BIOQUAL, INC.

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

YEARS ENDED MAY 31, 2020 AND 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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.

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 9, 2020, 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.

Adoption of Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842)

As discussed in Note 1 to the financial statements, effective June 1, 2019, the Company changed its method of accounting for leases in these financial statements due to the adoption of ASU No. 2016-02, *Leases (Topic 842)*, as amended, using the optional transition method to apply the standard through a cumulative effect adjustment in the period of adoption. Our opinion is not modified with respect to this matter.

Aronson LLC

Rockville, Maryland
September 9, 2020

May 31,	**2020**	2019
Assets		
Current assets		
Cash and cash equivalents	**$ 10,256,437**	$ 9,207,608
Accounts receivable - contracts	**14,449,219**	11,428,969
Income taxes receivable	**188,300**	100,000
Prepaid expenses	**1,360,954**	534,104
Total current assets	**26,254,910**	21,270,681
Property and equipment		
Leasehold improvements	**5,514,605**	4,970,031
Furniture, fixtures and equipment	**13,582,937**	11,823,373
Total property and equipment	**19,097,542**	16,793,404
Less: Accumulated depreciation and amortization	**(12,450,988)**	(11,499,795)
Net property and equipment	**6,646,554**	5,293,609
Other assets		
Operating lease right-of-use assets	**14,849,174**	-
Cash surrender value of officers' life insurance	**763,347**	700,827
Intangible assets, net	**5,975**	16,219
Goodwill	**1,028,408**	1,028,408
Total other assets	**16,646,904**	1,745,454
Total assets	**$ 49,548,368**	$ 28,309,744

	2020	2019
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	**$ 2,476,101**	$ 1,311,657
Accrued compensation and related liabilities	**1,504,216**	1,159,286
Deferred revenue	**828,183**	269,632
Operating lease liabilities, current portion	**2,873,963**	-
Deferred rent, current portion	**-**	36,308
Total current liabilities	**7,682,463**	2,776,883
Long term liabilities		
Operating lease liabilities, net of current portion	**13,271,008**	-
Deferred rent, net of current portion	**-**	760,278
Deferred income taxes	**412,700**	208,400
Total long term liabilities	**13,683,708**	968,678
Total liabilities	**21,366,171**	3,745,561
Commitments and contingencies		
Stockholders' equity		
Common stock - $0.01 par value, 5,000,000 shares authorized, 1,599,408 shares issued; and 894,416 shares outstanding at May 31, 2020 and 2019, respectively	**15,994**	15,994
Treasury stock, at cost	**(1,041,240)**	(1,041,240)
Additional paid-in capital	**7,360,161**	7,346,994
Retained earnings	**21,847,282**	18,242,435
Total stockholders' equity	**28,182,197**	24,564,183
Total liabilities and stockholders' equity	**$ 49,548,368**	$ 28,309,744

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

Bioqual, Inc.

Statements of Income

Years Ended May 31,	**2020**	2019
Contract revenue	**$ 46,360,201**	$ 39,478,079
Operating expenses		
Contract	**36,672,568**	32,067,999
General and administrative	**4,365,581**	3,826,089
Total operating expenses	**41,038,149**	35,894,088
Operating income	**5,322,052**	3,583,991
Other income (expense)		
Interest income	**114,817**	155,640
Interest expense	**(10,451)**	(31,947)
Other income	**62,520**	1,562
Total other income	**166,886**	125,255
Income before income taxes	**5,488,938**	3,709,246
Provision for income taxes	**1,258,000**	878,371
Net income	**$ 4,230,938**	$ 2,830,875
Basic earnings per share	**$ 4.74**	$ 3.17
Diluted earnings per share	**$ 4.73**	$ 3.17
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	**893,971**	893,655

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, 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
Stock compensation expense	-	-	-	-	13,167	-	13,167
Dividends declared - $.70 per share	-	-	-	-	-	(626,091)	(626,091)
Net income	-	-	-	-	-	4,230,938	4,230,938
Balance, May 31, 2020	1,599,408	$ 15,994	704,992	$ (1,041,240)	$ 7,360,161	$ 21,847,282	$ 28,182,197

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

Years Ended May 31,	**2020**	2019
Cash flows from operating activities		
Net income	**$ 4,230,938**	$ 2,830,875
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**1,061,312**	872,267
Noncash lease expense	**3,215,328**	-
Deferred income taxes	**204,300**	102,700
Stock compensation expense	**13,167**	13,167
Change in cash surrender value of officers' life insurance	**(62,520)**	4,265
(Increase) decrease in		
Accounts receivable - contracts	**(3,020,250)**	(2,168,901)
Prepaid expense	**(826,850)**	194,726
Income tax receivable	**(88,300)**	327,425
Increase (decrease) in		
Accounts payable	**1,164,444**	(491,997)
Accrued compensation and related liabilities	**344,930**	114,161
Deferred revenue	**558,551**	(211,671)
Operating lease liability	**(2,716,118)**	-
Deferred rent	**-**	110,909
Net cash provided by operating activities	**4,078,932**	1,697,926
Cash flows from investing activities		
Purchases of property and equipment	**(2,404,012)**	(1,867,562)
Proceeds from loan on life insurance	**-**	3,399
Net cash used by investing activities	**(2,404,012)**	(1,864,163)
Cash flows from financing activities		
Principal payments on note payable	**-**	(250,115)
Dividends paid	**(626,091)**	(536,650)
Net cash used by financing activities	**(626,091)**	(786,765)

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

Years Ended May 31,		**2020**		2019
Net change in cash and cash equivalents		**1,048,829**		(953,002)
Cash and cash equivalents at beginning of year		**9,207,608**		10,160,610
Cash and cash equivalents at end of year	**$**	**10,256,437**	$	9,207,608
Supplemental information:				
Income taxes paid	**$**	**1,142,000**	$	808,500
Interest paid	**$**	**10,451**	$	31,947
Recognition of right-of-use asset	**$**	**18,064,502**	$	-
Recognition of operating lease liability	**$**	**18,861,088**	$	-
Derecognition of deferred rent liability	**$**	**796,586**	$	-

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, COVID-19, 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, COVID-19, and breeding and development of genetically defined animals. 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.

With the adoption of the Financial Accounting Standards Board ("FASB"), Accounting Standards Codification 606, *Revenue from Contracts with Customers* ("Topic 606"), revenue is recognized upon transfer of control of promised products and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services.

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.

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.

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, 2020, the Company had negotiated final settlements on indirect cost rates through 2014. 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 years ended May 31, 2020 and 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.

Government contracts: 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.

Contract costs: 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. As a result, costs are expensed as incurred.

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.

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, 2020 and 2019, 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, 2020 and 2019 was $1,051,068 and $862,023, respectively.

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, 2020 and 2019. There were no changes to the carrying value of goodwill during the years ended May 31, 2020 and 2019.

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, 2020 and 2019, 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, 2020 and 2019, there were no accruals for uncertain tax positions. Tax years from May 31, 2017 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 years ended May 31, 2020 or 2019.

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 $1,126,953 and $331,509 during the years ended May 31, 2020 and 2019, 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.

Leases: The Company enters into leases as a lessee for certain buildings, land and equipment. The Company's leases typically have lease terms between three years and ten years and may include one or more renewal options. Under Accounting Standards Codification (ASC) 842, at contract inception the Company determines whether a contract is or contains a lease and whether the lease should be classified as an operating or finance lease. Operating lease balances are included in operating lease right-of-use assets, other current liabilities, and operating lease liabilities in the accompanying Balance Sheet for the year ended May 31, 2020.

The Company recognizes operating lease right-of-use assets and operating lease liabilities based on the present value of the future minimum lease payments over the lease term at commencement date. The Company uses it's incremental borrowing rate based on the information available at commencement date to determine the present value of future payments and the appropriate lease classification. Many of the Company's leases include renewal options aligned with contract terms. The Company defines the initial lease term to include renewal options determined to be reasonably certain. When the Company adopted of ASC 842, it elected not to recognize a right-of-use asset and a lease liability for leases with an initial term of 12 months or less; it recognizes lease expense for these leases on a straight-line basis over the lease term. The Company elected the practical expedient to not separate lease components from nonlease components and applied that practical expedient to all material classes of leased assets.

Many of the Company's real property lease agreements contain incentives for tenant improvements, rent holidays or rent escalation clauses. For tenant improvement incentives, if the incentive is determined to be a leasehold improvement owned by the lessee, the Company generally records a deferred rent liability and amortizes the deferred rent over the term of the lease as a reduction to rent expense. For rent holidays and rent escalation clauses during the lease term, the Company records rental expense on a straight-line basis over the term of the lease. For these lease incentives, the Company uses the date of initial possession as the commencement date, which is generally when the Company is given the right of access to the space and begins to make improvements in preparation for intended use.

Finance leases are not material to the Company's financial statements and the Company is not a lessor in any material arrangements. The Company does not have any material restrictions or covenants in our lease agreements, sale-leaseback transactions, land easements or residual value guarantees.

Newly adopted accounting pronouncement: On February 25, 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASC Topic 842 supersedes existing lease guidance, including ASC 840 - Leases. Among other things, ASU 2016-02 requires recognition of a right-of-use asset and liability for future lease payments for contracts that meet the definition of a lease and requires disclosure of certain information about leasing arrangements. On July 30, 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842): Targeted Improvements, which, among other things, allows companies to elect an optional transition method to apply the new lease standard through a cumulative-effect adjustment in the period of adoption.

The Company adopted the standard on June 1, 2019 using the optional transition method and, as a result, did not recast prior period financial statements. All prior period amounts and disclosures are presented under ASC 840. The Company elected the package of practical expedients, which, among other things, allows us to carry forward our prior lease classifications under ASC 840. The Company did not elect to adopt the hindsight practical expedient and are therefore maintaining the lease terms they previously determined under ASC 840. Adoption of the new standard resulted in the recording of additional lease assets and lease liabilities on the Balance Sheet, with no cumulative impact to retained earnings, and did not have a material impact on the Company's results of operations or cash flows for the year ended May 31, 2020.

Subsequent events: Management has evaluated subsequent events for disclosure in these financial statements through September 9, 2020, which is the date the financial statements are available to be issued.

2. Accounts receivable

Accounts receivable at May 31, 2020 and 2019, 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:

	2020	2019
Billed receivables	**$ 10,378,195**	$ 6,837,333
Unbilled receivables	**4,071,024**	4,591,636
Total	**$ 14,449,219**	$ 11,428,969

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 customers generated approximately 48% and 49% of total contract revenues for the years ended May 31, 2020 and 2019, respectively. These customers also comprised approximately 36% and 67% of total receivables as of May 31, 2020 and 2019, respectively.

3. Intangible assets

Intangible assets consisted of the following at May 31, 2020 and 2019:

	2020		2019		
	Cost	**Accumulated Amortization**	Cost	Accumulated Amortization	Weighted Average Life
Customer contracts and relationships	**$ 70,000**	**$ (64,025)**	$ 70,000	$ (53,781)	7
Accreditation	**204,000**	**(204,000)**	204,000	(204,000)	2
Total	**$ 274,000**	**$ (268,025)**	$ 274,000	$ (257,781)	-

The definite lived intangible assets have no residual value at the end of their useful lives. Amortization expense for the years ended May 31, 2020 and 2019 was $10,244 each year. Estimated amortization expense for the year ending May 31, 2021 is $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, 2020 and 2019, 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, 2020 or 2019. The line bears interest at the bank's prime rate plus .25% (3.50% at May 31, 2020) 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, 2020 and 2019.

The Company had an irrevocable standby letter of credit arrangement outstanding with a bank as collateral for a lease at May 31, 2020 and 2019 for an amount of $203,400.

5. Income taxes

For the years ended May 31, 2020 and 2019, the components of the provision for income taxes consisted of:

	2020	2019
Current tax expense	**$ 1,053,700**	$ 775,671
Deferred tax expense	**204,300**	102,700
Provision for income taxes	**$ 1,258,000**	$ 878,371

The differences between the amounts of income tax expense that would result from applying domestic federal statutory income tax rates to the net income and what is reported is related to certain nondeductible expenses and state income taxes. The provision for income taxes for the years ended May 31, 2020 and 2019 reflected in the accompanying Statements of Income varies from the amount which would have been computed using statutory rates as follows:

	2020	2019
Federal taxes at statutory rate	**$ 1,153,587**	$ 778,942
State taxes at statutory rate, net of federal tax benefit	**286,419**	241,750
Permanent differences and other	**(182,006)**	(142,321)
Provision for income taxes	**$ 1,258,000**	$ 878,371

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, 2020 and 2019, the components of these temporary differences and the net deferred tax liability were as follows:

	2020	2019
Accrued vacation	**$ 77,200**	$ 70,400
Accrued expenses	**(6,300)**	(4,200)
Capitalized costs	**14,800**	17,300
Depreciation and amortization	**(703,100)**	(382,200)
Deferred rent	**-**	238,300
Operating lease liability	**339,700**	-
Contingent consideration	**(150,700)**	(158,200)
Restricted stock	**9,100**	3,600
Deferred revenue	**6,600**	6,600
Total net deferred income tax liability	**$ (412,700)**	$ (208,400)

6. Revenue from contracts with customers

Disaggregation of revenues: The Company disaggregates revenues 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 revenues for the years ended May 31, were:

Revenue by Customer and Contract Type	**2020**	2019
National Institutes of Health (NIH)		
Cost-Plus-Fixed-Fee	**$ 7,727,401**	$ 4,224,839
Fixed-Price-Per-Unit and Time-And-Materials	**2,859,814**	7,777,576
Fixed-Price-Milestone	**277,955**	449,007
Total National Institutes of Health (NIH)	**10,865,170**	12,451,422
Commercial and Other		
Cost-Plus-Fixed-Fee	**$ 2,466,170**	$ 2,057,277
Fixed-Price-Per-Unit and Time-And-Materials	**23,623,463**	17,786,430
Fixed-Price-Milestone	**9,405,398**	7,182,950
Total Commercial and Other	**35,495,031**	27,026,657
Total Revenues	**$ 46,360,201**	$ 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.

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 the potential value associated with future potential purchases, tasks, or work orders expected to be awarded under MSA or similar agreements or future option periods that are not probable of exercise as of May 31, 2020.

As of May 31, 2020, the Company expects to recognize a majority of the remaining performance obligations over the next 12 months.

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 performance obligation has not yet been completely satisfied. Contract liabilities (deferred revenue) consist of advance payments and billings in excess of revenue recognized.

The components of contract assets and contract liabilities as of May 31 consisted of the following:

			2020		2019
Contract assets	**Balance Sheet line item**				
Unbilled contract receivables (1)	Accounts receivable - contracts	**$**	**4,071,024**	$	4,591,636
Fulfillment costs	Prepaid expenses	**$**	**901,356**	$	161,705
Contract liabilities	**Balance Sheet line item**				
Deferred revenue	Deferred revenue	**$**	**828,183**	$	269,632

- (1) Balances include primarily timing differences between what the Company has billed or has the right to bill as of the year end as compared with the revenue recognized, on certain FP and CPFF 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. The increase in "Contract liabilities" was primarily due to billings in excess of revenue recognized on certain FP contracts.

During the year ended May 31, 2020, the Company recognized revenue of approximately $173,000 relating to amounts that were included as a contract liability at May 31, 2019.

During the year ended May 31, 2020, the Company recognized approximately $393,000 of amortization related to its fulfillment costs. The Company did not recognize any impairment losses on contract assets for the year ended May 31, 2020.

7. Leases under ASC 842

As of May 31, 2020, the components of total lease cost and other supplemental lease information from the adoption of ASU No. 2016-02, Leases (Topic 842) are presented in the following tables:

	For the year ended May 31, 2020
Components of lease cost:	
Operating lease costs	$ 3,757,060
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	3,257,849
Lease liabilities arising from obtaining ROU assets (subsequent to adoption):	
Operating leases	136,738

Weighted average remaining lease terms and discount rates are presented in the following table:

	May 31, 2020
Weighted average remaining lease term (in years):	
Operating leases	5.30
Weighted average discount rate (annual):	
Operating leases	5.72%

The following table presents a maturity analysis of the Company's operating leases at May 31, 2020:

	Operating leases
2021	$ 3,724,578
2022	3,872,646
2023	3,291,946
2024	3,380,918
2025	1,850,210
Thereafter	2,742,611
Total lease payments	18,862,909
Less imputed interest	(2,717,938)
Present value of lease liabilities	$ 16,144,971

8. Operating leases under ASC 840

Total rent expense under ASC 840 for the year ended May 31, 2019 was approximately $3,316,000. As of May 31, 2019, future minimum rental payments required under long-term non-cancelable operating leases classified under ASC 840 were as follows:

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

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 each of the years ended May 31, 2020 and 2019. Compensation expense of $4,773 remains to be recognized over a .36 year period.

10. Contract status

The Company has authorized but uncompleted contracts in progress at May 31, 2020, approximately as follows:

Total contract price of initial contract awards including modifications, exercised options, and approved change orders	**$ 25,496,000**
Completed to date	**(17,620,000)**
Authorized backlog	**$ 7,876,000**

The foregoing contracts contain unexercised options and unfunded amounts not reflected in the above amounts totaling approximately $72,130,000 at May 31, 2020.

11. Retirement plan

The Company sponsors a tax deferred savings plan to provide retirement benefits for all eligible employees under the Internal Revenue Code (the 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, 2020 and 2019, were $132,650 and $123,655, 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 was effective through May 31, 2020. In June 2020, a new agreement with the Chief Operating Officer was executed which expires on May 31, 2023. 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.

14. Risks and uncertainties

The impact of the coronavirus (COVID-19) outbreak, or similar global health concerns, could negatively impact the Company’s operations, suppliers or other vendors, and its customer base. The operations for certain services could be negatively impacted by the regional or global outbreak of illnesses, including COVID-19. As of the report date, management is not aware of any impacts from quarantines, labor shortages or other disruptions related to COVID-19 that would have a material adverse effect on the Company’s operations.

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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, 2020, 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 9, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.*

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 9, 2020

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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, 2020. **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 its 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, 2020.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2020-001. Our opinion on the major federal program is not modified with respect to this matter.

Bioqual, Inc.'s response to the noncompliance 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 compliance and, accordingly, we express no opinion on the response.

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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a significant deficiency.

Bioqual, Inc.'s response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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 9, 2020

Year Ended May 31, 2020

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				
Simian Vaccine Evaluation Units (SVEUs)	N/A	HHSN272201300003I	$ 80,753	$ 1,064,669
Animal Care and Laboratory Support Services to the Vaccine Research Center	N/A	75N93019C00069	-	4,302,181
Pre-Clinical Models of Infectious Diseases	N/A	HHSN272201700015I	1,369,142	2,185,503
Total Direct National Institutes of Health			1,449,895	7,552,353
Pass Through: University of Hawaii – Defining a Protective Ebola Vaccine in Non-Human Primates	93.855	KA1019	-	2,924
Pass Through: University of Hawaii - Preclinical Development of a Thermostable Trivalent Filovirus Vaccine	93.855	KA1303	-	172,124
Total Direct and Indirect National Institutes of Health			1,449,895	7,727,401
Total Research and Development Cluster / Total Expenditures of Federal Awards			**$ 1,449,895**	**$ 7,727,401**

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, 2020. 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, 2020 is as follows:

Federal grants and cost reimbursable federal awards	$ 7,727,401
Fixed price federal awards and other contracts	38,632,800
Total contract revenue	**$ 46,360,201**

Year Ended May 31, 2020

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness identified?	______ Yes	X	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?	X Yes	______	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)?	X Yes	______	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?	______ Yes	X	No

SECTION II - FINANCIAL STATEMENT FINDINGS

None

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2020-001: Significant Deficiency – Procurement and Lack of Sole Source Determination Document

Federal Program: Research and Development Cluster

Criteria: Requirements under 2 CFR 200.318(i) states that the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Regulations under 2 CFR 200.213 restricts awards, subawards, and contracts from being made to disbarred or suspended individuals or entities. 2 CFR 200.320 requires that the non-federal entity must follow certain procedures for procurement transactions. These procedures must ensure that all solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured and identify all requirements which the offerors must fulfill and all other factors to be used in evaluating method of procurement.

Condition: During our testing for compliance over procurement, we noted that disbarment and suspension checks were not performed on vendors where purchases were made with federal grant funding. Further, we noted that sole source determination documentation was not retained on file.

Context: Vendor checks for disbarment and suspension were not performed using the System of Award Management (SAM.gov) and procurements that were deemed sole source were not substantiated with appropriate documentation.

Effect: There is a possibility that goods or services would not be procured in accordance with federal requirements under the Uniform Guidance due to the lack of vendor checks and documentation over sole source determination.

Cause: Vendor checks for disbarment and suspension were not performed at the time of order and sole source determination documentation was not retained. .

Questioned costs: None

Repeat finding: This is not a repeat finding.

Recommendation: The Company should update its procurement procedures to incorporate the vendor check on SAM.gov and ensure retention of all sole source procurement related documents.

Management's response: See Management's Corrective Action Plan at Appendix A.

Year Ended May 31, 2020

SECTION IV – PRIOR YEAR FINANCIAL STATEMENT FINDINGS

Finding 2019-001: Material Weakness – Revenue Recognition

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.

Current status: No similar reporting issues were noted in the 2020 audit.

SECTION V – PRIOR YEAR FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

BIOQUAL, Inc.

September 9, 2020

Management's response and corrective action for the following finding from the Uniform Guidance Single Audit for the fiscal year ended May 31, 2020:

Finding 2020-001: Significant Deficiency – Procurement and Lack of Sole Source Determination Document

Criteria: Requirements under 2 CFR 200.318(i) states that the non-Federal entity must maintain records sufficient to detail the history of procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price. Regulations under 2 CFR 200.213 restricts awards, subawards, and contracts from being made to disbarred or suspended individuals or entities. 2 CFR 200.320 requires that the non-Federal entity must follow certain procedures for procurement transactions. These procedures must ensure that all solicitations incorporate a clear and accurate description of the technical requirements for the material, product, or service to be procured and identify all requirements which the offerors must fulfill and all other factors to be used in evaluating method of procurement.

Condition: During our testing for compliance over procurement, we noted that disbarment and suspension checks were not performed on vendors where purchases were made with federal grant funding. Further, we noted that sole source determination documentation was not retained on file.

Management's response: Although the Company followed procurement regulations when purchasing capital expenditures on federal contracts, Management was not aware of the requirement to perform competitions for purchasing all items, regardless of amount, if the cost was to be allocated to a federal contract. Additionally, Management was not aware of the requirement to determine the debarment or suspension from federal awards status of its vendors.

Corrective action plan: The Company will update its procurement procedures to include, minimally, the following processes: record the rationale for method of procurement, selection of contract type, contractor selection or rejection and the basis for the contract type. The Company will also create a database of selected vendors and record, at least annually, if the vendor has been disbarred or suspended from federal awards using the System of Award Management (SAM.gov).