NATIONAL ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS

ANNUAL REPORT 2005

NATIONAL ASSOCIATION OF SECONDARY SCHOOL PRINCIPALS

A Message to Our Members

2005 was an extremely difficult year for many of our citizens across the nation. Many of our family, friends, and colleagues weathered not one, but two major hurricanes in the form of Katrina and Rita. The impact of Rita was fortunately milder than expected, but Katrina earned the distinction as the costliest natural disaster in U.S. history. Our thoughts and prayers remain with those in the Gulf States region who are faced with the daunting challenge of putting their lives back together.

Throughout the turbulence of the past year, the National Association of Secondary School Principals continued along the path of economic success that we have achieved over the past few years. We are pleased to report that your continued investment in the Association is paying dividends through our award-winning publications, superior professional development programs, ground-breaking research and best-practices, and extensive advocacy efforts. We remain the nation's largest and most vocal and active education leadership association.

Located just outside of Washington, DC, NASSP dedicates a significant amount of staff time and energy communicating with elected officials, policymakers, and the news media on the issues and challenges that most concern school leaders and secondary schools. We fervently believe that the success of our efforts is demonstrated in the work highlighted in this Annual Report. Our national voice continues to ring true on Capitol Hill, within the Administration, with other education organizations, and in the states.

A few notable "voice" activities from 2005 include the following: *NASSP Legislative Recommendations for High School Reform* released on Capitol Hill in February; *What Counts: Defining and Improving High School Graduation Rates* released at the National Press Club in April; *Advancing High School Reform in the States: Policies and Program* (in collaboration with the KnowledgeWorks Foundation) released in October; *Creating a Culture of Literacy: A Guide for Middle Level and High School Principals* released in October and the *NASSP No Child Left Behind Legislative Recommendations* (developed by practitioners and issued for the upcoming NCLB reauthorization) released in November. As you can see it was a very busy year!

We are also very proud of the work we do in student leadership. Through the National Association of Student Councils, the National Honor Society, and the National Junior Honor Society, we reach more than one million students. The NHS and NJHS have more than 21,000 chapters found in all 50 states, the District of Columbia, Puerto Rico, many U.S. territories, and Canada. The NASC student council affiliates number more than 17,000. Our student services allow us to better serve the interest of our members—school leaders.

Of course, in order for us to provide the best return on your investment, we must be a responsible and fiscally sound organization. The 2005 fiscal year was another outstanding one for NASSP. We ended the year with a change in net assets, a profit of $1,195,013. Our continued financial success has allowed us to enhance and expand member benefits through our programs, products, and services.

Fiscal 2005 completes seven consecutive years of profitable operations, which ensures our ability to provide the funds necessary to maintain quality programs and services for members. Financial stability and efficient operations have retained member dues at the same level for the past four years. Furthermore, we continue to grow our long-term reserves to ensure future stability. With the conclusion of fiscal year 2005, our long-term reserves have grown to $3,722,000.

Mel Riddile, principal of J.E.B. Stuart High School in Fall Church, VA and the 2006 National High School Principal of the Year hosts President Bush for his announcement of the Administration's new high school reform initiative.

Your Board of Directors closely oversees NASSP's financial audit—conducted this year by Watkins, Meegan, Drury, and Company, L.L.C.—and meets regularly and independently with your Auditors to review the audit and discuss any findings or recommendations. Your Board of Directors has an unwavering commitment to fiscal responsibility and accountability.

We look forward with excitement to 2006, which marks NASSP's 90th Anniversary year! For 90 years, NASSP has been promoting excellence in school leadership at the middle and high school levels. By providing middle and high school leaders from across the country with information on best practices, research on middle and high school reform, and leadership professional development, NASSP has been driving school improvement at the secondary school level.

While we can't predict the obstacles we will face in 2006, we are sure of this: we are committed to providing our members with superior products and services and a high level of customer service. We believe the activities throughout our 90th Anniversary year will further establish our national prominence and greater recognition of, and appreciation for, secondary school leaders. We will continue to provide top-quality professional development products and training services, such as *Breaking Ranks II, Creating a Culture of Literacy,* and *Breaking Ranks in the Middle,* which will position school leaders to better navigate the challenges they face in improving their and educating our nation's youth.

Stepping forward together, acting as leaders in the community and on a national stage, we can accomplish even greater successes in 2006. Thank you for your continued investment in NASSP. As always, we will endeavor to provide you with a terrific return on your investment.

Sincerely,

David Vodila
President
NASSP

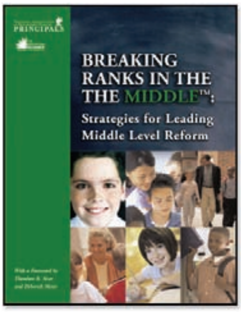
Gerald N. Tirozzi
Executive Director
NASSP

NASSP School Reform Resources

In middle level and high schools across the nation, school leaders focus on school improvement while policymakers debate sweeping change. Over the past year, NASSP has developed school reform resources to both help school leaders implement successful improvement practices and to educate and influence policymakers so that their policies support, rather than hinder, school leaders in their improvement efforts.

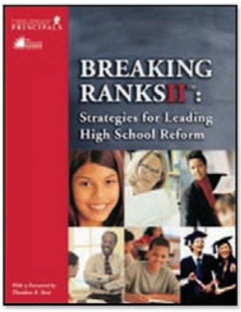
Bringing the issues of the middle level and high school principalship to the halls of Congress, the White House, and the news media to give school leaders a "national voice" is a primary goal of NASSP. Each of the documents featured here does just that.

Breaking Ranks in the Middle™



Building on the success of ***Breaking Ranks II: Strategies for Leading High School Reform***, NASSP will issue a middle level counterpart in March 2006 to celebrate Middle Level Education Month. The nine strategies and 30 recommendations that form the core of ***Breaking Ranks in the Middle*** are similar to those in ***Breaking Ranks II***, but are grounded in the middle school philosophy. A commission of middle level practitioners and experts had an active hand in developing the book, which will include a number of full-length profiles and vignettes of schools that put the recommendations in action.
More information: **http://www.principals.org/brim**

Breaking Ranks II: Strategies for Leading High School Reform™

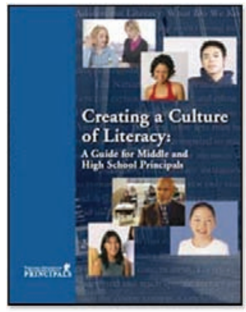


An acclaimed roadmap for school change, this publication outlines 31 recommendations for school leaders taking on the challenge of reforming their high schools. Each recommendation falls within the focus of three core areas:

- Collaborative leadership and professional learning communities
- Personalizing your school environment
- Curriculum, instruction, and assessment

This handbook can be used by all schools, regardless of their size, geographical location, or where they are on the school improvement continuum. Offering successful research-based practices, real-life examples, a step-by-step approach to change, obstacles to avoid and countless resources, it is a must for all secondary school principals.
More information: **http://www.principals.org/brii**

Creating a Culture of Literacy: A Guide for Middle and High School Principals



Creating a Culture of Literacy: A Guide for Middle and High School Principals is designed to help school leaders use research on best literacy practices to create a well-defined intervention plan that not only will improve the literacy of all students but also the long-range academic success of students by enhancing their chances for postsecondary education and future employability. This guide was released October 17, 2005, and was provided free to all middle level and high school principals across the country, thanks to a grant from the Bill & Melinda Gates Foundation. On the NASSP Web site, visitors may access the text free along with related resources, download the document (pdf), or purchase a printed copy through the Principal's Store.
More information: **http://www.principals.org/s_nassp/sec.asp?CID=62&DID=62**

NASSP No Child Left Behind Legislative Recommendations

After a year's worth of work by its No Child Left Behind Task Force, NASSP is pleased to release our Legislative Recommendations for No Child Left Behind. The mission of the NCLB task force has been to study the effects of the law and regulations as applied to school leaders and the nation's diverse education structure, identify specific challenges and problems related to NCLB that inhibit improved student achievement and identification of low-performing schools, and develop proposals and formal recommendations for Congress to improve NCLB and its regulations.
More information: **http://www.principals.org/nclb**

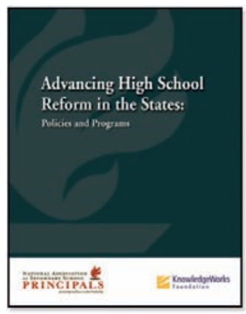
NASSP Legislative Recommendations for High School Reform

The role of the federal government in education should be one of partnership with the states and local school districts to improve the overall quality of the nation's schools and to ensure equal opportunity for all students. To date, federal resources in support of school improvement have mainly been targeted at the elementary level and to some extent the middle level. And while a great deal more can be done to support real improvement at the middle level, the next and long-overdue stage in the evolution of school reform must be the improvement of the nation's high schools. This report outlines the strategies and recommendations that are supported by NASSP in this effort.
More information: **http://www.principals.org/hsreform**

What Counts: Defining and Improving Graduation Rates

As more substantial research brings attention to the lackluster data on high school graduation rates, what originally was thought to be a fairly simple concept—the percentage of the senior class who actually "walked across the stage"—has been revealed to be a more complex issue depending on the purpose, point of view, or the method of calculation employed. Recent research has revealed a startling array of difficult issues and confusing calculations that can give even the most gifted educator pause. *What Counts* strives to bring clarity to the issue and to outline some key policy recommendations for improving graduation rate calculations and outcomes.
More information: **http://www.principals.org/gradrates**

Advancing High School Reform in the States: Programs and Policies



The discussion over transforming and improving the nation's high schools continues to be a hot topic around the country. Even as the National Governors Association (NGA) moves ahead with initiatives to foster high school reform throughout their membership, there is an assortment of working programs and promising practices currently building the capacity of high schools in a significant number of states., This report, produced by NASSP and the KnowledgeWorks Foundation, highlights current high school reform policies and programs in various states.
More Information: **http://www.principals.org/statehsreform**

NASSP releases Creating a Culture of Literacy: A Guide for Middle and High School Principals at the National Press Club in October.

2006 National Principal of the Year Finalists

Middle Level Finalists

Sharon I. Byrdsong NATIONAL MIDDLE LEVEL WINNER
Azalea Gardens Middle School
Norfolk, VA

When Sharon Byrdsong became principal of Azalea Gardens Middle School five years ago, the majority of the students were reading well below their grade level and neighborhood parents were opting to send their children to private schools rather than to Azalea Gardens. To turn the school around, she knew she had to raise expectations, challenge current belief systems, strengthen education practices, and create a true school community. Byrdsong collaborated with all the stakeholders—staff, students, parents, and community members—to develop a plan to transform Azalea Gardens into a school of excellence. The plan included common goals and high standards schoolwide. Department chairs meet regularly to reinforce expectations, refine procedures, review data, and create best practices, and the staff uses inservice days for collaborative planning. Skilled reading teachers ensure all students receive reading instruction, and all teachers in all disciplines promote reading and writing across the curriculum. Parents and community members are kept informed about all school activities via Web sites and monthly newsletters. Staff members also go out into the community and to a neighborhood outreach center to meet with parents and encourage them to send their children to the after-school Standards of Learning tutorial program. Today, Azalea Garden's students have earned the highest SOL scores of all middle schools in the district, and the atmosphere is one of a true family.

George E. Moore
Texas Middle School
Texarkana, TX

Two years ago, the community members in Texarkana were concerned about seemingly out of control Texas Middle School students who were not actively engaged in their learning. George Moore stepped up to try to turn the school around. After recruiting a dynamic leadership team and creating a new vision for the school, Moore and the staff developed several strategies to improve the climate and raise student achievement. These programs included a teaming approach to providing smaller learning communities, a collaborative approach to school governance, a longer instructional day, a direct teaching approach around the aligned standards-based curriculum, a peer tutoring program, and a teacher advocacy program in which teachers promote student success with a loving, caring attitude. The Transitional Intervention Educational Setting program was designed to target the academic and behavioral needs of the more challenging students by extending their time-on-task in the core academic areas and incorporating a 90-minute block of character education every day. Texas Middle School also implemented the Advancement via Individual Determination (AVID) program to provide daily support to students who have been identified as capable of above-average work but who have not been challenged. The result has been a dramatic reduction in discipline referrals and in alternative educational program placements and an increase in student achievement.

Linda B. Stroud
Greeneville Middle School
Greeneville, TN

The question that guides all decisions at Greeneville Middle School is "What is best for students?" When enrollment projections indicated an increase of more than 100 students within three years, Principal Linda Stroud and her staff began planning strategies that would accommodate the increased enrollment without sacrificing a small-school climate. After extensive research about best practices and after analyzing school data, Stroud concluded that instructional time was a prime factor in ensuring student success. The school moved to a block schedule that provided 90-minute instructional periods. Staff development focused on active teaching strategies for extended periods of instruction and the use of curriculum mapping and Thinking Map graphic organizers to help align the curriculum across and between grades. Instruction was infused with technology, and 21st century technology skills were added to instruction. Today, teachers routinely use standardized achievement data and teacher-made rubrics and assessments to identify trends in their teaching strategies and to recognize the strengths and weaknesses of individual students. An after-school tutoring program and an extended academic period during lunch offer additional help to struggling students. These initiatives have resulted in marked academic progress for all of Greeneville's students and the school's recognition as a 21st Century School of Distinction.

High School Finalists

Steven L. Clarke
Bellingham High School
Bellingham, WA

After a two-year, $30 million renovation, Bellingham High School re-opened in 2000 with a new look and a new vision. Under the leadership of Steven Clarke, the staff and student leaders developed a set of core beliefs to guide decision making and establish a positive learning climate. These Collective Commitments are: to treat all members of the BHS community with dignity and respect, to take care of the school, and to expect quality work from all facets of the BHS community. These commitments are accompanied by a focus on reading, writing, math, overall learning environment and technology for student achievement. Strategies include a reading seminar program, a writing program for ninth and tenth graders, and integration of math with real-world applications. To help personalize the learning environment, Clarke established block scheduling and formed student focus groups at each grade level to promote communication and understanding among students and staff members. In addition, each staff member mentors four juniors through the second half of their junior year through their senior year. The focus on powerful teaching and learning has paid off. For example, 75% of the Advanced Placement students score 3 or higher on their exams, compared to 60% nationwide.

Michael T. Graham
East Anchorage High School
Anchorage, AK

Improving student achievement is the bottom line for every program or strategy implemented at East Anchorage High School. The staff has embraced several reform efforts under Michael Graham's leadership, including smaller learning communities, remediation programs, and a push to entice more students into advanced courses. To promote smaller learning communities, all students, teachers, counselors, security personnel, assistants, and administrators are aligned to one of five geographically separated houses. To help struggling students, EAHS established a remediation program that included converting two of their four computer labs into full-time remediation labs and requiring seniors who did not pass the High School Graduation Qualifying Exam in reading or math to enroll in a remediation course. To encourage students to take more rigorous courses, the staff persuades students to accept academic challenges and higher-level courses. These are among the many programs that have helped build positive relationships, provide personal instruction, and make success an option for more students than ever before. As evidence of their effectiveness, 95% of the seniors who had earned the minimum number of credits necessary to graduate last year passed all sections of the required exit exam.

Mel J. Riddile NATIONAL HIGH SCHOOL WINNER
J.E.B. Stuart High School
Falls Church, VA

J.E.B. Stuart High School moved from being one of the lowest achieving schools in the affluent Fairfax County (VA) School District to becoming an NASSP Breakthrough High School thanks to an eight-year campaign to achieve literacy for all students. That campaign, spearheaded by Mel Riddile and embraced by Stuart's staff, included annual pre- and post-testing of all students, a multi-faceted literacy program headed by a literacy coach, job-embedded staff development, a reading lab, and mandatory after-school tutoring for at-risk students. Recognizing the importance of personalization, the staff developed a differentiated approach to increase adult and student contact outside the normal classroom setting. They invited community agencies to establish family service programs within the school, provided individual and group counseling and family support, and brought a student assistance program in-house. Rising ninth graders are provided a two-week summer program of study skills and orientation and are assigned a mentor their freshman year. Because of the vast diversity of the student body, ESOL teachers act as surrogate parents and mentors. The results have been dramatic. The school identified in 1998 as a "failing school" is now a national model for serving underserved, disadvantaged, and diverse students.

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North High School
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Wesley White, Principal
Russellville High School
Russellville, AR

Executive Director
Gerald N. Tirozzi

Independent Auditors' Report

Watkins, Meegan, Drury & Company, L.L.C.
Certified Public Accountants
Business and Financial Advisors

Independent Auditors' Report

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

We have audited the accompanying statement of financial position of National Association of Secondary School Principals (the Association) as of June 30, 2005, and the related statements of activities, changes in net assets, and cash flows for the year then ended. These 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 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 National Association of Secondary School Principals as of June 30, 2005, 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.

Watkins, Meegan, Drury & Company, L.L.C.

Bethesda, Maryland
September 16, 2005

Financial Statements

Statement of Financial Position, June 30, 2005

ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	$ 2,335,865
Short-Term Investments	2,211,707
Accounts Receivable, Net	1,833,433
Inventory	731,878
Prepaid Expenses	363,559
Total Current Assets	7,476,442
NONCURRENT ASSETS	
Property and Equipment, Net	4,810,369
Board-Designated Investments	3,722,432
Intangible Pension Asset	176,886
Deposits	236,080
Total Noncurrent Assets	8,945,767
Total Assets	**$ 16,422,209**
LIABILITIES AND NET ASSETS	
CURRENT LIABILITIES	
Accounts Payable	$ 853,477
Accrued Expenses	1,888,265
Deferred Revenue	5,479,347
Current Portion of Accrued Postretirement Benefit Cost	71,373
Current Portion of Notes Payable	108,122
Current Portion of Royalty Advance	400,000
Total Current Liabilities	8,800,584
NONCURRENT LIABILITIES	
Long-Term Portion of Accrued Pension Liability	1,770,532
Long-Term Portion of Accrued Postretirement Benefit Cost	252,197
Long-Term Portion of Notes Payable	2,606,959
Long-Term Portion of Royalty Advance	601,147
Total Noncurrent Liabilities	5,230,835
Total Liabilities	14,031,419
NET ASSETS	
Unrestricted	8,894,019
Temporarily Restricted	420,392
Permanently Restricted	39,481
Accumulated Other Comprehensive Expense	(6,963,102)
Total Net Assets	2,390,790
Total Liabilities and Net Assets	**$ 16,422,209**

The accompanying notes are an integral part of these Financial Statements

Statement of Activities For the Year Ending June 30, 2005

REVENUE, GAINS, AND OTHER SUPPORT	Unrestricted	Temporarily Restricted	Total
Membership Dues	$ 8,570,116	$ -	$ 8,570,116
Sales and Handling Charges	7,039,231	-	7,039,231
Grants, Contracts, and Contributions	3,235,124	428,835	3,663,959
Conferences and Meetings	2,362,220	-	2,362,220
Assessment Center Fees	308,027	-	308,027
Advertising	463,636	-	463,636
Royalties	495,405	-	495,405
Travel Office Commissions	300,481	-	300,481
Other Income	852,766	-	852,766
Investment Gain, Net	239,646	-	239,646
Net Assets Released from Restrictions, Satisfaction of Program Restrictions	450,134	(450,134)	-
Total Revenue, Gains, and Other Support	24,316,786	(21,299)	24,295,487
EXPENSES			
Program Services			
Student Services	6,153,357	-	6,153,357
Joint Programs	2,647,104	-	2,647,104
Professional Development	2,478,324	-	2,478,324
Special Services	3,329,999	-	3,329,999
Professional Status	839,482	-	839,482
Total Program Services	15,448,266	-	15,448,266
Supporting Services			
Association Management	5,362,856	-	5,362,856
Membership Development	2,289,352	-	2,289,352
Total Supporting Services	7,652,208	-	7,652,208
Total Expenses	23,100,474	-	23,100,474
Change in Net Assets	$ 1,216,312	$ (21,299)	$ 1,195,013

Statement of Changes in Net Assets For the Year Ending June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Accumulated Other Comprehensive Expense	Total
Net Assets, Beginning of Year	$ 7,677,707	$ 441,691	$ 39,481	$ (6,828,510)	$ 1,330,369
Change in Net Assets	1,216,312	(21,299)	-	-	1,195,013
Other Comprehensive Expense					
Minimum Pension Liability Adjustment	-	-	-	(134,592)	(134,592)
Net Assets, End of Year	$ 8,894,019	$ 420,392	$ 39,481	$ (6,963,102)	$ 2,390,790

The accompanying notes are an integral part of these Financial Statements

Statement of Cash Flows For the Year Ending June 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$ 1,195,013
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities	
Additional Minimum Pension Liability Adjustment	(134,592)
Depreciation	636,983
Loss on Sale of Property and Equipment	9,622
Unrealized and Realized Gains, Net	(59,240)
Change in:	
Accounts Receivable	(40,597)
Inventory	22,434
Prepaid Expenses	(135,416)
Intangible Pension Asset	164,297
Deposits	15,739
Accounts Payable	(694,380)
Accrued Expenses	(8,247)
Deferred Revenue	532,367
Accrued Pension Liability	78,805
Accrued Postretirement Benefit Cost	17,899
Net Cash Provided by Operating Activities	1,600,687
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Board-Designated Investments	(1,823,975)
Purchases of Property and Equipment	(310,071)
Net Cash Used in Investing Activities	(2,134,046)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Notes Payable	(101,026)
Decrease in Royalty Advance, Net	(441,748)
Net Cash Used in Financing Activities	(542,774)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,076,133)
CASH AND CASH EQUIVALENTS	
Beginning of Year	3,411,998
CASH AND CASH EQUIVALENTS	
End of Year	$ 2,335,865

The accompanying notes are an integral part of these Financial Statements

Notes to Financial Statements

June 30, 2005

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.

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 are carried at fair value and consist of an interest-bearing money market fund, certificates of deposit with an original maturity of greater than three months, and government agency notes.

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 geographic area.

Income Tax Status - The Association is an exempt organization under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined that the Association is not a private foundation. However, the Association is 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. There is no unrelated business income tax liability for the year ended June 30, 2005.

NOTE 2 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

Trade, Net of Allowance for Doubtful Accounts of $33,000	$ 549,336
Grant and Contract Receivables	708,024
Membership Dues in Transit	352,929
Other, Net of Allowance for Doubtful Accounts of $118,223	223,144
	$ 1,833,433

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Land and Improvements	$ 322,741
Building and Improvements	5,117,845
Furniture and Equipment	1,166,143
Computer Equipment and Software	2,597,783
	9,204,512
Less Accumulated Depreciation	(4,394,143)
	$ 4,810,369

NOTE 4 BOARD-DESIGNATED INVESTMENTS

Board-designated investments are those funds the Board has set aside for use during periods of economic downturn or unexpected events to pay current obligations and to maintain the financial stability of the association, and to retire a significant portion of the mortgage due in 2011. Board-designated investments are stated at fair value and consist of:

Cash	$ 195,735
Certificates of Deposit	714,000
Government Securities	591,112
Mutual Funds	81,891
Equities	1,323,813
Corporate Bonds	815,881
	$ 3,722,432

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. On April 21, 2004, the Association renegotiated a new interest rate of 5.25 percent effective May 1, 2004, until September 30, 2007, at which time the interest rate shall be fixed at 2.5 percent in excess of the then-applicable three-year United States Treasury obligation rate, but in no event for any such period shall the interest rate be less than 5.25 percent or more than 8.25 percent. 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:

2006	$ 108,122
2007	113,855
2008	119,892
2009	126,250
2010	132,945
Thereafter	2,114,017
	$ 2,715,081

The credit line is unsecured and bears interest at the Wall Street Prime Rate and, if not renewed, expires November 30, 2005. There were no amounts outstanding on the line of credit at June 30, 2005.

Interest expense totaled $150,978 on the notes payable and line of credit for the year ended June 30, 2005.

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. The balance of the advance at June 30, 2005, totaled $1,001,147. The Association has agreed to repay the royalty advance with interest at the London Interbank Offered Rate (LIBOR) for three-month contracts, plus 1 percent.

NOTE 7 LEASES

The Association leases warehouse space for inventory and fulfillment, under an operating lease expiring in 2007. Minimum future rental payments, including an annual 3 percent increase, as of June 30, 2005, are as follows:

Year Ending June 30,	
2006	$ 61,346
2007	57,776
	$ 119,122

Rent expense, which includes rent, common area maintenance, and real estate taxes, was $81,403 for the year ended June 30, 2005.

In April 2005, the Association entered into a 36-month operating lease for six copiers, which expires in April 2008. Rent expense for the year ended June 30, 2005, was $9,279.

Future minimum lease payments are as follows:

Year Ending June 30,	
2006	$ 37,116
2007	37,116
2008	27,837
	$ 102,069

NOTE 8 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2005, consist of the unexpended portion of temporarily restricted contributions received by the Association. These contributions are restricted for the following programs:

Assistant Principal of the Year	$ 179,000
Leader's Guide to Adolescent Literacy	125,000
Project 540	61,580
Raising Student Voice and Participation	28,628
National Leadership Camps	16,184
Principal of the Year Relief Fund	10,000
	$ 420,392

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 include the cost of sales of publications and other inventoriable items, amounting to $2,001,643 for the year ended June 30, 2005.

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, 2005, amounted to $2,437,455, which included $2,322,065 collateralized by government-backed securities.

NOTE 13 INVESTMENT GAIN, NET

Investment income (loss) for the year consists of:

Interest & Dividends	$ 217,131
Realized Gains	53,841
Unrealized Gain on Marketable Securities	5,399
Investment Management Fees	(36,725)
	$ 239,646

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 $142,969 for 2005.

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 2005 was determined to be 7 percent of eligible compensation. Contributions totaled $457,895 for 2005.

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, 2005:

Actuarial Present Value of Accumulated Benefit Obligation	$ 13,654,299
Less Plan Assets at Fair Value	(11,883,767)
Projected Benefit Obligation in Excess of Plan Assets	$ 1,770,532

Additional pension disclosures are as follows for the year ended June 30, 2005:

Net Periodic Pension Expense	$ 628,007
Benefits Paid	$ 884,613
Employer Contributions	$ 748,000

The Plan's Assets are allocated on a weighted-average basis by asset category as follows at June 30, 2005:

Debt Securities	91%
Equity Securities	9%
Total	100%

The expected future benefit payments are as follows at June 30:

2006	$ 905,116
2007	913,159
2008	943,095
2009	950,239
2010	949,002
2011 - 2015	5,112,201
	$ 9,772,812

The provisions of Statement of Financial Accounting Standards (SFAS) Nos. 87 and 132, *Employers Accounting for Pensions*, require the Association to recognize an accrued pension liability ($1,770,532) equal to the amount by which the actuarial present value of the accumulated benefit obligation ($13,654,299) exceeds the Plan's assets at fair value ($11,883,767). An intangible pension asset is recognized to the extent of the unrecognized prior service cost of $176,886. An additional minimum pension liability, recognized as other comprehensive (income) expense, represents the adjustment to recognize the minimum liability required under SFAS 87, net of the change in unrecognized prior service costs.

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

Intangible Pension Asset	$ (176,886)
Accrued Pension Liability	
Current Portion of Accrued Pension Liability	-
Long-Term Portion of Accrued Pension Liability	1,770,532
Projected Benefit Obligation in Excess of Plan Assets	1,770,532
Net Accrued Pension Liability, End of Year	$ 1,593,646

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

Discount Rate	6.25%
Long-Term Rate of Return on Plan Assets	6.75%
Rate of Increase in Future Compensation Levels	Not Applicable

NOTE 15 POSTRETIREMENT HEALTH INSURANCE BENEFITS

The Association provides health insurance benefits for certain retired employees. Benefits provided under the plan are available to eligible retirees and other eligible former and current employees. As of March 30, 2003, the Association froze the plan, limiting the maximum reimbursement. The Association funds amounts necessary to pay annual health insurance premiums for current retirees only. In 2005, the Association funded $66,304. 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.

Net periodic postretirement benefit cost for 2005 included the following components:

Service Cost	$ 11,419
Interest Cost	45,251
Amortization of Transition Obligation	57,181
	$ 113,851