

# Independent Auditor's Report

The Board of Directors  
American Association For  
Artificial Intelligence  
Menlo Park, California

We have audited the statement of financial position of American Association for Artificial Intelligence as of December 31, 1996 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 audits.

We conducted our audits in accordance with generally accepted auditing standards. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of American Association for Artificial Intelligence as of December 31, 1996 and the results of operations and cash flows for the year then ended, in conformity with generally accepted accounting principles.

As described in Note 1A to the financial statements, the Association changed its method of accounting for investments from "original cost" to "fair market value" as required by the provisions of Financial Accounting Standard No. 124.

*Robert H. Burnham, CPA*  
March 5, 1997

## Statement of Financial Position December 31, 1996

### Assets

#### CURRENT ASSETS:

Cash & Equivalents	\$ 341,242
Investments - Stated at Fair Market Value (Note 1A & 3)	8,862,637
Accounts Receivable - Trade	15,789
Inventory	265,482
Prepaid Expenses & Advances	6,535
Prepaid Expenses - Future Events	<u>50,903</u>

**TOTAL CURRENT ASSETS** 9,542,588

Furniture, Fixtures & Equipment, Net (Note 1-C) 48,001

Deposits 5,279

\$9,595,868

### Liabilities and Net Assets

#### CURRENT LIABILITIES:

Accounts Payable and Accrued Expenses	\$ 48,191
Unearned Membership Fees (Note 4)	222,868
Due Other Organizations	<u>43,992</u>

**TOTAL CURRENT LIABILITIES** 315,051

Net Assets - Unrestricted 9,280,817

\$9,595,868

## Notes to Financial Statements, December 31, 1996

### Note 1: Summary of Significant Accounting Policies

#### A. Method of Accounting:

The financial statements are presented on the accrual basis of accounting.

Effective for 1996 the Association has changed its method of accounting for investments from "original cost" to "fair market value" as required by the provisions of newly enacted Statement of Financial Accounting Standards No. 124. The cumulative effect of the change in accounting principle

from the prior year is shown as an extraordinary item on the statement of Activities for the year ended December 31, 1996. Since investments are stated at fair market value realized and unrealized gains and losses are combined on the statement of activities where in past years only realized gains and losses were shown.

#### B. Inventory:

Magazine, proceedings, conference books and publications in process inventory is valued at the lower of cost or market value as of December 31, 1996

#### C. Furniture, Fixtures and Equipment:

Furniture, fixtures and equipment are

## Statement of Activities and Changes in Net Assets for the Year Ended December 31, 1996

Changes in Net Assets: Gross Profit (Loss), By Activity:

<i>AI Magazine</i> Revenue (Note 4)	\$ 11,878	
<i>AI Magazine</i> Expenses	<u>(181,952)</u>	(170,074)
Memberships Revenue (Note 4)	340,904	
Memberships Expenses	<u>(140,289)</u>	200,615
AAAI Press Revenue	211,914	
AAAI Press Cost of Sales	<u>(140,279)</u>	71,635
Spring Symposium '96 Revenue	78,356	
Symposium Expenses	<u>(60,978)</u>	17,378
Fall Symposium '96 Revenue	54,965	
Symposium Expenses	<u>(53,085)</u>	1,880
Conference on Knowledge Discovery and Data Mining Revenue	123,218	
Conference Expenses	<u>(90,834)</u>	32,384
AAAI '96 Revenue	352,526	
AAAI '96 Expenses	<u>(405,439)</u>	(52,913)
'96 Tutorials Revenue	68,680	
Tutorials Expenses	<u>(53,336)</u>	15,344
'96 Exhibits Revenue	38,450	
Exhibits Expenses	<u>(29,259)</u>	9,191
Royalty Income & Reprint Permissions		2,257
Interest & Dividend Income		348,201
Realized & Unrealized Gains on Investments (Note 1A)		459,381
Investment Management Fees		(82,353)
Grants & Scholarships Expended		(114,780)
Prior Year Scholarship Refunded		2,286
Miscellaneous & Other, Net		<u>(95)</u>
Gross Profit, Combined		740,337
Operating Expenses		<u>(361,813)</u>
Net Increase in Net Assets (Before Extraordinary Item)		378,524
Cumulative Effect of Change in Accounting Principle (Note 1A):		
Unrealized Gains on Investments at December 31, 1995		<u>1,822,192</u>
Net Increase in Net Assets (After Extraordinary Item)		2,200,716
Net Assets - January 1, 1996 (As Originally Stated with Investments at Cost)		<u>7,080,101</u>
Net Assets - December 31, 1996 (Stated with Investments at Fair Mkt. Value)		<u>\$9,280,817</u>

stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over estimated useful lives of five to ten years. Furniture, fixtures and equipment consist of the following at December 31, 1996.

Cost	\$ 350,376
Accumulated depreciation	<u>(302,375)</u>
Net	<u>\$ 48,001</u>

### D. Income Taxes:

American Association for Artificial Intelligence is exempt from income taxes on its earning from investments and its exempt function operations under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Federal and California taxes were paid during 1996 on earnings from sales of mailing lists and advertising.

### Note 2: Operations

The American Association for Artificial Intelligence (AAAI) was formed in 1979 as a scientific society, to encourage the basic knowledge of what constitutes intelligent thought and behavior and how it can be exhibited in computers. This is accomplished by the *AI Magazine*, the publications of the AAAI Press, the National Conference on Artificial Intelligence (NCAI), the Conference on Innovative Applications of Artificial Intelligence (IAAI), the International Conference on Knowledge Discovery and Data Mining, the Mobile Robot Competition, the Symposium Series, and the AAAI Workshop Program. In addition, AAAI has an extensive program for student scholarships, women and minority grants, and sponsorship of independent workshops and conferences. Finally, AAAI's World Wide Web Site serves as a central resource for individuals involved in AI research.

### Note 3: Investments at December 31, 1996

Investments are stated at fair market value since it is readily determinable and the investments are not necessarily being held to any maturity. Real-

# Expertise in Context

## Human and Machine

*Edited by Paul J. Feltovich,  
Kenneth M. Ford, and  
Robert R. Hoffman*

Computerized "expert systems" are among the best known applications of artificial intelligence. But what is expertise? The nature of knowledge and expertise, and their relation to context, is the focus of active discussion — even controversy— among psychologists, philosophers, computer scientists, and other cognitive scientists. The questions reach to the very foundations of cognitive theory — with new perspectives contributed by the social sciences. These debates about the status and nature of expert knowledge are of interest to and informed by the artificial intelligence community — with new perspectives contributed by "constructivists" and "situationalists." The twenty-three essays in this volume discuss the essential nature of expert knowledge, as well as such questions such as how "expertise" differs from mere "knowledge," the relation between the individual and group processes involved in knowledge in general and expertise in particular, the social and other contexts of expertise, how expertise can be assessed, and the relation between human and computer expertise.

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### Statement of Cash Flows for the Year Ended December 31, 1996

#### Cash Flows From Operating Activities:

Net Increase in Net Assets	\$2,200,716
Adjustments to Reconcile Change in Net Assets to Net Cash Flows From Operations:	
Depreciation Expense	21,810
Net Decrease in Accounts Receivable	13,118
Net Increase in Inventory	(23,221)
Net Increase in Prepaid Expenses	(2,026)
Net Increase in Accounts Payable	7,407
Net Decrease in amounts Due to Other Organizations	(166,141)
Net Decrease in Unearned Membership Fees	(4,575)
Net Unrealized and Realized Gains on Investments	(459,381)
Extraordinary Item - Unrealized Gains at December 31, 1995	<u>(1,822,192)</u>
Net Cash Flows From Operating Activities	<u>(234,485)</u>

#### Cash Flow From Investing Activities:

Purchase of Furnishings & Equipment, Net of Dispositions and Retirements	(13,586)
Purchase of Investments, Net of Sales of Investments	<u>(303,527)</u>
Net Cash Flow From Investing Activities	<u>(317,113)</u>
Net Increase (Decrease) in Cash & Equivalents	(551,598)
Cash & Equivalents - January 1, 1996	<u>892,840</u>
Cash & Equivalents - December 31, 1996	<u>\$ 341,242</u>

ized and unrealized gains and losses are reported in the statement of activities.

#### Investment activity for 1996 is as follows:

Investments - Beginning of year (At fair market value)	\$ <u>8,099,729</u>
Unrealized & Realized gains	459,381
Interest & Dividends	<u>306,503</u>
Total Return On Investments	765,884
Purchases of Investments	13,802,465
Sales of Investments	(13,498,938)
Interest & Dividends deposited to Cash & Equivalents	<u>(306,503)</u>
Investments - End of Year	<u>\$ 8,862,637</u>

#### Investments consist of the following at 12-31-96:

U.S. Treasury Notes	\$ 2,139,678
U.S. Guaranteed Mortgages	204,177
Common Stocks	<u>6,518,782</u>
Total Investments - Unrestricted	<u>\$ 8,862,637</u>

#### Note 4: Memberships

Annual membership in the American Association for Artificial Intelligence is \$50 for individuals, \$20 for student members, and \$75 for library subscriptions. Twenty five dollars is added to the above for other than U.S. and Canadian members. Three, five year, and lifetime memberships are also available. All Revenue from memberships is included in the AI Memberships gross profit center. Revenues from membership fees are earned ratably over the respective membership period. Lifetime membership fees are recognized as income over ten years.