

WESTERN STATES LEARNING CORPORATION

FINANCIAL REPORT

MARCH 31, 2008

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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, 2008 and 2007, 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, 2008 and 2007, 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
June 9, 2008

WESTERN STATES LEARNING CORPORATION

STATEMENTS OF FINANCIAL POSITION

March 31, 2008 and 2007

ASSETS	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,698,593	\$ 1,756,188
Accounts receivable (Note 2)	279,175	269,473
Cash held on behalf of others (Note 2)	187,219	110,302
Prepaid expenses and other assets (Note 6)	114,390	116,649
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Total current assets	2,279,377	2,252,612
PROPERTY AND EQUIPMENT		
Leasehold improvements	86,621	85,941
Equipment and furniture (Note 4)	1,551,178	1,384,481
Automobiles	-	29,500
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	1,637,799	1,499,922
Less accumulated depreciation	1,132,465	909,760
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Total property and equipment	505,334	590,162
OTHER ASSETS (Note 3)		
Goodwill	176,500	179,500
Intangible assets, net of amortization	73,000	98,500
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Total other assets	249,500	278,000
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Total assets	\$ 3,034,211	\$ 3,120,774
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt (Note 4)	\$ 44,707	\$ 295,041
Principal and interest payments escrow and other funds (Note 2)	187,219	110,302
Accounts payable and accrued expenses	533,239	364,343
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Total current liabilities	765,165	769,686
LONG-TERM DEBT (Note 4)		
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	101,859	519,194
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Total liabilities	867,024	1,288,880
Commitments and contingencies (Notes 2, 5, 6, and 7)		
NET ASSETS, unrestricted (Note 8)	<hr/>	<hr/>
	2,167,187	1,831,894
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Total liabilities and net assets	\$ 3,034,211	\$ 3,120,774
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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, 2008 and 2007

	2008	2007
Operating Revenues		
Management fee income (Note 2)	\$ 2,100,000	\$ 2,100,000
Loan servicing income (Notes 2 and 6)	2,944,445	3,047,566
Other services income	128,994	121,544
Total operating revenues	5,173,439	5,269,110
Operating Expenses		
Compensation	2,918,791	2,673,693
Occupancy	263,197	304,447
Equipment and software expenses	734,038	733,881
Office operations	203,290	263,941
Marketing and educational awareness	113,491	180,368
Professional services	143,135	74,539
Travel	161,307	113,168
Other expenses (Note 2)	289,931	128,839
Amortization of intangible assets (Note 3)	25,500	32,500
Impairment of goodwill (Note 3)	3,000	1,000
Total operating expenses	4,855,680	4,506,376
Change in unrestricted net assets from operations	317,759	762,734
Other Changes		
Interest income	42,825	43,228
Interest expense	(28,755)	(94,008)
Gain (loss) on disposition of assets	3,464	(4,738)
Net nonoperating income (expense)	17,534	(55,518)
Increase in unrestricted net assets	335,293	707,216
Net Assets, beginning	1,831,894	1,124,678
Net Assets, ending	\$ 2,167,187	\$ 1,831,894

See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION

STATEMENTS OF CASH FLOWS

Years Ended March 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for management services	\$ 2,100,000	\$ 2,100,000
Cash received for loan servicing	2,950,650	3,048,795
Cash received for other services	126,174	111,106
Cash paid to suppliers and employees	(4,373,499)	(4,183,864)
Interest received on cash equivalents	43,118	44,968
Interest paid on debt	(33,753)	(95,836)
Net cash provided by operating activities	812,690	1,025,169
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(216,601)	(119,372)
Proceeds from sale of equipment	13,985	13,500
Net cash (used in) investing activities	(202,616)	(105,872)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on debt	(667,669)	(504,946)
Net increase (decrease) in cash and cash equivalents	(57,595)	414,351
Cash and cash equivalents:		
Beginning of year	1,756,188	1,341,837
End of year	\$ 1,698,593	\$ 1,756,188
Reconciliation of change in unrestricted net assets to net cash provided by operating activities:		
Change in unrestricted net assets	\$ 335,293	\$ 707,216
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:		
Depreciation	290,908	349,478
(Gain) loss on disposition of assets	(3,464)	4,738
Amortization	25,500	32,500
Impairment of goodwill	3,000	1,000
Change in assets and liabilities:		
Accounts receivable	(9,702)	(6,481)
Prepaid expenses and other assets	2,259	(38,701)
Accounts payable and accrued expenses	168,896	(24,581)
Net cash provided by operating activities	\$ 812,690	\$ 1,025,169

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, 2008 or 2007.

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	5 - 9
Equipment and furniture	3 - 7
Automobiles	3

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 \$3,000 and \$1,000 for the years ended March 31, 2008 and 2007, 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, 2008 and 2007 was \$29,247 and \$66,745, 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 net unrelated business income for the years ended March 31, 2008 and 2007.

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 expired on March 31, 2008. This contract provided for an annual fee of \$2,100,000 to be paid to Western. A new agreement is being negotiated between the Corporation and WyoLoan. A monthly fee of \$165,000 is being charged while negotiations are being held.

The loan servicing contract was renegotiated on April 1, 2007 and expired 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. A new agreement is being negotiated between the Corporation and WyoLoan. The Corporation was servicing approximately \$305,978,000 and \$296,443,000 of loans for WyoLoan at March 31, 2008 and 2007, 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. Included in other expenses are amounts Western States reimbursed WyoLoan under this clause of \$137,096 and \$9,469 during the years ended March 31, 2008 and 2007, respectively.

During the years ended March 31, 2008 and 2007, the Corporation recognized revenue of \$2,896,997 and \$3,003,256, respectively, for student loan servicing and \$2,100,000 and \$2,100,000, respectively, for management services from WyoLoan that accounted for approximately 96.6% and 96.9% of the Corporation’s total operating revenues for the years ended March 31, 2008 and 2007, respectively. The Corporation has accounts receivable from WyoLoan related to student loan servicing of \$234,797 and \$242,371 at March 31, 2008 and 2007, 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 \$147,990 and \$98,948 at March 31, 2008 and 2007, respectively.

Note 3. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the years ended March 31, 2008 and 2007 are as follows:

	2008	2007
Balance, beginning	\$ 179,500	\$ 180,500
Acquired during the year	-	-
Impairment losses	(3,000)	(1,000)
Balance, ending	\$ 176,500	\$ 179,500

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 \$3,000 and \$1,000 for the years ended March 31, 2008 and 2007, 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, 2008 and 2007:

	Office Lease	Loan Servicing Procedures	Servicing Contracts
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	100,000	75,000	25,000
Acquired during the year	-	-	-
Disposed of during the year	-	-	-
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Balance, March 31, 2008	<u>\$ 100,000</u>	<u>\$ 75,000</u>	<u>\$ 25,000</u>
Accumulated amortization	<u>\$ 42,000</u>	<u>\$ 60,000</u>	<u>\$ 25,000</u>

Amortization expense recognized on all amortizable intangibles totaled \$25,500 and \$32,500 for the years ended March 31, 2008 and 2007, 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,	
2009	\$ 25,526
2010	10,526
2011	10,526
2012	10,526
2013	10,526

NOTES TO FINANCIAL STATEMENTS

Note 4. Long-Term Debt

At March 31, 2008 and 2007, long-term debt consisted of the following:

	2008	2007
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 2009; paid in full August 7, 2007; unsecured	\$ -	\$ 380,316
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 2010; paid in full August 7, 2007; unsecured	-	245,431
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 \$119,946 at March 31, 2008	146,566	188,488
	146,566	814,235
Less current maturities	44,707	295,041
	\$ 101,859	\$ 519,194

Aggregate annual principal payment requirements of long-term debt for the fiscal years subsequent to March 31, 2008 are as follows:

2009	\$ 44,707
2010	47,406
2011	50,267
2012	4,186
	146,566
	\$ 146,566

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 fiscal 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, 2008, 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:	
2009	\$ 248,469
2010	216,479
2011	193,629
2012	193,629
2013	193,629
Due thereafter	112,950
	<u>\$ 1,158,785</u>

The Corporation also leases equipment on a month-to-month basis. Rental expense for all operating leases amounted to \$260,040 and \$294,111 for the years ended March 31, 2008 and 2007, respectively.

Note 6. Contractual Arrangements

The Corporation has a license agreement to use software written by 5280 Solutions, formerly Idaho Financial Associates ("5280"). The software is used to administer student loan accounting services. The agreement with 5280 requires minimum annual payments for administrative and maintenance services relating to the software. The agreement expires on June 30, 2012. In the event that Western terminates the contract prior to the expiration of its term, it is obligated to pay \$319,677.

Required minimum annual fees under the agreement, payable at the beginning of each term beginning July 1, are as follows:

During the year ending March 31:	
2009	\$ 276,150
2010	289,957
2011	304,455
2012	319,677
	<u>\$ 1,190,239</u>

Programming and maintenance hours in excess of those provided for under the maintenance agreement are charged at an hourly rate. Fees incurred under this agreement during the years ended March 31, 2008 and 2007 totaled \$291,344 and \$243,667, respectively. The Corporation has prepaid \$74,166 and \$102,500 of future programming and maintenance costs at March 31, 2008 and 2007, respectively.

NOTES TO FINANCIAL STATEMENTS

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. In addition, in the event WyoLoan's serviced loan portfolio (as discussed in Note 2) exceeds \$450,000,000, the Corporation is required to pay 5280 an additional five basis points on the balance of the portfolio exceeding such amount. In the event the serviced loan portfolio for any lenders other than WyoLoan (as discussed later in this note) exceeds \$50,000,000, the Corporation is required to pay 5280 an additional three basis points on the balance of the portfolio exceeding such amount.

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, 2008 and 2007 totaled \$47,448 and \$44,310, respectively. The Corporation was servicing approximately \$2,603,000 and \$2,284,000 of loans under these agreements at March 31, 2008 and 2007, 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, 2008 and 2007, 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, 2008 or 2007. Corporation contributions to the plan for the years ended March 31, 2008 and 2007 totaled \$41,468 and \$42,705, respectively.

Note 8. Board Designated Net Assets and Subsequent Event

During the year ended March 31, 2008, the Board of Directors designated \$100,000 of the Corporation's unrestricted net assets to fund the \$100,000 contingent payment discussed in Note 6.

Subsequent to year end, the Board of Directors designated \$100,000 of the Corporation's unrestricted net assets to assist in funding future activities of the New Futures division, which focuses on education awareness.