BIOQUAL, INC.

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2019 AND 2018

Table of Contents

aronson LLC
ASSURANCE | TAX | CONSULTING

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

301.231.6200
301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Independent Auditor's Report

Board of Directors
Bioqual, Inc.
Rockville, Maryland

We have audited the accompanying financial statements of **Bioqual, Inc.**, which comprise the Balance Sheets as of May 31, 2019 and 2018, and the related Statements of Income, Stockholders' Equity and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report (continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Bioqual, Inc.** as of May 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606)

As discussed in Note 1 to the financial statements, the Company changed its method of accounting for revenue from contracts with customers in these financial statements due to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), as amended, using the modified retrospective adoption method.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated September 7, 2019, on our consideration of **Bioqual, Inc.'s** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of **Bioqual, Inc.'s** internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering **Bioqual, Inc.'s** internal control over financial reporting and compliance.

Aronson LLC

Rockville, Maryland
September 7, 2019

May 31,	**2019**	2018
Assets		
Current assets		
Cash and cash equivalents	**$ 9,207,608**	$ 10,160,610
Accounts receivable - contracts	**11,428,969**	9,265,372
Income taxes receivable	**100,000**	427,425
Prepaid expenses	**534,104**	400,026
Total current assets	**21,270,681**	20,253,433
Property and equipment		
Leasehold improvements	**4,970,031**	4,832,367
Furniture, fixtures and equipment	**11,823,373**	10,137,723
Total property and equipment	**16,793,404**	14,970,090
Less: Accumulated depreciation and amortization	**(11,499,795)**	(10,682,020)
Net property and equipment	**5,293,609**	4,288,070
Other assets		
Cash surrender value of officers' life insurance	**700,827**	708,491
Intangible assets, net	**16,219**	26,463
Goodwill	**1,028,408**	1,028,408
Total other assets	**1,745,454**	1,763,362
Total assets	**$ 28,309,744**	$ 26,304,865

	2019	2018
Liabilities and Stockholders' Equity		
Current liabilities		
Note payable, current portion	**$ -**	$ 250,115
Accounts payable	**1,311,657**	1,803,654
Accrued compensation and related liabilities	**1,159,286**	1,045,125
Deferred revenue	**269,632**	365,014
Deferred rent, current portion	**36,308**	-
Total current liabilities	**2,776,883**	3,463,908
Long term liabilities		
Deferred rent, net of current portion	**760,278**	685,677
Deferred income taxes	**208,400**	105,700
Total long term liabilities	**968,678**	791,377
Total liabilities	**3,745,561**	4,255,285
Commitments and contingencies		
Stockholders' equity		
Common stock - $0.01 par value, 5,000,000 shares authorized, 1,599,408 shares issued; and 894,416 shares outstanding at May 31, 2019 and 2018, respectively	**15,994**	15,994
Treasury stock, at cost	**(1,041,240)**	(1,041,240)
Additional paid-in capital	**7,346,994**	7,333,827
Retained earnings	**18,242,435**	15,740,999
Total stockholders' equity	**24,564,183**	22,049,580
Total liabilities and stockholders' equity	**$ 28,309,744**	$ 26,304,865

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Years Ended May 31,	**2019**	2018
Contract revenue	**$ 39,478,079**	$ 35,884,965
Operating expenses		
Contract	**32,067,999**	27,159,725
General and administrative	**3,826,089**	3,452,397
Total operating expenses	**35,894,088**	30,612,122
Operating income	**3,583,991**	5,272,843
Other income (expense)		
Interest income	**155,640**	46,777
Interest expense	**(31,947)**	(49,342)
Gain on disposal of property and equipment	**-**	16,000
Other income	**1,562**	-
Total other income (expense)	**125,255**	13,435
Income before income taxes	**3,709,246**	5,286,278
Provision for income taxes	**878,371**	1,624,208
Net income	**$ 2,830,875**	$ 3,662,070
Basic earnings per share	**$ 3.17**	$ 4.10
Diluted earnings per share	**$ 3.17**	$ 4.10
Weighted average number of shares outstanding for basic earnings per share	**893,416**	893,416
Weighted average number of shares outstanding for diluted earnings per share	**893,655**	893,448

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Statements of Stockholders' Equity

	Common Stock		Treasury Stock				
	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance, June 1, 2017	1,599,408	$ 15,994	705,992	$ (1,042,135)	$ 7,326,328	$ 12,614,979	$ 18,915,166
Issuance of restricted stock	-	-	(1,000)	895	(895)	-	-
Stock compensation expense	-	-	-	-	8,394	-	8,394
Dividends declared - $.60 per share	-	-	-	-	-	(536,050)	(536,050)
Net income	-	-	-	-	-	3,662,070	3,662,070
Balance, May 31, 2018	1,599,408	15,994	704,992	(1,041,240)	7,333,827	15,740,999	22,049,580
Cumulative adjustments due to adoption of Topic 606 (Note 1)	-	-	-	-	-	207,211	207,211
Stock compensation expense	-	-	-	-	13,167	-	13,167
Dividends declared - $.60 per share	-	-	-	-	-	(536,650)	(536,650)
Net income	-	-	-	-	-	2,830,875	2,830,875
Balance, May 31, 2019	1,599,408	$ 15,994	704,992	$ (1,041,240)	$ 7,346,994	$ 18,242,435	$ 24,564,183

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Years Ended May 31,	**2019**	2018
Cash flows from operating activities		
Net income	**$ 2,830,875**	$ 3,662,070
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**872,267**	741,518
Deferred income taxes	**102,700**	181,900
Gain on disposal of property and equipment	**-**	(16,000)
Stock compensation expense	**13,167**	8,394
Change in cash surrender value of officers' life insurance	**4,265**	(12,092)
(Increase) decrease in		
Accounts receivable - contracts	**(2,168,901)**	(988,994)
Prepaid expense	**194,726**	(141,923)
Income tax receivable	**327,425**	(349,692)
Increase (decrease) in		
Accounts payable	**(491,997)**	562,629
Accrued compensation and related liabilities	**114,161**	(287,053)
Deferred revenue	**(211,671)**	155,821
Deferred rent	**110,909**	190,704
Net cash provided by operating activities	**1,697,926**	3,707,282
Cash flows from investing activities		
Proceeds from sale of property and equipment	**-**	16,000
Purchases of property and equipment	**(1,867,562)**	(2,071,393)
Proceeds from loan on life insurance	**3,399**	73,538
Net cash used by investing activities	**(1,864,163)**	(1,981,855)
Cash flows from financing activities		
Principal payments on note payable	**(250,115)**	(317,214)
Dividends paid	**(536,650)**	(536,050)
Net cash used by financing activities	**(786,765)**	(853,264)

The accompanying Notes to Financial Statements are an integral part of these financial statements.

Years Ended May 31,		**2019**		2018
Net change in cash and cash equivalents		**(953,002)**		872,163
Cash and cash equivalents at beginning of year		**10,160,610**		9,288,447
Cash and cash equivalents at end of year	**$**	**9,207,608**	$	10,160,610
Supplemental information:				
Income taxes paid	**$**	**808,500**	$	1,792,000
Interest paid	**$**	**31,947**	$	49,342

The accompanying Notes to Financial Statements are an integral part of these financial statements.

1. Organization and significant accounting policies

Organization: Bioqual, Inc., a Delaware Corporation, was founded in 1981. The Company supports the National Institutes of Health by providing research services in the following research areas: cancer, AIDS, hepatitis, influenza, immunology, malaria, emerging diseases, and breeding and development of genetically defined animals. The Company is headquartered in Rockville, Maryland. On February 21, 2014, the Company acquired the assets of Advanced Bioscience Laboratories, Inc. (ABL)'s in-vivo animal model services-related business.

Use of accounting 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.

Revenue Recognition: The majority of the Company's revenues from contracts with customers are for support provided to the National Institutes of Health (NIH) for research services for certain diseases and medical research areas, including cancer, AIDS, hepatitis, influenza, immunology, malaria, emerging diseases, and breeding and development of genetically defined animals. The majority of the Company's contracts are either directly with NIH or with entities providing research services for NIH.

The Company performs under various types of contracts, which include cost-reimbursable or cost-plus-fixed-fee (CPFF), time-and-materials (T&M), fixed-price-per-unit (FP-U), and fixed-price-milestone (FP-M) contracts.

To determine the proper revenue recognition, the Company first evaluates whether it has a duly approved and enforceable contract with a customer, in which the rights of the parties and payment terms are identified, and collectability is probable. The Company also evaluates whether two or more contracts should be combined and accounted for as a single contract, including the purchase or work orders issued under a Master Services Agreement (MSA) or similar arrangements. In addition, the Company assesses contract modifications to determine whether the changes to existing contracts should be accounted for as part of the original contract or as a separate contract. Contract modifications for the Company generally relate to changes in contract scope and related requirements, more specifically, additional testing, studies, or similar analysis that do not add distinct services, and therefore are accounted for as part of the original contract. If contract modifications add distinct goods or services, such as additional studies that are distinct from the original or previous study(ies), and increase the contract value by the standalone selling price, those modifications are accounted for as separate contracts.

Most of the Company's contracts comprise multiple promises which can include the procurement of the appropriate animal models if not already provided by the customer or by the Company, provisions for the care and housing of the animals, and services provided for the testing, studies, and/or analysis. In all cases, the Company assesses if the multiple promises should be accounted for as separate performance obligations or combined into a single performance obligation. The Company generally separates multiple promises in a contract as separate performance obligations if those promises are distinct, both individually and in the context of the contract. If multiple promises in a contract are highly interrelated or comprise a series of distinct services performed over time, they are combined and accounted for as a single performance obligation. A single performance obligation most frequently is the result of arrangements with the customer, at the outset of the original contract, that require the animal models be euthanized at the completion of the study. It was determined that there was no distinct value within the context of the contract for the animals, including their care and housing, apart from the studies and testing services. The FP-M type contracts primarily encounter this directive and as a result, often are treated as having a single performance obligation.

The Company's contracts often contain options to extend a study, perform a follow-on study, or perform a new study which is separate and distinct from the original or previous study(ies). The options generally result in modifications to the contract and therefore, the policies governing the accounting for modifications will apply. Since the options will generally contain the same terms and conditions, including pricing terms, such options typically do not provide the customer with any material additional rights under the contract.

Contracts with the U.S. Federal government are subject to the Federal Acquisition Regulations (FAR), and priced based on estimated or actual costs of providing the goods or services. The FAR provides guidance on types of costs that are allowable in establishing prices for goods and services provided to the U.S. government and its agencies. Each Federal contract is competitively priced and solicited separately. Pricing for non-U.S. government agencies and commercial customers is based on specific negotiations with each customer. The Company excludes any taxes collected or imposed when determining the transaction price.

The transaction prices associated with the Company's CPFF and T&M contracts are variable. These variable amounts are estimated at the most likely amount that the Company expects to be entitled to based largely on an assessment of the Company's anticipated performance and all information (historical, current, and forecasted) that is reasonably available, and the potential of significant reversal of revenue.

The Company allocates the transaction price of a contract to its performance obligations in the proportion of its respective standalone selling prices. The standalone selling price of the Company's performance obligations is generally based on an expected cost-plus margin approach with relatively consistent margins applied within each major customer group. Very few, if any, of the Company's contracts contain a significant financing component, which would require an adjustment to the transaction price of the contract.

The Company recognizes revenue on a majority of the performance obligations within each contract over time as there is continuous transfer of control to the customer over the duration of the contract as the Company performs the promised services. For U.S. Federal government contracts, continuous transfer of control to the customer is evidenced by clauses in the contract that allow the customer to unilaterally terminate the contract for convenience, pay for costs incurred plus a reasonable profit and take control of any work-in-process. Similarly, for non-U.S. government contracts, the customer typically controls the work-in-process as evidenced by rights to payment for work performed to date plus a reasonable profit to deliver products or services that do not have an alternate use to the Company. In certain cases, when the contract does not initially provide for euthanasia at the completion of the contract, the animals may be re-purposed for a new or different and distinct study. In these cases, the re-purposing is generally not known until the end or close to the end of the original or previous study; however, this would indicate that the animals could potentially have an alternative use. Therefore, where there is a separate performance obligation associated with the procurement of the animals, the Company recognizes revenue at a point in time using a rate per unit as the animals are procured and the customer obtains control.

On FP-M contracts, for the performance obligation(s) where revenue is recognized over time, the Company uses a method that measures the extent of progress towards completion of a performance obligation, principally using an output method. Under the output method, revenue is recognized based on the best measure of progress relevant to the performance obligation and services provided. The output measure primarily used is a method in which revenue is recognized based upon the proportion of total study-related procedures and/or tests performed to date to estimated total procedures and/or tests through completion of the study. This ratio is computed using the value associated with each procedure and/or test performed because certain procedures could be considered more valuable than others. Additionally, on certain FP-M contracts where the care and housing of the animals is considered a separate performance obligation, revenue is recognized over time using a straight-line method since control of the services is provided to the customer relatively evenly over the period of performance. On certain other contracts, principally T&M, FP-U, and CPFF, revenue is recognized using the right-to-invoice practical expedient as the Company is contractually able to invoice the customer based on the control transferred to the customer.

Contract costs generally include direct costs such as those associated with procuring the animal models, materials, labor, subcontract costs, costs for housing and care of the animals, and indirect costs identifiable with or allocable to a specific contract. Costs are expensed as incurred, except for costs associated with procuring the animals for contracts where euthanasia is directed by the customer. Such costs are capitalized and amortized on a straight-line basis over the expected life of that contract. The Company does not incur significant incremental costs to acquire contracts.

Billings under cost-based government contracts are calculated using provisional rates which permit recovery of indirect costs. These rates are subject to audit on an annual basis by the government agencies' cognizant audit agency. The cost audits will result in the negotiation and determination of the final indirect cost rates which the Company may use for the years audited. The final rates, if different from the provisional rates, may create a receivable or a liability.

As of May 31, 2019, the Company had negotiated final settlements on indirect cost rates through 2011. The Company periodically reviews its cost estimates and experience rates, and adjustments, if needed, are made and reflected in the period in which the estimates are revised. In the opinion of management, redetermination of any cost-based contracts for the open years will not have any material effect on the Company's financial position or results of operations.

Changes in estimates related to contracts with performance obligation(s) accounted for using the output method on FP-M type contracts, that are primarily based on a proportion of study-related procedures and/or tests, are recognized in the period in which such changes are made on a cumulative catch-up basis. This basis recognizes in the current period the cumulative effect of the changes on current and prior periods based on the performance obligations' related proportionate progress towards completion.

For the year ended May 31, 2019, there were no material modifications recorded related to work previously performed on contracts prior to the execution of formal modifications or amendments. A significant change in one or more estimates could affect the profitability of one or more of the performance obligations.

Cash and cash equivalents: Cash and cash equivalents consist of financial instruments with original maturities of less than three months. At times, the Company's cash balances may exceed Federally insured limits. The Company does not believe that this results in any significant risk.

Government contracts: A portion of the Company's revenue is from U.S. Government contracts (primarily the National Institutes of Health). The indirect rates used in cost-plus-fixed-fee contracts are subject to final negotiated settlements for each fiscal year. In management's opinion, final settlement of indirect rates will not have a material effect on the Company's financial position or results of operations when settled. The Company does not require collateral for its government billings and does not consider its accounts receivable to be a significant risk.

Accounts receivable: The Company provides for an allowance for doubtful accounts based on management's best estimate of possible losses determined principally on the basis of historical experience and specific allowances for known troubled accounts, if needed. All accounts, or portions thereof that are deemed to be uncollectible or that require an excessive collection cost are written off to the allowance for doubtful accounts. At May 31, 2019 and 2018, management deemed all accounts receivable to be collectible.

Property and equipment: Property and equipment are recorded at the original cost and are being depreciated on a straight-line basis over estimated lives of three to ten years. Leasehold improvements are amortized over the life of the assets or the remaining period of the lease, whichever is shorter. Depreciation and amortization expense for the years ended May 31, 2019 and 2018 was $862,023 and $731,274.

Goodwill: Goodwill is tested for impairment on an annual basis, and between annual tests when indicators of impairment exist. Goodwill is written down when impaired. The Company first assesses qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If the Company determines that it is more likely than not that the reporting unit's fair value is greater than its carrying amount, then the two step quantitative test is not required. To conduct the qualitative test, the Company identifies the most relevant factors of fair value which they determined to be significant when evaluating goodwill for impairment. These factors include general economic conditions, specific industry conditions and multiples, overall financial performance and operations, and other relevant company specific events.

If the Company determines that the two step quantitative test is required, the first step is to compare the fair value of the reporting unit with its carrying amount. If the fair value of the reporting unit is greater than the carrying amount, then the goodwill is not considered impaired. If the fair value of the reporting unit is less that its carrying value, then goodwill is deemed to be impaired and an impairment loss is calculated.

The Company determined that goodwill was not impaired based on management's consideration of qualitative factors that existed as of May 31, 2019 and 2018. There were no changes to the carrying value of goodwill during the years ended May 31, 2019 and 2018.

Intangible assets: Intangible assets consist of customer contracts and relationships and an accreditation acquired in the ABL acquisition. Intangible assets and other long-lived assets are reviewed for impairment whenever events or other changes in circumstances indicate that the carrying amount may not be recoverable. In reviewing for impairment, the Company compares the carrying value of the relevant assets to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. When the estimated undiscounted future cash flows are less than their carrying amount, an impairment loss is recognized equal to the difference between the assets' fair value and their carrying value.

At May 31, 2019 and 2018, management determined that there were no indicators of impairment of intangible assets.

Income taxes: Current income tax expense is the amount of income taxes expected to be payable for the current year. Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable earnings. The resulting net deferred asset or liability is classified as noncurrent on the balance sheet. Valuation allowances are established when necessary to reduce deferred tax assets to the amount more likely than not to be realized.

The Company evaluates uncertainty in income tax positions taken or expected to be taken on a tax return based on a more-likely-than-not recognition standard. If that threshold is met, the tax position is then measured at the largest amount that is greater than 50% likely of being realized upon ultimate settlement and is recognized in the Company's financial statements. To the extent that the Company's estimates change or the final tax outcome of these matters is different than the amounts that have been recorded, such differences will impact the income tax provision when such determinations are made. If applicable, the Company records interest and penalties as a component of income tax expense. As of May 31, 2019 and 2018, there were no accruals for uncertain tax positions. Tax years from May 31, 2016 through the current year remain open for examination by federal and state tax authorities.

Fair value of financial instruments: The carrying amounts of obligations approximate their fair value due to the short-term nature or their underlying terms.

Earnings per share: The Company calculates basic and diluted earnings per share. Basic earnings per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted-average number of common shares plus dilutive potential common shares, if any. There were no dilutive equity securities issued during the year ended May 31, 2019. There were 1,000 of dilutive shares issued during the year ended May 31, 2018.

Research and development: Research and development expenses consist primarily of compensation and related costs for personnel responsible for the research and development of new and existing products and services. The Company expenses research and development costs as incurred. The Company incurred research and development costs of $331,509 and $268,000 during the years ended May 31, 2019 and 2018, respectively.

Long-lived assets and impairment: The Company periodically evaluates the carrying value of long-lived assets, including, but not limited to, property and equipment and other assets, when events and circumstances warrant such a review. The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flows from such an asset are separately identifiable and are less than its carrying value. In that event, a loss is recognized to the extent that the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated cash flows discounted at a rate commensurate with the risk involved.

Newly adopted accounting pronouncements: In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, (Topic 606), and related amendments, which superseded all prior revenue recognition methods and industry-specific guidance. The core principle of Topic 606 is that an entity should recognize revenue to depict the transfer of control for promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the revenue principles, an entity is required to identify the contract(s) with a customer, identify the performance obligations, determine the transaction price, allocate the transaction price to the performance obligations and recognize revenue when the performance obligation is satisfied (i.e., either over time or point in time). Topic 606 further requires that companies disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Topic 606 provides companies an option of two transition methods, the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application.

Effective June 1, 2018 (beginning of fiscal year 2019), the Company adopted the requirements of Topic 606 using the modified retrospective method. The guidance was not applied to contracts that were complete at May 31, 2018, and the comparative information for the prior fiscal year has not been retrospectively adjusted.

The adoption of Topic 606 did not have a material impact on the Company's financial statements. The Company recorded a $207,211 increase to its beginning retained earnings as the cumulative impact of adoption of the new revenue standard. The primary impact of the new standard was on certain fixed-price-milestone type contracts, on which the Company previously recognized revenue primarily using the latest milestone achieved and under Topic 606 are recognized using a different over-time output measure which was considered to more effectively measure the progress on uncompleted milestones. Additionally, certain fixed-price type contracts had previously recognized contract components on a separate basis and these components are now combined under Topic 606 into a single performance obligation, as they are not capable of being distinct under the new guidance. Furthermore, certain contract fulfillment costs associated with these fixed price-milestone type contracts are considered incremental and require capitalization and amortization over the expected customer life under Topic 606. The adoption of Topic 606 did not have a significant impact on the Company’s revenue recognition policy for other types of contracts since revenues on the substantial majority of the Company's contracts continue to be recognized over time and use the same measure of progress that was applicable under prior standards. As a result of applying the modified retrospective method to adopt the new guidance, the following adjustments were made on the balance sheet as of June 1, 2018:

	As Reported May 31, 2018	Adjustments	As Adjusted June 1, 2018
Assets:			
Accounts receivable	$ 9,265,372	$ (5,304)	$ 9,260,068
Prepaid expenses	400,026	328,804	728,830
Liabilities:			
Deferred revenue	$ 365,014	$ 116,289	$ 481,303
Stockholders' equity:			
Retained earnings	$ 15,740,999	$ 207,211	$ 15,948,210

In adopting Topic 606, the Company elected to use certain practical expedients permitted by the standard including using the portfolio approach where contracts with similar characteristics were assessed collectively to evaluate risk over the impact of Topic 606. The Company also elected to adopt the right-to-invoice practical expedient on cost-reimbursable, time-and-materials, and fixed-price-per-unit contracts where the Company recognizes revenues as it is contractually able to invoice the customer based on the control transferred to the customer.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through September 7, 2019, which is the date the financial statements are available to be issued.

2. Accounts receivable

Accounts receivable at May 31, 2019 and 2018, consist of amounts due under contracts in progress with Federal government agencies (primarily the National Institutes of Health), educational institutions, and commercial companies. The components of accounts receivable are as follows at May 31:

	2019	2018
Billed receivables	**$ 6,837,333**	$ 7,341,309
Unbilled receivables	**4,591,636**	1,924,063
Total	**$ 11,428,969**	$ 9,265,372

All billed and unbilled receivable amounts are expected to be collected during the next fiscal year. Unbilled receivables relate to revenue recognized on contracts for which billings have not been presented to customers.

Three and four customers generated approximately 49% and 39% of total contract revenues for the years ended May 31, 2019 and 2018, respectively. These customers also comprised approximately 67% and 15% of total receivables as of May 31, 2019 and 2018, respectively. The contract for one of these customers is up for recompete. The Company submitted a proposal and is awaiting a decision. The contract comprised approximately 19% of revenue for the year ended May 31, 2019.

3. Intangible assets

Intangible assets consisted of the following at May 31, 2019 and 2018:

	2019		2018		
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization	Weighted Average Life
Customer contracts and relationships	**$ 70,000**	**$ (53,781)**	$ 70,000	$ (43,537)	7
Accreditation	**204,000**	**(204,000)**	204,000	(204,000)	2
Total	**$ 274,000**	**$ (257,781)**	$ 274,000	$ (247,537)	-

The definite lived intangible assets have no residual value at the end of their useful lives. Amortization expense for the years ended May 31, 2019 and 2018 was $10,244 each year. Estimated amortization expense for the next two years as of May 31, 2019 is as follows:

Year Ending May 31	Amount
2020	**$ 10,244**
2021	**5,975**

4. Note payable - line of credit

The Company has a line of credit arrangement with a bank which is due on demand. At May 31, 2019 and 2018, the maximum amount available under the arrangement was $2,000,000. The amount available under the line is the lesser of $2,000,000, or, the total of 90% of eligible government receivables, plus 80% of eligible commercial receivables less the amount outstanding for letters of credit. There was no balance outstanding on the line at May 31, 2019 or 2018. The line bears interest at the bank's prime rate plus .25% (5.75% at May 31, 2019) and is collateralized by all assets of the Company. The line of credit contains various financial covenants which include maintaining certain ratios of fixed charge coverage, a maximum funded debt to EBITDA, and a maximum debt to tangible net worth. The Company was in compliance with the financial covenants as of May 31, 2019 and 2018.

The Company had an irrevocable standby letter of credit arrangement outstanding with a bank as collateral for a lease at May 31, 2019 and 2018 for an amount of $203,400.

5. Note payable

The Company had the following note payable outstanding at May 31:

		2019		2018
Note payable to a financial institution related to the acquisition of ABL, payable in monthly installments of principal and interest of $28,087, with interest at 4.62%, final payment February 2019.	**$**	**-**	$	250,115
Less: Current portion		**-**		(250,115)
Long-term portion	**$**	**-**	$	-

6. Income taxes

For the years ended May 31, 2019 and 2018, the components of the provision for income taxes consisted of:

		2019		2018
Current tax expense	**$**	**775,671**	$	1,442,308
Deferred tax expense		**102,700**		181,900
Provision for income taxes	**$**	**878,371**	$	1,624,208

On December 22, 2017, the U.S. Tax Cuts and Jobs Act, or Tax Act, was enacted by the U.S. government. Among other provisions, the Tax Act reduced the federal corporate tax rate to 21% from the existing maximum rate of 35%, effective January 1, 2018. Non calendar year filers use a blended tax rate during the year of adoption. The Company recorded a tax benefit of $79,269 related to the revaluation of its net deferred tax liabilities during the year ended May 31, 2018.

The provision for income taxes for the years ended May 31, 2019 and 2018 reflected in the accompanying statements of income varies from the amount which would have been computed using statutory rates as follows:

	2019	2018
Federal taxes at statutory rate	**$ 778,942**	$ 1,512,933
State taxes at statutory rate, net of federal tax benefit	**241,750**	311,301
Permanent differences and other	**(142,321)**	(120,757)
Change in income tax rate	**-**	(79,269)
Provision for income taxes	**$ 878,371**	$ 1,624,208

The deferred income tax liability represents an estimate of the income tax that will be due in future periods from the cumulative temporary differences recognized for financial reporting purposes from that recognized for income tax reporting purposes. At May 31, 2019 and 2018, the components of these temporary differences and the net deferred tax liability were as follows:

	2019	2018
Accrued vacation	**$ 70,400**	$ 66,600
Accrued expenses	**(4,200)**	-
Capitalized costs	**17,300**	32,400
Depreciation and amortization	**(382,200)**	(244,000)
Deferred rent	**238,300**	188,700
Contingent consideration	**(158,200)**	(158,200)
Restricted stock	**3,600**	2,300
Accounts receivable	**6,600**	6,500
Total net deferred income tax liability	**$ (208,400)**	$ (105,700)

7. Revenue from contracts with customers

Dual Reporting: The effects to the financial statements as of and for the year ended May 31, 2019, as a result of applying Topic 606, rather than previous GAAP (ASC 605), are as follows:

	As Reported (Topic 606)	As Adjusted (ASC 605)
Assets:		
Accounts receivable - unbilled	$ 4,591,636	$ 5,725,395
Prepaid expenses	534,104	372,345
Income taxes receivable	100,000	-
Liabilities:		
Deferred revenue	$ 269,632	$ 492,424
Income taxes payable	-	83,457
Stockholders' equity:		
Retained earnings	**$ 18,242,435**	$ 18,808,186
Contract revenue	$ 39,478,079	$ 40,389,046
Contract expenses	35,894,088	36,055,847
Operating income	3,583,991	4,333,199
Income before income taxes	3,709,246	4,458,454
Provision for income taxes	878,371	1,061,828
Net income	2,830,875	3,396,626
Basic earnings per share	$ 3.17	$ 3.80
Diluted earnings per share	$ 3.17	$ 3.80

The changes reflected above were primarily due to certain fixed-price-milestone type contracts, on which the Company previously recognized revenue using the latest milestone achieved and under Topic 606 are recognized using a different over-time output measure which was considered to more effectively measure the progress on uncompleted milestones. Additionally, certain fixed-price type contracts had previously recognized contract components on a separate basis and these components are now combined under Topic 606 into a single performance obligation, as they are not capable of being distinct under the new guidance. Furthermore, certain associated contract fulfillment costs are considered incremental and require capitalization and amortization over the expected customer life under Topic 606.

Remaining Performance Obligations: Remaining performance obligations represent the expected value (transaction price) of executed contracts, both funded and unfunded, less revenue recognized to date. Remaining performance obligations do not include future potential purchase or work orders expected to be awarded under MSA or similar agreements.

As of May 31, 2019, the Company expects to recognize a majority of the remaining performance obligations over the next 12 months.

Disaggregation of Revenues: The Company disaggregates revenue by customer-type and contract-type as these categories best represent how the nature, timing and uncertainty of the Company's revenue and cash flows are affected by the U.S. government procurement environment and economic factors.

Disaggregated revenue by customer-type and contract type was as follows:

Revenue by customer type and contract type	**Year Ended May 31, 2019**
National Institutes of Health (NIH)	
Cost-Plus-Fixed-Fee	$ 4,224,839
Fixed-Price-Per-Unit and Time-And-Materials	7,777,576
Fixed-Price-Milestone	449,007
Total National Institutes of Health	12,451,422
Commercial and Other	
Cost-Plus-Fixed-Fee	2,057,277
Fixed-Price-Per-Unit and Time-And-Materials	17,786,430
Fixed-Price-Milestone	7,182,950
Total Commercial and Other	27,026,657
Total revenue	$ 39,478,079

CPFF contracts are generally lower risk and have lower profits. T&M and FP-U contracts are also low risk but profits may vary depending on actual labor costs compared to negotiated contract billing rates. FP-M contracts offer the potential for higher profits while increasing the Company's exposure to risk of cost overruns.

Contract Assets and Liabilities: Contract assets include unbilled contract receivables, which is the amount of revenue recognized that exceeds the amount billed to the customer, and right to payment is not just subject to the passage of time. Contract assets also include incremental fulfillment costs where, under certain FP contracts, costs are incurred usually at the beginning of the contract performance, where the single performance obligation has not yet been completely satisfied. Contract liabilities consist of deferred revenue.

The components of contract assets and contract liabilities consisted of the following:

		May 31, 2019	June 1, 2018 (1)
Contract assets:	Balance sheet line item:		
Unbilled contract receivables (2)	Accounts receivable - unbilled	$ 4,591,636	$ 1,918,759
Fulfillment costs	Prepaid expenses	161,705	328,804
		$ 4,753,341	$ 2,247,563
Contract liabilities:	Balance sheet line item:		
Deferred revenue	Deferred revenue	$ 269,632	$ 481,303

(1) Includes the cumulative effect of the changes made to the Company's opening balance sheet at June 1, 2018, as a result of the adoption of ASU 2014-09, *Revenue from Contracts with Customers,* (Topic 606).

(2) Balances include primarily timing differences between what the Company has billed or has the right to bill as of the period end as compared with the revenue recognized, on FP-M and CPFF type contracts.

The increase in "Contract assets" was primarily due to the timing of billings and revenue recognized on certain contracts. The increase also relates to fulfillment costs being capitalized on certain contracts, offset by amortization for the year ended May 31, 2019.

During the year ended May 31, 2019, the Company recognized revenue of approximately $456,300 relating to amounts that were included as a contract liability at June 1, 2018.

During the year ended May 31, 2019, the Company recognized approximately $604,000 of amortization related to its fulfillment costs. The Company did not recognize any impairment losses on contract assets for the year ended May 31, 2019.

8. Operating leases

The Company is obligated, as lessee, under non-cancelable operating leases covering its facilities and certain equipment expiring at various dates through 2026. One of the three facility leases provides an option to renew for five years. Another facility lease provides for two successive five-year renewal options. Some of the leases provide for annual increases. A deferred rent liability is recorded for the difference between the pro-rata expense recognized and the total amounts paid to date under the leases.

The following is a schedule by years of future minimum rental payments required under the operating leases that have an initial or remaining non-cancelable lease term in excess of one year as of May 31, 2019:

Year Ending May 31	Total
2020	$ 3,181,179
2021	3,230,837
2022	3,098,874
2023	2,500,461
2024	2,575,475
Thereafter	2,161,900
Total	$ 16,748,726

In December 2018, the Company entered into an eight year office and animal laboratory lease located in Maryland with total lease payments of approximately $4,045,000. Total future lease payments on this lease are not included in the schedule above due to ongoing lease negotiations. As of the date of the financial statements the Company has not occupied the space.

Total rent expense for the years ended May 31, 2019 and 2018 was approximately $3,316,000 and $3,308,000 respectively.

9. Restricted stock

During the year ended May 31, 2018, the Company granted 1,000 shares of its common stock to the President of the Company. The shares vest three years from the date of issuance. Stock compensation expense relating to the stock was $13,167 and $8,394 for the years ended May 31, 2019 and 2018, respectively. Compensation expense of $17,940 remains to be recognized over a 1.36 year period.

10. Contract status

The Company has authorized but uncompleted contracts in progress at May 31, 2019, approximately as follows:

Total contract price of initial contract awards including modifications, exercised options, and approved change orders	**$ 60,129,000**
Completed to date	**(51,252,000)**
Authorized backlog	**$ 8,877,000**

The foregoing contracts contain unexercised options and unfunded amounts not reflected in the above amounts totaling approximately $8,269,000 at May 31, 2019.

11. Retirement plan

The Company sponsors a tax deferred savings plan to provide retirement benefits for all eligible employees under the Internal Revenue Code (Code). The Company's annual contribution to the plan is based on eligible employee participation. Participating employees may voluntarily contribute a percentage of their annual salaries, not to exceed certain limits provided by the Code. The Company may make discretionary matches of each participant's contribution. Rights to benefits provided by the Company's contributions vest 20% each year after the second year of service. Participants are fully vested in their voluntary contributions. The Company's contributions for the years ended May 31, 2019 and 2018, were $123,655 and $124,338, respectively.

12. Commitments and contingencies

The Company has employment agreements with its President, Chief Financial Officer, and Chief Operating Officer, which provide for a base compensation and additional incentive compensation dependent upon annual operations. The agreements for the President and Chief Financial Officer are effective through May 31, 2021 at which time the agreements will automatically renew annually unless either party provides a 30 day notice. The agreement with the Chief Operating Officer is effective through May 31, 2020 at which time the agreement will automatically renew annually unless either party provides a 30 day notice. If there is a change in control, the agreements shall remain in effect for an additional two years.

13. Industry condition

The U.S. government faces substantial fiscal and economic challenges that affect funding for its non-discretionary and discretionary budgets. The funding of U.S. government programs is subject to an annual Congressional budget authorization and appropriations process which have not followed normal practices in recent years. The Company cannot predict the impact on existing, follow-on or replacement programs from potential changes in priorities.

aronson LLC
ASSURANCE | TAX | CONSULTING

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

301.231.6200
301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Bioqual, Inc.
Rockville, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of **Bioqual, Inc.**, which comprise the Balance Sheet as of May 31, 2019, and the related Statements of Income, Stockholders' Equity and Cash Flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 7, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered **Bioqual, Inc.'s** internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of **Bioqual, Inc.'s** internal control. Accordingly, we do not express an opinion on the effectiveness of **Bioqual, Inc.'s** internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019-001 that we consider to be a material weakness.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether **Bioqual, Inc.'s** financial statements are free from material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Bioqual, Inc.'s Response to Finding

Bioqual, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. **Bioqual, Inc.'s** response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Aronson LLC

Rockville, Maryland
September 7, 2019

aronson LLC
ASSURANCE | TAX | CONSULTING

805 King Farm Boulevard
Suite 300
Rockville, Maryland 20850

301.231.6200
301.231.7630
www.aronsonllc.com
info@aronsonllc.com

Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance

Board of Directors
Bioqual, Inc.
Rockville, Maryland

Report on Compliance for the Major Federal Program

We have audited **Bioqual, Inc.'s** compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on **Bioqual, Inc.'s** major federal program for the year ended May 31, 2019. **Bioqual, Inc.'s** major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of their federal awards applicable to their federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for **Bioqual, Inc.'s** major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal* Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **Bioqual, Inc.'s** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of **Bioqual, Inc.'s** compliance.

Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance (continued)

Opinion on the Major Federal Program

In our opinion, **Bioqual, Inc.** complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended May 31, 2019.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance which are required to be reported in accordance with the Uniform Guidance.

Report on Internal Control over Compliance

Management of **Bioqual, Inc.** is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered **Bioqual, Inc.'s** internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of **Bioqual, Inc.'s** internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Praxity MEMBER
GLOBAL ALLIANCE OF INDEPENDENT FIRMS

Certified Public Accountants & Management Consultants

805 King Farm Boulevard | Suite 300 | Rockville, Maryland 20850 | 301.231.6200 | 301.231.7630 | www.aronsonllc.com | info@aronsonllc.com

Independent Auditor's Report on Compliance for the Major Program and on Internal Control over Compliance Required by the Uniform Guidance (continued)

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Aronson LLC

Rockville, Maryland
September 7, 2019

Certified Public Accountants & Management Consultants

805 King Farm Boulevard | Suite 300 | Rockville, Maryland 20850 | 301.231.6200 | 301.231.7630 | www.aronsonllc.com | info@aronsonllc.com

Bioqual, Inc.

Schedule of Expenditures of Federal Awards

Year Ended May 31, 2019

Federal Grantor/Pass-through Grantor/Program Title	CFDA Number	Contract/Grant/ Pass Through Identifying Number	Amount passed through to subrecipients	Federal Expenditures
Research and Development Cluster				
Department of Health and Human Services				
National Institutes of Health				
National Institute of Allergy and Infectious Diseases				
Pass Through: University of Hawaii – Defining a Protective Ebola Vaccine in Non-Human Primates	93.855	KA1019	$ -	$ 104,584
Pass Through: University of Hawaii Preclinical Development of a Thermostable Trivalent Filovirus Vaccine	93.855	KA1303	-	183,442
Simian Vaccine Evaluation Units (SVEUs)	93.XXX	HHSN272201300003I	324,114	2,050,251
Assessment of Neisseria Gonorrhea (GC) and Chlamydia Trachomatis (CT) Co-Infection	93.XXX	HHSN272201000006I	871,434	1,034,462
Pre-Clinical Models of Infectious Diseases	93.XXX	HHSN272201700015I	604,230	852,584
Total National Institutes of Health			1,799,778	4,225,323
Total Research and Development Cluster / Total Expenditures of Federal Awards			**$ 1,799,778**	**$ 4,225,323**

See accompanying Notes to Schedule of Expenditures of Federal Awards.

1. Basis of presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal grant and cost plus fixed-fee award activity of Bioqual, Inc. under programs of the federal government for the year ended May 31, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Bioqual, Inc., it is not intended to and does not present the financial position, results of operations, or cash flows of Bioqual, Inc.

2. Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Bioqual, Inc. did not elect to use the ten-percent de minimis indirect cost rate.

Pass-through entity identifying numbers are presented where available.

3. Total federal funds

A reconciliation of the Schedule to the Statement of Income for the year ended May 31, 2019 is as follows:

Federal grants and cost reimbursable federal awards	$ 4,225,323
Fixed price federal awards and other contracts	35,252,756
Total contract revenue	**$ 39,478,079**

Year Ended May 31, 2019

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness identified?	X	Yes		No
• Significant deficiency identified?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:

• Material weakness identified?		Yes	X	No
• Significant deficiency identified?		Yes	X	None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)?		Yes	X	No

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.855, 93.XXX	Research and Development Cluster

Dollar threshold used to distinguish between type A and type B programs:	$	750,000		
Auditee qualified as low-risk auditee?	X	Yes		No

Year Ended May 31, 2019

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2019-001: Material Weakness – Revenue Recognition

Criteria: Financial statements should be prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Certain fixed price contracts should be recognized using an output method that approximates a straight-lined recognition method over the estimated period of performance in accordance with Topic 606.

Condition: The Company made initial estimates of the period of performance; however, 5 contracts required adjustments due to material variances between the initial estimate and actual results. The variances included both over- and understatements of revenue. Due to the number of contracts with variances, we consider the controls over this estimate to be ineffective and it is reasonably possible that a material misstatement could occur.

Context: The Company adopted Topic 606 for the year ended May 31, 2019.

Cause: Estimates were made based on the best assumptions from project managers on the expected time to complete the projects; however, there were material variances between the estimate and actual period over which revenue should be recognized.

Questioned costs: None

Repeat finding: This is not a repeat finding.

Recommendation: The Company should attempt to strengthen controls on their estimates over the revenue recognition process. In particular, the Company could consider improving the process and controls for performing their estimates in this area to more precisely capture recent circumstances, events or other information.

Management's response and corrective action plan (unaudited): The accounting system utilized by Bioqual, Inc. allows for revenue to be recorded on a fixed monthly amount. This revenue formula works best for the straight-line allocation of revenue for certain fixed price – milestone type contracts. The initial process for determining the period of performance was to use the first day of the month of delivery of the study animals as the start date and then use the study design and schedule to determine the end of the period of performance. However, the study design is sometimes altered based on the on-going results of the study. These changes can alter the end date of the study. We did not confer with the Principal Investigators (PI) regarding the progress of each study often enough to maintain accurate end dates of each study. In order to ensure the period of performance end date is correct, discussion with the PI regarding study progress will happen several times throughout the term of the contract. More frequent progress updates received from the PI will facilitate any necessary adjustment to the period of performance so revenue may be recognized over the proper period.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

None

SECTION V – PRIOR YEAR FEDERAL AWARD FINDINGS AND FOLLOW UP

Finding 2018-001: Reportable Finding Considered a Significant Deficiency in Internal Controls in Compliance - Reporting

Condition: The Company did not file a FFATA report for its first tier subawards timely. Audit testing determined that a subcontract given in fiscal year 2018 under the Advanced Bioscience Laboratories, Inc. and University of Washington cooperative agreements that obligated over $25,000 in federal funds was not reported timely in accordance with FFATA as implemented in 2 CFR part 170.

Current status: No similar reporting issues were noted in the 2019 audit.