

CLANCY SYSTEMS INTERNATIONAL, INC.  
FINANCIAL STATEMENTS  
FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2018  
WITH  
ACCOUNTANT'S REPORT



Certified Public Accountants  
and Consultants

1099 Eighteenth Street - Suite 2300  
Denver, Colorado 80202-1939  
Telephone: (303) 296-2229  
Facsimile: (303) 296-3731  
[www.causeycpas.com](http://www.causeycpas.com)

## ACCOUNTANT'S REPORT

Board of Directors  
Clancy Systems International, Inc.

We are not independent with respect to Clancy Systems International, Inc (the "Company"), and the accompanying balance sheets as of September 30, 2017 and 2018, and the related statements of operations and comprehensive loss, stockholders' equity, and cash flows for the years then ended were not audited by us and, accordingly, we do not express an opinion on them.

Denver, Colorado  
July 24, 2019

*Causey Demgen & Moore P.C.*

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**BALANCE SHEETS**  
**September 2017 and 2018**  
**(unaudited)**

ASSETS

	<u>2017</u>	<u>2018</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,362,200	\$ 1,624,657
Accounts receivable, net of allowance for doubtful accounts of \$13,300 (2017 and 2018)	580,242	242,133
Income tax receivable	154,550	150,900
Inventories	30,417	30,417
Prepaid expenses	<u>7,604</u>	<u>1,054</u>
Total current assets	2,135,013	2,049,161
<b>Property and equipment, at cost:</b>		
Land	82,000	82,000
Building and building improvements	356,477	356,477
Office furniture and equipment	133,855	133,855
Equipment under service contracts	1,851,434	1,851,434
Vehicles	<u>6,000</u>	<u>6,000</u>
	2,429,766	2,429,766
Less accumulated depreciation	<u>(2,088,861)</u>	<u>(2,106,093)</u>
Net property and equipment	340,905	323,673
<b>Other assets:</b>		
Marketable securities	1,127,197	1,091,416
Deposits and other	871	317
Software development costs, net of accumulated amortization of \$1,274,766 (2017) and \$1,386,019 (2018)	321,698	333,689
Deferred tax assets, net	<u>244,200</u>	<u>288,500</u>
Total other assets	<u>1,693,966</u>	<u>1,713,922</u>
	<u>\$ 4,169,884</u>	<u>\$ 4,086,756</u>

See accompanying notes to financial statements.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**BALANCE SHEETS**  
**September 30, 2017 and 2018**  
**(unaudited)**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<u>2017</u>	<u>2018</u>
Current liabilities:		
Deferred revenue	\$ 14,400	\$ 14,400
Total current liabilities	14,400	14,400
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$.0001 par value; 100,000,000 shares authorized, none issued	-	-
Common stock, \$.0001 par value, 800,000,000 shares authorized, 332,662,251 (2017) and 332,422,251 (2018) shares issued and outstanding	33,266	33,242
Additional paid-in-capital	1,210,795	1,210,219
Unrealized gain (loss) on marketable securities	22,003	(1,881)
Retained earnings	<u>2,889,420</u>	<u>2,830,776</u>
Total stockholders' equity	<u>4,155,484</u>	<u>4,072,356</u>
	<u>\$ 4,169,884</u>	<u>\$ 4,086,756</u>

See accompanying notes to financial statements.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE LOSS**  
**For the years ended September 30, 2017 and 2018**  
**(unaudited)**

	<u>2017</u>	<u>2018</u>
Revenues	\$ 1,363,289	\$ 1,381,508
Costs of sales	<u>411,623</u>	<u>400,155</u>
Gross profit	951,666	981,353
Costs and expenses:		
General and administrative	1,085,927	1,115,565
Research and development	<u>62,666</u>	<u>607</u>
Total costs and expenses	<u>1,148,593</u>	<u>1,116,172</u>
Loss from operations	(196,927)	(134,819)
Other income (expense):		
Interest income	38,566	37,510
Loss on sale of marketable securities	<u>(544)</u>	<u>(5,635)</u>
Total other income (expense)	<u>38,022</u>	<u>31,875</u>
Loss before provision for income taxes	(158,905)	(102,944)
Provision for income taxes:		
Current expense	2,959	-
Deferred benefit	<u>(63,100)</u>	<u>(44,300)</u>
Total income tax benefit	<u>(60,141)</u>	<u>(44,300)</u>
Net loss	(98,764)	(58,644)
Other comprehensive income:		
Unrealized gain on marketable securities	<u>(28,998)</u>	<u>(23,884)</u>
Comprehensive loss	<u>\$ (127,762)</u>	<u>\$ (82,528)</u>
Basic and diluted:		
Net income (loss) per common share	<u>*</u>	<u>*</u>
Weighted average number of shares outstanding	<u>332,662,251</u>	<u>332,541,922</u>

\* Less than \$.01 per share

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**STATEMENT OF STOCKHOLDERS' EQUITY**  
For the years ended September 30, 2017 and 2018  
(unaudited)

	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Other compre- hensive income	Retained earnings
Balance, September 30, 2016	332,662,251	\$ 33,266	\$ 1,210,795	\$ 51,001	\$ 2,988,184
Unrealized gain on marketable securities	-	-	-	(28,998)	-
Net loss for the year ended September 30, 2017				-	(98,764)
Balance, September 30, 2017	332,662,251	33,266	1,210,795	22,003	2,889,420
Common stock repurchased	(240,000)	(24)	(576)	-	-
Unrealized loss on marketable securities	-	-	-	(23,884)	-
Net loss for the year ended September 30, 2018				-	(58,644)
Balance, September 30, 2018	<u>332,422,251</u>	<u>\$ 33,242</u>	<u>\$ 1,210,219</u>	<u>\$ (1,881)</u>	<u>\$ 2,830,776</u>

See accompanying notes to financial statements.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended September 30, 2017 and 2018**  
**(unaudited)**

	<u>2017</u>	<u>2018</u>
Cash flows from operating activities:		
Net loss	\$ (98,764)	\$ (58,644)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	122,148	129,040
Loss on sale of marketable securities	544	5,635
Deferred income tax benefit	(63,100)	(44,300)
Changes in assets and liabilities:		
Accounts receivable	211,149	338,109
Income taxes refundable and payable	(108,848)	3,650
Prepaid expenses	(6,622)	6,550
Deferred revenue	(12,300)	-
Total adjustments	<u>142,971</u>	<u>438,684</u>
Net cash provided by operating activities	<u>44,207</u>	<u>380,040</u>
Cash flows from investing activities:		
Increase in software licenses and software development costs	(184,500)	(123,245)
Acquisitions of marketable securities	(177,115)	(143,738)
Proceeds from sale of marketable securities	175,000	150,000
Net cash used in investing activities	<u>(186,615)</u>	<u>(116,983)</u>
Cash flows from financing activities:		
Repurchase of common stock	-	(600)
Net cash used in financing activities	-	(600)
Increase (decrease) in cash and cash equivalents	(142,408)	262,457
Cash and cash equivalents at beginning of period	1,504,608	1,362,200
Cash and cash equivalents at end of period	<u>\$ 1,362,200</u>	<u>\$ 1,624,657</u>

(continued on following page)

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**STATEMENTS OF CASH FLOWS**  
**For the years ended September 30, 2017 and 2018**  
**(unaudited)**

(continued from previous page)

	<u>2017</u>	<u>2018</u>
Supplemental disclosure of cash flow information:		
Net cash paid (refunded) during the period for income taxes	<u>\$ 111,807</u>	<u>\$ (1,462)</u>
Supplemental disclosure of non-cash investing and financing activities:		
Unrealized loss on available for sale securities	<u>\$ (28,998)</u>	<u>\$ (23,884)</u>

See accompanying notes to financial statements.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**1. Organization and Summary of Significant Accounting Policies**

Organization:

Clancy Systems International, Inc. (the "Company") was organized in Colorado on June 28, 1984. The Company is in the business of developing and marketing parking ticket writing systems, internet payment remittance systems, and internet industry guides. The Company's revenues are derived primarily from cities, universities, car rental companies and laundry facilities throughout the United States and Canada. The Company manufactures some of its equipment for field operations, including printers, chargers, mobile device keypads and other items used in its applications.

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.

Accounts receivable:

The allowance for doubtful accounts at September 30, 2017 and 2018 was \$13,300. The Company evaluates trade receivables that are past due to determine the appropriate allowance for doubtful accounts. The receivables are charged off in the period which they are deemed uncollectible. The Company contracts primarily with government agencies and takes into account budget year issues in evaluating its past due receivables. Recoveries of trade receivables previously charged off are recorded when received.

Inventories:

Inventories are carried at the lower of cost (first-in, first-out) and net realizable value. Inventory costs include materials, labor and manufacturing overhead. Inventories consist primarily of computer and printer parts and supplies and are subject to technical obsolescence.

Computer software:

Costs incurred to establish the technological feasibility of computer software are classified as research and development costs, which are charged to expense as incurred. Software development costs incurred subsequent to establishment of technological feasibility are capitalized and subsequently amortized based on the lesser of the straight line method over the remaining estimated economic life of the product (generally five years) or the estimate of current and future revenues for the related software product. Amortization expense for the years ended September 30, 2017 and 2018 amounted to \$98,987 and \$111,254 respectively, and is included

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**1. Organization and Summary of Significant Accounting Policies (continued)**

in cost of services. The cost of direct labor is periodically capitalized as computer software costs.

Property and equipment:

Property and equipment are stated at cost. Depreciation is provided by the Company on the straight line method over the assets' estimated useful lives as follows:

Building and building improvements	10 to 30 years
Office furniture and equipment	5 years
Equipment under service contracts	3 to 5 years
Vehicles	3 to 5 years

Property and equipment consists partly of computers and printers which are subject to technical obsolescence. Depreciation expense for the years ended September 30, 2017 and 2018 amounted to \$22,608 and \$17,232, respectively.

Sales and retirements of depreciable property are recorded by removing the related cost and accumulated depreciation from the accounts. Gains and losses on sales and retirements of property are reflected in results of operations.

Revenue recognition:

Revenue derived from professional service contracts on equipment and support services is included in income as earned over the contract term; related costs consist mainly of depreciation, supplies and sales commissions. The Company defers revenue for equipment and services under service contracts that are billed to customers on a quarterly, semi-annual, annual or other basis. Revenue from the issuance of parking tickets is recognized on a cash basis when received. Revenue derived from professional service contracts on parking meter, lots fees and laundry facility collections are recognized on a cash basis when received. Related costs consist mainly of municipalities' fees, depreciation and lot rents.

The Company recognizes revenue in accordance with the Securities and Exchange Commission Staff Accounting Bulletin 104 ("SAB 104"). SAB 104 provides the conditions for realization of revenue areas as follows: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller's price to the buyer is fixed or determinable, and (4) collectibility is reasonably assured.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**1. Organization and Summary of Significant Accounting Policies (continued)**

In addition, in accordance with FASB ASC 605-45, revenue is presented gross, determined on a contract by contract basis, where the Company acts as principal, takes title to the products sold, has the risks and rewards of ownership, such as the risk of loss for collection, delivery or product returns. Revenue is presented net of direct costs, determined on contract by contract basis, where the Company primarily acts as agent by providing services for a commission or fee. Agent transactions include cash collections of \$8,560,052 and \$8,613,537, net of vendor payments in the amount of \$7,955,731 and \$8,027,604 for the years ended September 30, 2017 and 2018, respectively.

Before the Company recognizes revenue, a contract is entered into with the client (which details the fees to be charged), all software and equipment per the contract is delivered, and as most of the Company's clients are municipalities or universities, collectability is reasonably assured.

Contracts for the Company's ticket writing system are entered into under one of four different pricing options. The Company (1) sells the equipment and ticket stock and licenses the software separately, (2) charges a monthly fee for the use of the equipment and software, (3) charges a fee per ticket at the time the ticket stock is provided to the client, or (4) provides a full privatization program. In a sale transaction, revenue is recognized on the sale of the equipment, license and ticket stock (less an amount for customer support). When the Company charges a monthly fee, that fee is recognized in income in the period the services are provided. When the Company charges a fee per ticket, the Company recognizes revenue for the portion considered a sale of the ticket stock on delivery of the tickets to the client and the remainder is recognized as revenue over the period of estimated usage of the tickets based on past history with the client.

In a privatization program, client revenue guarantees may be entered into for a period of time, generally one year at a time. A ratable portion of the client revenue guarantee is recognized each month as an expense. In revenue split arrangements, the portion of the cash collected and owed each month is recognized as a liability and an expense.

The Company does not offer a right of return on sales of equipment or ticket stock. Equipment sold, other than the Company's proprietary products, is covered under the manufacturer's warranty.

Warranty expense for the Company's products has been immaterial in the past. Revenue recognition commences after the equipment has been delivered and the software has been installed and is operational.

Shipping and handling costs:

The Company pays all shipping costs for its contract services. Customers are provided prepaid shipping labels for returning equipment to the Company for repair and shipping repaired equipment back to the client is paid for by the Company.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**1. Organization and Summary of Significant Accounting Policies (continued)**

Advertising costs:

The Company expenses the costs of advertising as incurred. Advertising expense was \$72 and \$0 for the years ended September 30, 2017 and 2018, respectively.

Deferred Income taxes:

The Company accounts for deferred income taxes under FASB ASC 740-10. Under ASC 740-10, deferred income taxes are accounted for under an asset and liability approach that requires recognition of deferred tax assets and liabilities for the expected future tax consequences of transactions based on temporary differences. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the financial statements that will result in taxable or deductible amounts in future years. The Company's temporary differences consist primarily of tax operating loss carry forwards, depreciation differences and capitalized section 263A costs. In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes*. This guidance is designed to reduce complexity in financial reporting without sacrificing the quality of information provided to users. Under current GAAP, an entity is required to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. The new standard requires deferred tax assets and liabilities to be classified as noncurrent in a classified statement of financial position. The Company has adjusted the presentation of these financial statements accordingly. The ASU has been applied retrospectively to all periods presented.

Cash equivalents:

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Marketable securities:

The Company accounts for marketable securities in accordance with ASC 320-10. In accordance with ASC 320-10, the investment in securities has been classified as available-for-sale because the securities are being held for an indefinite period of time. Under the available-for-sale classification, the securities are recorded as an asset at current market value on the balance sheet with an amount representing unrealized gains and losses recorded as comprehensive income. The current market value is derived from published market quotations. At the time of sale, a gain or loss is recognized in the statement of operations using the cost basis of securities sold as determined by specific identification.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**1. Organization and Summary of Significant Accounting Policies (continued)**

Investments in marketable securities at September 30, 2017 and 2018 consist of Colorado local government and municipal bonds that are triple A rated and insured that are subject to market risk related to changes in interest rates and are available for sale. At September 30, 2017, the securities had a cost basis of \$1,105,194 and a fair market value of \$1,127,197. At September 30, 2018, the securities had a cost basis of \$1,093,297 and fair market value of \$1,091,416.

The adjustment to unrealized holding losses (gains) on available-for-sale securities included in accumulated other comprehensive income (loss) as a component of stockholders' equity decreased by \$28,998 for the year ended September 30, 2017 and decreased by \$23,884 for the year ended September 30, 2018, and totaled \$(1,881) at September 30, 2018.

Fair value of financial instruments:

All financial instruments are held for purposes other than trading. The following methods and assumptions were used to estimate the fair value of each financial instrument for which it is practicable to estimate that value.

For cash and cash equivalents, accounts receivable and accounts payable the carrying amount is assumed to approximate fair value due to the short-term maturities of these instruments.

Marketable securities – the carrying amounts approximate the fair value because the securities are valued at prices based on published market quotations.

Concentrations of credit risk:

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash, trade receivables and marketable securities. The Company places its cash with high quality financial institutions. At September 30, 2017 and 2018 and at various times during the years ended September 30, 2017 and 2018, the balance at one of the financial institutions exceeded FDIC insurance limits on interest bearing accounts.

The Company provides credit, in the normal course of business, to customers throughout the United States. All transactions are denominated in U.S. Dollars. The Company performs ongoing credit evaluations of its customers. Credit terms are typically 30 days from billing date.

Significant portions of the Company's revenues are derived from contracts with universities, car rental companies, municipalities and laundry facilities.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**1. Organization and Summary of Significant Accounting Policies (continued)**

Earnings per share:

The Company follows ASC 260-10 in presenting earnings per share which establishes the methodology of calculating basic earnings per share and diluted earnings per share. The calculations differ by adding any instruments convertible to common stock (such as stock options, warrants, and convertible preferred stock) to weighted average shares outstanding when computing diluted earnings per share. At September 30, 2017 and 2018, the Company had no potentially dilutive securities.

Impairment of long-lived assets:

The Company evaluates the carrying value of assets, other than investments in marketable securities, for potential impairment on an ongoing basis. In accordance with ASC 360-10, the Company periodically evaluates the carrying value of long-lived assets and long-lived assets to be disposed of and certain identifiable intangibles related to those assets for potential impairment. The Company considers projected future operating results, cash flows, trends and other circumstances in making such estimates and evaluations and, if necessary, reduces the carrying value of impaired assets to fair value.

Segment Information:

The Company follows ASC 280-10 for segment reporting. Certain information is disclosed, based on the way management organizes financial information for making operating decisions and assessing performance. The Company currently operates in a single segment and will evaluate additional segment disclosure requirements as it expands its operations.

Comprehensive income (loss):

The Company reports comprehensive income (loss) in accordance with ASC 220-10, which requires the reporting of all changes in equity during a period, except those resulting from investment by owners and distribution to owners, in a financial statement for the period in which they are recognized. This encompasses unrealized gains and losses from available-for-sale securities held.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**2. Inventories**

Inventories consist of the following at September 30:

	<u>2016</u> (unaudited)	<u>2017</u> (unaudited)
Finished goods	\$ 19,738	\$ 19,738
Work in process	4,854	4,854
Purchased parts and supplies	<u>5,825</u>	<u>5,825</u>
	<u>\$ 30,417</u>	<u>\$ 30,417</u>

**3. Fair value measurements**

Financial Accounting Standards Board ASC 820, establishes a framework for measuring fair value. That framework provides 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 unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**3. Fair value measurements (continued)**

Following is a description of the valuation methodologies used for assets measured at fair value.

*Municipal bonds:* Valued at the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table set forth by level, within the fair value hierarchy, the Company's assets at fair value as of September 30, 2017 and 2018.

<u>Assets at fair value as of September 30, 2018 (unaudited)</u>					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		<u>Total</u>
Municipal Bonds	\$ 1,091,416	\$ -	\$ -		\$ 1,091,416
	<u>\$ 1,091,416</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 1,091,416</u>

<u>Assets at fair value as of September 30, 2017 (unaudited)</u>					
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		<u>Total</u>
Municipal Bonds	\$ 1,127,197	\$ -	\$ -		\$ 1,127,197
	<u>\$ 1,127,197</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ 1,127,197</u>

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**4. Income Taxes**

The components of the Company's deferred tax assets, net at September 30 are as follows:

	<u>2017</u> (unaudited)	<u>2018</u> (unaudited)
<b>Deferred tax assets:</b>		
Section 263A capitalization	\$ 56,900	\$ 57,100
Allowance for doubtful accounts	4,300	4,300
Net operating loss carryforward	<u>250,700</u>	<u>304,500</u>
	311,900	365,900
<b>Deferred tax liabilities:</b>		
Depreciation and amortization	<u>(67,700)</u>	<u>(77,400)</u>
Deferred tax assets, net	<u>\$ 244,200</u>	<u>\$ 288,500</u>

The following is a reconciliation of the statutory federal income tax rate applied to pre-tax accounting net income compared to the income taxes in the statements of income

	<u>2017</u> (unaudited)	<u>2018</u> (unaudited)
Income tax benefit at the statutory rate	\$ (54,028)	\$ (35,001)
State and local income taxes, net of federal income tax	(5,532)	-
Tax exempt income	(13,112)	(12,665)
Effect of graduated tax rates	12,425	3,244
Nondeductible expenses	<u>106</u>	<u>122</u>
	<u>\$ (60,141)</u>	<u>\$ (44,300)</u>

The Company is subject to guidance issued by the FASB relating to "Accounting for Uncertainty in Income Taxes." The guidance applies to all tax positions accounted for in the financial statements, including positions taken in a previously filed tax return or expected to be taken in a future tax return.

The Company has analyzed its filing positions in Federal and significant state jurisdictions where it is required to file income tax returns. Management believes the Company's positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material adverse effect on its financial conditions, results of operations or cash flows.

**CLANCY SYSTEMS INTERNATIONAL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**September 30, 2017 (unaudited) and September 30, 2018 (unaudited)**

**4. Income Taxes (continued)**

Interest and penalties, if any are recorded as income taxes in the consolidated income statement. The Company is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**5. Basic and diluted net income per common share**

Basic and diluted net income per common share is based on the weighted average number of shares outstanding of 332,662,651 and 332,541,922 during the years ended September 30, 2017 and 2018, respectively.

**6. Professional service contracts**

Clancy provides equipment and support services under 12 month professional service contracts. At September 30, 2017 and 2018, all of the contracts contained cancellation provisions requiring notice of 30 days or less.

**7. Subsequent events**

The Company has evaluated subsequent events from September 30, 2018 through July 24, 2019, which is the date the financial statements were issued. Other than disclosed above, there have been no material events noted in this period which would impact the results reflected in this report, the Company's results going forward or require additional disclosure.