

Korea Accounting Institute

**Financial Statements
December 31, 2008 and 2007**

Korea Accounting Institute
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December 31, 2008 and 2007

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Report of Independent Auditors

To the Board of Directors and Members of
Korea Accounting Institute

We have audited the accompanying balance sheets of Korea Accounting Institute (KAI) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended, expressed in Korean won. These financial statements are the responsibility of the KAI's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in conformity with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audits 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 Korea Accounting Institute as of December 31, 2008 and 2007, and the results of its activities and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the Republic of Korea and the Guide to Presentation of Financial Statements of Not-for-Profit Organizations.

Samil PricewaterhouseCoopers

Accounting principles and auditing standards and their application in practice vary among countries. The accompanying financial statements are not intended to present the financial position, results of activities and cash flows in conformity with accounting principles and practices generally accepted in countries and jurisdictions other than the Republic of Korea. In addition, the procedures and practices used in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those who are informed about Korean accounting principles or auditing standards and their application in practice.

Seoul, Korea
February 26, 2009

This report is effective as of February 26, 2009, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Korea Accounting Institute
Balance Sheets
December 31, 2008 and 2007

(in thousands of Korean won)

	2008		2007
Assets			
Current assets			
Cash and cash equivalents	₩ 603,832	₩	369,907
Account receivable, net of allowance for doubtful accounts of ₩142,500 (2007: ₩160,500) (Note 5)	180,121		99,412
Current portion of long-term financial instrument (Note 8)	35,000		-
Other current assets	47,181		30,952
Total current assets	866,134		500,271
Legal contribution deposit (Notes 6 and 7)	6,158,465		5,598,665
Long-term financial instrument (Note 8)	-		20,000
Property and equipment, net (Note 9)	394,143		25,231
Guarantee deposits (Note 3)	168,612		933,263
Total assets	₩ 7,587,354	₩	7,077,430
Liabilities and Net Assets			
Current liabilities			
Accrued expenses	₩ 29,350	₩	16,407
Income taxes payable	-		1,381
Withholdings	27,590		54,107
Short-term borrowings (Note 7)	540,000		540,000
Total liabilities	596,940		611,895
Net assets			
Unrestricted (Note 4)	831,949		866,870
Permanently restricted (Note 6)	6,158,465		5,598,665
Total net assets	6,990,414		6,465,535
Total liabilities and net assets	₩ 7,587,354	₩	7,077,430

The accompanying notes are an integral part of these financial statements.

Korea Accounting Institute
Statements of Cash Flows
December 31, 2008 and 2007

(in thousands of Korean won)

	2008	2007
Cash flows from operating activities		
Cash increase from member contributions	₩ 1,211,100	₩ 1,827,900
Cash increase from legal contribution	1,306,200	775,385
Cash received from education and publication	33,950	90,357
Interest income	304,940	209,829
Miscellaneous revenues	7,109	139,150
Cash paid to employees	(2,182,788)	(2,038,636)
Research expenses	(329,127)	(277,260)
Administrative expenses	(434,294)	(609,697)
Training expenses	(19,050)	(23,721)
Interest expenses	(19,103)	(1,000)
Miscellaneous losses	(826)	-
Income tax expenses	(1,381)	-
Net cash provided by (used in) operating activities	<u>(123,270)</u>	<u>92,307</u>
Cash flows from investing activities		
Decrease in short-term financial instruments	20,000	-
Collection of guarantee deposits	929,875	790,125
Disposal of property and equipment	1,153	-
Increase in short-term financial instruments	(35,000)	(20,000)
Increase in guarantee deposits	(165,223)	-
Purchase of property and equipment	(393,610)	(6,127)
Increase in legal contribution deposits	(559,800)	(1,027,015)
Net cash used in investing activities	<u>(202,605)</u>	<u>(263,017)</u>
Cash flows from financing activities		
Cash increase from legal contribution	559,800	417,515
Net cash provided by financing activities	<u>559,800</u>	<u>417,515</u>
Net increase in cash and cash equivalents	233,925	246,805
Cash and cash equivalents		
Beginning of the year	369,907	123,102
End of the year	<u>₩ 603,832</u>	<u>₩ 369,907</u>

The accompanying notes are an integral part of these financial statements.

Korea Accounting Institute

Notes to Financial Statements

December 31, 2008 and 2007

1. Korea Accounting Institute

The Korea Accounting Institute (hereinafter referred to as KAI) was established through a resolution of the first general meeting on June 30, 1999, a 13-member committee whose members include the Financial Supervisory Service, Korea Exchange, Federation of Korean Industries, Korea Securities Dealers Association, Korea Federation of Banks, Korean Institute of Certified Public Accountants and others. The said resolution mandates KAI to create, revise, and interpret accounting standards. KAI was formally registered on August 27, 1999, with the approval of Financial Supervisory Commission, and was launched on September 1, 1999.

On July 27, 2000, the Article 13 of the Act on External Audit of Corporations, as amended on January 12, 2000, and the Article 7-2 of the Enforcement Decree of the said Act took effect, giving KAI the mandate to create and revise the accounting standards as well as interpret and respond to queries regarding these standards. The Korea Accounting Standards Board (KASB) in KAI carries out such duties. The KASB consists of chairman, who is the president of KAI, a standing member, and five non-standing members. KAI also engages in other related activities including the dissemination of accounting standards, communicating with the International Accounting Standards Board (IASB), conducting seminars for accounting standards, research and improvement of accounting transparency and reliability and publication of the accounting standards and related information.

The members of KAI as of 31 December 2008 are Korea Exchange, Korea Listed Companies Association, Korea Federation of Banks, Korea Securities Dealers Association, Asset Management Association of Korea, Korea Life Insurance Association, General Insurance Association of Korea, Federation of Korean Industries, Korean Institute of Certified Public Accountants, Financial Supervisory Service, Korea Chamber of Commerce & Industry, Korea Accounting Association, KOSDAQ Listed Companies Association, Korea Federation of Small and Medium Business(14 organizations).

2. Summary of significant accounting policies

KAI prepares statutory financial statements in conformity with accounting principles generally accepted in the Republic of Korea and the Guide to Presentation of Financial Statements for Not-for-Profit Organization.

The significant accounting policies followed by KAI in the preparation of its financial statements are summarized below.

Revenue recognition

Revenue from contributions of members or other forms of contributions allowed under the law is recognized at the time the contribution is to be made. Other revenues form services are recognized when services are rendered.

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Notes to Financial Statements
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Depreciation

Depreciation is computed using the straight-line-method over the estimated useful lives of the assets as follows:

	<u>Estimated useful lives</u>
Computers	3 years
Others	5 years

Costs and expenses

Costs and expenses are recognized on an accrual basis.

Allowance for doubtful accounts

KAI provides an allowance for doubtful accounts and notes receivable based on the estimated collectability.

3. Operating lease agreement

KAI has entered into a lease agreement for a building which is accounted for as an operating lease. Rental expense charged to operations for the year ended December 31, 2008 amounted to ₩ 95,866 thousand(2007: ₩ 83,844 thousand). Future lease payments under the operating lease arrangement are as follows:

<i>(in thousands of Korean won)</i>	2008	2007
Less than 1 year	₩ 225,720	₩ 83,844
1 year - 2 years	225,720	-
	<u>₩ 451,440</u>	<u>₩ 83,844</u>

4. Contribution upon organization

The members of KAI agreed to contribute a total of ₩1,350 million upon its organization in 1999 and the contributions had been made by 2002.

5. Revenue and receivable from member contributions

Revenue from member contributions is the amount committed by members. Revenue for the year ended December 31, 2008 is ₩1,410 million (2007: ₩1,850 million).

As of December 31, 2008, KAI recognized ₩142,500 thousand (2007: ₩160,500 thousand) as allowance for accounts receivable, which had not been paid as of the balance sheet date.

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6. Legal contribution and legal contribution revenue

In accordance with the Clause 6 of Article 13 and the Clauses 3 of the Enforcement Ordinance 7-2 of the Act on External Audit of Corporations, KAI is supported by 5% of the securities issuance cost contribution levied by Financial Supervisory Service according to the Item 2 of Clause 1 of Article 206-8 of the Securities and Exchange Act. And under the Clause 4 of Article 7-2 of the Enforcement Ordinance of the said Act, KAI recognized 30% of the contribution stated above as permanently restricted net asset amounting to ₩6,158,465 thousand (legal contribution fund) and as investments amounting to ₩6,158,465 thousand (legal contribution deposit) and the rest as revenue from Not-for-profit business (legal contribution revenue). KAI is allowed to use legal contribution deposit only when it has permission to use from Financial Supervisory Service and meet the conditions stated on the Clause 5 of Article 7-2 of the Enforcement Ordinance of the Act on External Audit of Corporations.

7. Short-term borrowings

Short-term borrowings as of December 31, 2008 and 2007 consist of the followings:

<i>(in thousands of Korean won)</i>	Interest rate(%)	2008	2007
Korea Exchange Bank	6.39	₩ 540,000	₩ 540,000

In connection with the above short-term borrowings from Korea Exchange Bank, ₩1,000,000 thousand of legal contribution deposit has been pledged as collateral.

8. Current portion of long-term financial instrument

Long-term financial instrument as of December 31, 2008 consists of the followings:

<i>(in thousands of Korean won)</i>	Interest rate(%)	2008	Description
Woori Bank	5.61	₩ 35,000	For conference scheduled in 2009

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9. Property and equipment

Changes in property and equipment for the years ended December 31, 2008 and 2007 are as follows:

	2008			
<i>(in thousands of Korean won)</i>	Office equipment	Furniture	Computers	Total
Beginning balance	₩ 1	₩ 438	₩ 24,792	₩ 25,231
Acquisition	353,961	9,389	30,260	393,610
Disposal	(1)	(2)	(518)	(521)
Depreciation	(5,879)	(278)	(18,020)	(24,177)
Ending balance	<u>₩ 348,082</u>	<u>₩ 9,547</u>	<u>₩ 36,514</u>	<u>₩ 394,143</u>

	2007			
<i>(in thousands of Korean won)</i>	Office equipment	Furniture	Computers	Total
Beginning balance	₩ 1	₩ 615	₩ 35,745	₩ 36,361
Acquisition	-	-	6,127	6,127
Disposal	-	-	-	-
Depreciation	-	(177)	(17,080)	(17,257)
Ending balance	<u>₩ 1</u>	<u>₩ 438</u>	<u>₩ 24,792</u>	<u>₩ 25,231</u>

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10. Income taxes

There is no income tax to be imposed on the not-for-profit business, as KAI is a tax-exempted organization for the year ended December 31, 2008. There are no income tax expenses for the profit business (2007: ₩1,381 thousand).

Reconciliations from income before income tax expenses to taxable income for the years ended December 31, 2008 and 2007 are as follows:

<i>(in thousands of Korean won)</i>	2008	2007
Profit business income	₩ (16,572)	₩ 19,320
Not-for-profit business reserve	(20)	(9,666)
Loss carried over from the prior year	-	-
Taxable income(loss)	<u>₩ (16,592)</u>	<u>₩ 9,654</u>

Effective income tax rate for the years ended December 31, 2008 and 2007 are as follows:

<i>(in thousands of Korean won)</i>	2008	2007
Income tax expenses	₩ -	₩ 1,381
Income before income taxes	<u>(16,572)</u>	<u>19,320</u>
Effective tax rate	<u>-</u>	<u>7.15%</u>

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11. Operating revenue and expenses

Operating revenue and expenses for the years ended December 31, 2008 and 2007 consist of the followings:

<i>(in thousands of Korean won)</i>	2008	2007
Operating revenue		
Not-for-profit business revenue		
Member contributions	₩ 1,410,000	₩ 1,850,000
Legal contribution	1,306,200	775,385
	2,716,200	2,625,385
Profit business revenue		
Education and publication revenue	31,600	90,358
Interest income	21	11
Miscellaneous gains	405	-
	32,026	90,369
	₩ 2,748,226	₩ 2,715,754

<i>(in thousands of Korean won)</i>	2008	2007
Not-for-profit business expense		
Payroll		
Salaries for full-time employees	₩ 1,781,203	₩ 1,697,974
Other payroll and employee benefits	343,982	291,912
Administrative expenses		
Rent	188,362	-
Maintenance expenses	51,127	244,722
Bad debt expenses	142,500	160,500
Service charge	26,274	27,577
Other	194,288	176,899
Research expenses		
Research expenses of committees	125,198	130,222
Training expenses	76,988	65,145
Research expenses of external consignment	59,937	52,579
Conference expenses	10,312	7,464
Other	66,948	99,144
	3,067,119	2,954,138
Profit business expense		
Payroll	30,100	48,750
Training expenses	18,476	22,298
Income taxes	-	1,381
	48,576	72,429
	₩ 3,115,695	₩ 3,026,567

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Compensation expenses for not-for-profit business and profit business for the years ended December 31, 2008 and 2007, consist of

<i>(in thousands of Korean won)</i>	2008	2007	Description(Current year)
Full-time employees' salary	₩ 1,811,303	₩ 1,746,724	president(1), vice-president(1), researchers(16),
Part-time experts' salary	157,500	157,500	administrators(4) and part-time based members(5) of
Other employee benefits	186,482	134,412	KASB
	<u>₩ 2,155,285</u>	<u>₩ 2,038,636</u>	

Individuals who donated their services are as follows:

Jun-Woo Kim(Deloitte Anjin LLC), Jeong-Hyeok Park(Samsung Life Insurance Co. Ltd.), Sang-Wook Oh(Samil PricewaterhouseCoopers), Dong-Sun Jung(Ernst&Young Han Young)

12. Statements of cash flows

Reconciliation of increase in net assets and cash flows from operating activities are as follows:

<i>(in thousands of Korean won)</i>	2008	2007
Net increase in net assets	₩ 524,879	₩ 509,520
Adjustment to reconcile net increase in net assets to net cash provided by operating activities		
Bad debt expense	142,500	160,500
Depreciation	24,177	17,257
Loss on disposal of property and equipment	199	-
Legal contribution revenue	(559,800)	(417,515)
Gain on disposal of property and equipment	(810)	-
Miscellaneous gains	(220)	-
	<u>(393,954)</u>	<u>(239,758)</u>
Changes in operating assets and liabilities		
Increase in accounts receivable	(223,009)	(216,322)
Increase in other current assets	(16,230)	(5,128)
Increase in withholdings	(26,517)	29,036
Increase in accrued expenses	12,942	14,479
Increase in income taxes payable	(1,381)	480
	<u>(254,195)</u>	<u>(177,455)</u>
Cash flows provided by (used in) operating activities	<u>₩ (123,270)</u>	<u>₩ 92,307</u>

13. Approval of the financial statements

The board of directors of KAI approved the financial statements on February 26, 2009.