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December 31, 1997

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AUDITING & FINANCIAL ANALYSIS DIV

VIA OVERNIGHT DELIVERY

Mr. David Draper
Director
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399

Re: Application of Net2000 Group, Inc. -- Docket No. 971583-TI

Dear Mr. Draper:

As discussed, enclosed for filing with the Florida Public Service Commission please find an original and 12 copies of Net2000 Group, Inc.'s most recent financial statements. Finally, enclosed are a duplicate copy of this filing and a self-addressed, postage-paid envelope. Please date-stamp the duplicate and return it in the envelope provided.

Please do not hesitate to call me if you have any questions.

Respectfully submitted,

Andrea D. Pruitt

Andrea D. Pruitt

Enclosure

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Financial Statements

Net2000 Group, Inc.

Year ended December 31, 1996
with Report of Independent Auditors

ERNST & YOUNG LLP

Net2000 Group, Inc.

Financial Statements

Year ended December 31, 1996

Contents

Ernst & Young LLP

Fairfax Square Tower II
8075 Leesburg Pike
Vienna Virginia 22182

Phone 703 903 5000

Report of Independent Auditors

Board of Directors
Net2000 Group, Inc.

We have audited the accompanying balance sheet of Net2000 Group, Inc. as of December 31, 1996 and the related statements of income, stockholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company'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. 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 Net2000 Group, Inc. at December 31, 1996 and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Ernst + Young LLP

July 2, 1997

Net2000 Group, Inc.

Balance Sheet

	December 31, 1996
Assets	
Current assets:	
Cash	$ 2,691
Accounts receivable	429,344
Prepaid expenses	16,060
Total current assets	448,095
Property and equipment, net of accumulated depreciation	146,500
Other	8,869
Total assets	$603,464
Liabilities and stockholders' equity	
Current liabilities:	
Accounts payable and accrued expenses	$148,927
Notes payable - officers	100,000
Current maturities of capital lease obligations	32,500
Total current liabilities	281,427
Capital lease obligations, less current maturities	63,033
Stockholders' equity:	
Common stock, $1 par value; 5,000 shares authorized, 4,000 shares issued and outstanding	4,000
Retained earnings	255,004
Total stockholders' equity	259,004
Total liabilities and stockholders' equity	$603,464

See accompanying notes.

Net2000 Group, Inc.

Statement of Income

	December 31, 1996
Revenues:	
Commissions	$1,441,424
Consulting	423,062
Other	77,611
Total revenues	1,942,097
Cost of revenue	361,956
Gross margin	1,580,141
Selling, general and administrative expenses	1,501,007
Income from operations	79,134
Interest expense	11,464
Net income	$ 67,670

See accompanying notes.

Net2000 Group, Inc.

Statement of Stockholders' Equity

	Common Stock		Retained	Total Stockholders'
	Shares	Amount	Earnings	Equity
Balance, December 31, 1995	4,000	$4,000	$187,334	$191,334
Net income	–	–	67,670	67,670
Balance, December 31, 1996	**4,000**	**$4,000**	**$255,004**	**$259,004**

See accompanying notes.

Net2000 Group, Inc.

Statement of Cash Flows

	December 31, 1996
Operating activities	
Net income	$ 67,670
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	26,758
Changes in operating assets and liabilities:	
Accounts receivable	(173,040)
Other current assets	4,116
Prepaid and other assets	12,967
Accounts payable and accrued expenses	62,936
Net cash provided by operating activities	1,407
Investing activities	
Acquisition of property and equipment	(33,861)
Net cash used in investing activities	(33,861)
Financing activities	
Net proceeds from notes payable - officers	20,000
Repayment of capital leases	(17,654)
Net cash provided by financing activities	2,346
Net decrease in cash	(30,108)
Cash at the beginning of period	32,799
Cash at the end of period	$ 2,691

See accompanying notes.

Net2000 Group, Inc.

Notes to Financial Statements

December 31, 1996

1. Organization and Significant Accounting Policies

Net2000 Group, Inc. "the Company" was formed on June 23, 1993 under the laws of the State of Virginia. The Company's principal line of business is the resale of local telecommunications services which include the installation of voice, data and video services for businesses. The Company also provides telecommunications consulting services.

Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful life of the asset, ranging from three to seven years. Leasehold improvements are depreciated over the lesser of the useful life of the addition or the lease term.

Revenue Recognition

The Company recognizes commission revenues on all agency services when the product has been installed. Consulting revenue is recognized when earned.

Fair Value of Financial Instruments

The Company considers the recorded value of its financial assets and liabilities, consisting primarily of cash, accounts receivable, capital lease obligations and notes payable - officers to approximate the fair value of the respective assets and liabilities at December 31, 1996.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Organization and Significant Accounting Policies (continued)

Income Taxes

The Company has elected to be taxed under the Subchapter-S provisions of the Internal Revenue Code. Accordingly, the Company's income passes through to its shareholders for inclusion in their individual income tax returns.

2. Property and Equipment

Property and equipment consist of the following:

	December 31, 1996
Software	$ 1,651
Equipment	155,778
Furniture	11,371
Leasehold improvements	8,568
	177,368
Less accumulated depreciation and amortization	(30,868)
	$146,500

3. Notes Payable - Officers

At December 31, 1996 the Company had unsecured notes payable of $100,000 payable on demand to officers of the Company. These notes accrue interest at a rate of prime plus 1.5 percent per annum.

The Company paid interest of $11,464 related to the notes payable - officers and capital leases during the year ended December 31, 1996.

4. Leases

The Company currently leases office space and equipment under non-cancelable operating leases. The future minimum lease payments under non-cancelable operating leases at December 31, 1996 are as follow:

Fiscal Year	
1997	$ 63,879
1998	59,986
1999	61,490
2000	49,500
2001	-
Total	$234,855

The Company currently leases equipment under non-cancelable capital leases. The future minimum lease payments under non-cancelable capital leases at December 31, 1996 are as follow:

Fiscal Year	
1997	$ 42,147
1998	34,393
1999	20,732
2000	7,464
2001	6,842
Total minimum lease payments	111,578
Less amount representing interest	16,045
Present value of minimum lease payments	95,533
Less current portion of capital lease obligation	32,500
Long term portion of capital lease obligation	$ 63,033

Rent expense for the year ended December 31, 1996 was approximately $85,000.

5. Significant Customers

The Company derives a significant portion of its sales from one major customer. For the year ended December 31, 1996 the Company recorded sales of approximately $1.4 million from this customer. At December 31, 1996 the Company had accounts receivable of approximately $310,000 from this customer.

6. Subsequent Events

Subsequent to year end the Company entered in several non-cancelable operating and capital leases. Minimum payments related to the non-cancelable operating leases are $185,415 and $135,216 for 1997 and 1998 respectively and $282,732 thereafter. Approximately 60% of the payments in 1997 and 100% of the payments thereafter relate to a new office lease for the Company's corporate headquarters. Minimum payments related to the non-cancelable capital leases are $52,570 and $68,604 for 1997 and 1998 respectively and $88,250 thereafter.

In addition, in March 1997 the Company obtained a $750,000 line of credit with a bank. The line is secured by substantially all of the assets of the Company and accrues interest at a rate of prime plus .5 percent per annum. Under the line of credit agreement the Company's borrowings are limited to a percent of its accounts receivable balance, and the Company must meet certain financial covenants.