

WESTERN STATES LEARNING CORPORATION

d/b/a

Align[®]

FINANCIAL REPORT

MARCH 31, 2010

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Western States Learning Corporation
d/b/a Align
Cheyenne, Wyoming

We have audited the accompanying statements of financial position of Western States Learning Corporation d/b/a Align (the "Corporation") as of March 31, 2010 and 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 the Corporation as of March 31, 2010 and 2009, 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 30, 2010

WESTERN STATES LEARNING CORPORATION
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STATEMENTS OF FINANCIAL POSITION
March 31, 2010 and 2009

ASSETS	2010	2009
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,150,622	\$ 2,295,555
Accounts receivable (Note 2)	270,580	233,213
Cash held on behalf of others (Notes 2 and 6)	3,112,416	220,524
Prepaid expenses and other assets (Note 6)	156,277	86,305
Total current assets	5,689,895	2,835,597
PROPERTY AND EQUIPMENT		
Leasehold improvements	94,617	94,617
Equipment and furniture (Note 4)	1,666,633	1,654,765
	1,761,250	1,749,382
Less accumulated depreciation	1,526,002	1,370,736
Total property and equipment	235,248	378,646
OTHER ASSETS (Note 3)		
Goodwill	160,500	170,000
Intangible assets, net of amortization	37,000	47,500
Total other assets	197,500	217,500
Total assets	\$ 6,122,643	\$ 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 (Notes 2 and 6)	3,112,416	220,524
Accounts payable and accrued expenses (Note 2)	495,313	449,013
Deferred revenue	11,510	-
Total current liabilities	3,619,239	716,939
LONG-TERM DEBT (Note 4)	-	54,517
Total liabilities	3,619,239	771,456
Commitments and contingencies (Notes 2, 5, 6, and 7)		
NET ASSETS, unrestricted (Note 8)	2,503,404	2,660,287
Total liabilities and net assets	\$ 6,122,643	\$ 3,431,743

See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION
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**STATEMENTS OF UNRESTRICTED REVENUES, EXPENSES AND
OTHER CHANGES IN UNRESTRICTED NET ASSETS**
Years Ended March 31, 2010 and 2009

	2010	2009
Operating Revenues		
Management fee income (Note 2)	\$ 750,000	\$ 1,980,000
Loan servicing income (Notes 2 and 6)	2,831,544	2,744,190
Other services income	239,018	233,663
	<hr/>	<hr/>
Total operating revenues	3,820,562	4,957,853
	<hr/>	<hr/>
Operating Expenses		
Compensation	2,376,393	2,908,556
Occupancy	277,911	291,646
Equipment and software expenses	543,987	673,424
Office operations	162,290	165,383
Marketing and educational awareness	84,284	49,152
Professional services	81,554	93,182
Travel	51,143	85,616
Other expenses (Note 2)	270,883	168,025
Amortization of intangible assets (Note 3)	10,500	25,500
Impairment of goodwill (Note 3)	9,500	6,500
Reduction in force expenses	109,903	-
	<hr/>	<hr/>
Total operating expenses	3,978,348	4,466,984
	<hr/>	<hr/>
Change in unrestricted net assets from operations	(157,786)	490,869
	<hr/>	<hr/>
Other Changes		
Interest income	4,659	9,551
Interest expense	(3,610)	(7,310)
(Loss) on disposition of assets	(146)	(10)
Net nonoperating income	903	2,231
	<hr/>	<hr/>
Increase (decrease) in unrestricted net assets	(156,883)	493,100
	<hr/>	<hr/>
Net Assets, beginning	2,660,287	2,167,187
	<hr/>	<hr/>
Net Assets, ending	\$ 2,503,404	\$ 2,660,287
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See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION
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STATEMENTS OF CASH FLOWS
Years Ended March 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for management services	\$ 750,000	\$ 1,980,000
Cash received for loan servicing	2,804,314	2,763,174
Cash received for other services	237,887	246,038
Contributions	4,927	750
Cash paid to suppliers and employees	(3,801,017)	(4,234,679)
Interest received on cash equivalents	4,160	9,363
Interest paid on debt	(4,109)	(7,481)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	(3,838)	757,165
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(39,176)	(115,556)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal paid on debt	(101,919)	(44,647)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(144,933)	596,962
Cash and cash equivalents:		
Beginning of year	2,295,555	1,698,593
	<hr/>	<hr/>
End of year	\$ 2,150,622	\$ 2,295,555
	<hr/>	<hr/>
Reconciliation of change in unrestricted net assets to net cash provided by (used in) operating activities:		
Change in unrestricted net assets	\$ (156,883)	\$ 493,100
Adjustments to reconcile change in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	182,428	242,234
Loss on disposition of assets	146	10
Amortization	10,500	25,500
Impairment of goodwill	9,500	6,500
Change in assets and liabilities:		
Accounts receivable	(37,367)	30,105
Prepaid expenses and other assets	(69,972)	43,942
Accounts payable and accrued expenses	46,300	(84,226)
Deferred revenue	11,510	-
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Net cash provided by (used in) operating activities	\$ (3,838)	\$ 757,165

See Notes to Financial Statements.

WESTERN STATES LEARNING CORPORATION

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NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activity and Significant Accounting Policies

Nature of activities:

The Western States Learning Corporation, d/b/a Align (herein referred to as 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; and to provide products and services that fill needs that are not being met through the traditional modes of consulting, education and training systems. Its specific areas of focus are workforce development and organizational and career development. The Corporation commenced operations on April 1, 2004.

The Corporation is structured around two revenue-generating areas: consulting and business services. These areas are supported internally through business development, human resources, accounting and information technology services.

The Corporation’s vision and mission focus on being the premier career and organization development consultant in the Rocky Mountain region. The mission statement for the Corporation is to help others achieve success in career and organizational goals by providing access to lifelong learning and assisting organizations to reach their full potential. In order to fulfill its mission and purpose, the Corporation will work “on” businesses through consulting relationships and “in” businesses by providing workforce to perform tasks necessary to an organization.

The Corporation partners 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. The Corporation services education loans under the Federal Family Education Loan Program (FFELP) for various private lenders, and services education loans for the State of Wyoming under the State’s programs for nursing and teaching students.

The Corporation formerly conducted a program to bring students the motivation and tools to continue their education beyond high school. The program was designed to open minds to educational possibilities by partnering with schools, parents, influencers, and other nonprofits. The program was discontinued by the Corporation in November 2009.

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.

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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, 2010 or 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 life, which also represents the weighted-average useful life for the class of intangible assets:

	<u>Years</u>
Office lease	9.5

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 \$9,500 and \$6,500 for the years ended March 31, 2010 and 2009, 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.

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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 years ended March 31, 2010 and 2009 was \$84,284 and \$50,651, 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, 2010 and 2009.

The Financial Accounting Standards Board issued new guidance on accounting for uncertainty in income taxes. The Corporation adopted this new guidance for the year ended March 31, 2010. Management evaluated the Corporation's tax positions and concluded that the Corporation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of this guidance. With few exceptions, the Corporation is no longer subject to income tax examinations by the U.S. Federal, state or local tax authorities for years before 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.

Subsequent events:

Events occurring subsequent to the statement of financial position date have been evaluated for financial statement impact or disclosure through June 30, 2010, the date the financial statements were available to be issued.

Reclassification of revenues and expenses:

The revenues and expenses on the statements of unrestricted revenues, expenses and other changes in unrestricted net assets for the year ended March 31, 2009 have been reclassified, with no effect on net assets, to be consistent with the classifications adopted for the year ended March 31, 2010.

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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 provided for a fee of \$125,000 per month for the year ended March 31, 2010. The management services contract was amended in November 2009 to cap the amount of fees for the fiscal year ended March 31, 2010 at \$750,000. A memorandum of understanding (MOU) between the Corporation and WyoLoan was entered into on April 9, 2010. The MOU provides for a monthly fee of \$5,000 for management and administration effective April 1, 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 Corporation and WyoLoan are currently renegotiating the management services contract and the loan servicing contract (as discussed below) as a single contract.

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 MOU of April 9, 2010 also provides for reduced fees on the servicing of loans effective April 1, 2010. 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 \$345,936,000 and \$310,234,000 of loans for WyoLoan at March 31, 2010 and 2009, respectively. The loan servicing contract also contains a clause that in the event of a servicing error, most commonly when 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 for the loss incurred, for example an amount equal to the outstanding principal and any unpaid interest on the loan at the time the error occurred. Included in other expenses are amounts the Corporation was required to reimburse WyoLoan under this clause of \$221,047 and \$38,363 during the years ended March 31, 2010 and 2009, respectively, of which, \$213,000 and \$0- are included in accounts payable and accrued expenses at March 31, 2010 and 2009, respectively.

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 years ended March 31, 2010 and 2009, the Corporation recognized revenue of \$2,745,869 and \$2,692,081, respectively, for student loan servicing and \$750,000 and \$1,980,000, respectively, for management services from WyoLoan that accounted for approximately 91.5% and 94.2% of the Corporation’s total operating revenues for the years ended March 31, 2010 and 2009, respectively. The Corporation has accounts receivable from WyoLoan related to student loan servicing of \$241,509 and \$220,432 at March 31, 2010 and 2009, 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 \$34,420 and \$81,810 at March 31, 2010 and 2009, respectively.

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NOTES TO FINANCIAL STATEMENTS

Note 3. Goodwill and Intangible Assets

Changes in the carrying amount of goodwill for the years ended March 31, 2010 and 2009 is as follows:

	2010	2009
Balance, beginning	\$ 170,000	\$ 176,500
Acquired during the year	-	-
Impairment losses	(9,500)	(6,500)
	\$ 160,500	\$ 170,000
Balance, ending	\$ 160,500	\$ 170,000

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 \$9,500 and \$6,500 for the years ended March 31, 2010 and 2009, respectively, 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 years ended March 31, 2010 and 2009:

	Office Lease
Balance, March 31, 2008	\$ 100,000
Acquired during the year	-
Disposed of during the year	-
	100,000
Balance, March 31, 2009	100,000
Acquired during the year	-
Disposed of during the year	-
	100,000
Balance, March 31, 2010	\$ 100,000
Accumulated amortization	\$ 63,000

Amortization expense recognized on all amortizable intangibles totaled \$10,500 and \$25,500 for the years ended March 31, 2010 and 2009, respectively. The Corporation does not have any intangible assets, other than goodwill, not subject to amortization.

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

Year ending March 31,			
2011	\$	10,526	
2012		10,526	
2013		10,526	
2014		5,422	

Note 4. Long-Term Debt

At March 31, 2010 and 2009, long-term debt consisted of the following:

	2010		2009
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. The note was paid in full during the year ended March 31, 2010.	\$	-	\$ 101,919
Less current maturities		-	47,402
	\$	-	\$ 54,517

Note 5. Leases and Subsequent Event

The Corporation has offices located in Cheyenne, Wyoming. These premises are leased under non-cancelable operating leases, which expire during the fiscal years 2013 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, 2010, the annual rental expense on a straight-line basis due on non-cancelable leases having terms in excess of one year is as follows:

During the year ending March 31:			
2011	\$	250,970	
2012		250,970	
2013		217,521	
2014		112,950	
	\$	-	\$ 832,411

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NOTES TO FINANCIAL STATEMENTS

The Corporation also leases equipment on a month-to-month basis. Rental expense for all operating leases amounted to \$259,668 and \$260,020 for the years ended March 31, 2010 and 2009, respectively.

On May 31, 2010, the Corporation terminated operations in one of its leased office spaces that was being leased under an agreement that expires on August 31, 2012 and requires monthly rental payments of \$4,708 with annual 1.5% rental payment increases. The committed future costs related to the closed office space as of June 1, 2010 have a remaining net present value liability of approximately \$123,000.

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 and due diligence 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 the Corporation 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:

2011	\$	304,455
2012		319,677
	\$	<u>624,132</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, 2010 and 2009 totaled \$208,564 and \$294,628, respectively. The Corporation has prepaid \$151,365 and \$63,661 of future programming and maintenance costs at March 31, 2010 and 2009, 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. 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.

In March 2009, the President of the United States proposed in his budget for the Federal fiscal year 2010 to eliminate new FFELP loans and replace student borrowing with the Federal Direct Student Loan Program. Congress subsequently passed and the President signed into law legislation to this effect which eliminates new loans under the FFELP effective July 1, 2010. In anticipation of this action by Congress, the Board of Directors of WyoLoan voted to cease lending effective April 1, 2010. The elimination of new lending by WyoLoan makes it highly unlikely that the Corporation will be required to make the contingent payments to 5280.

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NOTES TO FINANCIAL STATEMENTS

The Corporation has various FFELP servicing agreements similar to the agreement discussed in Note 2 whereby it provides student loan servicing to other private lenders and the State of Wyoming through June 30, 2010. Fees earned under these agreements for the years ended March 31, 2010 and 2009 totaled \$29,845 and \$1,638, respectively. The Corporation was servicing approximately \$2,864,000 and \$2,910,000 of loans under these agreements at March 31, 2010 and 2009, respectively. The Corporation also has a payable to the State of Wyoming related to an escrowed student loan portfolio sale payment received by the Corporation and not yet transferred to the State of Wyoming of \$3,031,096 and \$-0- at March 31, 2010 and 2009, respectively.

The Corporation also has servicing agreements with the State of Wyoming for two education loan programs directed at nursing and teaching students. These programs have been renewed by the State of Wyoming for the biennium beginning July 1, 2010. Fees earned under these agreements for the years ended March 31, 2010 and 2009 totaled \$55,830 and \$50,471, respectively. The Corporation was servicing approximately \$3,132,000 and \$2,910,000 of loans under these agreements at March 31, 2010 and 2009, respectively.

Note 7. Retirement Plan

The Corporation sponsors a 401(k) Retirement Savings Plan. This plan covers substantially all full-time employees. For the years ended March 31, 2010 and 2009, the Corporation elected not to make a discretionary matching participant contribution.

Note 8. Board Designated Net Assets

During the year ended March 31, 2010, the Board of Directors removed the designation of \$100,000 of the Corporation's unrestricted net assets to assist in funding future activities of the New Futures division, which was discontinued during the year.

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.