National Association of Secondary School Principals

ANNUAL REPORT
A Message to
Our Members

The National Association of Secondary School Principals, the nation's largest education leadership association, is pleased to present its 2003 Annual Report. The 2003 fiscal year was a strong year for NASSP. We ended the year with an increase in net assets (bottom-line) of $1,665,000. We saw a substantial increase in constituent access to our programs, products, and services. And our national voice, the collective voice of our members, increased sharply on behalf of middle level and high school leaders. Later in this report, we detail many of the activities that have made your voice known to the policymakers.

Building a strong financial foundation has been a key component of strengthening NASSP's future. Fiscal 2003 completes five consecutive years of profitable operations, providing the necessary funds to enhance programs and services and continue our goal to grow long-term reserves. Since 1999, we have grown our long-term reserves reaching $2,402,000 as we conclude fiscal 2003.

With this good news, we temper our enthusiasm due to the effect our defined benefit retirement plan has on our net assets. Continuing poor market conditions caused us to show the plan as a charge to net assets, pulling down total net assets. However, a close examination of net assets shows that unrestricted net assets increased by $1.5 million. Your Board of Directors and Association staff have actively worked to mitigate the plan’s future impact.

During fiscal 2003, the NASSP foundation, TREE, Trust to Reach Educational Excellence, was folded into NASSP. After listening to our members and partners, we determined that the programs and mission of TREE could best be met through a single entity. This change eliminates the duplicate efforts, and the related costs, of two organizations while continuing the programs and support for our nation’s disadvantaged youth.

The Board of Directors, continuing to exercise its fiduciary responsibility, conducted a thorough review of the financial audit services it receives. Over a seven-month period, many days were spent reviewing audit proposals and interviewing audit firms. Through this exhaustive process, we continued the contract with Watkins, Meegan, Drury and Company to provide audit services to the Association. Since the Auditors work for your Board of Directors, the Board meets regularly and independently with the Auditors to review the audit and discuss any findings or recommendations. You should be pleased with your Board of Directors’ unwavering commitment to fiscal responsibility and accountability during a time when the national news is filled with stories of retirement plan troubles, corporate scandals, and accounting irregularities.
Unfortunately, the same cannot be said for our elected officials. The fiscal support of our nation’s schools remains an uncertainty that still hangs over the heads of school administrators even as they seek to meet the significant requirements of the No Child Left Behind Act (NCLB). Confidence in public education is at a crossroads particularly with so many of the nation’s policymakers—including those at the federal level—pushing “silver-bullet” fixes, such as voucher programs, to public education. Volatility has increased in the political dialogue over public education. However, aggressive action tempered with a sound strategy for advocating on behalf of secondary school leaders has enabled NASSP to persevere in fulfilling our mission of promoting excellence in school leadership.

NASSP continues to provide quality services and programs at a minimal investment to school leaders. Whether it is our award-winning publications, our proven leadership programs, or our ongoing efforts in school reform (e.g., adolescent literacy legislation, Perkins Career and Technical education policy paper), we are zealous about providing our members with the most up-to-date quality information and training to make our members’ professional lives that much easier.

We have listened to our members’ calls to increase our advocacy efforts by recently recreating the Office of Advocacy & Strategic Alliances and nearly doubling the staff. The new advocacy office strives to affect public policy by shifting attitudes, shaping public debate, and influencing legislation, all in support of principals and secondary schools. The new investment is beginning to pay dividends.

The numerous voices of school leaders from across the nation supported several NASSP efforts to effectively influence congressional debate on education. We will continue to need your voices through the Principal’s Legislative Action Center (PLAC) to help us persuade your elected officials to address the needs of the principalship and secondary schools.

We continue to provide an array of high-quality student services, focused on developing and enhancing student leadership skills, such as the National Association of Student Councils and the National Honor Society. Today, it is estimated that more than one million students participate in activities of the NHS and NJHS, through roughly 20,000 chapters found in all 50 states, the District of Columbia, Puerto Rico, many U.S. territories, and Canada.

As we move forward, we cannot thank you enough for the support you provide us and we look forward to greater successes in the coming year.

Sincerely,

Keith D. Taton
President
NASSP

Gerald N. Tirozzi
Executive Director
NASSP
NASSP Advocacy Activities in 2003:

- Maintained working relationships with members of Congress and their staffs, the Bush Administration, and other education-related organizations to encourage and advance the position of school leaders and secondary schools.

- Provided members with regularly updated resources to better understand the law and meet its requirements through Newsleader and the NCLB Web pages on the NASSP Web site.

- Provided two free high-quality publications on NCLB to every NASSP member—the Principals Guide to NCLB and Communicating NCLB: A Principal’s Desktop Guide.

- Refined and improved the Principal’s Legislative Action Center (PLAC), located on the NASSP Web site, as a member-driven grassroots vehicle to efficiently express real-life school-based expertise on education policy to policymakers, elected officials, and the news media. More than 15,000 letters were sent to elected officials last year!

- Worked closely with House and Senate members to draft legislation developing adolescent literacy programs in middle level and high schools. Both a House and Senate version were introduced in Congress in 2003!

- Advocated successfully for the inclusion of legislative language into an initial reauthorization draft of the Higher Education Act. The language addresses the principal training and professional development programs in higher education. NASSP will continue to vigorously represent school leaders as the reauthorization moves forward into 2004.

- Influenced—with the help of our members’ voices through the use of PLAC—legislation and the funding process on Capitol Hill to ensure that federal programs and funds reflect school leaders’ perspectives and needs, including: providing professional development for principals and staff; developing mechanisms to help schools and school districts recruit and retain principals and teachers; making sensible reforms to the Perkins Career and Technical Act; and increasing funding for secondary schools.

- Published 10 editorials with NAESP in Education Week on a number of topics, including our opposition to vouchers and one-time high-stakes tests; our strong support for adolescent literacy; increased funding for secondary schools; teacher and principal quality and professional development; and increased funding and reduced paperwork for the Individuals with Disabilities Education Act (IDEA).
Appeared in daily print and online news outlets and on radio and television outlets, including ABC News and ABCNews.com, National Public Radio, CNN, FoxNews.com, C-Span, ESPN, the Associated Press, Newsweek, USA Today, Education Week, the Los Angeles Times, the Fresno Bee, the Chicago Tribune, the Minneapolis Star Tribune, the Indianapolis Star, the Washington Post, the New York Times, the Philadelphia Inquirer, the Ft. Lauderdale Sun-Sentinel, the Atlanta Journal Constitution, the Chronicle of Higher Education, Education Daily, and many other media outlets.

Additional Accomplishments in 2003:

- Received a $1,072,738 grant over three years from the Bill and Melinda Gates Foundation to identify and showcase exemplary high schools where student demographics include 50% minority and 50% low income, and where the goal is a 90% graduation rate with 90% going on to college.

- Received a $182,000 grant from the Bill and Melinda Gates Foundation to support the February 2004 dissemination of Breaking Ranks II: Strategies for Leading High School Reform. This grant allows NASSP to distribute a free copy of the report to all high school principals in the country and all NASSP members.

- Received a $215,000 grant from the MetLife Foundation to launch the MetLife Foundation Bridge Builders Initiative, a program that recognizes exemplary work of middle level and high school principals who build bridges between school and community. Under this program 25 principals received a $3,000 grant to implement such an initiative.

- Received a $30,000 contribution from Minnesota Life Insurance Company to offer 30 scholarships for student leaders with financial need to attend the National Student Leadership Camps, sponsored by the National Association of Student Councils.

- Won multiple industry awards for both Principal Leadership and NASSP Bulletin for content and design, all the while delivering members with high-quality, useful information in every issue.

- Continued enrichment of the NASSP Web site with timely and useful information for members, the media, and policymakers.

- Established five new assessment/development centers: Wake County, North Carolina; Virginia State Department of Education/ Old Dominion University; Bermuda Ministry of Education; Cobb County, Georgia; Rapid City, South Dakota.

- Disseminated information focused on reform efforts that provide real improvements in student success. Resident practitioners—who represent knowledge and experience in the areas of safe and orderly schools, school-business relationships, testing and assessment, and adolescent literacy—provided onsite technical assistance at state conferences and meetings.

- Strengthened our commitment to middle level leaders with a number of activities focused on middle level administrators and their schools, including our ongoing partnership with Scholastic in their Middle Level Literacy Institute, and our continued work on the second phase of our National Study of Leadership in Middle Level Schools titled Leadership for Highly Successful Middle Level Schools. The study examines six highly successful middle schools that are representative of middle level schools across the country.

- Provided our members with a tremendous professional development and networking event at our Annual Convention in San Diego, California.
2004 National Principal of the Year Finalists

Justice cannot be served in this small space to recognize the accomplishments of the finalists; however, these profiles provide a flavor for their styles of leadership. To emphasize the unique traits required at the middle and high school levels, this program recognizes one middle level and one high school principal.

Middle Level Finalists

Douglas S. Lowery  NATIONAL MIDDLE LEVEL WINNER
Hilliard Memorial Middle School
Hilliard, Ohio

Doug Lowery has dedicated seven years to helping the staff, students, and community of Hilliard Memorial Middle School restructure the school around the Coalition of Essential Schools reform model. Having opened three middle schools in the district, Lowery knew the importance of rallying the support of the school and community—and that, he did. Social-skills classes, service-learning opportunities, and the celebration of diversity all contribute to a learning environment founded on trust, decency, and dedication to student achievement. Focusing on not only academic standing but also student physical well-being, Lowery initiated a comprehensive exercise physiology program for all students that provides heart monitors and an exercise room equipped with a variety of equipment. Lowery’s attention to the needs of the whole student has garnered the school a variety of awards and recognition, including an Ohio Best Practice Award and an Ohio Department of Health Silver Award for Buckeye Best/Healthy Schools.

Roystene (Rae) E. Darlington
Graham Park Middle School
Triangle, Virginia

When Rae Darlington became principal at Graham Park five years ago, she faced the challenge of a rapidly growing enrollment, increasing minority population, and high mobility rate. Yet, through the years, the school culture has remained steadfast and the student achievement has steadily improved. A no-excuses policy makes the faculty and students problem solvers, and the results of their problem-solving strategies have included evening school, reading immersion, self-esteem workshops, parent education seminars, after-school peer-mentoring programs and character education programs. Although the work is by no means done, Darlington and her staff have seen the fruits of their commitment: a 50% reduction in disciplinary referrals; full accreditation from the Southern Association of College and Schools and the Virginia Department of Education; an increase in parent satisfaction surveys; and improved student learning. Under Darlington’s caring and watchful eye, Graham Park is a school that is succeeding against all odds.
David R. Risinger
Leo C. Mayfield Middle School
Oklahoma City, Oklahoma

When David Risinger came to Mayfield Middle School as principal in 1998, the school had a reputation for being the toughest middle school in the district. Low test scores, high rates of suspension, and high turnover created a dismal learning atmosphere. After careful review of the data, Risinger realized these problems were manifestations of a highly mobile multicultural student body who lived in poverty. Undaunted by the challenge, Risinger used Title I money to hire a full-time bilingual Social Services Coordinator to oversee student health. A schoolwide reading program ensured every content teacher was a trained reading teacher. The school adopted the Oklahoma Higher Learning Access Program to give students an opportunity to dream about and attend college. After-school tutoring programs and community partnerships provide extra help to needy students. The result of Risinger’s efforts has been a school community that has faith in its students, and students who have faith in themselves.

High School Finalists

James D. Donnelly, Jr. NATIONAL HIGH SCHOOL WINNER
James A. Green High School
Dolgeville, New York

The sixth principal hired in nine years at James A. Green High School, James Donnelly faced the challenge of turning around a struggling school fraught with low expectations and high discipline problems, and creating an atmosphere of consistency, collaboration, and high expectations. Donnelly set out to change the mindset of an entire community by first establishing a student code of conduct that articulated fundamental expectations. Then, he and the staff transitioned the school to a block schedule and academic intervention system, creating more time on task in the classroom. A third major programmatic change was the implementation of a middle school team concept in the 7th and 8th grades of this 7–12 school. This forced a team approach that addressed student academic and social needs throughout the building. Curriculum integration, expanded college preparation courses, and character education and service learning help prepare students for a brighter future. Where a troubled school once stood, Donnelly now sees a school with a new sense of pride and purpose.

Norman J. Minehira
Leilehua High School
Wahiawa, Hawaii

Drawing from his experience as a counselor, teacher, coach, and mentor, Norman Minehira has worked with staff and students to build and foster a safe, secure, and nurturing learning environment at Leilehua High School—one that encourages shared responsibility for student achievement and personal growth. Minehira established a comprehensive integrated approach to providing student support that includes integrated resource teams, multiagency teams, and parent support groups. A shared decision-making structure provides stakeholders not only with access to information, but also the power to make decisions to meet the needs of Leilehua students. Teachers’ needs are addressed through mentor programs, collegial coaching, and Quality Circles—learning teams that provide personalized professional development opportunities and support. Minehira’s focus on establishing an inclusive school environment founded on trust, celebrating the diversity of the students, and utilizing collective strengths of staff and students has made Leilehua one of the strongest schools in the state.
Richard Roberto
John F. Kennedy High School
Paterson, New Jersey

Under the leadership of Richard Roberto, John F. Kennedy High School has undergone a transformation that has improved student test scores, promoted communication among teachers, and created more opportunities for student success. Instrumental in raising student test scores have been an extended-year program for juniors, an extensive staff-development program focused on core curriculum content, and establishment of freshman houses to personalize the learning environment.

Roberto oversaw the expansion of eight career academies—a driving force behind the whole school reform effort at Kennedy—providing small learning communities in which students can explore a variety of interests. The efforts of whole school reform facilitators keep clear lines of communication open among staff through newsletters, needs assessments, teacher surveys, and collaborative groups. Roberto has cultivated a vision that fosters collaboration and support and creates for students and staff, a positive family atmosphere.
Board of Directors

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Keith D. Taton, Principal
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Anchorage, AK

President-Elect
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Cactus High School
Glendale, AZ

Kimberly K. Bellum, Principal
Watertown High School
Watertown, SD

Larry D. Bradley, Principal
Pflugerville High School
Pflugerville, TX

Charita Crockrom, Principal
Collinwood High School
Cleveland, OH

Michael J. Donnell, Assistant Principal
Hingham High School
Hingham, MA

Rochelle Friedman, Principal
George Mason Middle School
Falls Church, VA

Bruce Gee, Principal
Mill River Union High School
N. Clarendon, VT

Thomas D. Kidd, Principal
John Adams Junior High School
Charleston, WV

Arthur Linder, Principal
Oak Hill Academy
Laurel, MD

Joseph A. Militello, Principal
Archie R. Cole Junior High School
Greenwich, RI

Jan Miner, Principal
Oregon City Senior High School
Oregon City, OR

Evan Myers, Principal
Tyro Middle School
Lexington, NC

Elizabeth Panella, Principal
Fair Lawn High School
Fair Lawn, NJ

Michael Parnell, Principal
Carrollton High School
Carrollton, MO

José L. Rodriguez, Principal
San Fernando High School
San Fernando, CA

Robert Rygh, Principal
Roseville, Area High School
Roseville, MN

Barry Stark, Principal
Norris Middle School
Firth, NE

Paul Stringer, Principal
Weaver High School
Hartford, CT

Johnny W. Taylor, Principal
Red Level High School
Red Level, AL

David Vodila, Principal
Red Lion Area High School
Red Lion, PA

Brenda Weber, Principal
North High School
Evansville, IN

Wesley White, Principal
Russellville High School
Russellville, AR

Sandra Young, Principal
Kamehameha Middle School
Honolulu, HI

Executive Director
Gerald N. Tirozzi
Independent Auditors’ Report

To the Board of Directors
National Association of Secondary School Principals
Reston, Virginia

We have audited the accompanying consolidated statement of financial position of National Association of Secondary School Principals (the Association) as of June 30, 2003, and the related consolidated statements of activities, changes in net assets, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Association’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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Association of Secondary School Principals as of June 30, 2003, 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.

Bethesda, Maryland
September 17, 2003

**ASSETS**

**CURRENT ASSETS**
- Cash and Cash Equivalents: $2,777,932
- Short-Term Investments: $2,098,937
- Accounts Receivable: $2,008,506
- Inventory: $778,893
- Prepaid Expenses: $289,826
- Total Current Assets: $7,954,094

**NONCURRENT ASSETS**
- Property and Equipment, Net: $5,187,311
- Board-Designated Investments: $2,402,370
- Intangible Pension Asset: $505,480
- Deposits: $83,055
- Total Noncurrent Assets: $8,178,216

**Total Assets**: $16,132,310

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**
- Accounts Payable: $1,621,421
- Accrued Expenses: $2,241,169
- Deferred Revenue: $5,240,703
- Current Portion of Accrued Postretirement Benefit Cost: $59,430
- Current Portion of Notes Payable: $79,030
- Current Portion of Royalty Advance: $400,000
- Total Current Liabilities: $9,641,753

**NONCURRENT LIABILITIES**
- Long-Term Portion of Accrued Pension Liability: $1,511,576
- Long-Term Portion of Accrued Postretirement Benefit Cost: $224,272
- Long-Term Portion of Notes Payable: $2,815,827
- Long-Term Portion of Royalty Advance: $1,484,643
- Total Noncurrent Liabilities: $6,036,318
- Total Liabilities: $15,678,071

**COMMITMENTS**
- -

**NET ASSETS**
- Unrestricted: $6,514,206
- Temporarily Restricted: $536,126
- Permanently Restricted: $39,481
- Accumulated Other Comprehensive Expense: $(6,635,574)
- Total Net Assets: $454,239

**Total Liabilities and Net Assets**: $16,132,310

The accompanying notes are an integral part of these Financial Statements.
Consolidated Statement of Activities for the Year Ended June 30, 2003

REVENUE, GAINS, AND OTHER SUPPORT

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
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<tbody>
<tr>
<td>Membership Dues</td>
<td>$ 8,621,353</td>
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<td>$ 8,621,353</td>
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<td>Sales and Handling Charges</td>
<td>6,302,373</td>
<td>6,302,373</td>
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<td>Grants, Contracts, and Contributions</td>
<td>2,560,867</td>
<td>562,000</td>
<td>3,122,867</td>
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<td>Conferences and Meetings</td>
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<td>Travel Office Commissions</td>
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<td>Assessment Center Fees</td>
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<tr>
<td>Royalties</td>
<td>468,010</td>
<td>468,010</td>
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<tr>
<td>Other Income</td>
<td>468,010</td>
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<tr>
<td>Advertising</td>
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<tr>
<td>Royalties</td>
<td>468,010</td>
<td>468,010</td>
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<tr>
<td>Other Income</td>
<td>468,010</td>
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<td>Investment Gain, Net</td>
<td>439,273</td>
<td>(439,273)</td>
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<td>Net Assets Released from Restrictions, Satisfaction of Program Restriction</td>
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<td>-</td>
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<tr>
<td>Total Revenue, Gains, and Other Support</td>
<td>$23,225,351</td>
<td>122,727</td>
<td>$23,348,078</td>
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EXPENSES

Program Services

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<th>Unrestricted</th>
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<tr>
<td>Student Services</td>
<td>5,592,122</td>
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<td>5,592,122</td>
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<td>Joint Programs</td>
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<td>Professional Development</td>
<td>2,823,028</td>
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<td>Special Services</td>
<td>1,920,396</td>
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<td>Professional Status</td>
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<td>Total Program Services</td>
<td>13,205,983</td>
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Supporting Services

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<tr>
<td>Association Management</td>
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<td>Membership Development</td>
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<td>Total Supporting Services</td>
<td>8,476,722</td>
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<tr>
<td>Total Expenses</td>
<td>21,682,705</td>
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<td>Change in Net Assets</td>
<td>$1,542,646</td>
<td>$122,727</td>
<td>$1,665,373</td>
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<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Permanently Restricted</th>
<th>Accumulated Other Comprehensive Income (Expense)</th>
<th>Total</th>
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</thead>
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<tr>
<td>Net Assets, Beginning of Year</td>
<td>$ 4,971,560</td>
<td>$ 413,399</td>
<td>$ 39,481</td>
<td>$ -</td>
<td>$ 5,424,440</td>
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<tr>
<td>Change in Net Assets</td>
<td>1,542,646</td>
<td>122,727</td>
<td>-</td>
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<td>1,665,373</td>
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<tr>
<td>Other Comprehensive Income (Expense)</td>
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<td>-</td>
<td>(6,635,574)</td>
<td>(6,635,574)</td>
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<tr>
<td>Minimum Pension Liability Adjustment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>(6,635,574)</td>
<td>(6,635,574)</td>
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<tr>
<td>Net Assets, End of Year</td>
<td>$ 6,514,206</td>
<td>$ 536,126</td>
<td>$ 39,481</td>
<td>(6,635,574)</td>
<td>$ 454,239</td>
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The accompanying notes are an integral part of these Financial Statements.
Consolidated Statement of Cash Flows for the Year Ended
June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES
Change in Net Assets ................................................................. $ 1,665,373

Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities
  Additional Minimum Pension Liability Adjustment .................. (6,635,574)
  Depreciation ................................................................. 585,924
  Loss on Sale of Property and Equipment ............................... 6,037
  Unrealized and Realized Gains, Net .................................... (44,531)
  Change in:
    Accounts Receivable .................................................. (94,426)
    Inventory ................................................................. (25,753)
    Prepaid Expenses .................................................... (120,813)
    Prepaid Pension Cost ................................................ 4,636,834
    Deposits ................................................................ 59,972
    Intangible Pension Asset .............................................. (505,480)
    Accounts Payable .......................................................... 892,315
    Accrued Expenses ....................................................... 590,474
    Deferred Revenue ........................................................... 85,522
    Accrued Pension Liability ............................................... 1,511,576
    Accrued Postretirement Benefit Cost ................................. 95,282
Net Cash Provided by Operating Activities .................................. 2,702,732

CASH FLOWS FROM INVESTING ACTIVITIES
  Purchases of Short-Term Investments, Net .............................. (1,861,091)
  Purchases of Board-Designated Investments, Net ....................... (799,000)
  Proceeds from Sale of Savings Deposits ................................. 700,000
  Purchases of Property and Equipment .................................... (164,383)
Net Cash Used in Investing Activities .......................................... (2,124,474)

CASH FLOWS FROM FINANCING ACTIVITIES
  Payments on Notes Payable ................................................. (70,958)
  Payments on Capital Lease Obligations .................................. (16,217)
  Increase on Royalty Advance, Net ....................................... 745,591
Net Cash Provided by Financing Activities .................................. 658,416

NET INCREASE IN CASH AND CASH EQUIVALENTS ............................. 1,236,674

CASH AND CASH EQUIVALENTS
  Beginning of Year ............................................................. 1,541,258
  End of Year ................................................................. $  2,777,932

The accompanying notes are an integral part of these Financial Statements
Notes to Consolidated Financial Statements

June 30, 2003

NOTE 1  GENERAL INFORMATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General
The National Association of Secondary School Principals (the Association) is an organization committed to improving secondary education. In pursuing this commitment, the Association provides information and leadership, encourages research and service, promotes high professional standards, focuses attention on national educational problems, and works with other professional organizations interested in the solutions to problems of education at the national level for the welfare of secondary schools and the youths they serve.

TREET: The Trust to Reach Educational Excellence (the Foundation) is an organization committed to supporting programs for disenfranchised youth.

During June 2003, the Board of Directors of the Foundation approved the dissolution of TREE and the transfer of the corporate assets to the Association.

Principles of Consolidation
The consolidated financial statements include the accounts of the Association and the Foundation. All significant intercompany accounts and transactions between the organizations have been eliminated in consolidation.

Summary of Significant Accounting Policies

Basis of Accounting - The Association uses the accrual basis of accounting.

Cash and Cash Equivalents - For the purpose of reporting cash flows, the Association considers demand deposits, certificates of deposit, and savings deposits with an original maturity of three months or less to be cash equivalents.

Short-Term Investments - Short-term investments consist of an interest-bearing money market fund carried at fair value.

Inventory - Inventory, consisting primarily of publications and insignia items, is stated at the lower of cost or market using the average cost method of valuation.

Accounts Receivable - The Association records accounts receivable net of allowances for doubtful accounts, when necessary. The allowances are determined based on a review of the estimated collectibility of the specific accounts, plus a general provision based on historical loss experience and existing economic conditions. Uncollectible amounts are charged-off against the allowances for doubtful accounts once management determines an account, or a portion thereof, to be worthless.
Property and Equipment - Property and equipment are stated at cost and are depreciated over their estimated useful lives ranging between three and fifty years. The straight-line method of depreciation is followed for all assets. The Association capitalizes all purchases above $1,500. Expenditures for repairs and maintenance are charged to expense as incurred.

Unrestricted Net Assets - Unrestricted net assets consist of funds which are currently available to support the Association's daily operations.

Temporarily Restricted Net Assets - The Association reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of donated assets. When a donor restriction expires; that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If the restriction is met in the same period in which the revenue is received, the revenue is recognized as unrestricted support.

Revenue Recognition - Revenue is recognized by the Association during the period in which it is earned. Revenue received in advance and not yet earned is deferred to the applicable period.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of 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.

Financial Instruments - Financial instruments which potentially subject the Association to concentrations of credit risk consist principally of demand deposits, short-term investments, accounts receivable, and Board-Designated investments. The Association places its short-term investments with creditworthy financial institutions. Credit risk with respect to trade and other receivables is limited because the Association deals with a large number of customers in a wide geographical area. As of June 30, 2003, the Association had a significant concentration of risk in demand deposits (see Note 12).

Income Tax Status - The Association is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. However, the Association and the Foundation are required to report unrelated business income to the Internal Revenue Service and the state of Virginia, as well as pay certain other taxes to local jurisdictions. In addition, the Internal Revenue Service has determined that the Association and the Foundation are not private foundations. There is no unrelated business income tax liability for the year ended June 30, 2003.
NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade, Net of Allowance for Doubtful Accounts of $59,000</td>
<td>$  602,212</td>
</tr>
<tr>
<td>Grant and Contract Receivables</td>
<td>$403,817</td>
</tr>
<tr>
<td>Membership Dues in Transit</td>
<td>$  511,687</td>
</tr>
<tr>
<td>Other</td>
<td>$  490,790</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$  2,008,506</strong></td>
</tr>
</tbody>
</table>

NOTE 3 BOARD-DESIGNED INVESTMENTS

Board-designated investments are stated at fair value and consist of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$  153,755</td>
</tr>
<tr>
<td>Certificates of Deposit</td>
<td>$334,205</td>
</tr>
<tr>
<td>Equities</td>
<td>$  878,150</td>
</tr>
<tr>
<td>Government Securities</td>
<td>$  702,750</td>
</tr>
<tr>
<td>Corporate Bonds</td>
<td>$  333,510</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$  2,402,370</strong></td>
</tr>
</tbody>
</table>

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$  207,993</td>
</tr>
<tr>
<td>Building and Improvements</td>
<td>$  5,117,845</td>
</tr>
<tr>
<td>Furniture and Equipment</td>
<td>$ 1,524,336</td>
</tr>
<tr>
<td>Computer Equipment and Software</td>
<td>$  2,057,488</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$  8,907,662</td>
</tr>
<tr>
<td>Less Accumulated Depreciation</td>
<td>$  3,720,351</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$  5,187,311</strong></td>
</tr>
</tbody>
</table>

NOTE 5 NOTES PAYABLE AND LINE OF CREDIT

On October 3, 2001, the Association received loan facilities totaling $3,000,000 and a $1,000,000 credit line. Interest accrues on the outstanding principal balance at 7.0 percent per year and may be adjusted every three years. The loans require payments of principal and interest based on a twenty-year amortization period. The loans contain certain financial covenants and are secured by a deed of trust, assignment of leases and rents, and security agreement on the Association's building. The loans mature September 30, 2011.

Future maturities of the loans are as follows for the year ending June 30:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$  79,030</td>
</tr>
<tr>
<td>2005</td>
<td>84,743</td>
</tr>
<tr>
<td>2006</td>
<td>90,869</td>
</tr>
<tr>
<td>2007</td>
<td>97,438</td>
</tr>
<tr>
<td>2008</td>
<td>104,481</td>
</tr>
<tr>
<td>Thereafter</td>
<td>2,438,296</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$  2,894,857</strong></td>
</tr>
</tbody>
</table>

The credit line is unsecured and bears interest at the Wall Street Prime Rate and expires November 30, 2003. There were no amounts outstanding on the line of credit at June 30, 2003.

Two financial covenants were waived by the lender for the year ended June 30, 2003.

Interest expense totaled $209,383 on the notes payable and line of credit for the year ended June 30, 2003.

NOTE 6 ROYALTY ADVANCES

The Association has a licensing agreement with Minnesota Mutual Life Insurance Company whereby the Association receives royalty payments. The agreement provides for royalty advances to the Association. The annual royalty receipts are applied to reduce the balance of the royalty advance as of the policy anniversary date, along with sufficient additional cash payments from the Association to ensure that the royalty advance is completely repaid by June 1, 2008. In June 2003, the Association received a $1,200,000 advance from Minnesota Mutual Life Insurance Company. The balance of the advance at June 30, 2003, totaled $1,884,643. The Association has agreed to repay the royalty advance with interest at the London Interbank Offered Rate (LIBOR) for threemonth contracts, plus 1 percent.
NOTE 7 LEASES
The Association leases storage space for inventories under an operating lease expiring in 2007. Minimum future rental payments, including an annual 3 percent increase, as of June 30, 2003, are as follows:

Year Ending June 30,
2004 ....................... $ 57,824
2005 ....................... $ 59,559
2006 ....................... $ 61,346
2007 ....................... $ 57,776

Rent expense for the year ended June 30, 2003, was $75,299.

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS
Temporarily restricted net assets at June 30, 2003, consist of the unexpended portion of temporarily restricted contributions received by the Association. These contributions are restricted for the following programs:

MetLife Principal of the Year .... $ 350,000
Emerging Leaders Program ....... 2,474
Breaking Ranks in Leadership .... 145,394
The MetLife Foundation Institute for Family Friendly Schools ..... 8,258
National Leadership Camps ...... 30,000

$ 536,126

NOTE 9 PERMANENTLY RESTRICTED NET ASSETS
Permanently restricted net assets consist of assets of the Forrest E. Long Memorial Fund, whose use by the Association is limited by donor-imposed restrictions that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Association. The restriction stipulates that resources be maintained permanently, but permits the Association to expend income generated in accordance with the provisions of the agreement.

NOTE 10 COST OF SALES
Program services expenses includes the cost of sales of publications and other inventoriable items, amounting to $2,141,257 for the year ended June 30, 2003.

NOTE 11 COMMITMENTS AND CONTINGENCIES
The Association reserves space for its conventions several years in advance. As of the date of this report, the Association has entered into various contracts for its future conventions. However, due to the numerous variables involved, the Association's ultimate liability under these contracts cannot be determined.

NOTE 12 CONCENTRATION OF RISK
The Association maintained balances at banks in excess of Federal Deposit Insurance Corporation (FDIC) coverage. The amount of uninsured deposits at June 30, 2003, amounted to $4,113,076.

NOTE 13 INVESTMENT GAIN, NET
Investment income (loss) for the year consists of:

Interest & Dividends ............. $ 124,409
Realized Losses ................. (48,319)
Unrealized Gain on Marketable Securities .................. 92,850
Investment Management Fees ... (25,514)

$ 143,426

NOTE 14 PENSION PLANS
On July 1, 1998, the Association established a 403(b) plan (salary reduction and match) for the purpose of providing matching contributions to its employees who participate in a Section 403(b) annuity program. Employees are eligible to participate after meeting certain service and age requirements. The Association matches 50 percent of employee contributions not to exceed 6 percent of compensation. Contributions totaled $122,094 for 2003.
Note 14 Pension Plans (Continued)

On July 1, 1998, the Association established a defined contribution plan under Section 401 of the Internal Revenue Code. Employees are eligible to participate after meeting certain service and age requirements. The amount of the contribution is determined each year by the Association. Employees are neither required nor permitted to contribute to the Plan. The contribution for 2003 was determined to be 7 percent of eligible compensation. Contributions totaled $374,109 for 2003.

Prior to June 30, 1998, the Association maintained a defined benefit pension plan (the Plan) for eligible employees. As of June 30, 1998, the Association froze the Plan. The frozen Plan continues to provide benefits to retirees and other eligible former and current employees. The benefits were based on years of service and the employee’s average compensation over the highest three consecutive years of service. Benefits earned by active employees as of June 30, 1998, have not been reduced, and will be payable in accordance with the terms of the Plan as of June 30, 1998. Active employees who were not vested in their Plan benefits continue to be credited with service, so that the benefits they have accrued under the Plan might ultimately become vested.

The Association’s funding policy is to contribute between the minimum required and the maximum deductible amount that can be deducted for federal income tax purposes. Contributions are intended to provide not only for benefits attributed to service to date, but also for those expected to be earned in the future. The Plan’s assets are held by Minnesota Mutual Life Insurance Company in the form of unallocated insurance contracts in pooled separate accounts.

The following table sets forth the Plan’s funded status at June 30, 2003:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Present Value of Accumulated Benefit Obligation</td>
<td>$ 12,405,024</td>
</tr>
<tr>
<td>Less Plan Assets at Fair Value</td>
<td>(10,893,448)</td>
</tr>
<tr>
<td>Projected Benefit Obligation in Excess of Plan Assets</td>
<td>$ 1,511,576</td>
</tr>
</tbody>
</table>

Changes in the Plan’s net accrued pension liability follow:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Accrued Pension Liability, Beginning of Year</td>
<td></td>
</tr>
<tr>
<td>Prepaid Pension Asset</td>
<td>($4,636,834)</td>
</tr>
<tr>
<td>Net Periodic Pension Expense</td>
<td>$ 567,356</td>
</tr>
<tr>
<td>Additional Minimum Liability, Recognized as Other Comprehensive (Income) Expense</td>
<td>$ 6,635,574</td>
</tr>
<tr>
<td>Funding Payments Made</td>
<td>($1,560,000)</td>
</tr>
<tr>
<td>Net Accrued Pension Liability, End of Year</td>
<td>$ 1,006,096</td>
</tr>
</tbody>
</table>

The additional minimum pension liability, recognized as other comprehensive (income) expense, represents the adjustment to recognize the minimum liability required under FASB 87, net of the change in unrecognized prior service costs.

Net accrued pension liability, end of year, is comprised of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intangible Pension Asset</td>
<td>($505,480)</td>
</tr>
<tr>
<td>Accrued Pension Liability</td>
<td></td>
</tr>
<tr>
<td>Current Portion of Accrued Pension Liability</td>
<td></td>
</tr>
<tr>
<td>Long-Term Portion of Accrued Pension Liability</td>
<td>$ 1,511,576</td>
</tr>
<tr>
<td>Projected Benefit Obligation in Excess of Plan Assets</td>
<td>$ 1,511,576</td>
</tr>
<tr>
<td>Net Accrued Pension Liability, End of Year</td>
<td>$ 1,006,096</td>
</tr>
</tbody>
</table>
The provisions of Statement of Financial Accounting Standards Nos. 87 and 132, Employers Accounting for Pensions, require the Association to recognize an accrued pension liability ($1,511,576) equal to the amount by which the actuarial present value of the accumulated benefit obligation ($12,405,024) exceeds the Plan’s assets at fair value ($10,296,916). An intangible pension asset is recognized to the extent of the unrecognized prior service cost of $505,480.

Net periodic pension costs for 2003 included the following components:

- Service Cost of the Current Period $0
- Interest Cost 863,117
- Expected Return on Plan Assets (752,483)
- Net Amortization and Deferral 140,465
- Actuarial Loss 316,257
- Net Periodic Pension Expense 567,356

The assumption used in the Plan’s actuarial computations are as follows:

- Discount Rate 7.00%
- Long-Term Rate of Return on Plan Assets 7.50%
- Rate of Increase in Future Compensation Levels Not Applicable

Net periodic postretirement benefit cost for 2003 included the following components:

- Service Cost $21,792
- Interest Cost 86,369
- Amortization of Transition Obligation 57,181
- Total $165,342

The actuarially-calculated funded status of the Plan at June 30, 2003, is reconciled with the amount shown in the statement of financial position at that date as follows:

- Accumulated Postretirement Benefit Obligation $(714,664)
- Plan Assets at Fair Value $-
- Funded Status $(714,664)
- Unrecognized Net Actuarial Gain (186,891)
- Unrecognized Transition Obligation 617,853
- Accrued Postretirement Benefit Cost $(283,702)

The assumptions used in the actuarial computations are as follows:

- Weighted Average Discount Rate 6.75%
- Assumed Health Care Cost Trend Rate for Future Years
  - 2004 7.5%
  - 2005 7.0%
  - 2006 6.5%
  - 2007 6.0%
  - 2008 5.5%
  - 2009 and Later Years 5.0%

The Association provides health insurance benefits for certain retired employees. Substantially all employees may become eligible for these benefits when they reach the age of 55, provided they are still employed by the Association and meet all the established requirements. The Association funds amounts necessary to pay annual health insurance premiums for current retirees only. In 2003, the Association funded $70,060. Effective July 1, 2001, the Association adopted SFAS No. 106, “Employers’ Accounting for Postretirement Benefits Other Than Pensions.” As provided under SFAS 106, the Association has elected to recognize the transition obligation on a delayed basis over the participants’ future service periods.

Cash paid for interest during the year was $238,097.