UNION OF THE BALTIC CITIES

AUDITOR'S REPORT

for 2012

A. GENERAL INFORMATION

Union of the Baltic Cities was established in 1991. Registration of the Union at the Province Court of Gdansk, XII Economic Department, National Court Register, Register of Associations and other Social and Professional Organisations under No. KRS: 0000005342. The Union's taxation identity number NIP is 583-10-66-139 and REGON is 190048545.

Over 100 cities from 10 Baltic Sea countries were associated in the Union of the Baltic Cities in 2012.

The objective of the Union of the Baltic Cities is to develop co-operation and exchange of information between members of the Union. The Union does not conduct business activity and is supported from members' dues. Income of the Union is tax-free.

The audit was performed by a chartered auditor - Jadwiga Zemlo, No. 4615 of the register kept by National Board of Chartered Auditors in Warsaw, on the strength of contract No. 1/2011 of 5 April 2011, concluded between Uslugi Ksiegowe - Bilans, of Gdansk, and the Union of the Baltic Cities.

B. BOOKS

The books are kept by Stowarzyszenie Ekspertow Ksiegowych i Podatkowych Spolka z o.o. [Association of Chartered Auditors and Tax Experts, Co. Ltd.], of Gdansk, ul. Aldony 17.

The chart of accounts was developed basing on the standard chart of accounts for social and professional organisations, associations and endowments, issued by the Association of Accountants of Poland.

The above said chart of accounts ensures the accounts being kept in compliance with the

provisions of the Accounting Act of 29 September 1994 (Journal of Laws, No. 152, item 1323 from 2009). The rules contained in the chart of accounts are consistently adhered to.

The books are kept by means of a computer, using Symfonia – Finanse i Rachunkowosc 5,00 software. The records kept make it possible to obtain necessary data on incomes and costs and comply with the requirements set up in the Accounting Act. A statement of movement and balances on synthetic and analytical accounts being a basis for the drawing up of balance sheet and profit and loss account was made as on 31 December 2012.

Accounting documents are complete and adequate, checked from accounting and material point of view. The documents are stored correctly.

The closing balance sheet of the year 2011 was entered in the books as the opening balance sheet as on 1 January 2012. Denomination was carried out properly.

The loss for the year 2011, amounting to PLN 166 055,76 was booked to decrease the statutory fund.

C. FINANCIAL STATEMENT

Financial statement of the Union of the Baltic Cities includes:

- balance sheet as on 31 December 2012, on the assets and liabilities side showing the amount of PLN 511 836,09.

- profit and loss account for the period covering the time from 1 January to 31 December 2012, showing the loss amounting to PLN 74 260,42.

- additional information

The financial statement was prepared in accordance with provisions of the ordinance of the Minister of Finance of 15 November 2001, on detailed rules for the accounting of entities not conducting business activity (Journal of Laws No. 137, item 1539 of the year 2002 and No. 11, item 117 of the year 2003).

The audited year concerns the following 12 months of the year 2012 and the previous year concerns the following 12 months of the year 2011, and 12 following months of 2010.

Summary balance sheet for the period 2012-2010 (in thousands PLN)

Specification	State at the end of the year						Changes 2012/2011
	2012		2011		2010		
	Amount	%	Amount	%	Amount	%	%
1	2	3	4	5	6	7	8
ASSETS							
A. Fixed assets	0	0,00%	0	0,00%	0	0,00%	0,00%
B. Current assets	509	99,41%	555	98,40%	703	94,87%	91,71%
C. Short-term prepayments	3	0,59%	9	1,60%	38	5,13%	33,33%
Total	**512**	**100,00%**	**564**	**100,00%**	**741**	**100,00%**	**90,78%**
LIABILITIES							
A. Statutory funds	477	93,16%	551	97,70%	717	96,76%	86,57%
B. Accounts payable	35	6,84%	13	2,30%	24	3,24%	269,23%
Total	**512**	**100,00%**	**564**	**100,00%**	**741**	**100,00%**	**90,78%**

Summary profit and loss sheet for the period 2012-2010 (in thousands PLN)

Specification	Period (years)			Changes 2010/2009
	2012	2011	2010	%
1	2	3	4	5
Income from statutory activities, dues	950	892	870	106,50%
Costs of execution of statutory tasks	748	959	562	78,00%
Profit/ loss from statutory activities	**202**	**-67**	**308**	**-301,49%**
Management costs	298	293	290	101,71%
Other income	32	56	6	57,14%
Other costs	0	0	0	0,00%
Income from financial operations	9	138	7	6,52%
Costs of financial operations	19	0	35	0,00%
Gross profit/ loss	**-74**	**-166**	**-4**	**44,58%**

Total income	**991**	**1 086**	**883**	**91,25%**
Total costs	**1 065**	**1 252**	**887**	**85,06%**

D. ASSESMENT OF THE CORRECTNESS OF THE BOOKS

- ***Fixed Assets*** include computer sets ;

• original value	8 839,14 zł
• depreciation	8 839,14 zł
• **net value**	**0,00 zł**

Balance correct;

2. Current assets comprise:

• short-term dues	0,00 zł
• short-term investments	509 040,93 zł
• **Total**	**509 040,93 zł**

The amount of cash follows from cash report 12/12 of 31.12.2012 and banking statement as of 31.12.2012, including accrued interest on deposits in the amount of PLN 1 346,08 confirmed by the Bank. The bookings were made correctly.

3. *Short-term prepayments* **2 795,16 zł**

concern costs of 2013

4. ***Funds*** comprise*:*

• statutory fund	551 263,81 zł
• cost surplus	-74 260,42 zł
• **Total**	**477 003,39 zł**

The statutory fund was created properly from income surplus to the costs for the period of operation.

5. Short-term Liabilities:

• on the score of supplies, work and services	32 555,17 zł
• to the state budget	2 277,53 zł
• **Total**	**34 832,70 zł**

The balances are correct, accounted in 2013. Bookings were made correctly.

E. PROFIT AND LOSS ACCOUNT

1. Costs Borne

• costs of execution of statutory tasks		747 817,19 zł
• management costs		298 387,21 zł
including: - external services	102 474,17 zł	
- consumption of materials and power	3 107,73 zł	
- remunerations	192 788,31 zł	
- other costs	17,00 zł	
• costs of financial operations		19 423,05 zł
• other costs		0,00 zł
Total costs		**1 065 627,45 zł**

The costs borne was booked correctly, concern 2012.

2. Income

• income from statutory activities		950 106,87 zł
including: - dues (fees)	950 106,87 zł	
- other statutory income	0,00 zł	
• income from financial operations		8 894,32 zł
• other income		32 365,84 zł
Total income		**991 367,03 zł**

The income received was booked correctly, concern 2012.

3. Loss on operation	**-74 260,42 zł**

Annual settlement on CIT-8 form was filed with the Fiscal Office.

F. SUMMARY OF THE AUDIT

Accounting of the Union of the Baltic Cities is kept in accordance with provisions of the Minister of Finance of 18 November 2001 for the rules of accountancy for the non-profit organisations (Journal of Laws No. 137, item 1539 of the year 2002 and No. 11, item 117 of the year 2003). Incomes and costs are correct, the principle of continuity is maintained and the financial result for 2010 is reflected truly and fairly.

The information presented is contained in 6 numbered pages. Each of the pages was marked with the auditor's name put next to the number of the page.

mgr *Jadwiga Zemło*

Biegły Rewident
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