

WESTERN STATES LEARNING CORPORATION

FINANCIAL REPORT

MARCH 31, 2006

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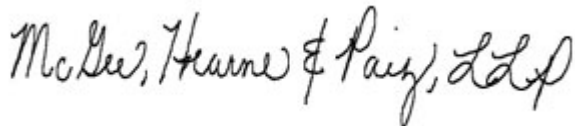
INDEPENDENT AUDITOR'S REPORT

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, 2006 and 2005, 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, 2006 and 2005, 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.

A handwritten signature in cursive script that reads "McGee, Heame & Paiz, LLP".

Cheyenne, Wyoming
May 24, 2006

WESTERN STATES LEARNING CORPORATION

STATEMENTS OF FINANCIAL POSITION

March 31, 2006 and 2005

ASSETS	2006	2005
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	\$ 1,341,837	\$ 656,527
Interest receivable	2,189	-
Accounts receivable (Note 2)	262,992	74,496
Cash held on behalf of others (Note 2)	904,810	195,130
Prepaid expenses (Note 6)	75,759	-
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Total current assets	2,587,587	926,153
PROPERTY AND EQUIPMENT (Note 2)		
Leasehold improvements	85,431	84,809
Equipment and furniture (Note 4)	1,284,001	1,192,964
Automobiles	54,299	54,299
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	1,423,731	1,332,072
Less accumulated depreciation	585,225	237,903
	<hr/>	<hr/>
Total property and equipment	838,506	1,094,169
OTHER ASSETS (Notes 2 and 3)		
Goodwill	180,500	190,500
Intangible assets, net of amortization	131,000	165,500
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Total other assets	311,500	356,000
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Total assets	\$ 3,737,593	\$ 2,376,322
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LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 4)	\$ 328,679	\$ 322,753
Principal and interest payments escrow and other funds (Note 2)	904,810	195,130
Accounts payable and accrued expenses (Note 6)	388,924	251,493
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Total current liabilities	1,622,413	769,376
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LONG-TERM DEBT (Note 4)	990,502	1,305,079
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Total liabilities	2,612,915	2,074,455
	<hr/>	<hr/>
Commitments and contingencies (Notes 5, 6, and 7)		
NET ASSETS, unrestricted	1,124,678	301,867
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Total liabilities and net assets	\$ 3,737,593	\$ 2,376,322
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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, 2006 and 2005

	2006	2005
Operating Revenues		
Management fee income (Note 2)	\$ 2,096,250	\$ 2,028,400
Loan servicing income (Notes 2 and 6)	3,191,017	2,640,176
Other services income	48,168	14,314
Total operating revenues	5,335,435	4,682,890
Operating Expenses		
Compensation	2,642,334	2,637,773
Occupancy	298,781	284,933
Equipment and software expenses	725,217	542,641
Office operations	233,999	299,945
Marketing	83,344	202,016
Professional services	183,064	87,462
Travel	93,047	106,141
Other expenses	106,492	123,675
Amortization of intangible assets (Note 3)	34,500	34,500
Impairment of goodwill (Note 3)	10,000	10,000
Total operating expenses	4,410,778	4,329,086
Change in unrestricted net assets from operations	924,657	353,804
Other Changes		
Interest income	5,191	124
Interest expense	(97,895)	(52,061)
Loss on disposition of assets	(9,142)	-
Net nonoperating (expense)	(101,846)	(51,937)
Increase in unrestricted net assets	822,811	301,867
Net Assets, beginning	301,867	-
Net Assets, ending	\$ 1,124,678	\$ 301,867

See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION

STATEMENTS OF CASH FLOWS
Years Ended March 31, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for management services	\$ 2,096,250	\$ 2,028,400
Cash received for loan servicing	3,002,834	2,573,546
Cash received for other services	45,781	13,864
Cash paid to suppliers and employees	(3,950,564)	(3,881,025)
Interest received on cash equivalents	3,002	124
Interest paid on debt	(97,242)	(45,218)
Net cash provided by operating activities	1,100,061	689,691
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(106,100)	(463,226)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from debt	-	262,097
Proceeds from debt, initial asset purchase (Note 2)	-	333,712
Principal paid on debt	(308,651)	(165,747)
Net cash provided by (used in) financing activities	(308,651)	430,062
Net increase in cash and cash equivalents	685,310	656,527
Cash and cash equivalents:		
Beginning of year	656,527	-
End of year	\$ 1,341,837	\$ 656,527
Reconciliation of change in unrestricted net assets to net cash provided by operating activities:		
Change in unrestricted net assets	\$ 822,811	\$ 301,867
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	352,621	287,228
Loss on disposition of assets	9,142	-
Amortization	34,500	34,500
Impairment of goodwill	10,000	10,000
Change in assets and liabilities:		
Interest receivable	(2,189)	-
Accounts receivable	(188,496)	(69,513)
Prepaid expenses	(75,759)	-
Accounts payable and accrued expenses	137,431	125,609
Net cash provided by operating activities	\$ 1,100,061	\$ 689,691

Continued

WESTERN STATES LEARNING CORPORATION

STATEMENT OF CASH FLOWS (Continued)
Years Ended March 31, 2006 and 2005

	2006	2005
Supplemental Schedule of Noncash Investing and Financing Activities:		
Purchase of non-financial assets in exchange for notes payable to the seller of \$1,531,482 (Note 2):		
Property and equipment	\$ -	\$ (918,171)
Other assets	-	(200,000)
Goodwill	-	(200,500)
Accounts receivable	-	(4,983)
Accrued expenses	-	125,884
Notes payable to seller	-	1,531,482
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	\$ -	\$ 333,712

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 “WSLC” 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 nine 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, 2006 or 2005.

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	2 - 9
Equipment and furniture	2 - 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 \$10,000 for goodwill during each of the years ended March 31, 2006 and 2005.

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.

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, 2006 and 2005.

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

Effective April 1, 2004, the Corporation purchased all non-financial assets, including all furniture and equipment (with the exception of its student loan servicing software license) from Wyoming Student Loan Corporation. Negotiations with the vendor and final approval to transfer ownership of the student loan servicing software license were completed on November 12, 2004. Also effective April 1, 2004, all personnel previously employed by Wyoming Student Loan Corporation were employed by the Corporation.

The net assets were purchased and cash was transferred in exchange for three notes payable totaling \$1,531,482 that are more fully described in Note 4.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Cash	\$	333,712
Accounts receivable		4,983
Property and equipment		918,171
Intangible assets		200,000
Goodwill		200,500
Total assets acquired		<u>1,657,366</u>
Accrued expenses assumed		<u>(125,884)</u>
Net assets acquired	\$	<u><u>1,531,482</u></u>

On April 1, 2004, the Corporation entered into management services and loan servicing contracts with Wyoming Student Loan Corporation. The management contract expires on March 31, 2007. Fees charged under the management contract are based on the costs incurred by the Corporation for providing services under the contract plus a mark up.

The loan servicing contract expired on March 31, 2005 and was renewed for one year with automatic annual renewals through March 1, 2008. 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 Wyoming Student Loan Corporation 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 \$298,112,000 and \$294,533,000 of loans for Wyoming Student Loan Corporation at March 31, 2006 and 2005, respectively.

During the years ended March 31, 2006 and 2005, the Corporation received \$3,167,886 and \$2,622,600, respectively, for student loan servicing and \$2,096,000 and \$2,028,400, respectively, for management services from Wyoming Student Loan Corporation that accounted for approximately 99% of the Corporation's total revenues for the years ended March 31, 2006 and 2005. The Corporation has accounts receivable from Wyoming Student Loan Corporation related to student loan servicing of \$254,266 and \$66,000 at March 31, 2006 and 2005, respectively.

The Corporation also has accounts payable to Wyoming Student Loan Corporation related to escrowed individual borrowers' principal and interest payments received by the Corporation and not yet transferred to Wyoming Student Loan Corporation of \$898,278 and \$152,564 at March 31, 2006 and 2005, respectively.

NOTES TO FINANCIAL STATEMENTS

Note 3. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill, as a result of the transaction more fully explained in Note 2, for the years ended March 31, 2006 and 2005 are as follows:

	2006	2005
Balance, beginning	\$ 190,500	\$ -
Acquired during the year	-	200,500
Impairment losses	(10,000)	(10,000)
	\$ 180,500	\$ 190,500
Balance, ending	\$ 180,500	\$ 190,500

The goodwill is related to workforce in place, including employees and executive management. Goodwill is tested for impairment on a quarterly basis and an impairment loss is recognized as employees and executive management terminate employment. The Corporation recognized impairment losses of \$10,000 during each of the years ended March 31, 2006 and 2005, on the portion of goodwill considered impaired related to employees who terminated during the year.

The Corporation also acquired intangible assets during the year ended March 31, 2005, as a result of the transaction that is more fully explained in Note 2. The following table summarizes the changes in intangible assets owned by the Corporation during the years ended March 31, 2006 and 2005:

	Office Lease	Loan Servicing Procedures	Servicing Contracts
Balance, April 1, 2004	\$ -	\$ -	\$ -
Acquired during the year	100,000	75,000	25,000
Disposed of during the year	-	-	-
	100,000	75,000	25,000
Balance, March 31, 2005	100,000	75,000	25,000
Acquired during the year	-	-	-
Disposed of during the year	-	-	-
	100,000	75,000	25,000
Balance, March 31, 2006	\$ 100,000	\$ 75,000	\$ 25,000
Accumulated amortization	\$ 21,000	\$ 30,000	\$ 18,000

Amortization expense recognized on all amortizable intangibles totaled \$34,500 for each of the years ended March 31, 2006 and 2005. The Corporation does not have any intangible assets other than goodwill not subject to amortization.

NOTES TO FINANCIAL STATEMENTS

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

Year ending March 31,			
2007	\$	32,526	
2008		25,526	
2009		25,526	
2010		10,526	
2011		10,526	

Note 4. Long-Term Debt

At March 31, 2006 and 2005, long-term debt consisted of the following:

	2006	2005
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 \$16,712 through April 1, 2009; unsecured (Note 2)	\$ 540,226	\$ 692,223
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 November 1, 2009; unsecured (Note 2)	232,045	284,517
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 \$8,184 through January 1, 2010; unsecured (Note 2)	318,826	388,995
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 \$207,493 at March 31, 2006	228,084	262,097
	1,319,181	1,627,832
Less current maturities	328,679	322,753
	\$ 990,502	\$ 1,305,079

NOTES TO FINANCIAL STATEMENTS

Aggregate annual principal payment requirements of long-term debt for the fiscal years subsequent to March 31, 2006 are as follows:

2007	\$	328,679
2008		357,398
2009		388,659
2010		190,506
2011		50,298
Thereafter		3,641
	\$	<u>1,319,181</u>

Note 5. Leases

WSLC has offices located in Cheyenne, Casper, and Laramie, Wyoming. These premises are leased under noncancelable operating leases, which expire during the years 2007 and 2014.

Required minimum annual rentals due on noncancelable leases having terms in excess of one year are as follows:

During the year ending March 31:

2007	\$	235,988
2008		194,288
2009		193,629
2010		193,629
2011		193,629
Due thereafter		500,208
	\$	<u>1,511,371</u>

Rental expense for all operating leases amounted to \$283,804 and \$274,767 for the years ended March 31, 2006 and 2005, respectively.

Note 6. Contractual Arrangements

On November 12, 2004, as a result of the transaction explained in Note 2, the Corporation formally assumed the 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.

NOTES TO FINANCIAL STATEMENTS

Required minimum annual fees under the agreement are as follows:

During the year ending March 31:

2007	\$	263,700
2008		276,825
2009		70,050
	\$	<u>610,575</u>

Fees incurred under this agreement during the year ended March 31, 2006 and the period December 1, 2004 (Note 2) through March 31, 2005 totaled \$271,660 and \$171,058, respectively. The Corporation has prepaid \$64,801 of these costs at March 31, 2006. At March 31, 2005, the Corporation had accrued \$4,393 of these costs. 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.

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. The agreements are for a period of one year with an additional automatic one-year renewal. Fees earned under these agreements for the years ended March 31, 2006 and 2005 totaled \$23,131 and \$17,576, respectively. The Corporation was servicing approximately \$865,000 and \$988,000 of loans under these agreements at March 31, 2006 and 2005, respectively.

Note 7. Retirement Plan

Effective April 1, 2004, the Wyoming Student Loan Corporation 401(k) Retirement Savings Plan was amended and renamed the Western States Learning Corporation 401(k) Retirement Savings Plan. This plan covers substantially all full-time employees. For the years ended March 31, 2006 and 2005, 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, 2006 or 2005. Corporation contributions to the plan for the years ended March 31, 2006 and 2005 totaled \$33,097 and \$34,081, respectively.