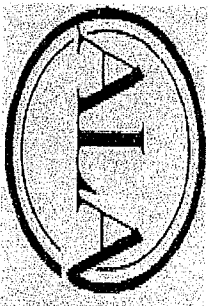


Where's the Ca\$h?



Michael DeLargy

Chief Operating Officer

O'Hagan, Smith & Amundsen

Program Outline

Financial Statements:

- Accrual v. cash (modified)
- Balance Sheet
- P & L
- Cashflow statement

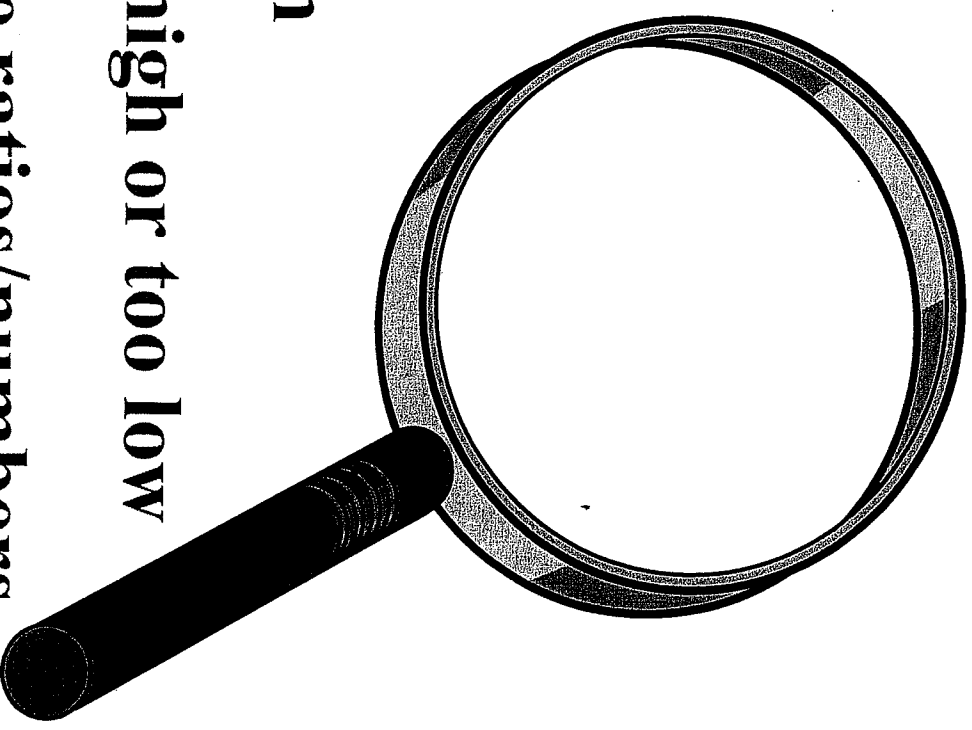
Financial Ratios

- Productivity
- Profitability
- Liquidity

Why?

- **Financial pulse of the Firm**
- **Too many or too few - too high or too low**
- **Relationship between those ratios/numbers**

»*on to the basics*



Which one?

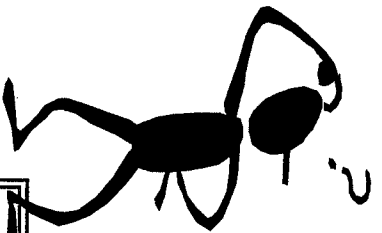
Cash or Accrual?

Cash:

- Less burdensome
 - recordkeeping
 - staffing
 - technology
- Easier to understand cashflow
- Partner expectations for (taxable) earnings

Accrual:

- GAAP-banks usually require
- Better reflection of firm's economic status - (more even)
- better predictor of future-(easier budgeting)
- better indicator of productivity



Income Statements

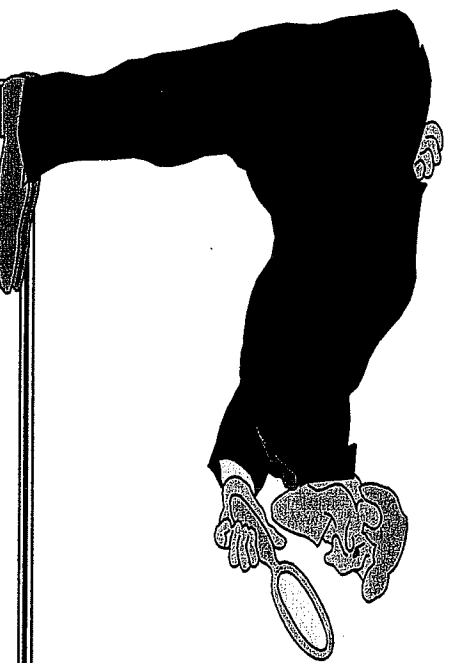
Cash v. Accrual

Cash Basis

- Revenue/Expense recognized when received or paid
- Revenue: billable fees paid
- Expense: when paid
- Expense: certain for modified cash basis

Accrual Basis

- Match revenue with expenses
- Revenue: billable fees generated
- Expense: despite when paid



Balance Sheets

Cash v. Accrual

CASH Balance Sheet

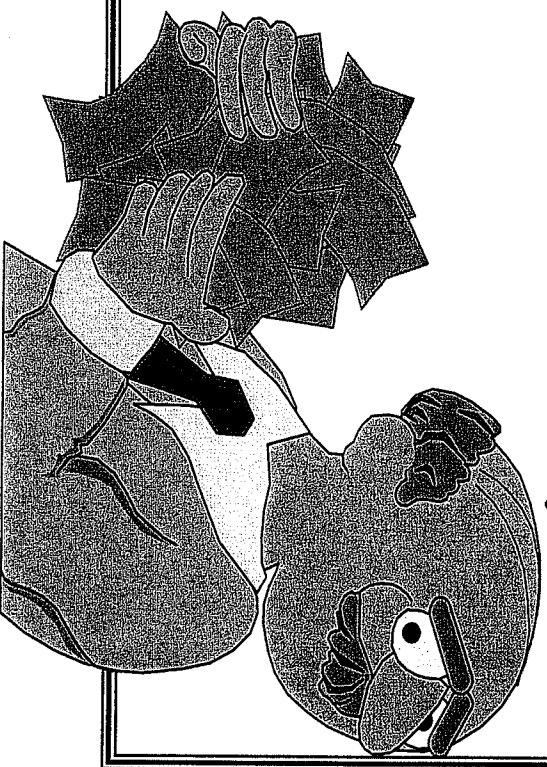
- Assets:
 - Cash, client advances, fixed assets
- Liabilities:
 - Loans, employee w/h

ACCRUAL Balance Sheet

- Assets:
 - Cash, client advances, fixed assets
 - WIP and A/R
- Liabilities:
 - Loans, employee w/h
 - A/P, accruals

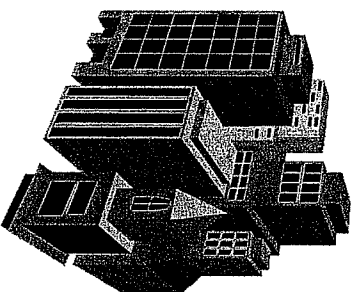
Net Income v. Distributions

- How much can be distributed?
- Look at cash flow and/or operating agreement
- Phantom Income (Taxable v. cash distributions) *"I never got all that money!"*



Cash Flow Statement

- Purpose: Information about \$ in and \$ out in 3 areas:
 - Operations
 - Investing (capital assets)
 - Financing (partner contributions/distributions and loan activity)



Example:

• <u>P & L</u>

• Rev: \$10,000
• Exp: <u>(7,000)</u>

• Net \$3,000

• <u>Cashflow</u>	
• Net income from operations	\$3,000
• Adjustments: depreciation	<u>\$1,000</u>
• Cashflow from operations	\$4,000
• Purchase of Fixed Assets	(1,000)
• Repayment of Bank Debt	(1,000)
• Distributions to Partners	<u>(2,000)</u>
• <u>Net Change in Cash</u>	<u>-0-</u>

*Use ratios as tools or
benchmarks*



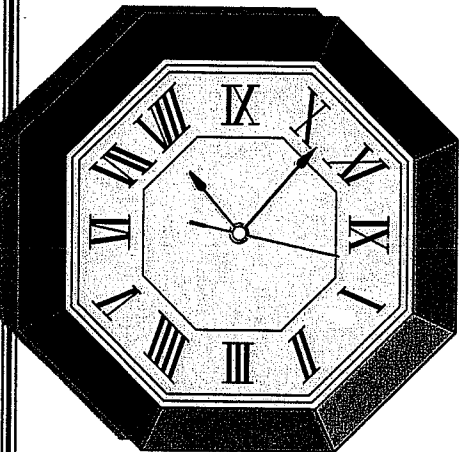
Ratios

- Labor Ratios
 - to billing
 - to staff
 - utilization
 - leverage
- Realization Rates
- Collection Ratios

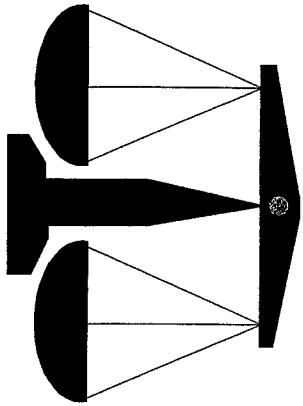
- Net Profit
 - expense control
 - per lawyer/owner
- Liquidity Ratios

Labor to billing

- Rule of 3
 - Senior = less (creates a deficit)
 - Junior = more



- Example:
 - Fees \$300,000
 - rule 3 =
\$100,000
- Salary: \$ 90,000
- Benefits: \$ 18,000
- Est. \$108,000



Attorney to Staff

- Generally 2:1 in smaller firms

Example:

- Total atty: 20
- Total staff 10
- Ratio 2:1

Utilization %

- What % of timekeeper's total time is billable?
- Historical comparison
- Level comparison
- Other Firms

Example:

- Bill hours 140
- Tot hours 200
- Utilization % =
– (140/200) 70%

Leverage

- **Definition:**
 - the number of non-equity attorneys compared to equity attorneys.

- **Example:**
- **Total atty(incl) 100**
- **Equity 20**
- **Leverage 4:1**
 $(100-20)/20$

Realization Rates

- Average hourly
 - rate * time
- Effective billed
 - billed/relieved
- Effective collected
 - collected/relieved

- Example:

Hours	Rate	%
• 1.0	\$100	100%
• 1.0	\$95	95%
• 1.0	\$90	90%

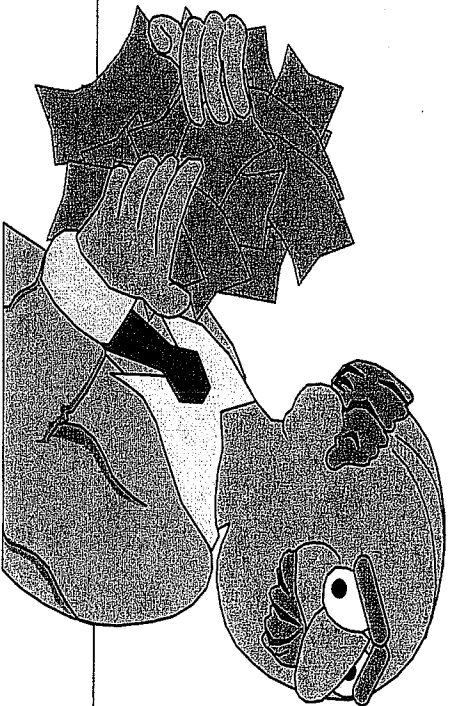
Collection Ratios

- DSO - days sales outstanding
 - by client, batty, etc.
- WTC - work to collection
 - by client, batty, etc.

- (A/R/average bills) *
30
- Total investment/average monthly fees

Net Profit

- % of total
- per partner
- per lawyer, client practice group



- Firm net income/# equity partners
- firm net income/# of lawyers
- profitability accounting
- expense control (%)

Liquidity Ratios

- Liquid assets
 - A/R, cash, notes receivable
- Quick ratio
 - how fast satisfy ST obligations?
- Net worth
 - Banks want to know if you liquidate your assets, can you pay off their loans?

Summary

- Ratios allow you to set benchmarks for improvements
- Not one “right” set of ratios for every type of practice
- Use your own set of ratios to tell you what needs to be done

