Free-Net. The amount charged each month is based on the amount of space used by Louisiana Free-Net. During the fiscal year ended April 30, 1998, Greater New Orleans Free-Net recognized $5,725 in sublease income from Louisiana Free-Net. The lease term began December 1, 1997 and ends August 31, 1998. Louisiana Free-Net has the option to renew the lease for one year at expiration under the same terms as the previous lease. At April 30, 1998, a receivable of $850 was due Greater New Orleans Free-Net as a result of the sublease.

Greater New Orleans Free-Net and the Louisiana Free-Net initiated a cooperative endeavor agreement on December 1, 1997. This agreement expires June 30, 1998. The agreement requires the Greater New Orleans Free-Net to assist with the implementation of the Free Net Technology Institute for students. The agreement requires the Greater New Orleans Free-Net to receive $250 for each student the Greater New Orleans Free-Net assists in training. Also the Greater New Orleans Free-Net will be reimbursed for a portion of administrative salaries. During the fiscal year ended April 30, 1998, the Greater New Orleans Free-Net recorded revenues of $77,001 under this contract. At April 30, 1998, the Greater New Orleans Free-Net had a receivable of $17,663 related to this agreement.

Greater New Orleans Free-Net and the Louisiana Free-Net had an additional cooperative endeavor agreement also initiated on December 1, 1997. This agreement provides that the Greater New Orleans Free-Net will assist with site licensing. The Greater New Orleans Free-Net will receive $35,000 of revenue as a result of the agreement. No amounts were received by Greater New Orleans Free-Net during the fiscal year ended April 30, 1998 as a result of this agreement. The Greater New Orleans Free-Net recognized $10,000 of revenue related to this agreement during the fiscal year ended April 30, 1998 based on management's estimation of completion of the agreement. This amount was recorded as a receivable at April 30, 1998.

Greater New Orleans Free-Net paid certain expenses for the Louisiana Free-Net during the year ended April 30, 1998. The total of expenses paid by Greater New Orleans Free-Net for Louisiana Free-Net was $20,271. At April 30, 1998, Greater New Orleans Free-Net received repayments for these advances in the amount of $4,068. Amounts receivable at April 30, 1998 related to repayment of advances are $16,203.

The financial statement classifications related to these agreements are as follows as of and for the fiscal year ended April 30, 1998:

GREATER NEW ORLEANS FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1998

3. RELATED PARTY: (Continued)

	Statement of Financial Position Accounts Receivable-Louisiana Free-Net	Statement of Activities - Contractual Services - Louisiana Free Net
Sublease office space	$ 850	$ 5,725
Implementation of Free-Net Technology Institute	17,663	77,001
Site Licensing	10,000	10,000
Advance Repayments	16,203	--
Totals	$44,716	$92,726

4. LEASE AGREEMENT:

The Organization leases office space from the University of New Orleans Foundation. The lease is currently on a month-to-month basis. Occupancy expense recorded during the fiscal year ended April 30, 1998 was $12,245.

5. ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

6. COMPUTER EQUIPMENT:

The Greater New Orleans Free-Net purchased computer equipment under the requirements of the Baptist Community Ministries (BCM) (See Note 7) grant. This equipment is held by the Organization at April 30, 1998 for distribution to various schools in the New Orleans area as a requirement of the grant. Management of the Organization determines which schools will receive the computer equipment.

7. GRANTS:

The Greater New Orleans Free-Net, Inc. has been awarded a one-year grant with BCM. This grant began on December 1, 1997 and expires on November 30, 1998. The Organization received a total of $99,965 from BCM during the fiscal year ended April 30, 1998 under this grant. The Organization recognized $64,811 in revenue related to this grant during the current fiscal year. The remaining amount of $35,154 was not expended as of April 30, 1998 and is recorded as a liability in the statement of financial caption "grants received in advance."

The Greater New Orleans Free-Net, Inc. also recorded $23,797 of revenue from the Telecommunications and Information Infrastructure Assistance Program (TIIAP) grant. The Organization was subcontracted by the University of New Orleans to provide various services related to this grant. The TIIAP grant expired during the current fiscal year.

GREATER NEW ORLEANS FREE-NET, INC.
NOTES TO FINANCIAL STATEMENTS
APRIL 30, 1998

7. GRANTS: (Continued)

These amounts are classified in the financial statements as follows:

	Statement of Financial Position - Grants Received in Advance	Statement of Activities - Grant Revenue
BCM	$35,154	$64,811
TIIAP	--	23,797
	$35,154	$88,608

8. NET ASSETS RELEASED FROM RESTRICTIONS:

Net assets are released from temporary donor restrictions by incurring expenses satisfying the restricted purpose. Restricted revenues recorded in the same period that the restrictions are met are reported as unrestricted revenues in these financial statements.

GREATER NEW ORLEANS FREE-NET, INC.
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
FOR THE YEAR ENDED APRIL 30, 1998

June 12, 1998

To the Board of Directors
Greater New Orleans Free-Net, Inc.

We have audited the financial statements of Greater New Orleans Free-Net, Inc. as of and for the year ended April 30, 1998 and have issued our report thereon dated June 12, 1998. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Greater New Orleans Free-Net, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Greater New Orleans Free-Net, Inc's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Duplantier, Hrapmann, Hogan & Maher LLP