

REACT INTERNATIONAL, INC.
Chicago, Illinois

FINANCIAL STATEMENTS
DECEMBER 31, 2012

Rojas & Associates, CPAs

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To the Board of Directors
React International, Inc.
Chicago, Illinois

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

We have reviewed the accompanying statement of financial position of React International, Inc. (a nonprofit organization) as of December 31, 2012, and the related statements of activities and cash flows for the year then ended. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Organization management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

ROJAS & ASSOCIATES, CPAs

Rojas & Associates, CPAs

Los Angeles, California
May 17, 2013

REACT INTERNATIONAL, INC.
Chicago, Illinois

STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2012

ASSETS

CURRENT ASSETS	
Cash	\$ 8,787
Accounts receivable	378
Inventory	1,588
Prepaid expenses	<u>1,403</u>
Total current assets	<u>12,156</u>
FIXED ASSETS	
At cost	1,000
Accumulated depreciation	(<u>1,000</u>)
Net fixed assets	<u>0</u>
OTHER ASSETS	
Investments - privately held	<u>48,699</u>
Total other assets	<u>48,699</u>
TOTAL ASSETS	<u>\$ 60,855</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accrued payroll liabilities	\$ 1,585
Other payables	1,144
Deferred revenues	<u>4,696</u>
Total current liabilities	<u>7,425</u>
LONG TERM LIABILITIES	
Unearned life membership dues	<u>1,440</u>
Total long term liabilities	<u>1,440</u>
TOTAL LIABILITIES	<u>8,865</u>
NET ASSETS	
Restricted	3,020
Unrestricted	<u>48,970</u>
TOTAL NET ASSETS	<u>51,990</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 60,855</u>

This statement is to be considered in conjunction with the
accompanying independent accountants' review report.
The accompanying notes are an integral part of this statement.

REACT INTERNATIONAL, INC.
Chicago, Illinois

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Unrestricted</u>
PUBLIC SUPPORT AND REVENUE	
Dues	\$ 40,416
Team Charters	206
Team insurance	6,828
Life membership	300
Affiliate	553
Merchandise store revenues	2,005
Realized loss on investments	(706)
Contributions	141
Dividends	3,052
Interest	<u>2</u>
TOTAL PUBLIC SUPPORT AND REVENUES	52,797
EXPENSES	
Program services	17,605
General and administrative	<u>46,786</u>
TOTAL EXPENSES	64,391
CHANGE IN NET ASSETS	(11,594)
NET ASSETS AT BEGINNING OF YEAR	<u>63,584</u>
NET ASSETS AT END OF YEAR	<u>\$ 51,990</u>

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accompanying independent accountants' review report.
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REACT INTERNATIONAL, INC.
Chicago, Illinois

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	(\$ 11,594)
Non-cash items included in change in net assets:	
Loss on sale of securities	706
Changes in operating assets and liabilities:	
Decrease in accounts receivable	276
Decrease in inventory	9,106
Decrease in prepaids	240
Decrease in payroll liabilities	(2,780)
Increase in other payables	1,144
Increase in deferred revenues	<u>1,149</u>
Net cash used in operating activities	(<u>1,753</u>)

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of securities	50,356
Purchase of securities	(<u>47,322</u>)
Net cash provided by investing activities	<u>3,034</u>
Net increase in cash	1,281

CASH, BEGINNING 7,506

CASH, ENDING \$ 8,787

SUPPLEMENTAL DISCLOSURE

Interest paid \$ 4

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REACT INTERNATIONAL, INC.
Chicago, Illinois

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 1. NATURE OF OPERATIONS

React International, Inc. was founded in 1962 and formed in 1975 pursuant to the Illinois Nonprofit Corporation Law as a public benefit corporation. The Company provides public service and emergency communications activities for emergencies, disasters and other forms of aid to citizens. The Company's office is located in Chicago, Illinois.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The Company prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles; consequently, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the nature or existence of any donor restriction.

Basis of Presentation: The Company follows the presentation requirements of Financial Accounting Standards Board Codification of ASC Topic 958 - Not for Profit Entities (Formerly SFAS No. 117, "*Financial Statements of Not-for-Profit Organizations*"). Under ASC Topic 958, the Company is required to report information regarding its financial position and activities according to three classes of net assets: permanently restricted, temporarily restricted, or unrestricted. The Company currently has no permanently restricted net assets.

Cash and Cash Equivalents: Cash and cash equivalents consist of cash on hand and cash in bank accounts.

Receivables: Trade accounts receivable are recorded net of an allowance for expected losses. The allowances are estimated from historical performance and projection of trends. The Company considers the receivable to be fully collectible, and accordingly no allowance for doubtful accounts is considered necessary.

Inventory: Inventory is valued at the lower of cost or market using the first-in, first-out (FIFO) method when physical inventories are taken. Physical inventories of the merchandise are taken annually.

Property and Equipment: Property and equipment are recorded at cost. Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the asset.

Investments and Related Income, Gains and Losses: Investments in equity and debt securities are reported at fair value. Fair values are primarily determined based on quoted market prices or other market inputs. Interest and dividends on long-term investments are included in nonoperating activities. All other investment income, including realized and unrealized gains and losses on short-term and long-term investments, is reported as nonoperating activities.

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REACT INTERNATIONAL, INC.
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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company records its investments under Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a framework for measuring fair value and expands disclosures about fair value measurements (Note 5).

Income Taxes: React International, Inc. is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 805 ILCS 105 of the Illinois General Not For Profit Corporation Act of 1986 for revenue generated from its exempt purpose activities.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3. FIXED ASSETS

	<u>Cost</u>	<u>Accumulated Depreciation & Amortization</u>	<u>Book Value</u>
Furniture and fixtures	<u>1,000</u>	<u>1,000</u>	<u>0</u>
	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ 0</u>

The Company provides for depreciation and amortization using the straight-line method over the estimated useful asset lives.

NOTE 4. PRIVATELY HELD INVESTMENT

The privately held investment is an investment in Cole Credit Property Trust, III, Inc. which has elected to be treated as a real estate investment trust (REIT) for income tax purpose. This is a public non-traded REIT.

Overall Investment Objective: The Company maintains a long-term investment portfolio. The investment objectives are preservation of capital, liquidity, and optimization of the investment returns.

Allocation of Investment Strategies: The Company relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends).

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NOTES TO FINANCIAL STATEMENTS
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NOTE 4. PRIVATELY HELD INVESTMENT (CONTINUED)

The Company has investments in the following account on December 31, 2012:

	<u>2012</u> <u>Cost</u>	<u>Fair Market Value</u>
Cole - Credit Property Trust, III, Inc.	\$ 48,699	\$ 48,699

Investment return for the year ended December 31, 2012 was as follows:

	<u>2012</u>
Return on investments:	
Dividends	\$ 3,052
Gains (losses) on investments:	
Net realized gains (losses)	(706)
Net change in unrealized gains (losses)	<u>0</u>
Net gains (losses) on investments	(706)
Total return on investments	<u>\$ 2,346</u>

NOTE 5. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments: The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

- The carrying amount reported in the statements of financial position for the following approximates fair value because of the short maturities of these instruments: cash, accounts payable, and accrued expenses.
- Short-term and long-term investments: Domestic equities, international equities, government and agency securities and mutual funds, asset-backed securities and mutual funds, corporate bonds and fixed-income mutual funds, limited partnership, and money market funds are measured using quoted market prices at the reporting date multiplied by the quantity held. The carrying value equals fair value.

Fair Value Hierarchy: The Company follows the guidance of ASC Topic 820 for fair value measurements of financial assets and financial liabilities and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC Topic 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

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NOTE 5. FAIR VALUE MEASUREMENTS (CONTINUED)

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Level 1 assets include cash that comprises demand deposits with commercial banks.
- Level 2 inputs are observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company has no Level 2 assets as of December 31, 2012.
- Level 3 inputs are unobservable inputs for the asset or liability. The fair value of the investment in the privately held real estate investment trust (REIT) is established by the board of directors of the REIT, based on their determination of a reasonable estimate of value of the trust's common stock. The REIT's board of directors valued the stock at \$10 per share at December 31, 2012.

The Level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table presents assets that are measured at fair value on a recurring basis at December 31, 2012:

	<u>Total</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Assets:				
Cash	\$ 8,787	\$ 8,787	\$ 0	\$ 0
Investments:				
Investments - privately held	<u>48,699</u>	<u>0</u>	<u>0</u>	<u>48,699</u>
Total assets	<u>\$ 57,486</u>	<u>\$ 8,787</u>	<u>\$ 0</u>	<u>\$ 48,699</u>

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NOTE 5. FAIR VALUE MEASUREMENTS (CONTINUED)

The following is a reconciliation of the beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2012.

	Investment in <u>REIT</u>
Beginning balance	\$45,647
Total gains and losses (realized or unrealized) including in change of net assets	0
Reinvested dividends	3,052
Settlements	<u>0</u>
Ending balance	<u>\$48,699</u>

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the reporting period. We evaluated the significance of transfers between levels based upon the nature of the financial instrument and size of the transfer relative to total net assets. There were no significant transfers between Level 1, Level 2, or Level 3 for the year ended December 31, 2012.

NOTE 6. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the date of this report and has determined that there were no material subsequent events that required recognition or additional disclosure in these financial statements.

See accompanying independent accountants' review report.