

WESTERN STATES LEARNING CORPORATION

FINANCIAL REPORT

MARCH 31, 2007

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McGee, Hearne & Paiz, LLP

Certified Public Accountants and Consultants

314 West 18th Street - Cheyenne, WY - 82001

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Western States Learning Corporation
Cheyenne, Wyoming

We have audited the accompanying statements of financial position of Western States Learning Corporation as of March 31, 2007 and 2006, and the related statements of unrestricted revenues, expenses and other changes in unrestricted net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 audits provide 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 Western States Learning Corporation as of March 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGee, Hearne & Paiz, LLP

Cheyenne, Wyoming
May 31, 2007

WESTERN STATES LEARNING CORPORATION

STATEMENTS OF FINANCIAL POSITION

March 31, 2007 and 2006

ASSETS	2007	2006
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,756,188	\$ 1,341,837
Accounts receivable (Note 2)	269,473	262,992
Cash held on behalf of others (Note 2)	110,302	904,810
Prepaid expenses and other assets (Note 6)	116,649	77,948
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Total current assets	2,252,612	2,587,587
PROPERTY AND EQUIPMENT		
Leasehold improvements	85,941	85,431
Equipment and furniture (Note 4)	1,384,481	1,284,001
Automobiles	29,500	54,299
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	1,499,922	1,423,731
Less accumulated depreciation	909,760	585,225
	<hr/>	<hr/>
Total property and equipment	590,162	838,506
OTHER ASSETS (Note 3)		
Goodwill	179,500	180,500
Intangible assets, net of amortization	98,500	131,000
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Total other assets	278,000	311,500
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Total assets	\$ 3,120,774	\$ 3,737,593
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 4)	\$ 295,041	\$ 328,679
Principal and interest payments escrow and other funds (Note 2)	110,302	904,810
Accounts payable and accrued expenses	364,343	388,924
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Total current liabilities	769,686	1,622,413
LONG-TERM DEBT (Note 4)	519,194	990,502
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Total liabilities	1,288,880	2,612,915
Commitments and contingencies (Notes 2, 5, 6, and 7)		
NET ASSETS, unrestricted	1,831,894	1,124,678
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Total liabilities and net assets	\$ 3,120,774	\$ 3,737,593
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See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION

**STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND
OTHER CHANGES IN UNRESTRICTED NET ASSETS**

Years Ended March 31, 2007 and 2006

	2007	2006
Operating Revenues		
Management fee income (Note 2)	\$ 2,100,000	\$ 2,096,250
Loan servicing income (Notes 2 and 6)	3,047,566	3,191,017
Other services income	121,544	48,168
Total operating revenues	5,269,110	5,335,435
Operating Expenses		
Compensation	2,673,693	2,642,334
Occupancy	304,447	298,781
Equipment and software expenses	733,881	725,217
Office operations	263,941	233,999
Marketing and educational awareness	180,368	83,344
Professional services	74,539	183,064
Travel	113,168	93,047
Other expenses	128,839	106,492
Amortization of intangible assets (Note 3)	32,500	34,500
Impairment of goodwill (Note 3)	1,000	10,000
Total operating expenses	4,506,376	4,410,778
Change in unrestricted net assets from operations	762,734	924,657
Other Changes		
Interest income	43,228	5,191
Interest expense	(94,008)	(97,895)
Loss on disposition of assets	(4,738)	(9,142)
Net nonoperating (expense)	(55,518)	(101,846)
Increase in unrestricted net assets	707,216	822,811
Net Assets, beginning	1,124,678	301,867
Net Assets, ending	\$ 1,831,894	\$ 1,124,678

See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION

STATEMENTS OF CASH FLOWS

Years Ended March 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for management services	\$ 2,100,000	\$ 2,096,250
Cash received for loan servicing	3,048,795	3,002,834
Cash received for other services	111,106	45,781
Cash paid to suppliers and employees	(4,183,864)	(3,950,564)
Interest received on cash equivalents	44,968	3,002
Interest paid on debt	(95,836)	(97,242)
Net cash provided by operating activities	1,025,169	1,100,061
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(119,372)	(106,100)
Proceeds from sale of equipment	13,500	-
Net cash (used in) investing activities	(105,872)	(106,100)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on debt	(504,946)	(308,651)
Net increase in cash and cash equivalents	414,351	685,310
Cash and cash equivalents:		
Beginning of year	1,341,837	656,527
End of year	\$ 1,756,188	\$ 1,341,837
Reconciliation of change in unrestricted net assets to net cash provided by operating activities:		
Change in unrestricted net assets	\$ 707,216	\$ 822,811
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	349,478	352,621
Loss on disposition of assets	4,738	9,142
Amortization	32,500	34,500
Impairment of goodwill	1,000	10,000
Change in assets and liabilities:		
Accounts receivable	(6,481)	(188,496)
Prepaid expenses and other assets	(38,701)	(77,948)
Accounts payable and accrued expenses	(24,581)	137,431
Net cash provided by operating activities	\$ 1,025,169	\$ 1,100,061

See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activity and Significant Accounting Policies

Nature of activities:

The Western States Learning Corporation (herein referred to as “Western” or the “Corporation”) was incorporated in December of 2003 as a nonprofit organization under the laws of the State of Wyoming for the purpose of providing education finance services and support services for the student financial aid industry, principally in Wyoming. The Corporation commenced operations on April 1, 2004.

A summary of the Corporation’s significant accounting policies follows:

Cash and cash equivalents:

For purposes of reporting the statements of cash flows, the Corporation considers all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly-liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents exclude cash held on behalf of others. The Corporation maintains its cash in bank deposit accounts and certificates of deposit, which at times may exceed federally insured limits. The Corporation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Accounts receivable:

Trade receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Trade receivables are written off when deemed uncollectable. Recoveries of trade receivables previously written off are recorded when received. No allowance for doubtful accounts was considered to be necessary at March 31, 2007 or 2006.

Property and equipment:

Capital assets owned are stated at cost. Depreciation is computed by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Leasehold improvements	6 - 9
Equipment and furniture	3 - 7
Automobiles	3 - 4

Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

NOTES TO FINANCIAL STATEMENTS

Intangible assets:

Intangible assets are amortized over their estimated economic life using the straight-line method and are carried at cost less accumulated amortization. Intangible assets are amortized over the following useful lives, which also represents the weighted-average useful life for each class of intangible assets:

	<u>Years</u>
Office lease	9.5
Loan servicing procedures	5
Servicing contracts	3

The total weighted-average useful life of intangible assets is approximately seven years.

Goodwill:

Goodwill is not amortized. Instead, goodwill is subject to impairment reviews by applying a fair value based test at the reporting unit level. An impairment loss will be recorded for any goodwill that is determined to be impaired. The Corporation incurred an impairment loss of \$1,000 and \$10,000 for the years ended March 31, 2007 and 2006, respectively.

Impairment of long-lived assets:

Long-lived assets will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Any impairment loss will be measured by the difference between the fair value of an asset and its carrying amount, and will be recognized in the period that the recognition criteria are first applied and met.

Revenue recognition:

The Corporation recognizes revenue on the accrual method for the services being provided to its customers. Under the accrual method, revenue is recorded when the services have been provided.

Advertising:

Advertising costs are expensed as incurred. Advertising expense for the years ended March 31, 2007 and 2006 was \$66,745 and \$28,650, respectively.

Income tax status:

The Corporation is tax-exempt under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Corporation did not have any unrelated business income for the years ended March 31, 2007 and 2006.

Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Note 2. Transactions with Wyoming Student Loan Corporation and Subsequent Event

The Corporation has contracted with Wyoming Student Loan Corporation (“WyoLoan”) to provide management services and loan servicing since April, 2004. The management services contract was renegotiated on April 1, 2007 and expires on March 31, 2008. This contract provides for an annual fee of \$2,100,000 to be paid to Western.

The loan servicing contract was renegotiated on April 1, 2007 and expires on March 31, 2008, with automatic annual renewals through March 1, 2010. Fees charged under the loan servicing contract are based on the number and status of loans serviced. The loan servicing contract contains a termination clause requiring WyoLoan to pay a transfer fee equal to a percentage of the outstanding principal balance on the student loans being serviced as of the transfer date. The Corporation was servicing approximately \$296,443,000 and \$298,112,000 of loans for WyoLoan at March 31, 2007 and 2006, respectively. The loan servicing contract also contains a clause that in the event a loan loses its guarantee solely due to an error on the part of the Corporation and the guarantee cannot be reinstated, the Corporation is required to reimburse WyoLoan in an amount equal to the outstanding principal and any unpaid interest at the time the error occurred.

During the years ended March 31, 2007 and 2006, the Corporation recognized revenue of \$3,003,256 and \$3,167,886, respectively, for student loan servicing and \$2,100,000 and \$2,096,000, respectively, for management services from WyoLoan that accounted for approximately 97% and 99% of the Corporation’s total revenues for the years ended March 31, 2007 and 2006, respectively. The Corporation has accounts receivable from WyoLoan related to student loan servicing of \$242,371 and \$254,266 at March 31, 2007 and 2006, respectively.

The Corporation also has a payable to WyoLoan related to escrowed individual borrowers’ principal and interest payments received by the Corporation and not yet transferred to WyoLoan of \$98,948 and \$898,278 at March 31, 2007 and 2006, respectively.

Note 3. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the years ended March 31, 2007 and 2006 are as follows:

	2007	2006
Balance, beginning	\$ 180,500	\$ 190,500
Acquired during the year	-	-
Impairment losses	(1,000)	(10,000)
	\$ 179,500	\$ 180,500
Balance, ending	\$ 179,500	\$ 180,500

The goodwill is related to workforce in place, including employees and executive management. Goodwill is tested for impairment on an annual basis and an impairment loss is recognized as employees and executive management terminate employment. The Corporation recognized impairment losses of \$1,000 and \$10,000 for the years ended March 31, 2007 and 2006, respectively, on the portion of goodwill considered impaired related to employees who terminated during the year.

NOTES TO FINANCIAL STATEMENTS

The following table summarizes the changes in intangible assets owned by the Corporation during the years ended March 31, 2007 and 2006:

	Office Lease	Loan Servicing Procedures	Servicing Contracts
Balance, March 31, 2005	\$ 100,000	\$ 75,000	\$ 25,000
Acquired during the year	-	-	-
Disposed of during the year	-	-	-
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Balance, March 31, 2006	100,000	75,000	25,000
Acquired during the year	-	-	-
Disposed of during the year	-	-	-
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Balance, March 31, 2007	<u>\$ 100,000</u>	<u>\$ 75,000</u>	<u>\$ 25,000</u>
Accumulated amortization	<u>\$ 31,500</u>	<u>\$ 45,000</u>	<u>\$ 25,000</u>

Amortization expense recognized on all amortizable intangibles totaled \$32,500 and \$34,500 for the years ended March 31, 2007 and 2006, respectively. The Corporation does not have any intangible assets, other than goodwill, not subject to amortization.

Estimated aggregate amortization expense for each of the next five years is as follows:

Year ending March 31,	
2008	\$ 25,526
2009	25,526
2010	10,526
2011	10,256
2012	10,256

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt

At March 31, 2007 and 2006, long-term debt consisted of the following:

	2007	2006
Note payable to Wyoming Student Loan Corporation, interest at prime rate (8.25% at April 1, 2007) plus 1%, adjustable each April 1, payable in monthly principal and interest installments of \$16,784 through April 1, 2009; unsecured	\$ 380,316	\$ 540,226
Note payable to Wyoming Student Loan Corporation, interest at prime rate (7.75% at April 1, 2006) plus 1%, adjustable each April 1, payable in monthly principal and interest installments of \$6,184 through February 27, 2007, when it was paid in full; unsecured	-	232,045
Note payable to Wyoming Student Loan Corporation, interest at prime rate (8.25% at April 1, 2007) plus 1%, adjustable each April 1, payable in monthly principal and interest installments of \$8,223 through January 1, 2010; unsecured	245,431	318,826
Note payable to a bank, interest at rate of 5.875%, payable in monthly installments of \$4,344 through April 1, 2011; secured by certain equipment with a carrying value of \$163,811 at March 31, 2007	188,488	228,084
	814,235	1,319,181
Less current maturities	295,041	328,679
	\$ 519,194	\$ 990,502

Aggregate annual principal payment requirements of long-term debt for the fiscal years subsequent to March 31, 2007 are as follows:

2008	\$ 295,041
2009	321,995
2010	143,033
2011	50,285
2012	3,881
	814,235
	\$ 814,235

NOTES TO FINANCIAL STATEMENTS

Note 5. Leases

Western has offices located in Cheyenne, Wyoming. These premises are leased under noncancelable operating leases, which expire during the years 2010 and 2014. The leases provide that the rental payments increase 1.5% annually through the end of the lease terms. The Corporation has accrued rent expense in an amount such that the total rent under the leases will be recognized ratably over the terms of the leases.

At March 31, 2007, the annual rental expense on a straight-line basis due on noncancelable leases having terms in excess of one year is as follows:

During the year ending March 31:	
2008	\$ 248,469
2009	248,469
2010	216,479
2011	193,629
2012	193,629
Due thereafter	306,578
	<u>\$ 1,407,253</u>

The Corporation also leases equipment on a month-to-month basis. Rental expense for all operating leases amounted to \$294,111 and \$282,570 for the years ended March 31, 2007 and 2006, respectively.

Note 6. Contractual Arrangements

The Corporation has a license agreement to use software written by Idaho Financial Associates (“IFA”). The software is used to administer student loan accounting services. The agreement with IFA requires minimum annual payments for administrative and maintenance services relating to the software. The agreement expires on June 30, 2008. Programming and maintenance hours in excess of those provided for under the maintenance agreement are charged at an hourly rate.

Required minimum annual fees under the agreement are as follows:

During the year ending March 31:	
2008	\$ 276,825
2009	70,050
	<u>\$ 346,875</u>

Fees incurred under this agreement during the years ended March 31, 2007 and 2006 totaled \$243,667 and \$271,660, respectively. The Corporation has prepaid \$102,500 and \$64,801 of future programming and maintenance costs at March 31, 2007 and 2006, respectively. The agreement also provides for a contingent payment of \$100,000 when the total principal balance of loans serviced by the software exceeds \$400,000,000. The contingent payment will be recognized when the applicable criteria is expected to be met.

NOTES TO FINANCIAL STATEMENTS

The Corporation has various servicing agreements in addition to the agreement discussed in Note 2 whereby it provides student loan servicing to other private lenders. Fees earned under these agreements for the years ended March 31, 2007 and 2006 totaled \$44,310 and \$23,131, respectively. The Corporation was servicing approximately \$2,284,000 and \$865,000 of loans under these agreements at March 31, 2007 and 2006, respectively.

Note 7. Retirement Plan

Western sponsors a 401(k) Retirement Savings Plan. This plan covers substantially all full-time employees. For the years ended March 31, 2007 and 2006, the Corporation elected to make discretionary matching participant contributions up to 50% of the first 7% of an employee's deferral contribution for eligible employees that have worked a minimum of 1,000 hours during the plan year. The Corporation may, at the discretion of the Board of Directors, contribute amounts in excess of matching funds to limits established by the plan. There were no additional discretionary contributions approved during the years ended March 31, 2007 or 2006. Corporation contributions to the plan for the years ended March 31, 2007 and 2006 totaled \$42,705 and \$33,097, respectively.