National Association of
Secondary School Principals

Annual Report 2006

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A Message to Our Members

As was the case 90 years ago when 78 principals founded the National Association of Secondary School Principals the nation's principals rally around a common notion: Every day that we wait to create learning opportunities is a day lost to those students who must meet the challenges of our time. During the past nine decades, NASSP has supported principals in providing those learning opportunities, and we continue our efforts to ensure that good principals become even better so each student will be prepared to seize his or her opportunity for success.

Your 2006 Annual Report touches on only a small portion of the innovative and effective ways that NASSP has worked with members, policymakers, and others to make a difference in the life of each student. Your membership pays great dividends in the form of award-winning publications, superior professional development opportunities, and a host of other services. Our research of and insights into best practices could not be achieved without your continued input and investment. We are pleased to report that your trust in our stewardship has again been rewarded with a healthy financial report card and an ever-better array of professional development tools from which members can choose.

NASSP's focus on middle level and high school reform has brought to fruition a number of high-profile endeavors, including the Breakthrough High Schools project that highlights the common, replicable characteristics of successful high-poverty, high-minority high schools. The reforms promoted by *Breaking Ranks II: Strategies for Leading High School Reform* are gaining additional traction thanks to our work with the National Governors Association and the Bill and Melinda Gates Foundation. Similarly, the focus on each student rather than the all-too-familiar focus on overall school or class averages led to unprecedented middle level reform efforts, including the launch of the National Center for Middle Level Leadership and the release of *Breaking Ranks in the Middle: Strategies for Leading Middle Level Reform*, a practical guide for school leaders.

NASSP's greatest commitment is to you, the member. One way we demonstrate that commitment and our appreciation of your trust in our stewardship is through our responsive governance structure and a full and complete financial audit by an outside auditor. The 2006 audit was conducted by Larson, Allen, Weishair & Co. LLP. The NASSP Board of Directors closely oversees the financial audit and meets regularly and independently with the auditors to review the audit and discuss any findings or recommendations. The auditor's report and financial statements for the year ending June 30, 2006, are included in this annual report. We are pleased to note that we closed the year with a profit of $1,315,000, the eighth consecutive year of profitable operations. Further, in its continued efforts to secure the association's future, the board increased the long-term reserves to $4,400,000.

As we close out a 2006 fiscal year steeped in achievement, we have set our sights even higher for the coming year:

- NASSP will capitalize on the high level of interest surrounding the release of *Breaking Ranks in the Middle* by continuing to develop the National Center for Middle Level Leadership. To sustain the momentum for change and to attract the attention of policymakers and the public to the importance of effective schooling for the middle grades, NASSP is working with Phi Delta Kappa International to conduct a national poll of middle level students. The poll is designed to capture students' perceptions of their middle level experiences to help inform improvement efforts.
- As the culminating activity of NASSP's 90th anniversary year, we will publish *The Changing Role of the Middle Level and High School Leader: Learning From the Past—Preparing for the Future*, a major report on the changing and diverse roles of the secondary school principal. The report will address the implications for effective leadership practices, preparation and professional development of school leaders, succession planning, policy considerations, and the future role of the secondary school leaders.
- With the debate surrounding the upcoming reauthorization of No Child Left Behind already beginning to heat up, the stakes for the nation's principals, schools, and students could not be higher. NASSP has weighed in with a series of legislative recommendations that are designed to maintain a high level of school accountability while addressing principals' concerns about NCLB implementation. NASSP will advocate for the needs of secondary schools to members of the 110th Congress by actively promoting these recommendations. In addition, NASSP continues to work collaboratively with other education groups to promote policy solutions to problems affecting middle and high school leaders: adolescent literacy, use of data, and student access to postsecondary education, to name just a few.
- NASSP continues its long-standing sponsorship and administration of the National Honor Society, National Junior Honor Society, and the National Association of Student Councils. This coming year, NASSP will launch the Raising Student Voice and Participation (RSVP) program, which provides students with opportunities to more fully participate in their schools and communities. The program will provide training to student council leaders and advisers to implement RSVP in their schools—demonstrating that leadership and service are responsibilities to be learned by the young as they prepare for their future, active roles as citizens in a democratic society.

We are proud of our accomplishments over the past year, and we look forward to new initiatives in 2007. Throughout its 90 years, NASSP has been deeply committed to representing the voice of the principal; in recent years, we have become a voice that cannot be ignored. Our focus in the coming year will be on advocating for policies that result in commonsense accountability and reform that everyone can support. Just as the principals in 1916 knew that every day that passed without addressing educational challenges was a lost opportunity for students, we also know that time is of the essence. We cannot afford to waste a moment of time—the nation's present and future depend on it. Our commitment is to help you become the best school leader you can possibly be so each student will be able to recognize and seize the opportunities that our middle level and high schools present.

Sincerely,

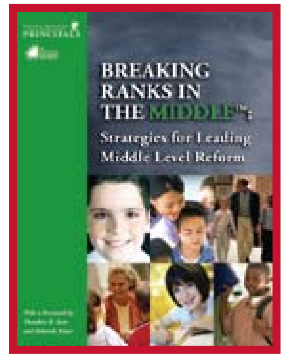
Joseph A. Militello
President, Board of Directors
National Association of
Secondary School Principals

Gerald N. Tirozzi
Executive Director of
National Association of
Secondary School Principals

Year in Review

NASSP Becomes Primary Advocate for School Reform

Breaking Ranks in the Middle Builds on Success of *Breaking Ranks II*



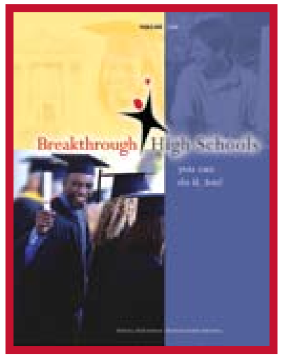
At the Reno Convention NASSP unveiled *Breaking Ranks in the Middle: Strategies for Leading Middle Level Reform,* which provides scores of valuable strategies, recommendations, and tips to middle school principals and serves as the middle level counterpart to *Breaking Ranks II: Strategies for Leading High School Reform* released in 2004. Taken individually *Breaking Ranks II* and *Breaking Ranks in the Middle* are well-designed guides for enhancing the achievement of our nation's high schools and middle level schools. Taken together, they provide a coherent set of recommendations and strategies to address secondary school reform in a comprehensive manner.

NASSP Policy Recommendations for Middle Level Reform

Following quickly on the heels of the successful release and distribution of *Breaking Ranks in the Middle* to every public middle school in the country, NASSP released a list of policy recommendations to inform policymakers about how they could support middle level reform along with specific actions that district, state, and federal policymakers can take. The list contained four overarching recommendations:

1. Recognize and support the middle grades as a unique developmental stage apart from the elementary and high school grades
2. Strengthen middle level organizational structures, instructional practices, and classroom learning environments
3. Improve middle level transitions
4. Identify and promote specialized middle level teacher and school leader competencies.

Breakthrough High Schools



Breakthrough High Schools is a unique project that features high-minority, high-poverty schools from across the country. Currently, 21 remarkable schools from across the United States have been recognized for significant increases in student achievement, as well as improving high graduation and college admissions rates.

The project was initiated by NASSP with the goal of identifying common, replicable characteristics of successful high-poverty, high-minority high schools. Nominations were accepted from across the country, and schools that met the following strict "50-50-90-90" criteria were selected:

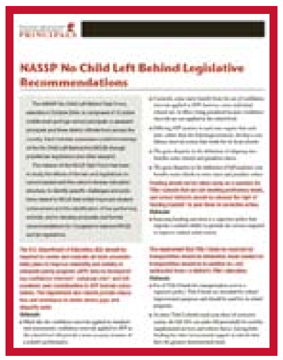
- At least 50% minority student population
- 50% who qualify for free- or reduced-price meals
- 90% graduation
- 90% postsecondary education admission rates.

A generous grant from MetLife Foundation now supports this initiative.

Gates Foundation National Constituent Group Grants

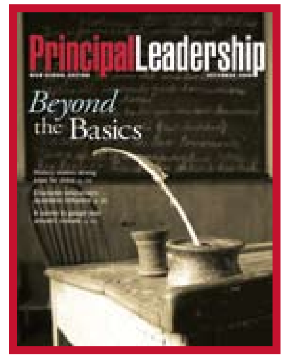
NASSP partnered with The Bill and Melinda Gates Foundation to assist the 10 National Governors Association (NGA) Phase One Honor States in their efforts to redesign high schools. The NASSP project is aligned with the NGA Center for Best Practices Honor States Program to further develop the capacity of high school leaders and their teams to implement difficult changes associated with school redesign. NASSP's provides national support for the on-going high school reform using strategies from its publications *Breaking Ranks II: Strategies for Leading High School Reform* and *Creating a Culture of Literacy*.

NCLB Legislative Recommendations


NASSP No Child Left Behind Legislative Recommendations

Relying heavily on the recommendations made by the NASSP NCLB Task Force, members and staff continue to discuss reauthorization of No Child Left Behind with Congress and other policymakers. The task force studied the effects of the law and the regulations as applied to school leaders and the nation's diverse education structure; identified specific challenges and problems related to NCLB that inhibit improved student achievement and identification of low-performing schools; and developed proposals and formal recommendations to improve NCLB and its accompanying regulations. Special areas of focus for the task force were adequate yearly progress; special education; data, assessment, and testing; teacher quality; and English language learners. The recommendations can be found at **www.principals.org/nclb.**

Award-Winning Publications



NASSP publications and print materials provide high-quality content in an attractive and useful form and continue to be recognized for editorial and design excellence. *Principal Leadership* magazine garnered several awards, including two APEX Awards, sponsored by Communications Concepts; an American Graphic Design Award; and two finalist designations in the Distinguished Achievement Awards Program of the Association of Educational Publishers. *NewsLeader, Leadership for Student Activities* magazine, the poster for National Student Leadership Week, and the professional development kit *The Informed Principal* also won awards. In addition, the advertising media kit redesign received two awards, one a Gold Award in the EXCEL Program of the Society of National Association Publications, and the NHS Leadership Store catalog won an award.

Grants and Corporate Support

NASSP is pleased that principals across the country were able to take advantage of a variety of programs that would have otherwise been impossible to support if not for the generous contributions of various corporations, foundations, and other donors. NASSP's record of success in this area and its ability to demonstrate the need for and value of specific NASSP programs bodes well for future ventures. Among the programs supported through external funding sources are resident practitioners and advisers to NASSP on Safe Schools and Business/School Partnerships; recognition programs such as the state and national Principal and Assistant Principal of the Year Awards; Raising Student Voice & Participation; Bridge Builders; Breakthrough High Schools; Spirit of Community student service recognition; *Breaking Ranks in the Middle* dissemination; and *Breaking Ranks* trainers in National Governors Association Honor States.

Board of Directors

President
Joseph A. Militello, Principal
Archie R. Cole Middle School
East Greenwich, RI

President-Elect
Barry Stark, Principal
Norris Middle School
Firth, NE

Ned Kirsch, Principal
Essex Middle School
Essex Junction, VT

Harve Tancrede, Assistant Principal
Memorial High School
Manchester, NH

R. Scott Pfeifer, Principal
Centennial High School
Ellicott City, MD

Nick T. Manolakos, Assistant Principal
Alexis I. DuPont High School
Wilmington, DE

Arthur Linder, Principal
Youth Service Center,
District of Columbia Public Schools
Washington, DC

James W. Jordan, Principal
West Brunswick High School
Shallotte, NC

Steven S. Pophal, Principal
D.C. Everest Junior High School,
Schofield, WI

Ken Griffith, Principal
Guernsey-Sunrise Jr. Sr. High School
Guernsey, WY

Brenda Weber, Principal
North High School
Evansville, IN

Douglas S. Lowery, Principal
Hilliard Memorial Middle School
Hilliard, OH

Wesley White, Principal
Russellville High School
Russellville, AR

Scott Affentranger, Principal
Rio Rancho Mid-High School
Rio Rancho, NM

Jose L. Rodriguez, Director
Secondary Schools, LAUSD, Local District 2
North Hollywood, CA

Jeffrey S. Miller, Principal
East Valley High School,
Spokane Valley, WA

Charlie J. Tolliver, Principal
Vicksburg High School
Vicksburg, MS

Dennis A. Clarke, Principal
Apalachee High School
Winder, GA

H. Gayle Gulick, Assistant Principal
South Aiken High School
Aiken, SC

Georgia Lee Taton, Principal
Kenny C. Guinn Middle School
Las Vegas, NV

Michael D. Madison, Class Principal,
Pioneer High School
Ann Arbor, MI

Jana Frieler, Principal
Overland High School
Aurora, CO

Marguerite W. Early, Principal
Hokes Bluff Middle School
Hokes Bluff, AL

Paul Stringer, Principal
Weaver High School
Hartford, CT

Executive Director
Gerald N. Tirozzi

Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Board of Directors
National Association of Secondary School Principals
Reston, Virginia, U.S.A.

We have audited the accompanying statement of financial position of National Association of Secondary School Principals as of June 30, 2006, 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, 2006, 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.

Larson, Allen, Weishair & Co., LLP

LARSON, ALLEN, WEISHAIR & CO., LLP

Arlington, Virginia, U.S.A.
September 22, 2006

2900 South Quincy Street, Suite 150, Arlington, VA 22206, 703/998-5100, Fax 703/998-5102

Larson, Allen, Weishair & Co., LLP | An Independent Member of Baker Tilly International

Financial Statements

STATEMENT OF FINANCIAL POSITION, JUNE 30, 2006

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	$2,409,025
Short-Term Investments	2,483,462
Accounts Receivable, Net	1,072,364
Inventory	687,939
Prepaid Expenses	273,371
Total Current Assets	6,926,161
NONCURRENT ASSETS	
Property and Equipment, Net	4,266,355
Board-Designated Investments	4,403,763
Intangible Pension Asset	12,589
Deposits	216,389
Total Noncurrent Assets	8,899,096
Total Assets	$15,825,257

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable	$847,937
Accrued Expenses	2,111,859
Deferred Revenue	4,214,908
Current Portion of Accrued Postretirement Benefit Cost	67,178
Current Portion of Notes Payable	113,855
Current Portion of Royalty Advance	400,000
Total Current Liabilities	7,755,737
NONCURRENT LIABILITIES	
Long-Term Portion of Accrued Pension Liability	1,925,133
Long-Term Portion of Accrued Postretirement Benefit Cost	287,263
Long-Term Portion of Notes Payable	2,495,204
Long-Term Portion of Royalty Advance	162,105
Total Noncurrent Liabilities	4,869,705
Total Liabilities	12,625,442
NET ASSETS	
Unrestricted	9,976,803
Temporarily Restricted	653,246
Permanently Restricted	39,481
Accumulated Other Comprehensive Expense	(7,469,715)
Total Net Assets	3,199,815
Total Liabilities and Net Assets	$15,825,257

See accompanying Notes to Financial Statements.

STATEMENT OF ACTIVITIES, YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUE			
Membership Dues	$8,127,597	$ –	$8,127,597
Sales and Handling Charges	7,199,055	–	7,199,055
Grants, Contracts, and Contributions	2,962,071	650,625	3,612,696
Conferences and Meetings	2,385,476	–	2,385,476
Assessment Center Fees	443,677	–	443,677
Advertising	586,191	–	586,191
Royalties	494,515	–	494,515
Travel Office Commissions	194,665	–	194,665
Other Income	856,994	–	856,994
Investment Gain, Net	339,231	–	339,231
Net Assets Released from Restrictions	417,771	(417,771)	–
Total Support and Revenue	24,007,243	232,854	24,240,097
EXPENSE			
Program Services:			
Student Services	6,270,924	–	6,270,924
Joint Programs	1,830,375	–	1,830,375
Professional Development	2,179,488	–	2,179,488
Special Services	4,073,868	–	4,073,868
Professional Status	849,878	–	849,878
Total Program Services	15,204,533	–	15,204,533
Supporting Services:			
Association Management	5,226,412	–	5,226,412
Membership Development	2,493,514	–	2,493,514
Total Supporting Services	7,719,926	–	7,719,926
Total Expense	22,924,459	–	22,924,459
CHANGE IN NET ASSETS	$1,082,784	$232,854	$1,315,638

STATEMENT OF CHANGES IN NET ASSETS, YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Accumulated Other Comprehensive Expense	Total
NET ASSETS					
Beginning of Year	$8,894,019	$420,392	$39,481	($6,963,102)	$2,390,790
CHANGE IN NET ASSETS	1,082,784	232,854	–	–	1,315,638
OTHER COMPREHENSIVE INCOME					
Minimum Pension Liability Adjustment	–	–	–	(506,613)	(506,613)
NET ASSETS					
End of Year	$9,976,803	$653,246	$39,481	($7,469,715)	$3,199,815

See accompanying Notes to Financial Statements.

STATEMENT OF CASH FLOWS, YEAR ENDED JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	$1,315,638
Reconciliation of Change in Net Assets to Net Cash Provided by Operating Activities:	
Additional Minimum Pension Liability Adjustment	(506,613)
Depreciation	643,988
Loss on Sale of Property and Equipment	657
Unrealized and Realized Gains, Net	(64,522)
Decrease in Assets:	
Accounts Receivable	761,069
Inventory	43,939
Prepaid Expenses	90,188
Intangible Pension Asset	164,297
Deposits	19,691
Increase (Decrease) in Liabilities:	
Accounts Payable	(5,540)
Accrued Expenses	223,594
Deferred Revenue	(1,264,439)
Accrued Pension Liability	189,667
Accrued Postretirement Benefit Cost	(4,195)
Net Cash Provided by Operating Activities	1,607,419
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of Board-Designated Investments	(2,638,366)
Sales of Board-Designated Investments	1,749,802
Purchases of Property and Equipment	(100,631)
Net Cash Used in Investing Activities	(989,195)
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments on Notes Payable	(106,022)
Decreases in Royalty Advance, Net	(439,042)
Net Cash Used in Financing Activities	(545,064)
NET INCREASE IN CASH AND CASH EQUIVALENTS	73,160
Cash And Cash Equivalents Beginning of Year	2,335,865
CASH AND CASH EQUIVALENTS END OF YEAR	$2,409,025
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid during the year for interest	$192,185

See accompanying Notes to Financial Statements.

Notes to Financial Statements June 30, 2006

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Organization

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, and 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.

Tax Exempt 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, 2006.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The financial statements include amounts that are based on management's best estimates and judgments. Actual results could differ from those estimates.

Financial Instruments

Financial instruments which potentially subject the Association to concentration 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.

Cash and Cash Equivalents

For the purpose of reporting cash flow, 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.

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable represent amounts due for general trade receivables, grant and contracts from private sources and membership dues in transit. The contracts and grants are earned and reported as revenues when the Association has incurred expenditures in compliance with grantor restrictions. Accounts past due are individually analyzed for collectibility. The Association provides an allowance for bad debts using the allowance method, which is based on management judgment considering historical information. When all collection efforts have been exhausted, the account is written off against the allowance for bad debts.

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.

Net Assets

Under the provision of Statement of Financial Accounting Standards (SFAS) No. 116, net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Association and changes therein are classified and reported as follows:

Unrestricted–Resources over which the Board of Directors has discretionary control. Designated amounts represent those resources which the board of directors has set aside for a particular purpose.

Temporarily Restricted–Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Association or passage of time.

Permanently Restricted–Those resources for which use has been permanently restricted by the donor.

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 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.

Measure of Operations

The Association considers the minimum pension liability adjustments to be an item not included in operations.

NOTE 2 CONCENTRATION OF RISK

Financial instruments, which potentially subject the Association to concentrations of credit risk, consist principally of overnight sweep accounts placed with a financial institution. Funds in excess of Federal Deposit Insurance Corporation (FDIC) limits totaled approximately $2,608,000 at June 30, 2006.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable consists of the following:

Trade, Net of Allowance for Doubtful Accounts of $36,000	$399,950
Grant and Contract Receivables	274,067
Membership Dues in Transit	209,244
Other, Net of Allowance for Doubtful Accounts of $118,223	189,103
	$1,072,364

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

Land and Improvements	$322,741
Building and Improvements	5,117,845
Furniture and Equipment	1,199,042
Computer Equipment and Software	2,232,216
Total	8,871,844
Less: Accumulated Depreciation	4,605,489
	$4,266,355

NOTE 5 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	$14,545
Certificates of Deposit	474,321
Mutual Funds-Fixed Income	2,449,988
Mutual Funds-Equity	495,261
Equities	969,648
Total	$4,403,763

Investment income (loss) for short term and board-designated investments for the year consists of:

Interest and Dividends	$274,709
Realized Gains	106,703
Unrealized Loss on Marketable Securities	(42,181)
Total	$339,231

NOTE 6 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

NOTE 6 NOTES PAYABLE AND LINE OF CREDIT (Continued)

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:

Year Ending June 30	Amount
2007	$113,855
2008	119,892
2009	126,250
2010	132,945
2011	139,995
Thereafter	1,976,122
Total	$2,609,059

The credit line is unsecured and bears interest at the Wall Street Prime. If not renewed, the line expires November 30, 2006. There were no amounts outstanding on the line of credit at June 30, 2006.

Interest expense totaled $143,712 on the notes payable and line of credit for the year ended June 30, 2006.

NOTE 7 ROYALTY ADVANCE

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, 2006 totaled $562,105. 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 8 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, 2006, are as follows:

Year Ending June 30	Amount
2007	$57,776

Rent expense, which includes rent, common area maintenance, and real estate taxes, was $81,535 for the year ended June 30, 2006.

In April 2005, the Association entered into a 36 month operating lease for six copiers, which expires in April 2008. Rent expense, which includes rent, paper, supplies and maintenance, was $82,453, for the year ended June 30, 2006.

Future minimum lease payments are as follows:

2007	$60,432
2008	45,324
Total	$105,756

NOTE 9 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at June 30, 2006, 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
Keith Taton Memorial Fund	11,625
Principal of the Year	173,484
Project 540	6,460
Raising Student Voice and Participation	17,677
Bridge Builders	250,000
Principal of the Year Relief Fund	15,000
Total	$653,246

NOTE 10 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 11 COST OF SALES

Program services expenses include the cost of sales of publications and other items includable as inventory, amounting to $2,052,910 for the year ended June 30, 2006.

NOTE 12 COMMITMENTS AND CONTINGENCIES

The Association has entered into several agreements with hotels for room and conference accommodations for its meetings through 2009. These agreements indicate the Association is liable for liquidated damages in the event of cancellation. At June 30, 2006 the Association commitments for possible liquidated damages totaled approximately $1,887,077. Currently, the Association has no plans to cancel conventions or meetings that would occur in the future and result in liquidated damages.

NOTE 13 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 $161,533 for 2006.

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 2006 was determined to be 7 percent of eligible compensation. Contributions totaled $438,714 for 2006.

Prior to June 30, 1998, the Association maintained a defined benefit pension plan (the Plan) for eligible employees. As of

NOTE 13 PENSION PLANS
(Continued)

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, 2006:

Actuarial Present Value of Accumulated Benefit Obligation	$(13,881,818)
Less: Plan Assets at Fair Value	11,956,685
Projected Benefit Obligation in Excess of Plan Assets	$(1,925,133)

Additional pension disclosures are as follows for the years ended June 30, 2006:

Net Periodic Pension Expense	$667,788
Benefits Paid	$885,216
Employer Contributions	$1,105,500

The Plan's Assets are allocated on a weighted-average basis by asset category as follows at June 30 2006:

Debt Securities	88%
Equity Securities	12%
Total	100%

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

2007	$954,637
2008	969,672
2009	967,086
2010	960,578
2011	1,006,833
2012-2015	5,352,634
Total	$10,211,440

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 ($1,925,133) equal to the amount by which the actuarial present value of the accumulated benefit obligation ($13,881,818) exceeds the Plan's assets at fair value ($11,956,685). An intangible pension asset is recognized to the extent of the unrecognized prior service cost of $12,589.

NOTE 13 PENSION PLANS
(Continued)

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	$(12,589)
Accrued Pension Liability	
Current Portion of Accrued Pension Liability	–
Long-Term Portion of Accrued Pension Liability	1,925,133
Projected Benefit Obligation in Excess of Plan Assets	1,925,133
Net Accrued Pension Liability, End of Year	$1,912,544

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

Discount Rate	6.11%
Long-Term Rate of Return on Plan Assets	7.50%
Rate of Increase in Future Compensation Levels	None Assumed

NOTE 14 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 2006, the Association funded $71,348. 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 2006 included the following components:

Service Cost	12,946
Interest Cost	54,846
Amortization of Transition Obligation	57,181
Amortization of Prior Service Cost	(22,755)
Total	$102,218

The actuarially-calculated funded status of the Plan at June 30, 2006 is reconciled with the amount shown in the statement of financial position at that date as follows:

Accumulated Postretirement Benefit Obligation	$(910,153)
Plan Assets at Fair Value	–
Funded Status	(910,153)
Unrecognized Net Actuarial Loss	41,137
Unrecognized Transition Obligation	514,575
Accrued Postretirement Benefit Cost	$(354,441)

NOTE 14 POSTRETIREMENT HEALTH INSURANCE BENEFITS

(Continued)

The assumptions used in the actuarial computations are as follows:

Weighted Average Discount Rate	6.25%

Assumed Health Care Cost Trend Rate for Future Years

2007	6.00%
2008	5.50%
2009 and Later Years	5.00%

The impact of a 1.0% increase and decrease in the health care inflation rate would be $12,591 and ($13,901) upon the postretirement benefit obligation, respectively, and $758 and ($844) upon the service cost and interest cost, respectively, for the year ended June 30, 2006.

National Association of Secondary School
PRINCIPALS

1904 Association Drive
Reston, VA 20191-1537
www.principals.org