

WESTERN STATES LEARNING CORPORATION

FINANCIAL REPORT

MARCH 31, 2009

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Western States Learning Corporation as of March 31, 2009, and the related statements of activities and cash flows for the year 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 audit.

We conducted our audit 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 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 Western States Learning Corporation as of March 31, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying statement of functional expenses is presented for purposes of additional analyses and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated, in all material respects, in relation to the basic financial statements.

McGee, Hearne & Paiz, LLP

Cheyenne, Wyoming
July 15, 2009

WESTERN STATES LEARNING CORPORATION

STATEMENT OF FINANCIAL POSITION

March 31, 2009

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 2,295,555
Accounts receivable (Note 2)	233,213
Cash held on behalf of others (Note 2)	220,524
Prepaid expenses (Note 6)	86,305

Total current assets 2,835,597

PROPERTY AND EQUIPMENT

Leasehold improvements	94,617
Equipment and furniture (Note 4)	1,654,765

1,749,382

Less accumulated depreciation 1,370,736

Total property and equipment 378,646

OTHER ASSETS (Note 3)

Goodwill	170,000
Intangible assets, net of amortization	47,500

Total other assets 217,500

Total assets \$ 3,431,743

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Current maturities of long-term debt (Note 4)	\$ 47,402
Principal and interest payments escrow and other funds (Note 2)	220,524
Accounts payable and accrued expenses	449,013

Total current liabilities 716,939

LONG-TERM DEBT (Note 4) 54,517

Total liabilities 771,456

Commitments and contingencies (Notes 2, 5, 6 and 7)

NET ASSETS, unrestricted (Note 8) 2,660,287

Total liabilities and net assets \$ 3,431,743

See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION

STATEMENT OF ACTIVITIES

Year Ended March 31, 2009

Changes in Unrestricted Net Assets	
<i>Revenues</i>	
Program revenues	
Align services	\$ 232,913
Student loan servicing (Notes 2 and 6)	2,744,190
Management services (Note 2)	1,980,000
Contributions	750
Total program revenues	<u>4,957,853</u>
<i>Expenses</i>	
Align program	615,207
New Futures program	553,562
Loan servicing	2,425,253
Management services	495,569
Management and general expenses	342,575
Fundraising expenses	34,818
Total expenses	<u>4,466,984</u>
Change in unrestricted net assets from operations	<u>490,869</u>
Other Changes in Unrestricted Net Assets	
Interest income	9,551
Interest expense	(7,310)
(Loss) on disposition of assets	(10)
Total other changes in unrestricted net assets	<u>2,231</u>
Increase in Unrestricted Net Assets	493,100
Unrestricted Net Assets at Beginning of Year	<u>2,167,187</u>
Net Assets at End of Year	<u><u>\$ 2,660,287</u></u>

See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION

STATEMENT OF CASH FLOWS

Year Ended March 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received for management services	\$ 1,980,000
Cash received for loan servicing	2,763,174
Cash received for other services	246,038
Contributions	750
Cash paid to suppliers and employees	(4,234,679)
Interest received on cash equivalents	9,363
Interest paid on debt	(7,481)
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Net cash provided by operating activities	757,165
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of equipment	(115,556)
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CASH FLOWS FROM FINANCING ACTIVITIES	
Principal paid on debt	(44,647)
	<hr/>
Net increase in cash and cash equivalents	596,962
Cash and cash equivalents:	
Beginning of year	1,698,593
End of year	<hr/> <hr/>
	\$ 2,295,555
Reconciliation of change in unrestricted net assets to net cash provided by operating activities:	
Change in unrestricted net assets	\$ 493,100
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities:	
Depreciation	242,234
Loss on disposition of assets	10
Amortization	25,500
Impairment of goodwill	6,500
Change in assets and liabilities:	
Accounts receivable	30,105
Prepaid expenses	43,942
Accounts payable and accrued expenses	(84,226)
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Net cash provided by operating activities	\$ 757,165
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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.

The Corporation promotes its activity through the following programs:

Align:

This program provides comprehensive, integrated organizational development and training that is customizable and affordable for small businesses and nonprofits.

New Futures:

This program was created to bring students the motivation and tools to continue their education beyond high school. New Futures opens minds to educational possibilities by partnering with schools, parents, influencers, and other nonprofits.

Loan servicing:

This program allows the Corporation to partner with various financial lenders in order to provide servicing of their student loan portfolios, while providing premier service to both the lenders and their customers.

Management services:

This program provides management services to assist organizations in reaching their full potential by providing accounting, administrative, and advisory services.

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.

NOTES TO FINANCIAL STATEMENTS

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, 2009.

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

When equipment is retired, its cost and the related accumulated depreciation are eliminated from the respective accounts and gains or losses arising from the disposition are recognized in income. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

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

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 \$6,500 for the year ended March 31, 2009.

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.

NOTES TO FINANCIAL STATEMENTS

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 year ended March 31, 2009 was \$50,651.

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 year ended March 31, 2009.

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.

Recent accounting pronouncements:

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements, tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of application of FIN 48 these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will also be required.

The Corporation presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits by applying FASB Statement No. 5, *Accounting for Contingencies*. The Corporation has elected to defer the application of Interpretation 48 in accordance with FASB Staff Position (FSP) FIN 48-3. This FSP defers the effective date of Interpretation 48 for nonpublic enterprises included within its scope, such as Western States Learning Corporation, until fiscal years beginning after December 15, 2008. The Corporation will be required to adopt FIN 48 in its 2010 annual financial statements. Management has not yet assessed the impact of FIN 48 on its financial position and results of operations and has not determined if the adoption of FIN 48 will have a material effect on its financial statements.

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, 2009 for the one-year period ending March 31, 2010 with automatic renewals through March 31, 2012. This contract provides for a fee of \$125,000 per month for the year ending March 31, 2010. The management services contract contains a termination clause requiring WyoLoan to pay a fee equal to one year’s administrative service fee in effect for the year in which the contract is terminated.

The loan servicing contract was renegotiated on December 1, 2008 and expired on March 31, 2009, with automatic annual renewals through March 1, 2011. 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 an established percentage of the outstanding principal balance on the student loans being serviced as of the transfer date. The Corporation was servicing approximately \$310,234,000 of loans for WyoLoan at March 31, 2009. 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 the Corporation reimbursed WyoLoan under this clause of \$38,363 during the year ended March 31, 2009.

Effective December 10, 2008, WyoLoan is restricted on the amount of expenses that can be paid under the terms of its 2008 Trust Indenture related to the Series 2008 Bonds. This restriction may impact WyoLoan’s ability to pay the administrative and loan servicing fees in a timely manner.

During the year ended March 31, 2009, the Corporation recognized revenue of \$2,692,081 for student loan servicing and \$1,980,000 for management services from WyoLoan that accounted for approximately 94.2% of the Corporation’s total operating revenues for the year ended March 31, 2009. The Corporation has accounts receivable from WyoLoan related to student loan servicing of \$220,432 at March 31, 2009.

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 \$81,810 at March 31, 2009.

Note 3. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the year ended March 31, 2009 is as follows:

Balance, beginning	\$ 176,500
Acquired during the year	-
Impairment losses	<u>(6,500)</u>
Balance, ending	<u>\$ 170,000</u>

NOTES TO FINANCIAL STATEMENTS

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 \$6,500 for the year ended March 31, 2009 on the portion of goodwill considered impaired related to employees who terminated during the year.

The following table summarizes the changes in intangible assets owned by the Corporation during the year ended March 31, 2009:

	Office Lease	Loan Servicing Procedures
Balance, March 31, 2008	\$ 100,000	\$ 75,000
Acquired during the year	-	-
Disposed of during the year	-	-
	\$ 100,000	\$ 75,000
Balance, March 31, 2009	\$ 100,000	\$ 75,000
Accumulated amortization	\$ 52,500	\$ 75,000

Amortization expense recognized on all amortizable intangibles totaled \$25,500 for the year ended March 31, 2009. 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,	
2010	\$ 10,526
2011	10,526
2012	10,526
2013	10,526
2014	5,396

Note 4. Long-Term Debt

At March 31, 2009, long-term debt consisted of the following:

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 \$76,390 at March 31, 2009	\$ 101,919
Less current maturities	47,402
	\$ 54,517

NOTES TO FINANCIAL STATEMENTS

Aggregate annual principal payment requirements of long-term debt for the fiscal years subsequent to March 31, 2009 are as follows:

2010		\$	47,402
2011			50,263
2012			4,254
			4,254
		\$	101,919

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, 2009, 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:			
2010		\$	216,479
2011			193,629
2012			193,629
2013			193,629
2014			112,950
			112,950
		\$	910,316

The Corporation also leases equipment on a month-to-month basis. Rental expense for all operating leases amounted to \$260,020 for the year ended March 31, 2009.

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:			
2010		\$	289,957
2011			304,455
2012			319,677
			319,677
		\$	914,089

NOTES TO FINANCIAL STATEMENTS

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 year ended March 31, 2009 totaled \$294,628. The Corporation has prepaid \$63,661 of future programming and maintenance costs at March 31, 2009.

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 year ended March 31, 2009 totaled \$52,109. The Corporation was servicing approximately \$2,910,000 of loans under these agreements at March 31, 2009.

Note 7. Retirement Plan

Western sponsors a 401(k) Retirement Savings Plan. This plan covers substantially all full-time employees. For the year ended March 31, 2009, the Corporation elected not to make a discretionary matching participant contribution.

Note 8. Board Designated Net Assets

During the year ended March 31, 2009, 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.

Previously, 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.

WESTERN STATES LEARNING CORPORATION

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended March 31, 2009

	<i>Program Services</i>				<i>Supporting Services</i>		<i>Total</i>
	<i>Align</i>	<i>New Futures</i>	<i>Loan Servicing</i>	<i>Management Services</i>	<i>Management and General</i>	<i>Fund-Raising</i>	
Awards and grants	\$ -	\$ 15,907	\$ -	\$ -	\$ -	\$ -	\$ 15,907
Salaries and wages	382,961	339,220	1,144,863	319,285	237,438	23,752	2,447,519
Employee benefits	32,333	32,058	152,391	27,876	20,110	2,094	266,862
Payroll taxes	30,910	26,899	91,067	25,368	18,036	1,895	194,175
Equipment rental and maintenance	2,859	3,883	22,437	5,019	1,944	88	36,230
Office supplies	3,339	3,340	21,912	1,639	782	296	31,308
Telephone	2,130	1,653	17,694	2,077	818	114	24,486
Postage and shipping	26	83	100,226	153	51	-	100,539
Occupancy	46,844	36,692	148,070	30,541	16,333	2,664	281,144
Insurance	746	1,022	4,540	2,559	897	17	9,781
Maintenance contracts	5,080	4,812	352,307	5,751	2,166	143	370,259
Information processing	1,807	1,438	28,075	1,173	619	106	33,218
Printing and publications	1,354	2,942	8,321	777	148	143	13,685
Professional fees	3,600	6,392	68,429	11,067	5,399	68	94,955
Travel	29,307	16,552	16,685	19,168	3,355	549	85,616
Conferences, conventions and training	6,855	819	4,716	2,765	1,330	9	16,494
Advertising and public relations	14,219	19,691	3,024	2,749	2,849	211	42,743
Other expenses	11,931	9,697	109,181	11,304	17,310	406	159,829
Depreciation	38,906	30,462	131,315	26,298	12,990	2,263	242,234
Total	\$ 615,207	\$ 553,562	\$ 2,425,253	\$ 495,569	\$ 342,575	\$ 34,818	\$ 4,466,984