



STANDARD QUALITY OF EARNINGS REPORT

Alpine Air HVAC, Inc.

*Prepared for Sample Client**Strictly Confidential*

REPORT DATE

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REPORT TYPE

Standard QoE

PREPARED BY

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Fictional Sample Report

Important Disclaimers & Scope Limitations

Nature of This Report

This Standard Quality of Earnings report has been prepared by Timothy Vance, CFA of QoEPro.com based on financial records provided by the seller, including general ledger detail, monthly financial statements, federal tax returns, and supporting schedules. It is not an audit, compilation, or review engagement as defined by AICPA standards, and does not constitute an opinion on the fairness of the financial statements taken as a whole.

This report is intended to provide a prospective buyer with an independent assessment of the quality, sustainability, and reliability of the subject company's reported earnings for the purpose of informing transaction pricing and deal structure. It does not constitute a recommendation to buy or not buy the subject business.

Scope Limitations — The Following Were NOT Performed

- Audit, review, or compilation of financial statements under AICPA standards
- Independent confirmation of customer balances, contracts, or revenue arrangements
- Physical inspection of inventory, assets, or operational facilities
- Legal, environmental, regulatory, or HR due diligence of any kind
- Assessment of pending or contingent liabilities beyond those disclosed by seller
- Valuation opinion or fairness opinion — this report supports valuation but is not a valuation
- Forward-looking projections or assessment of future business performance

Data Reliance & GL-Level Analysis

All financial analysis in this report is sourced from general ledger detail provided by the seller in Excel format, supplemented by monthly P&L statements, monthly balance sheets, federal tax returns, and seller-prepared supporting schedules. QoEPro.com has performed GL-level transaction testing on material add-back items and has reconciled reported financials to tax returns and bank statements where data was available. However, QoEPro.com has not independently confirmed the completeness or integrity of the GL itself. Buyers are advised to require representations and warranties regarding the accuracy of financial records in the purchase agreement.

Workbook Reference

This report is accompanied by a supporting Excel workbook containing source calculations, monthly data tables, working capital analysis, and EBITDA bridge detail. The workbook is considered an integral part of this engagement and should be reviewed alongside this report.

Upgrade Note

For transactions above \$15M EV, or where additional depth is required on revenue cohort analysis, gross margin by segment, management assessment, or vendor/customer contract review, QoEPro.com recommends a Comprehensive QoE engagement.

Executive Summary

Deal Snapshot

Business	Industry	Location
Alpine Air HVAC, Inc.	HVAC — Residential & Light Commercial	Denver Metro, Colorado
Asking Price	Seller-Stated EBITDA	QoEPro Adj. EBITDA
\$3,200,000	\$780,000 (4.1x multiple)	~\$598,000 (5.4x implied)
Years in Operation	Employees	Ownership
14 Years (Est. 2012)	22 FTE + 4 Seasonal	Single Owner-Operator

QoE VERDICT: MEDIUM RISK

Proceed — Subject to Price Adjustment & Contract Verification

QoEPro's Standard QoE of Alpine Air HVAC has identified a normalized EBITDA of approximately \$598,000 — \$182,000 below the seller's stated figure of \$780,000 — implying a true purchase multiple of 5.4x at the \$3.2M asking price. GL-level analysis confirmed two invalid add-backs (\$130K), identified a payroll reconciliation discrepancy (\$28K), and revealed a related-party fee not deducted on tax returns. Revenue concentration in a single commercial contract (39%) and a seasonal working capital gap remain material structural risks. The business is fundamentally sound and profitable, but the transaction price should be renegotiated to reflect verified normalized earnings.

Key Findings Summary

	Finding	Impact	Section
!	Seller EBITDA overstated by \$182K — GL analysis confirms \$598K normalized	(\$400K–\$700K)	Sec. 1 & 3
!	Related-party consulting fee (\$62K) absent from tax returns both years	INVALID	Sec. 8
▲	Payroll reconciliation variance of \$28K — unresolved discrepancy	TBD	Sec. 9
▲	39% revenue concentration in single undisclosed commercial contract	HIGH RISK	Sec. 4
▲	Working capital peg deficit — buyer needs ~\$210K post-close injection	(\$210K)	Sec. 5
i	Cash basis accounting — revenue timing requires GAAP normalization	NOTE	Sec. 10

Risk Assessment Summary

Risk Area	Finding	Severity
EBITDA Overstatement — \$182K Below Seller-Stated Figure	GL confirms \$598K normalized EBITDA vs. seller's \$780K	HIGH
Revenue Concentration — 39% in Single Contract	Apex Property contract expires Dec 31, 2026; requires written consent for assignment	HIGH
Payroll Reconciliation Variance — \$28K Unexplained	P&L payroll expense exceeds W-2 filings by \$28K in FY25; trending upward	MEDIUM-HIGH
Working Capital Peg — Seasonal Cash Gap	Peg target \$206K; buyer should close with adequate liquidity for Q2 ramp	MEDIUM
Owner Dependency — Key Person & Relationship Risk	Primary commercial relationship and 60% of revenue sourced through owner	MEDIUM

Section 1 — Normalized EBITDA & EBITDA Bridge

The following normalized EBITDA analysis is sourced from general ledger detail provided by the seller. All add-back adjustments have been traced to specific GL account codes and supporting documentation where available. Monthly EBITDA trending and the full GL-sourced bridge are included in the accompanying Excel workbook.

Three-Year Income Statement Summary (GL-Sourced)

	FY 2023	FY 2024	FY 2025	TTM Mar-26
Revenue	\$2,610,000	\$2,890,000	\$3,120,000	\$3,240,000
Cost of Revenue	\$1,437,000	\$1,561,000	\$1,716,000	\$1,782,000
Gross Profit	\$1,173,000	\$1,329,000	\$1,404,000	\$1,458,000
Total Operating Expenses	\$862,000	\$934,000	\$988,000	\$1,014,000
Reported Net Income	\$311,000	\$395,000	\$416,000	\$444,000
<i>Add: Interest Expense</i>	\$18,000	\$22,000	\$19,000	\$21,000
<i>Add: Depreciation & Amort.</i>	\$41,000	\$44,000	\$47,000	\$49,000
Reported EBITDA	\$370,000	\$461,000	\$482,000	\$514,000
Seller Add-Backs (Claimed)	\$312,000	\$298,000	\$298,000	\$298,000
Seller-Stated Adj. EBITDA	\$682,000	\$759,000	\$780,000	\$812,000
QoEPro Adjustments	(\$182,000)	(\$186,000)	(\$182,000)	(\$190,000)
QoEPro Normalized EBITDA	\$500,000	\$573,000	\$598,000	\$622,000

EBITDA Bridge — Seller-Stated to QoEPro Normalized (FY 2025)

Each adjustment below has been sourced to a specific GL account code. Full monthly detail is available in the supporting Excel workbook.

	Adjustment	GL Account	Amount	Direction
—	Seller-Stated Adjusted EBITDA (FY 2025)	—	\$780,000	Starting Point
+	Owner Salary — Excess Comp (GL: 6010)	6010	+\$120,000	ADD
+	Owner Health & Life Insurance (GL: 6210)	6210	+\$18,000	ADD
+	Non-Cash Stock Comp (GL: 6410)	6410	+\$6,000	ADD
~	Owner Vehicles — Partial (GL: 6110)	6110	+\$12,000	PARTIAL
X	Equipment Repair — Recurring (GL: 7210)	7210	(\$68,000)	REMOVE

X	Related-Party Consulting Fee (GL: 6510)	6510	(\$62,000)	REMOVE
X	Payroll Discrepancy Adjustment (GL: 6010)	6010	(\$28,000)	REMOVE
X	Vehicle Add-Back Reduction (GL: 6110)	6110	(\$12,000)	REMOVE
=	QoEPro Normalized EBITDA (FY 2025)	—	\$598,000	Normalized

EBITDA Gap — \$182K Below Seller-Stated Figure

GL-level analysis confirms normalized EBITDA of \$598K for FY 2025 — a \$182K reduction from the seller's stated \$780K. At a 4.0x–4.5x market multiple, this gap supports a purchase price range of \$2.39M–\$2.69M, representing a \$510K–\$810K reduction from the \$3.2M asking price. The TTM figure of \$622K provides additional support for a price closer to \$2.5M–\$2.8M.

EBITDA Margin Trend

Metric	FY 2023	FY 2024	FY 2025	TTM Mar-26
Gross Margin %	44.9%	46.0%	45.0%	45.0%
Reported EBITDA Margin %	14.2%	16.0%	15.4%	15.9%
QoEPro EBITDA Margin %	19.2%	19.8%	19.2%	19.2%
Revenue YoY Growth	—	+10.7%	+8.0%	+3.8%
COR as % of Revenue	55.1%	54.0%	55.0%	55.0%

Normalized EBITDA has grown from \$500K (FY 2023) to \$598K (FY 2025) and \$622K on a TTM basis, representing a healthy 3-year CAGR of approximately 9.1% on a normalized basis. Gross margins have remained relatively stable in the 44–46% range. The primary driver of EBITDA improvement is commercial revenue growth, which introduces concentration risk addressed in Section 4.

Section 2 — Recast Profit & Loss Statement

The recast P&L presents the business's financial performance on a normalized basis, removing the effect of owner-specific compensation, non-recurring items, and non-arm's-length transactions. This represents QoEPro's best estimate of the earnings a new owner-operator would realize under similar business conditions.

	FY 2023	FY 2024	FY 2025	TTM Mar-26
Revenue	\$2,610,000	\$2,890,000	\$3,120,000	\$3,240,000
Cost of Revenue	\$1,437,000	\$1,561,000	\$1,716,000	\$1,782,000
Gross Profit	\$1,173,000	\$1,329,000	\$1,404,000	\$1,458,000
Gross Margin %	44.9%	46.0%	45.0%	45.0%
Operating Expenses (Normalized)	\$673,000	\$756,000	\$806,000	\$836,000
Owner Compensation (Mkt. Rate)	\$100,000	\$100,000	\$100,000	\$100,000
All Other Operating Expenses	\$573,000	\$656,000	\$706,000	\$736,000
Normalized Operating Income	\$500,000	\$573,000	\$598,000	\$622,000
Add: Depreciation & Amortization	\$41,000	\$44,000	\$47,000	\$49,000
QoEPro Normalized EBITDA	\$500,000	\$573,000	\$598,000	\$622,000
EBITDA Margin %	19.2%	19.8%	19.2%	19.2%

The recast P&L replaces the owner's above-market compensation of \$220,000 with a market-rate general manager salary of \$100,000, removes the two invalid add-backs (recurring equipment repair and related-party consulting fee), and adjusts for the payroll reconciliation discrepancy identified in Section 9. Gross margins are unchanged — the normalization impacts the operating expense line only.

Section 3 — Add-Back Schedule & Assessment

The seller has presented \$298,000 in add-backs for FY 2025. Each adjustment has been reviewed against GL source data, tax filings, and supporting documentation. QoEPro has independently assessed each add-back for validity, recurrence, and arm's-length characterization.

Add-Back Item	GL Account	Amount	Recurring?	QoEPro Assessment	Status
Owner Salary — Excess Comp	6010	\$120,000	No	Owner pays \$220K vs. \$100K market-rate GM. GL confirms salary payments. \$120K excess is valid.	VALID
Owner Vehicles (2)	6110	\$24,000	Yes	Two vehicles, GL confirms both expensed. One personal-use per odometer logs. Only \$12K defensible.	QUESTIONABLE
'One-Time' Equipment Repair	7210	\$68,000	Yes	GL shows similar equipment costs in FY23 (\$61K) and FY24 (\$58K). Clearly recurring — not a valid add-back.	INVALID
Owner Health & Life Insurance	6210	\$18,000	No	GL confirms insurance premium payments. Standard S-Corp add-back. Fully supportable.	VALID
Consulting Fee — Related Party	6510	\$62,000	Yes	GL confirms annual payments to owner's brother. No contract on file. Not deducted on tax return. Invalid.	INVALID
Non-Cash Stock Compensation	6410	\$6,000	No	Non-cash journal entry confirmed in GL. Valid add-back with proper documentation.	VALID

Seller-Claimed Add-Backs	\$298,000
QoEPro Supportable Add-Backs	~\$140,000
Questioned / Invalid Add-Backs	~(\$158,000)

Net Impact on Normalized EBITDA**QoEPro EBITDA ~\$598K vs.
Seller \$780K**

The two invalid add-backs — the recurring equipment repair (\$68K) and the related-party consulting fee (\$62K) — are corroborated by GL history and tax return analysis. The equipment repair has appeared in the GL in all three years reviewed at amounts ranging from \$58K–\$68K, conclusively establishing recurrence. The consulting fee is entirely absent from tax filings, strongly suggesting it was not treated as a legitimate business deduction by the seller's own tax preparer. Additionally, a payroll reconciliation variance of \$28K (Section 9) was identified that further reduces normalized EBITDA. Combined, these adjustments reduce normalized EBITDA by \$182K from the seller's stated figure.

Section 4 — Revenue Quality & Disaggregation

Revenue analysis is sourced from GL detail and monthly P&L statements. QoEPro has disaggregated revenue by service line, customer, and channel to assess quality, concentration risk, and sustainability.

Revenue by Service Line

Service Line	FY 2023	FY 2024	FY 2025	TTM Mar-26
Residential Service & Repair	\$1,097,000	\$1,186,000	\$1,248,000	\$1,296,000
Residential Install (New)	\$548,000	\$607,000	\$655,000	\$680,000
Commercial Maintenance	\$965,000	\$1,097,000	\$1,217,000	\$1,264,000
Total Revenue	\$2,610,000	\$2,890,000	\$3,120,000	\$3,240,000

Customer Concentration — Top 5 Customers (FY 2025)

Customer	Segment	FY 2025 Revenue	% of Total	Risk Flag
Apex Property Mgmt (Commercial)	Commercial Maintenance	\$1,217,000	39.0%	HIGH
Residential — Top 10 Combined	Residential Service	\$612,000	19.6%	LOW
Residential — All Other	Residential Service	\$636,000	20.4%	LOW
Commercial — Other Clients	Commercial Maintenance	\$0	0.0%	LOW
New Installs — All Customers	Residential Install	\$655,000	21.0%	LOW
Total Revenue		\$3,120,000	100%	

Revenue Concentration — Single Contract Represents 39% of FY 2025 Revenue

Apex Property Management has been a client since FY 2021 and currently represents \$1.22M — or 39% — of total FY 2025 revenue. QoEPro has reviewed the contract and confirmed: (1) the current term expires December 31, 2026, (2) the contract contains a 90-day termination-for-convenience clause, and (3) assignability requires written consent from Apex. Buyer must negotiate contract assignment as a closing condition and consider an earnout tied to Year 1 commercial revenue retention.

Revenue by Channel

Channel	FY 2023	FY 2024	FY 2025	TTM Mar-26
Direct (Owner Relationships)	\$1,614,000	\$1,718,000	\$1,870,000	\$1,944,000
Referral / Word of Mouth	\$786,000	\$868,000	\$936,000	\$972,000
Online / Google Leads	\$210,000	\$304,000	\$314,000	\$324,000
Total Revenue	\$2,610,000	\$2,890,000	\$3,120,000	\$3,240,000

Revenue is heavily weighted toward direct owner relationships (60%), which creates key-person risk in addition to the Apex concentration risk. Online lead generation has grown from \$210K (FY 2023) to \$314K (FY 2025), a positive indicator of channel diversification that a new owner should prioritize. The referral channel is stable and likely to be transferable with proper transition management.

Section 5 — Working Capital Peg Analysis

Working capital analysis is based on monthly balance sheets provided by the seller. QoEPro has calculated a normalized working capital peg using a 13-month trailing average, adjusted for seasonality. This analysis forms the basis for the working capital target to be negotiated in the purchase agreement.

Monthly Net Working Capital — Trailing 13 Months (\$000s)

	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Accts Receivable	298	342	387	412	398	367	321	287	412	445	421	398
Inventory/Parts	76	88	94	91	87	82	79	81	88	92	89	86
Accts Payable	164	187	198	204	196	181	172	198	218	226	214	208
Accrued Liab.	71	78	84	89	86	82	79	87	94	98	91	88
Net Work. Cap.	139	165	199	210	203	186	149	83	188	213	205	188

Working Capital Peg Calculation

Component	Method	Amount
Average Monthly NWC (13-Month Trailing)	<i>Simple Average</i>	\$179,000
Seasonal Adjustment (Peak Season Premium)	<i>+15% for May–Aug</i>	\$27,000
Seasonality-Adjusted NWC Target	<i>Avg + Adjustment</i>	\$206,000
Actual NWC at LOI Date (Dec 31, 2025)	<i>Balance Sheet</i>	\$226,000
Working Capital Surplus / (Deficit) vs. Peg	<i>Actual minus Target</i>	+\$20,000

Working Capital Peg Recommendation

Based on the 13-month trailing average adjusted for seasonality, QoEPro recommends a working capital target of approximately \$206,000 in the purchase agreement. At the LOI balance sheet date (December 31, 2025), actual NWC of \$226K is slightly above this target — however, the buyer should ensure that the peg is measured at close, not at LOI, given the seasonal cash consumption expected in Q1/Q2 2026 ahead of the summer revenue season.

The 13-month NWC trend confirms significant seasonality, with NWC ranging from a low of \$83K (November) to a high of \$213K (January). The December 31 LOI balance sheet shows NWC of \$226K, which appears healthy but reflects year-end billing timing rather than normalized operating levels. A buyer closing in Q2 2026 should expect NWC to decline below the \$206K peg target before summer revenue collections rebuild it.

Section 6 — Net Debt Schedule

The net debt schedule identifies all debt-like and cash-like items on the balance sheet that affect the equity value of the business. These items are typically addressed through price adjustments or specific indemnities in the purchase agreement. All figures are sourced from the seller-provided balance sheet as of the most recent period end.

Item	Balance Sheet Date	Treatment	Equity Impact
Cash & Equivalents	\$38,000	Cash-like	+\$38,000
Equipment Term Loan (Chase)	(\$187,000)	Debt-like	(\$187,000)
Vehicle Loan — Owner Truck	(\$34,000)	Debt-like	(\$34,000)
Deferred Revenue (Maintenance Ctrs.)	(\$48,000)	Debt-like	(\$48,000)
Owner Loan Receivable	\$22,000	Cash-like	+\$22,000
Net Debt (Cash Less Debt-Like Items)	(\$209,000)	Net	(\$209,000)

Net debt of \$209,000 should be addressed through a dollar-for-dollar purchase price adjustment or assumption of specific liabilities in the purchase agreement. The deferred revenue balance of \$48,000 represents prepaid commercial maintenance contracts that the buyer will be obligated to service post-close — this is a true economic liability and should be treated as debt-like. The owner's loan receivable should be collected prior to close or excluded from the transaction.

Section 7 — Cash Proof

Cash proof validates reported revenue and expenses against actual bank deposits and disbursements. This analysis confirms that the cash flows reflected in the seller's financial statements are supported by actual bank activity. Discrepancies between reported figures and bank-level cash activity are flagged below.

Bank Deposit Reconciliation to Reported Revenue

Item	FY 2024	FY 2025
Total Bank Deposits per Bank Statements	\$2,847,000	\$3,088,000
Less: Non-Revenue Deposits (Loan Proceeds)	(\$42,000)	(\$31,000)
Less: Inter-Account Transfers	(\$18,000)	(\$22,000)
Adjusted Bank Deposits	\$2,787,000	\$3,035,000
Reported Revenue per P&L	\$2,890,000	\$3,120,000
Variance (Deposits vs. Revenue)	(\$103,000)	(\$85,000)

Disbursement Reconciliation to Reported Expenses

Item	FY 2024	FY 2025
Total Bank Disbursements per Statements	\$2,431,000	\$2,651,000
Less: Loan Principal Payments	(\$48,000)	(\$52,000)
Less: Owner Distributions	(\$186,000)	(\$198,000)
Adjusted Disbursements (Operating)	\$2,197,000	\$2,401,000
Reported Total Expenses per P&L	\$2,299,000	\$2,495,000
Variance (Disbursements vs. Expenses)	(\$102,000)	(\$94,000)

Cash Proof Variance — Timing Differences Identified

Bank deposits are consistently \$85K–\$103K below reported revenue in both years. Management has explained this as AR timing — commercial maintenance invoices are billed on net-30 terms with payments frequently crossing month-end and year-end boundaries. This explanation is plausible and consistent with the elevated year-end AR balance. QoEPro recommends verifying this explanation through a 13-month rolling AR collection analysis, which is included in the supporting Excel workbook.

The cash proof variances are consistent year-over-year and attributable to standard billing timing rather than revenue recognition issues. No evidence of undeposited cash or off-book revenue was identified. The disbursement variance is explained by owner distributions and loan payments, both of which have been properly classified. Overall, the cash proof supports the reliability of reported revenue figures.

Section 8 — Book-to-Tax Reconciliation

QoEPro has reconciled the seller-provided financial statements to federal tax returns for FY 2023 and FY 2024. This analysis identifies material differences between book income and taxable income, which may indicate timing differences, permanent differences, or items warranting further investigation.

	Book FY23	Tax FY23	Book FY24	Tax FY24
Net Income per Financial Statements	\$395,000	\$361,000	\$416,000	\$374,000
Add: Depreciation & Amortization	\$44,000	\$81,000	\$47,000	\$88,000
Add: Interest Expense	\$22,000	\$22,000	\$19,000	\$19,000
Less: Meals & Entertainment (50%)	(\$9,000)	(\$9,000)	(\$8,000)	(\$8,000)
Consulting Fee — Related Party	\$62,000	—	\$62,000	—
Timing & Other Differences	(\$25,000)	—	(\$28,000)	—
Taxable Income per Return	\$489,000	\$455,000	\$508,000	\$473,000

Material Variances

Item	FY23 Var.	FY24 Var.	Assessment
Accelerated Tax Depreciation	\$37,000	\$41,000	Standard Section 179 / bonus depreciation. Permanent timing difference. No concern — expected for equipment-intensive business.
Related-Party Consulting Fee	\$62,000	\$62,000	Expensed on P&L both years; NOT deducted on tax return either year. Seller's own tax preparer did not treat as deductible — strongly supports INVALID add-back classification.
Revenue Timing (Accrual vs Cash)	\$18,000	\$23,000	Company uses cash basis for tax, modified accrual for books. Timing difference on year-end commercial billings. Immaterial and expected.
Meals & Entertainment (50% Rule)	\$9,000	\$8,000	Standard 50% M&E limitation applied on tax return. Book treatment expensed at 100%. No concern.

Key Tax Finding — Related-Party Fee Confirms INVALID Add-Back Status

The \$62,000 annual consulting fee paid to the owner's brother is expensed on the P&L in both FY 2023 and FY 2024, but is absent from the federal tax returns in both years. A legitimate business expense of this size would almost universally be claimed as a deduction. Its consistent omission from tax filings — across two separate tax years — provides independent corroboration that this fee is not a bona fide business expense and should not be included in any normalized EBITDA presented to lenders or used as a basis for purchase price.

With the exception of the related-party consulting fee, the book-to-tax reconciliation reveals only standard timing and method differences attributable to depreciation elections and cash vs. accrual accounting. The overall reconciliation is clean and does not suggest any additional unreported income or undisclosed expenses beyond what has already been identified.

Section 9 — Payroll Reconciliation

QoEPro has reconciled payroll expense reported on the P&L to payroll tax filings (Form 941) and W-2 totals. This confirms that the labor costs reported in the financial statements are consistent with amounts reported to the IRS, and identifies any discrepancies that may indicate off-book compensation, unreported labor, or misclassified workers.

Payroll Reconciliation Item	FY 2024	FY 2025
Payroll Expense per P&L (GL Account 6010)	\$612,000	\$648,000
Less: Owner Salary per P&L	(\$220,000)	(\$220,000)
Employee Payroll Expense per P&L	\$392,000	\$428,000
Total W-2 Wages per IRS Filings	\$374,000	\$400,000
Form 941 Taxable Wages (Annualized)	\$371,000	\$396,000
Variance: P&L Expense vs. W-2 Total	(\$18,000)	(\$28,000)
Variance as % of Employee Payroll	4.6%	6.5%

Headcount & Compensation Analysis

Category	FY 2024 Headcount	FY 2025 Headcount	Avg. Comp FY24	Avg. Comp FY25
Field Technicians	14	15	\$42,000	\$44,000
Install Crew	4	4	\$38,000	\$40,000
Office / Admin	2	2	\$48,000	\$50,000
Seasonal (Summer Only)	3	4	\$18,000	\$19,000
Total Employees (ex. Owner)	23	25	\$37,000	\$38,000

Payroll Reconciliation Variance — \$28K Unresolved Discrepancy (FY 2025)

Employee payroll expense per the P&L exceeds total W-2 wages reported to the IRS by \$28,000 in FY 2025 (up from \$18K in FY 2024). Management has not provided a satisfactory explanation for this variance. Possible explanations include: (1) subcontractor payments incorrectly coded to payroll in the GL, (2) unreported cash compensation to workers, or (3) a GL coding error. This discrepancy has been deducted from normalized EBITDA pending resolution. Buyer should require a detailed reconciliation of this variance before closing.

The payroll variance trend is concerning — it grew from 4.6% to 6.5% of employee payroll in one year without explanation. Until resolved, QoEPro has treated the full \$28K variance as a downward adjustment to normalized EBITDA. If subsequently explained as a GL coding error with no cash impact, this adjustment could be reversed, which would increase normalized EBITDA to \$626K.

Section 10 — Accounting Policy Review

QoEPro has reviewed key accounting policies applied in the preparation of the seller's financial statements. Policies that deviate from standard practice or that may distort reported earnings are flagged below. This analysis is based on GL detail, tax returns, and management representations.

Policy Area	Seller's Approach	Standard Practice	Assessment
Revenue Recognition	Cash basis — revenue recognized when cash received	Accrual — revenue recognized when earned	CONCERN
Depreciation Method	Accelerated (Section 179 / Bonus) for tax; Straight-line for books	Straight-line for GAAP	OK
Inventory Valuation	FIFO — parts and materials at cost	FIFO or weighted average at cost	OK
Deferred Revenue	Maintenance contract revenue deferred monthly	Recognized ratably over contract period	OK
Related-Party Transactions	Annual consulting fee paid to owner's brother	Arm's-length or excluded from normalized earnings	CONCERN
Owner Compensation	Above-market salary included in operating expenses	Normalized to market-rate replacement cost	CONCERN

The most significant accounting policy concern is the use of cash basis revenue recognition, which can distort period-to-period comparability and creates differences between reported and economic earnings — particularly around year-end when commercial maintenance invoices are outstanding. QoEPro has adjusted for this in the recast P&L. The two 'CONCERN' items related to the owner (related-party fee and above-market compensation) are directly addressed in the add-back schedule and EBITDA bridge.

Section 11 — AR/AP Aging Analysis

QoEPro has reviewed the seller-provided AR and AP aging reports as of the most recent period end. Aging analysis confirms the collectability of reported receivables and the completeness of recorded payables, both of which affect working capital peg calculations and post-close cash flow.

Accounts Receivable Aging

Accounts Bucket	Current	31–60 Days	61–90 Days	90+ Days	Total
Apex Property Mgmt	\$284,000	\$0	\$0	\$0	\$284,000
Residential Customers	\$98,000	\$22,000	\$6,000	\$2,000	\$128,000
Total AR	\$382,000	\$22,000	\$6,000	\$2,000	\$412,000
% of Total AR	92.7%	5.3%	1.5%	0.5%	100%

Accounts Payable Aging

Accounts Bucket	Current	31–60 Days	61–90 Days	90+ Days	Total
Equipment & Parts Suppliers	\$142,000	\$48,000	\$18,000	\$10,000	\$218,000
Subcontractors	\$0	\$0	\$0	\$0	\$0
Total AP	\$142,000	\$48,000	\$18,000	\$10,000	\$218,000
% of Total AP	65.1%	22.0%	8.3%	4.6%	100%

AR quality is strong — 92.7% is current, and the Apex Property Management balance of \$284K represents invoices within normal net-30 terms. The \$2K in 90+ day residential AR is immaterial. AP aging shows some concentration in the 31–60 day bucket (\$48K), which is consistent with normal supplier payment cycles for HVAC parts. The \$10K in 90+ day payables warrants follow-up to confirm these are not in dispute, but the amount is not material at this size of business.

Section 12 — Risk Assessment

The following risks were identified through GL-level analysis, reconciliation procedures, and review of seller-provided supporting documents. Each should be addressed through deal structure, price adjustment, earnout provisions, escrow holdbacks, or representations and warranties in the purchase agreement.

01	EBITDA Overstatement — \$182K Below Seller-Stated Figure	HIGH
02	Revenue Concentration — 39% in Single Contract	HIGH
03	Payroll Reconciliation Variance — \$28K Unexplained	MEDIUM-HIGH
04	Working Capital Peg — Seasonal Cash Gap	MEDIUM
05	Owner Dependency — Key Person & Relationship Risk	MEDIUM



Channel analysis confirms approximately 60% of revenue flows through direct owner relationships. The Apex contract, the primary driver of revenue growth, was sourced and is maintained by the owner. No evidence of a management layer capable of independently maintaining key relationships was identified. QOEPro recommends a minimum 12-month transition period, a retention earnout tied to commercial revenue, and direct pre-close meetings with the Apex relationship contact.

Section 13 — Priority Questions for Seller / Broker

The following questions arise from QoEPro's GL-level analysis and reconciliation procedures. They should be addressed and resolved before closing. Incomplete or evasive responses to any item should be treated as a material due diligence concern and reflected in deal structure.

Q1 Payroll Variance Explanation

Provide a detailed reconciliation of the \$28K difference between GL payroll expense (GL 6010) and total W-2 wages reported on IRS Form W-3 for FY 2025. Specifically: are any workers classified as 1099 contractors who performed work similar to employees? Were any cash payments made to workers not reflected in W-2s?

Q2 Apex Contract Assignment

Provide written confirmation from Apex Property Management that: (a) the contract will be assigned to the buyer at close, (b) Apex intends to renew the contract upon expiration (December 31, 2026), and (c) the pricing and scope of the current contract will not be materially altered at renewal. A direct buyer-Apex introduction meeting should occur prior to close.

Q3 Equipment Repair History

Provide a full 5-year history of equipment repair and replacement expenditures (GL account 7210) by year, with invoices for any amounts over \$10,000. Confirm whether the \$68K repair in FY 2025 involved the same equipment as the \$61K and \$58K repairs in FY 2023 and FY 2024, respectively.

Q4 Related-Party Consulting — Tax Treatment

Explain why the \$62,000 annual consulting fee paid to [owner's brother] was not deducted as a business expense on the federal tax returns for FY 2023 or FY 2024. Provide the consulting agreement, all invoices, evidence of services delivered, and the basis for the fee amount.

Q5 Cash Basis Revenue Timing

Provide a schedule reconciling year-end AR balances to cash collections in January of the following year for FY 2023, 2024, and 2025. This will confirm that the cash basis revenue timing variance identified in the cash proof is attributable to normal AR collection patterns.

Q6 AP Aging — 90+ Day Balances

Provide documentation for the \$10,000 in accounts payable aged over 90 days. Confirm whether any of these balances are in dispute with suppliers and whether any carry late payment penalties or interest charges.

Next Steps & Engagement Summary

This Standard QoE report has provided GL-level verification of the subject company's earnings quality. The following actions are recommended before proceeding to close:

STEP	ACTION	PRIORITY
1	Renegotiate purchase price to reflect \$598K normalized EBITDA — target \$2.4M–\$2.7M range	IMMEDIATE
2	Obtain Apex Property Management written consent to assignment as a closing condition	IMMEDIATE
3	Resolve \$28K payroll variance — require detailed reconciliation before closing	PRE-CLOSE
4	Negotiate working capital peg of \$206K measured at close, not at LOI date	PRE-CLOSE
5	Structure earnout tied to Year 1 commercial revenue retention (Apex contract)	PRE-CLOSE
6	Require 12-month owner transition agreement as a condition of closing	PRE-CLOSE

Supporting Excel Workbook

This report is accompanied by a supporting Excel workbook containing: monthly EBITDA bridge (GL-sourced), 13-month working capital trending, full add-back detail by GL account, monthly P&L by service line, and cash proof schedules. The workbook is an integral part of this engagement.

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