

The Independent Spouse Inc.

Suzie Spaves was a stay-at-home mom with two children when she divorced her husband after he squandered all their savings with a gambling addiction. She promised herself “never again.” Never again was she going to be dependent on anyone else. So determined was she, that Spaves started up her own business – The Independent Spouse (TIS) - to help women ensure their own personal financial security by providing education, coaching, and escrow depository accounts (“getaway funds”) for her clients.

She started nine years ago with no employees. She set up a website and marketed herself to women in bad relationships. She wrote a book on her experience and it immediately resonated with women worldwide. She suddenly found herself being booked for radio interviews and talk shows. Her business went parabolic when she made an appearance on the Ellen DeGeneres show.

Now, five years since that epic appearance, her business has grown significantly. She has leveraged her business model by recruiting and training other women to provide these services. She has written another book. She has her own podcast series. And she is a sought-after speaker at events around the world.

From the beginning, Spaves personal life has been symbiotic with her company. Her life is embedded in the company and its mission to help women become financially independent in any circumstance. She now has 30 employees working in the company doing everything from websites to marketing to event planning to coaching to financial services. The people working for Spaves are mostly women. They passionately believe in the business and most of them were drawn to the company based on Spaves public persona.

Suzie’s daughter Sarah is 24 completed her Bachelor of Commerce degree last year. Sarah is now the Vice-President of Customer Relationships, which at the moment entails spending a significant portion of her day posting selfies on Instagram. Suzie is somewhat blind to her daughter’s lack of interest and/or competency, but no one seems to mind and the team sort of accepts Sarah and has learned to work around her to get things done.

Spaves owns all of the equity of her company. The company’s sales have exploded in recent years growing from \$650,000 five years ago to over \$4,150,000 in the past 12 months. People have been hired to support the growth and a corporate office was opened in a swanky downtown office building. Spaves has been very successful at keeping ahead of the growth by continuously expanding capacity. She has done this in part by borrowing \$1,200,000 from the Chartered Bank of Canada. As a condition of receiving this loan TIS must now be audited. The year end has just passed and the new auditors are expected in two weeks.

Despite the strong top line growth, bottom line profitability has been smaller than what she thinks it should be. However, there is so much demand for her services that her focus has been on just trying to keep up. There is plenty of cash coming in and there have never been any problems paying the bills.

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You are Megan Shaw, the new Controller at TIS. You came to TIS about three weeks ago after returning to the workforce after being a stay at home mom and looking for a job for the past four months. With Suzie's guidance a few years ago, you opened a secret account with TIS and managed to save \$30,000 over two years. It allowed you to leave your unhappy marriage with your three young sons and you haven't looked back. However, it's been very stressful as your ex-husband now refuses to pay child support and you are still spending thousands of dollars in legal fees trying to get him to pay up. In the meantime, you still have rent, utilities and all expenses for your children to pay from your meager salary and find yourself quickly using up your "getaway" money. You need this job to make ends meet until the lawyers sort out the child support.

The auditors are coming tomorrow. Suzie is not happy with the profit showing on the financial statements because it will impact the renewal of her bank loan.

She has met with her sister, who is a significant contractor to the business, and her sister has agreed to reduce her invoices by \$300,000 for last year. Suzie has asked you to process the billback. What do you do?

See the Exhibits to see what other information you've been able to gather.

Exhibit I

Thoughts from Suzie Spaves

On corporate culture:

- I foster a very entrepreneurial culture with my employees. I empower them to make the best decisions for the business, but in the end, I'm the boss and I get to call the shots.
- Mistakes get made, but I look at each of these as learning opportunities for us to be stronger.
- I tell my employees that if you work for this company, then we are family. We are all advocates for financially independent women around the world.
- I have a very flat organization with very few job titles, everyone pitches in when and where needed. It makes it a fun place to work and a great career challenge for my staff.
- It is an entrepreneurial environment so I allow my staff some flexibility with their work hours. In the end though it is a business and the work comes first. I put in long hours and expect my team to do the same.

On the recent financial results

- Despite having over \$4 million in sales, you tell me that the company generated less than \$100,000 of income in the past year. I hate to tell my team that because I don't want to demoralize their efforts. I think there is something wrong with your accounting.

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Exhibit II

Thoughts from various employees

- TIS is a good workplace environment, it's chaotic for sure, and Suzie can be pretty tough sometimes but most people are supportive of each other.
- It's all about getting it done. We have so many products and channels that we all just pitch in as the need arises to deliver a quality product for our clients.
- Not everything we do makes money, but it gets done and happy clients refer us more clients so we make money the next time we do something similar.
- Suzie always does things first class all the way, it's part of her image, but it is expensive hiring specialist consultants including web design firms and videographers.
- Suzie's personal life and business life are indistinguishable. Her daughter has been like a mascot for the company over the years. All employees bring their children to the office from time-to-time as crises arise in their personal lives.

Exhibit III

Other information you have gathered

- The company spent almost a \$1,000,000 in third party consultant fees for various production and marketing costs. Suzie's sister is one of the primary consultants we use as she has her own design company.
- I really don't like Sarah, but it is a touchy subject I can tell. Sarah makes a lot of mistakes with her work. I've tried to talk to Sarah about it but she just laughs and tells me to talk to her mother if I'm not happy with her.
- Suzie treats the corporation as her own personal bank account, which is fine I guess as it's her company, but I think a number of the managers treat it the same way.
- Included in meal and entertainment and office costs appears to be a lot of Suzie's own grocery bills and home expenses. But I've been assured that Suzie works out of her home and its all business related if she is not at the office.
- All of Suzie's travel costs, including costs to bring her new boyfriend along to speaking events, have been expensed. Her boyfriend is also her executive coach so it's a business expense.
- Pet food expense includes the cost of purchasing and maintaining two Yorkshire terriers. The dogs are on company premises all the time. Sally has noted that the dogs are great for office morale. Employees are allowed to "borrow" the dogs as an employee perk to give their children the "pet experience" without having to own one themselves.
- The company's maximum line of credit is based on 3 turns of EBITDA.

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