



Setpoint
Heating & Air Co.

Financial review

12-Month Financial Review

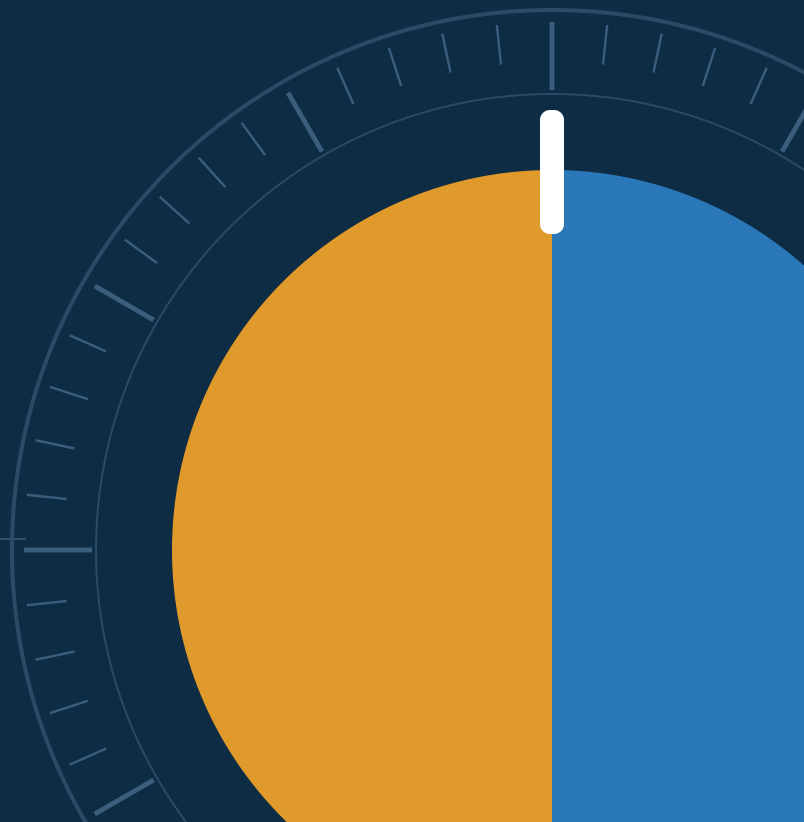
August 2025 - July 2026, compared with the prior 12 months

Prepared for **Setpoint Heating & Air Co.**

Prepared by **PLS Balance My Books** | August 12, 2026

Confidential

Illustrative example. Setpoint Heating & Air Co. is a fictional company, and every name and figure in this report is invented to demonstrate the analysis. Any resemblance to a real business is coincidental.



1 Executive summary

Revenue grew 19%. Profit fell by more than half.

The shop sold more systems and more service than ever before, but replacement pricing did not keep up with equipment costs, so each dollar of revenue kept less profit.

\$1.43M

Revenue, Aug 2025 - Jul 2026. Up 19.0% from the prior 12 months.

\$52.3K

Net income. Down 53.6%; net margin fell from 9.4% to 3.7%.

40.0%

Gross margin, down from 45.5%. The decline cost about \$78.8K of gross profit.

-\$7.5K

Cash net of the line of credit at Jul 31 (\$37.5K cash, \$45.0K drawn). A year ago: \$71.4K.

Critical issue

Replacement pricing has fallen behind equipment costs

Equipment and materials now take **46.0 cents of every replacement dollar**, up from 41.3 cents. The average replacement ticket rose 11.1% to \$10,727, but equipment cost per system rose 23.9% to \$4,936, and financing fees per system more than doubled to \$444. Each system now contributes **\$4,748** before field labor, about \$202 less than a year ago, even though customers paid \$1,069 more.

Lower margins raised the monthly break-even from about \$94.8K to **\$107.9K of revenue**. 5 months fell below it, and a line of credit carried the business through spring. **Repricing replacements and financing is the single most important priority** (Section 9, actions 1-2).

Setpoint grew on every revenue line. Replacements rose to 73 systems, service and repair revenue grew 9.6%, and Comfort Club membership grew 48.8% to 503 members. Overhead grew 19.7%, roughly in step with revenue, which is normal for a shop that added a truck and a technician.

The profit decline came from gross margin. At last year's 45.5%, this year's revenue would have produced about **\$78.8K more gross profit** and net income of roughly \$131.1K. Owner distributions of \$98.0K exceeded net income by \$45.7K, and the difference came out of cash and a line of credit that carried no balance a year ago.

Area	Direction	Summary
Revenue	Up	+\$227.2K (+19.0%). Replacements +22.9%, service +9.6%, recurring +35.6%.
Profitability	Down	Net income \$52.3K (3.7%), down from \$112.8K (9.4%). Losses in 6 of 12 months, versus 5 the year before.
Gross margin	Down sharply	45.5% to 40.0%. Equipment costs and financing fees explain 4.5 of the 5.5-point decline.
Overhead	In line	+19.7% against revenue +19.0%. A sixth truck, more marketing and a higher insurance premium.
Cash and liquidity	Tight	\$37.5K cash against \$45.0K drawn on a \$75K line. Cash fell \$33.9K over the year.
Balance sheet	Weakening	Equity down from \$125.8K to \$80.1K. Vehicle loans \$81.0K; A/R up \$26.7K.
Data quality	Needs attention	Equipment is expensed when received, not when installed; financing fees were posted to bank charges; about 18% of purchases carry no job number.

	Prior 12 mo	Current 12 mo	Change
Revenue	\$1,198,158	\$1,425,357	+19.0%
Gross profit	\$545,600	\$570,261	+4.5%
Gross margin	45.5%	40.0%	-5.5 pts
Overhead (operating expenses)	\$432,752	\$517,934	+19.7%
Net income	\$112,848	\$52,327	-53.6%
Net margin	9.4%	3.7%	-5.7 pts
Replacement systems installed	66	73	+10.6%
Comfort Club members at year-end	332	503	+51.5%
Owner distributions	\$86,000	\$98,000	+14.0%

Decisions needed from the owner

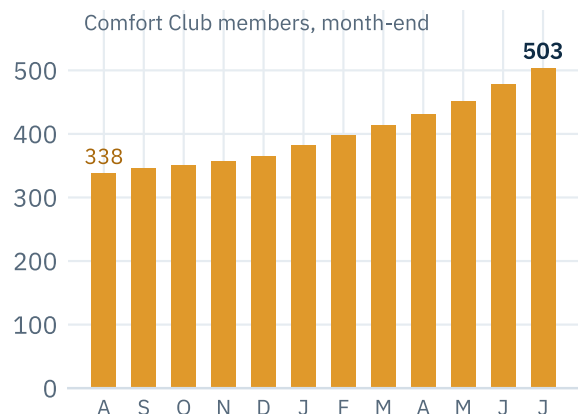
- **Replacement price book.** Package prices were last raised in January, about 4%, and distributor pricing rose again in February. Please confirm the size and effective date of the next increase (Section 9 recommends about 7%).
- **Financing offer.** The 0%-for-24-months promotion launched in January carries a 9.5% dealer fee, and 54% of July's replacement revenue was financed. Decide whether the promotion stays the default offer, or whether its fee is built into the price of promotional jobs.
- **Fall cash plan.** The 13-week forecast (Section 6) shows the line reaching \$65K of \$75K by early November if distributions continue at the current pace and the October early-buy of heating equipment goes ahead.
- **Commercial collections.** Two property-management accounts owe \$6.4K that is more than 60 days old. Decide whether non-emergency service continues while those balances are open.
- **Owner compensation (S corporation).** The owner's W-2 salary is \$60.0K and distributions were \$98.0K. The CPA should confirm reasonable compensation and help size quarterly tax distributions.

2 Key wins

The shop is busier, and customers are coming back.

The year proved that demand is there. Volume, membership and commercial work all grew, and the core accounting is in good order.

- **Revenue up \$227.2K (+19.0%)** to \$1.43M, with growth on all four revenue lines.
- **More replacements.** 73 systems installed, up from 66. July 2026 was the largest month in the two years reviewed: 10 systems and \$182.7K of revenue.
- **Comfort Club up 48.8%.** Membership grew from 338 to 503, and the January price change from \$16.00 to \$17.50 a month did not slow sign-ups. Membership revenue rose to \$81.6K.
- **Two new commercial contracts** were added in October, taking commercial maintenance billing to \$5.3K a month.
- **Deposits are handled correctly.** Deposits for scheduled installs (\$16.8K at July 31) are held as a liability until the job is done, not booked early as revenue.
- **Payroll liabilities are current,** and A/P of \$23.3K is within normal 30-day supplier terms.
- **Overhead kept pace.** Operating expenses grew 19.7%, in line with revenue, and rent, software and professional fees stayed modest.



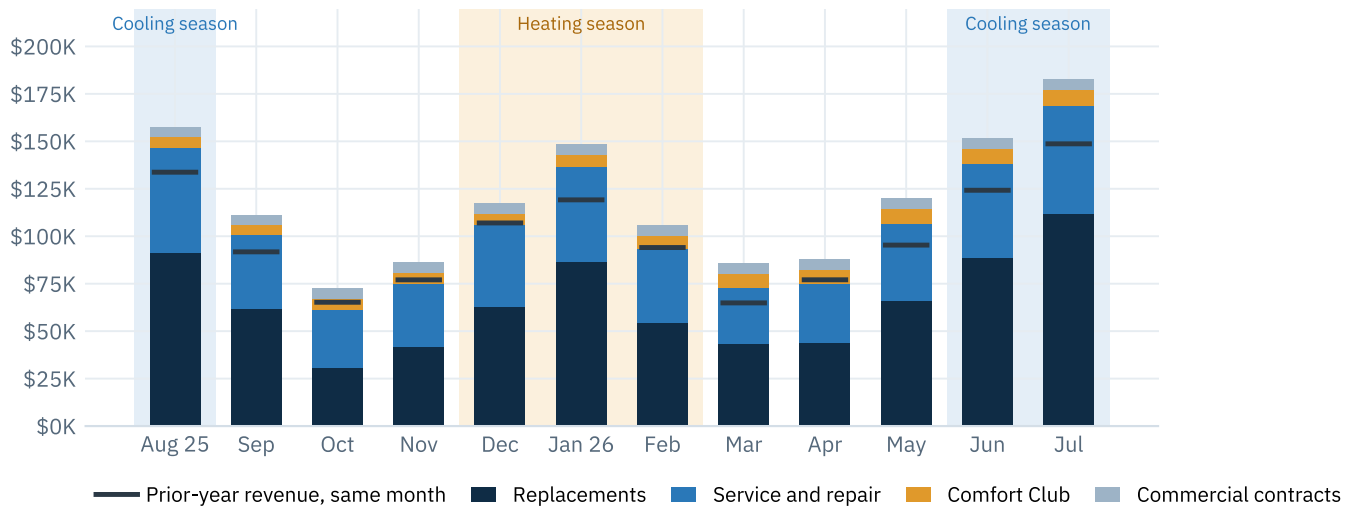
Recurring revenue	Prior	Current
Comfort Club memberships	\$54.8K	\$81.6K
Commercial maintenance contracts	\$51.6K	\$62.6K
Total recurring	\$106.4K	\$144.2K
Share of overhead covered	24.6%	27.8%

Recurring revenue now covers a little over a quarter of overhead. Every 100 additional members adds about \$21.0K a year at the current price.

3 Revenue and margin trends

Every revenue line grew. Replacements drove the gain.

Revenue is sharply seasonal. The strongest months come with the first heat of summer and the first cold snap of winter; spring and fall are quiet.

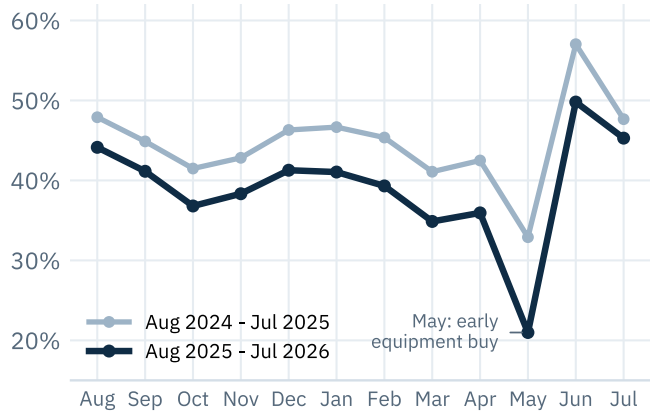


Revenue line	Prior 12 mo	Current 12 mo	Change	Share of revenue
Replacement installs	\$637,440	\$783,100	+22.9%	54.9%
Service and repair	\$454,350	\$498,030	+9.6%	34.9%
Comfort Club memberships	\$54,768	\$81,627	+49.0%	5.7%
Commercial maintenance contracts	\$51,600	\$62,600	+21.3%	4.4%
Total revenue	\$1,198,158	\$1,425,357	+19.0%	100.0%

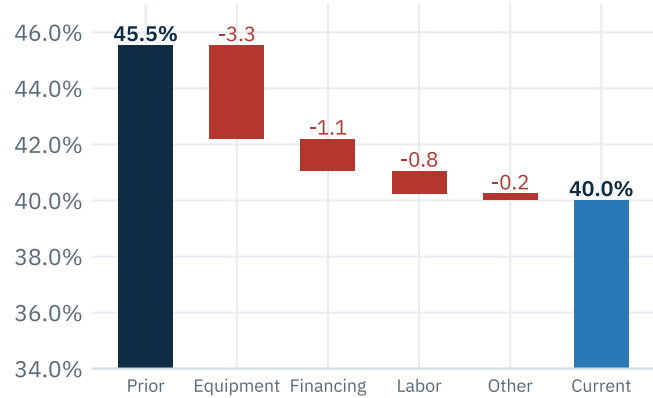
Growth came from volume and price. Replacement revenue rose 22.9%: 7 more systems (10.6%) at an average ticket 11.1% higher. Service and repair grew 9.6%, helped by an additional technician from October.

Seasonality is sharp. Revenue ranged from \$72.3K in Oct to \$182.7K in Jul, and the four busiest months produced 45% of the year's revenue. The pattern matches the prior year, so it is structural rather than a sign of weakness, but it means overhead must be carried through several months each year that do not cover it (page 6).

Gross margin fell 5.5 points, mostly on equipment



Gross margin by month. Margin fell in every month of the year compared with the same month a year earlier.



Where the margin went, in points of revenue. Each bar is the change in that cost's share of revenue.

Replacement unit economics	Prior 12 mo	Current 12 mo	Change
Systems installed	66	73	+10.6%
Average ticket	\$9,658	\$10,727	+11.1%
Equipment and materials per system	\$3,984	\$4,936	+23.9%
Financing fees per system	\$206	\$444	+116.0%
Subcontractors and permits per system	\$519	\$600	+15.5%
Contribution per system before field labor	\$4,949	\$4,748	(\$202)
Equipment as a share of the ticket	41.3%	46.0%	+4.8 pts
Share of replacement revenue financed	30%	47%	+16 pts
Average dealer fee on financed jobs	7.0%	8.9%	+1.9 pts

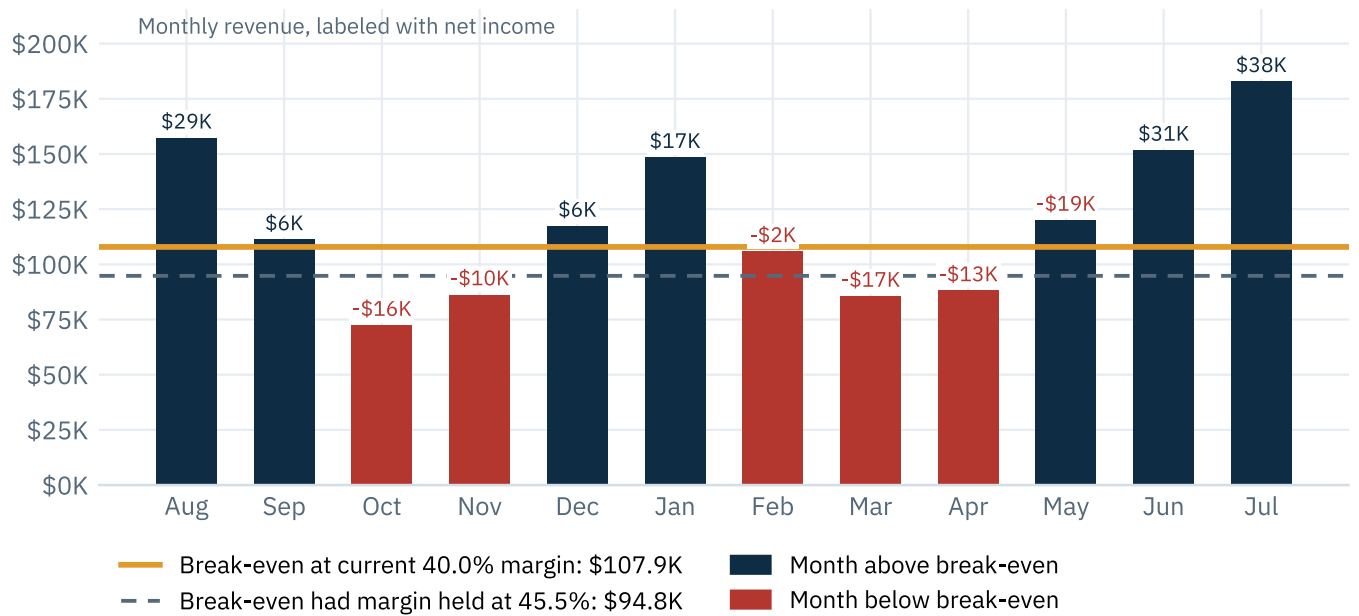
Equipment is the main driver. Distributor pricing rose through the year as manufacturers moved to new-refrigerant equipment, with a further increase in February. The average ticket rose 11.1%, including a package increase of about 4% in January, but equipment cost per system rose 23.9%, so equipment's share of each ticket kept climbing. That rising share cost \$47.5K of gross profit.

Financing fees doubled. More customers financed (30% to 47% of replacement revenue), and the January 0% promotion carries a higher dealer fee. Fees rose from \$13.6K to \$32.4K. Because most fees were posted to bank charges, this cost was not visible in reported gross margin; this review moves them into cost of sales.

May and June are distorted by timing. \$21,400 of equipment bought in May for June and July installs was expensed when received, so May shows a 21.0% margin and June 49.8%. Full-year totals are unaffected.

Lower margins raised the break-even to about \$108K a month

Overhead averaged \$43.2K a month. At a 40.0% gross margin, the shop needs about **\$107.9K of monthly revenue** to break even. Had margin held at 45.5%, the same overhead would break even at \$94.8K.



Months that used to break even now lose money. Five months fell below the current break-even (Oct, Nov, Feb, Mar, Apr); at last year's margin only four would have. May had enough revenue to be profitable but shows a loss because of the early equipment purchase described on page 5.

Shoulder month	Prior revenue	Prior net income	Current revenue	Current net income
Oct	\$65,224	(\$8,147)	\$72,276	(\$15,615)
Nov	\$77,028	(\$2,313)	\$86,112	(\$9,683)
Mar	\$64,880	(\$11,927)	\$85,435	(\$16,949)
Apr	\$77,058	(\$3,818)	\$87,952	(\$12,784)
Total	\$284,190	(\$26,204)	\$331,776	(\$55,031)

The shoulder months more than doubled their losses. October, November, March and April lost \$55.0K combined, against \$26.2K a year earlier, even though revenue in those months grew. Two things fix this: better margins on every job, which lowers the break-even, and more recurring work (memberships, tune-ups, commercial contracts) scheduled into the quiet months.

Overhead kept pace with growth. Cost of sales did not.

Cost of sales rose 31.0% against revenue growth of 19.0%. Overhead rose 19.7%.

Category	Prior 12 mo	Current 12 mo	Change	% of revenue
Cost of sales				
Equipment and materials	\$262,950	\$360,320	+\$97,370	25.3%
Field labor (wages, taxes, benefits)	\$250,425	\$309,485	+\$59,059	21.7%
Service parts	\$81,783	\$96,120	+\$14,337	6.7%
Financing (dealer) fees	\$13,568	\$32,411	+\$18,843	2.3%
Subcontractors	\$20,398	\$26,625	+\$6,227	1.9%
Permits and disposal	\$13,860	\$17,155	+\$3,295	1.2%
Maintenance materials	\$9,573	\$12,980	+\$3,407	0.9%
Total cost of sales	\$652,558	\$855,096	+\$202,539	60.0%
Overhead				
Office and admin wages (incl. owner salary)	\$168,000	\$183,700	+\$15,700	12.9%
Vehicles and fuel	\$55,750	\$74,250	+\$18,500	5.2%
Marketing and advertising	\$36,800	\$53,400	+\$16,600	3.7%
Rent	\$45,600	\$47,700	+\$2,100	3.3%
Insurance	\$30,600	\$35,600	+\$5,000	2.5%
Depreciation	\$19,020	\$31,900	+\$12,880	2.2%
Software and technology	\$12,600	\$17,760	+\$5,160	1.2%
Merchant (card) fees	\$13,257	\$14,004	+\$747	1.0%
Professional fees	\$12,550	\$14,050	+\$1,500	1.0%
Utilities and telephone	\$11,740	\$12,890	+\$1,150	0.9%
Interest	\$4,035	\$8,080	+\$4,045	0.6%
All other	\$22,800	\$24,600	+\$1,800	1.7%
Total overhead	\$432,752	\$517,934	+\$85,182	36.3%
Total expenses	\$1,085,310	\$1,373,030	+\$287,720	96.3%

What drove the overhead increase

Field labor grew with the team. An additional technician started in October and an apprentice in March. Field labor rose 23.6%, a little faster than revenue, because summer overtime and the apprentice's training time are not yet offset by more billable hours.

The sixth truck added about \$2.0K a month in fuel, maintenance, depreciation and interest. Vehicles and fuel rose 33.2% and depreciation 67.7%.

Marketing rose 45.1%. Spend per replacement installed went from \$558 to \$732. Lead source is not recorded on jobs, so it is not yet possible to say which channels produce booked work.

Notable cost items and classification

Type	Items
New recurring costs	Additional field technician (from October) and apprentice (from March); sixth service truck, financed October 2025 (\$46.0K loan); insurance renewal up about 20% in October; rent up \$300 a month on the January lease renewal; Comfort Club scheduling software add-on (\$430 a month).
Largest ongoing costs	Field labor (\$309.5K); equipment and materials (\$360.3K); office and admin wages (\$183.7K); vehicles and fuel (\$74.2K); marketing (\$53.4K).
One-time or annual	Truck purchase (\$58.4K, capitalized); refrigerant recovery machine and tools (\$4.8K, capitalized, March); annual tax preparation (March, included in professional fees); insurance down payment at renewal (October).
Cost increases not passed through	Distributor equipment price increases (October and February); 0% financing promotion dealer fee (9.5% from January, up from 7.5%).
Classification to review	Dealer fees of \$32.4K were mostly posted to bank service charges; this review moves them to cost of sales. Tech commissions are paid as payroll bonuses and sit inside field labor, which is correct but should be tracked separately. Owner salary sits in office wages.
Data quality	Equipment is expensed when it arrives rather than when it is installed, so months with early buys (May 2026, May 2025) show artificially low margins. About 18% of equipment and material purchases carry no job number in the field-service software, which limits job-level margin reporting.
Unexplained variances	None material. The P&L, vendor detail and job reports account for all significant movements.

What this means

The cost base is not out of control. Overhead held at 36.3% of revenue, essentially the same share as last year (36.1%). The problem sits almost entirely in the price of replacement jobs relative to what they now cost to install, plus a financing offer that became more expensive without anyone deciding it should. Both are fixable in weeks, not years.

5 Cash flow and liquidity

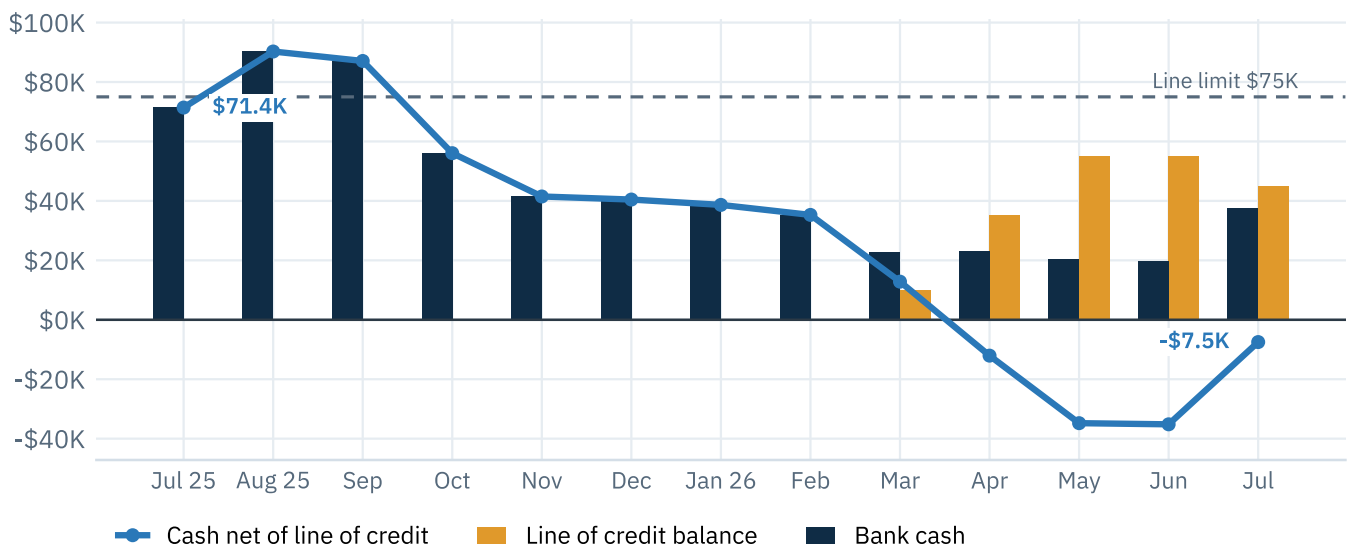
The line of credit funded the spring.

Operations produced cash, but the truck, loan payments and distributions used more than operations generated.

Cash flow, Aug 2025 - Jul 2026	Amount
Net income	\$52,327
Depreciation (non-cash)	\$31,900
Increase in accounts receivable	(\$26,716)
Other working capital	\$10,192
Cash from operations	\$67,702
Owner distributions	(\$98,000)
Truck and equipment purchases	(\$63,200)
New vehicle loan	\$46,000
Vehicle loan principal	(\$31,400)
Line of credit, net draws	\$45,000
Net change in cash	(\$33,898)

Profit and cash tell the same story. Operations generated \$67.7K after a \$26.7K increase in receivables. Distributions alone were \$98.0K, and the truck added \$63.2K, mostly financed.

Cash fell from \$71.4K to \$37.5K, and the line of credit went from zero to \$45.0K. **Net of the line, cash went from \$71.4K to -\$7.5K.**



The line was first drawn in Mar and peaked at \$55.0K in May and Jun. Net of the line, cash reached its lowest point of -\$35.2K at the end of Jun, just as the cooling season began. Summer collections allowed a \$10K repayment in July.

Known recurring obligations: payroll of about \$37K-\$47K a month depending on season, rent of \$4.1K, vehicle loan payments of about \$3.3K, insurance of \$3.1K, and roughly \$13K a month of fuel, marketing, software and utilities. Section 6 projects how these play out through the fall.

6 13-week cash forecast

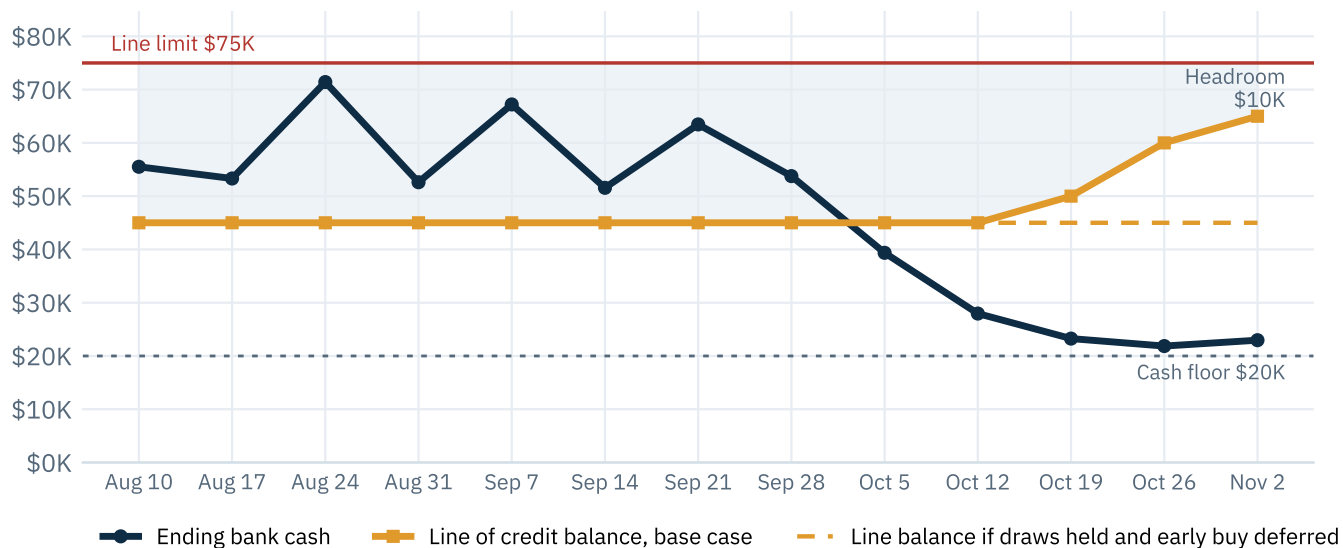
The line will be needed again in October.

Weeks of August 10 to November 8, 2026. Collections fall as the cooling season ends, while payroll, loan payments and fixed costs continue.

What the forecast shows

Cash builds through August on peak-season collections, holds through September, then falls quickly. Weekly cash in drops from about \$38.5K in August to under \$20K in October, while outflows stay near \$29.2K a week on average. The line of credit is needed again from the **week of Oct 19** and reaches **\$65K of \$75K** by the week of Nov 2, leaving \$10K of headroom before the heating season pays it back.

Holding distributions to \$3,000 a month (keeping the September tax distribution) and deferring the October early-buy to November keeps the line at \$45K for the whole period. **The forecast is manageable, but it has little room for a slow October or a late heating season.**



Starting position: \$36,012 in the bank and \$45,000 drawn on the line at August 10 (August not yet closed). The forecast draws the line in \$5,000 steps whenever cash would fall below a \$20K operating floor and assumes no voluntary repayment. It will be rolled forward and compared with actual results in each monthly report. Full assumptions follow the table.

Week of	Cash in	Payroll	Equipment and parts	Overhead and fixed	Owner	Net cash flow	Line draw	Ending cash	Line balance
Aug 10	\$38,500	-	(\$13,800)	(\$5,200)	-	\$19,500	-	\$55,512	\$45,000
Aug 17	\$36,900	(\$21,600)	(\$12,900)	(\$4,600)	-	(\$2,200)	-	\$53,312	\$45,000
Aug 24	\$35,200	-	(\$12,400)	(\$4,700)	-	\$18,100	-	\$71,412	\$45,000
Aug 31	\$32,000	(\$21,200)	(\$11,200)	(\$12,400)	(\$6,000)	(\$18,800)	-	\$52,612	\$45,000
Sep 7	\$29,400	-	(\$10,400)	(\$4,400)	-	\$14,600	-	\$67,212	\$45,000
Sep 14	\$27,600	(\$19,800)	(\$9,800)	(\$7,650)	(\$6,000)	(\$15,650)	-	\$51,562	\$45,000
Sep 21	\$25,300	-	(\$9,100)	(\$4,300)	-	\$11,900	-	\$63,462	\$45,000
Sep 28	\$22,100	(\$19,400)	(\$8,200)	(\$4,200)	-	(\$9,700)	-	\$53,762	\$45,000
Oct 5	\$19,800	-	(\$7,600)	(\$20,600)	(\$6,000)	(\$14,400)	-	\$39,362	\$45,000
Oct 12	\$18,900	(\$18,800)	(\$7,400)	(\$4,100)	-	(\$11,400)	-	\$27,962	\$45,000
Oct 19	\$18,400	-	(\$24,000)	(\$4,100)	-	(\$9,700)	\$5,000	\$23,262	\$50,000
Oct 26	\$19,600	(\$18,900)	(\$7,900)	(\$4,200)	-	(\$11,400)	\$10,000	\$21,862	\$60,000
Nov 2	\$22,800	-	(\$8,800)	(\$11,900)	(\$6,000)	(\$3,900)	\$5,000	\$22,962	\$65,000
13 weeks	\$346,500	(\$119,700)	(\$143,500)	(\$92,350)	(\$24,000)	(\$33,050)	\$20,000	\$22,962	\$65,000

Key assumptions

- **Starting position:** \$36,012 in checking and savings and \$45,000 drawn on the \$75K line at August 10. August is not yet closed.
- **Collections:** August at peak-season levels, tapering through September and October as cooling calls end, with heating calls starting in early November. Replacement collections assume the current booked schedule plus a normal fall sales rate; financing-company funding arrives about a week after install.
- **Payroll:** seven biweekly payrolls, falling from about \$21.6K to \$18.9K as summer overtime ends. Includes employer taxes and the owner's salary.
- **Equipment and parts:** supplier payments on 30-day terms, following install volume. Includes a **\$16,000 early-buy of furnaces and heat pumps** in the week of October 19 for the heating season.
- **Overhead and fixed:** rent, insurance and software on the 1st; vehicle loan payments mid-month; weekly fuel, marketing and utilities. Includes the **insurance renewal down payment of \$9,400** on October 1.
- **Owner:** \$6,000 monthly distribution on the 1st plus a \$6,000 tax distribution on September 15, matching the current pattern.
- **Line of credit:** drawn in \$5,000 steps to keep cash at or above \$20K; interest is included in overhead. No voluntary repayment is assumed.
- **Not included:** new commercial contracts, equipment or vehicle purchases, bonuses, the owner's personal tax payments beyond the September distribution, or principal paydown of the line.

7 Balance sheet

Equity fell \$45.7K as distributions outpaced profit.

Debt is modest and payroll taxes are current. The pressure points are receivables, the line of credit and equity.

At July 31	2025	2026	Change	A/R aging, Jul 31, 2026	Amount	Share
Cash	\$71,400	\$37,502	-\$33,898	Current	\$44,100	65%
Accounts receivable	\$40,888	\$67,604	+\$26,716	1-30 days	\$11,200	17%
Prepaid expenses	\$6,200	\$7,100	+\$900	31-60 days	\$5,900	9%
Vehicles and equipment, net	\$121,500	\$152,800	+\$31,300	61-90 days	\$3,600	5%
Total assets	\$239,988	\$265,006	+\$25,019	Over 90 days	\$2,804	4%
Accounts payable	\$20,055	\$23,341	+\$3,286	Total	\$67,604	100%
Credit cards	\$8,600	\$9,800	+\$1,200			
Payroll liabilities	\$7,265	\$8,901	+\$1,636	A/R by type	Amount	
Customer deposits	\$11,876	\$16,845	+\$4,970	Financing company, awaiting funding		
Line of credit	\$0	\$45,000	+\$45,000	Commercial accounts		
Vehicle loans	\$66,400	\$81,000	+\$14,600	Residential		
Total liabilities	\$114,195	\$184,887	+\$70,692			
Equity	\$125,792	\$80,119	-\$45,673			

- **Receivables grew faster than revenue.** A/R rose 65.3% to \$67.6K, and days sales outstanding went from 12 to 17. Two causes: financed jobs awaiting funding (\$24.9K, usually because the signed completion certificate reaches the lender late), and commercial accounts, including \$6.4K over 60 days owed by two property managers.
- **The line of credit is now working capital.** \$45.0K was drawn at year-end against a \$75K limit at about 9.25%. It suits seasonal timing gaps; it should not fund distributions.
- **Vehicle loans of \$81.0K** cover three trucks at about 7.9%, with payments of about \$3.3K a month. No other long-term debt.
- **No inventory is carried.** Equipment on the shelf at month-end is already expensed. A month-end count would move it to inventory and correct the timing distortion in monthly margins.
- **Equity fell \$45.7K** because distributions of \$98.0K exceeded net income of \$52.3K.

One critical issue. Three more need action.

Risks are ranked by urgency: critical, needs action, needs investigation and monitor.

Act now

Issue	Status	Why it matters
Replacement pricing below current costs (highest priority)	Critical: act now	Equipment rose from 41.3% to 46.0% of the replacement ticket. Contribution per system fell \$202 despite a \$1,069 higher ticket. Each point of gross margin is worth about \$14.3K a year.
Financing promotion cost	Needs action	Dealer fees rose from \$13.6K to \$32.4K. The 0% promotion became the default offer without its fee being priced in.
Fall liquidity	Needs action	The forecast takes the line to \$65K of \$75K by early November, with \$10K of headroom.
Distributions above profit	Needs action	Distributions exceeded net income by \$45.7K. A policy tied to results would stop the line from funding them.

Needs investigation

Issue	Why it matters
Receivables growth	DSO rose from 12 to 17 days. \$24.9K is waiting on financing paperwork and \$6.4K of commercial balances is over 60 days.
Equipment timing	Equipment is expensed when received. Monthly margins swing by up to 29 points around early buys, which makes the monthly P&L unreliable for pricing decisions.
Job costing gaps	About 18% of purchases have no job number, so per-job margins are estimates. Needed to confirm which system types and brands are priced correctly.
Marketing return	Spend rose 45.1% with no lead-source tracking. Spend per replacement installed rose from \$558 to \$732.
S corporation owner compensation	Salary of \$60.0K against distributions of \$98.0K. The CPA should confirm reasonable compensation and quarterly tax distribution amounts.

Monitor

Issue	Why it matters
Labor productivity	Field labor rose slightly faster than revenue while the apprentice trains. Watch billable hours per technician through the fall.
Insurance renewal	Premium rose about 20% last October. The October 2026 renewal is budgeted at a smaller increase; get quotes early.
Seasonal concentration	The four busiest months produced 45% of revenue. Recurring work is the main lever for smoothing the year.

9 Recommended actions

Price every job for what it costs today.

Prioritized actions for the next 30 days, the next 60-90 days and ongoing accounting items.

Goal: gross margin back to 44% and a break-even below \$100K a month

At current overhead, a 44% gross margin lowers the monthly break-even to about \$98.1K and would have produced net income of roughly \$109.2K on this year's revenue. Every point of margin is worth about \$14.3K a year. Until the new pricing is proven, plan distributions and spending on the current margin.

Next 30 days

#	Action	Why
1	Update the replacement price book to current distributor costs, about 7% on packages, targeting equipment at or below 43% of the ticket. Re-check whenever a distributor price letter arrives.	Equipment is 46.0% of the ticket, up from 41.3%. A 7% increase at this year's volume is worth about \$54.8K a year.
2	Reset the financing offer. Present the standard plan first, and add the promotion's extra dealer fee to the price of promotional jobs.	Fees are 4.1% of replacement revenue. Bringing them to about 2.5% is worth about \$12.8K a year.
3	Set the fall cash plan by September 25. Hold distributions to \$3,000 a month through November (keeping the tax distribution) and defer or shrink the October early-buy.	Keeps the line at about \$45K instead of \$65K going into the heating season.
4	Pay the line down with August cash, but keep at least \$30,000 of headroom going into October.	Reduces interest now without creating an October shortfall.

Next 60-90 days

#	Action	Why
5	Start a month-end equipment count and carry unused equipment as inventory.	Monthly gross margin will reflect jobs actually installed, not delivery timing.
6	Require a job number on every purchase and review job-cost reports for replacements monthly.	Shows which system types and brands are priced correctly.
7	Collect faster: completion certificates signed on install day; statements to commercial accounts at 30 days; pause non-emergency service for accounts over 60 days.	Frees up to \$18.9K of cash tied up in receivables.
8	Grow Comfort Club to 650 members by next June, and run tune-up campaigns in October and March to fill the shoulder schedule.	Worth about \$28.1K a year of high-margin recurring revenue, delivered in the quiet months.
9	Record lead source on every booked job.	Marketing is up 45%; lead source shows which spend produces work.

What closes the margin gap

Lever	Annual gross profit	Notes
Replacement price book, about 7%	+\$55K	At this year's volume. Some jobs may be lost at the new price; even half the volume effect closes most of the gap.
Financing fees back to about 2.5% of replacement revenue	+\$13K	Standard plan first; promotion fee priced into promotional jobs.
Comfort Club to 650 members	+\$28K	About 147 more members at \$17.50 a month, roughly 91% margin, mostly delivered in shoulder months.
Hold overhead flat until margin recovers	Avoids	No new fixed commitments until the break-even is below \$100K a month.

Impacts are illustrative and assume this year's volume and cost levels. The recovered margin needed to reach 44% is about \$56.9K a year; the price book and financing changes alone would cover it if volume holds.

Ongoing: accounting and CPA items

#	Action	Why
10	Post dealer fees to cost of sales each month (already reclassified in this review).	Makes the true cost of financed jobs visible in gross margin.
11	Review with the CPA: S corporation reasonable compensation and tax distributions; inventory method once counts begin; depreciation elections for the new truck.	Each affects tax treatment; the bookkeeping setup should follow the CPA's conclusions.

10 Summary

A strong year of growth on prices set for last year.

Setpoint proved over the past twelve months that it can grow. Revenue rose 19%, installs, service and membership all increased, and the team, trucks and systems to support that growth are in place. Overhead grew in line with the business.

The challenge is that replacement jobs are priced for last year's equipment costs, and the financing promotion quietly doubled what each financed job costs. Gross margin fell 5.5 points, the break-even rose to about \$108K a month, and the quiet months now lose meaningfully more. Distributions above profit were funded by a line of credit that will be needed again this fall.

Three priorities for the next 30 days

- 1. **Update the replacement price book** to current equipment costs.
- 2. **Reset the financing offer** so promotions carry their own cost.
- 3. **Set the fall cash plan:** distributions and the early-buy sized to keep line headroom.

About this report. Accrual basis. Based on QuickBooks reports run August 11, 2026 (Profit and Loss by Month for the current and prior 12 months, Balance Sheet by Month, Statement of Cash Flows, Sales by Item, A/R and A/P Aging, Expenses by Vendor, Payroll Summary, General Ledger) and job and membership reports from the field-service software. Dealer fees are reclassified from bank charges to cost of sales; no other figures are adjusted. Replacement unit economics use job averages because some purchases carry no job number. This review is analytical and does not constitute tax, legal or accounting advice; items marked for CPA review should be discussed with the company's tax professional. *Setpoint Heating & Air Co. is fictional; this report is an illustrative example.*