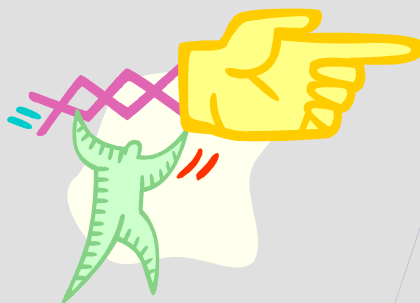


Strategically Successful: How to Tell if You and Your Firm are *Making* *Money*

Dave Bilinsky



Make this Session a Hit



- ▶ What areas must be touched upon to make this a hit?
- ▶ What burning issues do *you* need addressed?
- ▶ This session is driven by **YOU!**

Object of this Session

- Move your financial system from a historical (*expense*) position
- To a forward thinking (*revenue*) position
- Chart out financial goals and reach out to them...



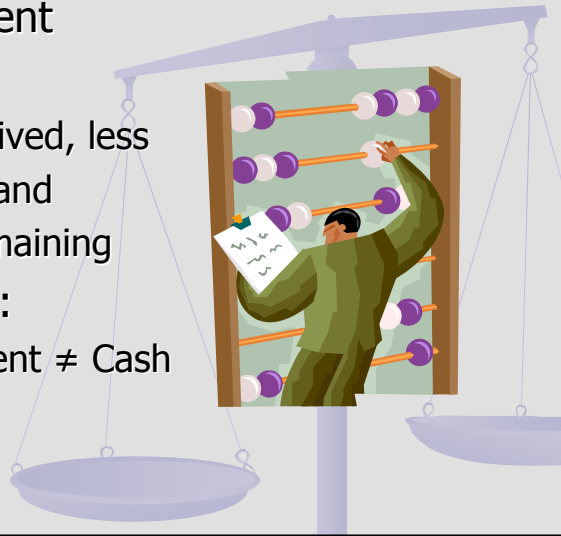
Standard Financial Reports

- Balance Sheet
- Reflects:
 - everything a firm owns (assets),
 - everything it owes (liabilities), and
 - the value of the owners' equity
- "Snapshot"



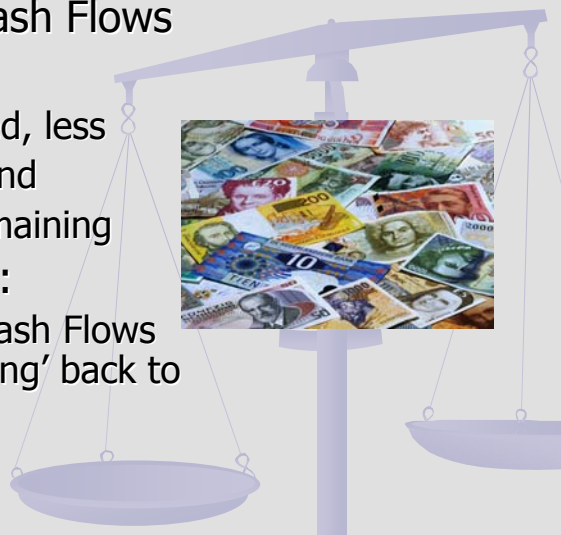
Standard Financial Reports

- Income Statement
- Reflects:
 - All income received, less
 - All debts paid, and
 - the balance remaining
- Accrual method:
 - income statement \neq Cash



Standard Financial Reports

- Statement of Cash Flows
- Reflects:
 - All cash received, less
 - All cash paid, and
 - the balance remaining
- Accrual method:
 - Statement of Cash Flows brings 'everything' back to Cash



Standard Financial Reports

- Budget
- Capital budget
 - Investing activities: leasehold improvements etc.
- Operations Budget:
 - Cash Flow budget
 - Revenue and expense forecast



Custom Financial Reports

Typical reports

- Accounts receivable
 - Disbursements incurred
 - Accounts receivable
 - Accounts due
 - Time written off
 - WIP
- *-Aged*
 - *-Grouped by client file*
 - *-Aged 30; 60; 90; + 120 days*
 - *-Log collection activity*
 - *-or written-down*
 - *-Aged*



Custom Financial Reports

- Accounts collected
- Accounts written off
- Disbursements written off
- Trust activity reports
- Line-of-credit
- Capital account balances
- Month-end summaries
- *Fees, disbursements - by lawyer*
- *Subsequent activity*
- *By client file*
- *Ins; outs; balances*
- *Amounts outstanding*
- *Include draws; salaries; bonuses*
- *Sub-totals by lawyer; client; file; practice area; office location*

Financial Reports

- Write-up/Write-down report (by lawyer)
 - hours billed
 - dollar amount billed
 - realized billing rates (hours billed multiplied by the lawyer's standard billing rate)
 - the variance between actual and standard billings (write-ups, write-downs)
 - resultant effective hourly-rate billed by lawyer (EHR)



Financial Reports

- Client Activity report (by client, highest to lowest):
 - by fees billed
 - by EHR
 - by accounts receivable
 - by fees collected
 - by trust balances
 - by WIP
 - outstanding disbursements



Ten Monthly Cash Flow Reports

1. Overall and projected monthly billings
 1. Lawyers income = 55-60% of collected billings
2. Projected billings versus cash flow
 1. 105 day 'lag' before payment
3. Actual versus budgeted costs
 1. Are you staying in budget?
4. Work In Progress
 1. $WIP \text{ over } 180 \text{ days} \div \text{Total WIP} = 20 \text{ to } 40\%$



Ten Monthly Cash Flow Reports

5. Unbilled Disbursements

1. Total debt ÷ net fixed assets = 50-80%

6. Accounts Receivable

1. 20% - common
2. 15% - high,
3. 5% - desirable

7. Realization Rate

1. % of actual income paid
2. No lower than 90%



Ten Monthly Cash Flow Reports

8. Unbilled Fees and Disbursements

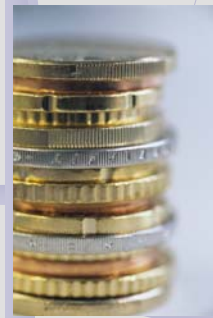
1. 30/60/90/120+

9. Daily Time Summaries

1. Set and meet time requirements

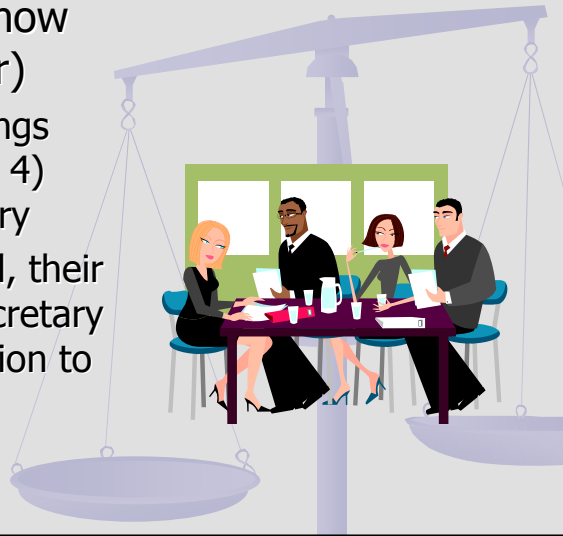
10. Client Trust Balances

1. Review balances regularly



Associate Reports

- Rule of Three (now the Rule of Four)
 - Associates' billings should be 3 (or 4) times their salary
 - Cover overhead, their salary, their secretary and a contribution to the partners



Miscellaneous Reports

- Referral report
- Vendor report
- Exception reports
- Strategic report
- Profitability reports



The Next Level: Ratios

- **Working capital ratio - 1.25:1**

Total current assets
By current liabilities

- **Debt to equity ratio – 1:1**

Total of all debt
Total partner's equity

- **Asset efficiency ratio (should decline)**

Total revenues including billed disbursements
Total assets



The Next Level: Ratios

- **WIP ratio (Billing efficiency) 1:6**

Total unbilled WIP less disbursements
Total billed revenue less billed disbursements

- **Accounts receivable (collection efficiency) 1:6**

Total outstanding accounts receivable
Total billed revenue



The Next Level: Ratios

- **Retainer effectiveness ratio**

Total transfers from trust to general for the month
Total receipts (including trust transfers) for the month

- **Overhead ratios (40-80%)**

Total firm (overhead) expenses
Total billings

- **Separate ratios as well...**



Statistical Ratios

- **Debt per lawyer**

Total law firm debt - lease obligations
Number of lawyers (include all fee billers)

- **Billings per lawyer**

Total billings (include all fee billers)
Number of lawyers

- **Overhead per lawyer**

Total overhead-payroll of lawyers and FTE* of other billers)
Number of lawyers (including FTE* of other billers)



Statistical Ratios

- **Collections per lawyer**

Total collections for the lawyer – for the month

Total collections for the same period of previous year

- **Number of support staff (FTE*) per lawyer**

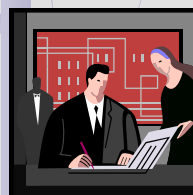
Number of support staff (i.e. non-fee-billing-professional staff)

Number of lawyers plus FTE* fee-billing-professional-staff

- **Average amount of fee bills**

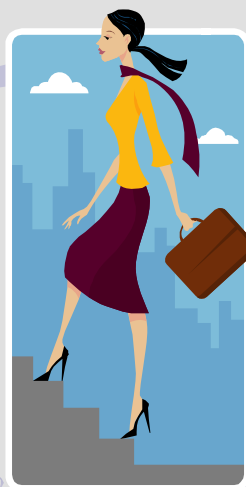
Total billings

Number of bills issued



Conclusion

- To thrive (not just survive) a law firm needs more than just standard financial statements
- Stand (or fall) on your ability to manage cash
- Accurate management reports allow firms to plan and measure their strategic growth towards their goals.



Questions?

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