STATE BAR OF WISCONSIN
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AMC 2026

WALA Session 2

Finance 101: Understanding Law Firm Financials for Administrators & Attorneys

Presented by:

Robb M. Evans
DeWitt LLP, Madison

Kathy Pline
DeWitt LLP, Madison

About the Presenters...

Robb Evans is a Partner in DeWitt's Business practice group who advises clients on a wide range of business and real estate matters. He frequently serves as outside general counsel and has extensive experience in mergers and acquisitions, entity formation, corporate governance, contract drafting and negotiation, and business succession planning. Robb also represents clients in commercial and residential real estate transactions and leasing and regularly negotiates land use approvals with municipalities and easement agreements between landowners.

Kathy Pline oversees the firm's operations leadership and works closely with the DeWitt's President and the Executive Committee. She is responsible for guiding the firm's accounting and finance teams, information technology, facilities management, legal resource administration, research and intelligence, human resources, and firm relations, while also facilitating process improvements, strategic growth initiatives, and serving as a trusted advisor in business and client development efforts. With more than 25 years of diverse leadership experience, Kathy brings a strong background in team leadership and operational integrity, along with expertise in GAAP accounting, strategic planning, budgeting, forecasting, treasury management, operations enhancement, human resources guidance, and client business development.

Welcome

Thank You for Joining Us Today!

THE BUSINESS OF LAW
FINANCE 101

DeWitt

June 10th, 2026

Presented by

- Robb Evans, Equity Partner, DeWitt LLP
- Kathy Pline, VP Operations, DeWitt LLP

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TODAY'S LESSONS

- BASIC FINANCIAL STATEMENTS
  - Profit & Loss Statements
  - Balance Sheets
- CASH MANAGEMENT
  - Terms & Conditions
  - Inventory Management
- BUDGETING & FORECASTING FUNDAMENTALS
- FINANCIAL RED FLAGS & OPPORTUNITIES FOR IMPROVED PROFITABILITY

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BASIC FINANCIAL STATEMENTS

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FINANCIAL TERMINOLOGY

- ✓ GAAP Accounting Basis – Accrual, Cash, Modified-Cash
- ✓ Profit & Loss Statement (P&L)
  - Revenue
  - Expenses
- ✓ Balance Sheet
  - Assets
  - Liabilities
  - Equity
- ✓ Cash Flow
  - Operating
  - Investing
  - Financing
- ✓ Overhead – Gross & Net
- ✓ Expenses
  - Prepaid Expenses
  - Accrued Expenses
  - Disbursements
- ✓ Inventory
  - Accounts Receivable (AR)
  - Work-in-Process (WIP)
- ✓ Line of Credit (LOC)
  - Covenants
- ✓ Statistics
  - Billable/Non-Billable
  - Production & Collections
  - Ratios / Realizations
- ✓ Working & Billing Allocations
  - Ratios & Weights
- ✓ Budgets & Forecasts

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MEASURES

PROFIT & LOSS STATEMENTS
- REVENUE - EXPENSES = PROFIT
- TAX LIABILITY

SHORT-TERM HEALTH

BALANCE SHEET
- ASSETS – LIABILITIES = EQUITY

LONG-TERM HEALTH

CASH, LINE OF CREDIT (LOC) & INVENTORY

- PAYING THE BILLS & IDENTIFYING IF/WHEN WE PAY THE BILLS

LIQUIDITY & LEVERAGE HEALTH

OVERHEAD / PROFIT MARGINS

- THE COST OF OPERATIONS
- THE PROFITS THAT ALLOCATE BACK TO THE ATTORNEYS/FIRM

THE COST OF OPERATIONS

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GENERAL OVERHEAD	
SUPPORT SALRIES	$ 10,000,000
PAYROLL TAXES	$ 750,000
EMPLOYEE BENEFITS	$ 1,500,000
PROFIT SHARING OR 401K CONTRIBUTIONS	$ 300,000
LEASEHOLD	$ 3,000,000
STORAGE FEES	$ 200,000
PHOTOCOPY & EQUIPMENT	$ 100,000
OFFICE SUPPLIES	$ 100,000
COMPUTER NETWORK & SOFTWARE	$ 850,000
DEPRECIATION EXPENSE	$ 425,000
TELECOM	$ 20,000
POSTAGE	$ 30,000
RESEARCH SOFTWARE & REFERENCE MATERIALS	$ 850,000
FIRM MEETINGS	$ 200,000
CLE & DUES	$ 10,000
RECRUITING EXPENSE	$ 10,000
BUSINESS INSURANCE	$ 700,000
TAXES - EXCLUDING PAYROLL	$ 50,000
FIRM TRAVEL	$ 50,000
PARKING	$ 100,000
PROFESSIONAL SERVICES	$ 175,000
MARKETING & BUSINESS DEVELOPMENT	$ 850,000
FINANCIAL EXPENSES	$ 550,000
BAD DEBT RESERVE	$ 60,000
SOFT COSTS RECOVERY	$ (50,000)
MISCELLANEOUS EXPENSE	$ -
GENERAL EXPENSES SUB-TOTAL	**$ 20,830,000**
DIRECT OVERHEAD	
ASSOCIATES DIRECT EXPENSE	$ 7,300,000
PARALEGAL DIRECT EXPENSE	$ 1,700,000
CLERKS DIRECT EXPENSE	$ 300,000
DIRECT EXPENSES SUB-TOTAL	**$ 9,300,000**
GROSS OVERHEAD	**$ 30,130,000**
NON-PARTNER REVENUES	**$ (12,000,000)**
NET GENERAL OVERHEAD	**$ 18,130,000**

OVERHEAD STATEMENTS

Overhead P&Ls measure the cost to operate your firm.

General Expense
+
Direct Expenses
=
Gross Overhead
-
Non-Partner Revenue
=
Net General Overhead

NON-PARTNER REVENUES ALWAYS HELP ABSORB OVERHEAD – THE MORE YOUR ASSOCIATES, PARALEGALS, & CLERKS BRING IN, THE LOWER THE OVERHEAD / HIGHER THE PROFIT

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INCOME		
FEE INCOME / REVENUE	$	85,000,000
SOFT DISBURSEMENT INCOME	$	51,000
MISCELLANEOUS INCOME	$	26,000
INTEREST INCOME	$	43,000
TOTAL INCOME	**$**	**85,120,000**
EXPENSES		
PARTNER WAGES	$	54,000,000
DIRECT NON-PARTNER ATTORNEY WAGES	$	9,300,000
SUPPORT WAGES	$	10,000,000
SUPPORT PAYROLL TAXES	$	750,000
EMPLOYEE BENEFITS	$	1,500,000
PROFIT SHARING OR 401K CONTRIBUTIONS	$	300,000
LEASEHOLD	$	3,000,000
STORAGE FEES	$	200,000
PHOTOCOPY & EQUIPMENT	$	100,000
OFFICE SUPPLIES	$	100,000
COMPUTER NETWORK & SOFTWARE	$	850,000
DEPRECIATION EXPENSE	$	425,000
TELECOM	$	20,000
POSTAGE	$	30,000
RESEARCH SOFTWARE & REFERENCE MATERIALS	$	850,000
FIRM MEETINGS	$	200,000
CLE & DUES	$	10,000
RECRUITING EXPENSE	$	10,000
BUSINESS INSURANCE	$	700,000
TAXES - EXCLUDING PAYROLL	$	50,000
FIRM TRAVEL	$	50,000
PARKING	$	100,000
PROFESSIONAL SERVICES	$	175,000
MARKETING & BUSINESS DEVELOPMENT	$	850,000
FINANCIAL EXPENSES	$	550,000
BAD DEBT RESERVE	$	60,000
SOFT COSTS RECOVERY	$	(50,000)
MISCELLANEOUS EXPENSE	$	-
PROFIT	**$**	**84,130,000**
PROFIT MARGIN		**1.16%**

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PROFIT & LOSS STATEMENT

"ANNUAL COSTS OF OPERATING THE HOUSE"

EXAMPLE 1

Standard P&Ls measure the profitability of your firm.

Income
-
Expenses
=
Profit

Most firms aim for ZERO profit to minimize tax liability.

**NOTE: Your firm's tax classification (LLC, LLP, S-Corp), will be a key driver in your P&L formats & objectives.*

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INCOME		
FEE INCOME / REVENUE	$	85,000,000
SOFT DISBURSEMENT INCOME	$	51,000
MISCELLANEOUS INCOME	$	26,000
INTEREST INCOME	$	43,000
TOTAL INCOME	**$**	**85,120,000**
EXPENSES		
PARTNER DRAWS	$	24,000,000
DIRECT NON-PARTNER ATTORNEY WAGES	$	9,300,000
SUPPORT WAGES	$	10,000,000
SUPPORT PAYROLL TAXES	$	750,000
EMPLOYEE BENEFITS	$	1,500,000
PROFIT SHARING OR 401K CONTRIBUTIONS	$	300,000
LEASEHOLD	$	3,000,000
STORAGE FEES	$	200,000
PHOTOCOPY & EQUIPMENT	$	100,000
OFFICE SUPPLIES	$	100,000
COMPUTER NETWORK & SOFTWARE	$	850,000
DEPRECIATION EXPENSE	$	425,000
TELECOM	$	20,000
POSTAGE	$	30,000
RESEARCH SOFTWARE & REFERENCE MATERIALS	$	850,000
FIRM MEETINGS	$	200,000
CLE & DUES	$	10,000
RECRUITING EXPENSE	$	10,000
BUSINESS INSURANCE	$	700,000
TAXES - EXCLUDING PAYROLL	$	50,000
FIRM TRAVEL	$	50,000
PARKING	$	100,000
PROFESSIONAL SERVICES	$	175,000
MARKETING & BUSINESS DEVELOPMENT	$	850,000
FINANCIAL EXPENSES	$	550,000
BAD DEBT RESERVE	$	60,000
SOFT COSTS RECOVERY	$	(50,000)
MISCELLANEOUS EXPENSE	$	-
PROFIT (FOR PARTNER DISTRIBUTIONS)	**$**	**54,130,000**
PROFIT MARGIN		**36.41%**

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PROFIT & LOSS STATEMENT

"ANNUAL COSTS OF OPERATING THE HOUSE"

EXAMPLE 2

Standard P&Ls measure the profitability of your firm.

Income
-
Expenses
=
Profit

Some firms aim for high profit margins to distribute proceeds to Partners.

**NOTE: Your firm's tax classification (LLC, LLP, S-Corp), will be a key driver in your P&L formats & objectives.*

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ASSETS	
CASH	2,800,000
MISC RECEIVABLES	2,425,000
UNBILLED DISBURSEMENTS	1,250,000
UNBILLED SOFT DISBURSEMENT OFFSET	(20,000)
BILLED DISBURSEMENT	(425,000)
PARTNERSHIP UNIT VALUE RECEIVABLE	650,000
FURNITURE & EQUIPMENT	2,400,000
ACCUM DEPRECIATION	(2,000,000)
EQUIPMENT - DATA PROCESSING	1,800,000
ACCUM DEPRECIATION	(1,200,000)
FF&E ATTORNEYS	325,000
ACCUM DEPRECIATION	(255,000)
TELEPHONE	225,000
ACCUM DEPRECIATION	(225,000)
LIBRARY	30,000
ACCUM DEPRECIATION	(30,000)
LEASEHOLD IMPROVEMENTS	3,000,000
AMORTIZATION	(1,500,000)
START-UP EXPENSES	125,000
AMORTIZATION	(125,000)
TOTAL ASSETS	**9,250,000**
LIABILITIES	
ACCOUNTS PAYABLE	1,500,000
FEE DEPOSITS	775,000
PAYROLL CLEARING	361,000
SELF FUNDED INSURANCE ACCRUAL	400,000
LINE OF CREDIT	2,135,000
LONG TERM DEBT	0
DP NOTES PAYABLE - EQUITY PARTNERS	150,000
TOTAL LIABILITIES	**5,321,000**
EQUITY	
PAID IN CAPITAL	1,000,000
RETAINED EARNINGS	500,000
RETAINED EARNINGS - RED ACCT RES	1,300,000
REVENUE OVER (UNDER) EXPENSES	1,129,000
TOTAL EQUITY	**3,929,000**
TOTAL LIABILITIES AND EQUITY	**9,250,000**

BALANCE SHEET

"THE HEALTH & WEALTH OF THE HOUSE"

ASSETS – LIABILITIES = EQUITY

EQUITY = HEALTH & STABILITY OF BUSINESS

IF ASSETS > LIABILITIES = STRONG LIQUIDITY & LEVERAGE, FINANCIAL STRENGTH

IF ASSETS < LIABILITIES = TROUBLE, TROUBLE, TROUBLE

ANYTHING 1:1 OR BELOW RATIO IN ASSETS TO LIABILITIES SIGNALS DANGER

BALANCE SHEETS ARE THE LEADING INDICATORS OF:

- STABILITY
- LIQUIDITY
- LEVERAGE
- NEAR-TERM OPERATING NEEDS
- FUTURE DEBT OBLIGATIONS
- DISTRIBUTIONS
- ECONOMIC STABILITY IN A DOWNTURN
- BORROWING ABILITY

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CASH & INVENTORY MANAGEMENT

- Bank Account Types
- Cash Flow Management
  - Cash Flow Examples
- Inventory Management
  - WIP
  - AR
  - Disbursements
  - Timely Invoicing & Collections

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BANK ACCOUNTS

BANK ACCOUNT SEGREGATION IS CRITICAL

OPERATING ACCOUNTS: ACCOUNTS THAT ARE FUNDED THROUGH INCOMING EARNED REVENUE (AR PAYMENTS, INTEREST & MISCELLANEOUS INCOME) & IS UTILIZED FOR INCOMING & OUTGOING DAY-TO-DAY EXPENSES AND RECEIVABLES.

TRUST ACCOUNTS: PAYMENTS RECEIVED ON A CLIENT'S BEHALF OR IN ADVANCE OF WORK BEING DONE. THIS ACCOUNT MUST BE KEPT SEPARATE FROM THE OPERATING & OTHER ACCOUNTS. ANY INTEREST EARNED (IOLTA) MUST BE TURNED OVER TO THE STATE BAR ASSOCIATION.

LINE OF CREDIT (LOC): FUNDING UP TO A PERCENTAGE OF YOUR ANNUAL REVENUE AND NET WORKING CAPITAL (CURRENT ASSETS – CURRENT LIABILITIES) SO THAT YOU MAY "BORROW" WHEN THERE IS NOT ENOUGH OPERATING CASH AVAILABLE.

MONEY MARKET / HYSA ACCOUNTS: INVESTMENT ACCOUNT THAT EARNS INTEREST WHEN YOU HAVE AN ABUNDANCE OF CASH AND NOT UTILIZING THE LOC.

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BANK ACCOUNT CASHFLOW EXAMPLES

	EXAMPLE 1	EXAMPLE 2	EXAMPLE 3
LINE OF CREDIT BALANCE	$ -	$ (1,000,000)	$ (180,000)
OPERATING ACCOUNT BALANCE	$ 1,000,000	$ 250,000	$ -
FORECASTED ACCOUNTS RECEIVABLE	$ 1,500,000	$ 195,000	$ 225,000
FORECASTED ACCOUNTS PAYABLE	$ (2,000,000)	$ (125,000)	$ (5,000)
TOTAL DAILY OPERATING CASH	$ 500,000	$ 320,000	$ 220,000
TRANSFER / SWEEP FROM OPERATING	$ (500,000)	$ (320,000)	$ (220,000)
MONEY MARKET OR HYSA	$ 500,000	$ -	$ 40,000
LINE OF CREDIT	$ -	$ (680,000)	$ -
INTEREST EXP / INTEREST INC PER DAY	$ 20.55	$ 95.01	$ 1.64
INTEST RATE	1.50%	5.10%	1.50%

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Inventory Management

Inventory

WIP or Work In Progress – The revenue dollars that have not been posted, therefore not yet invoiced to the client.

AR or Accounts Receivable – The revenue dollars that are posted and invoiced to the client.

WIP + AR = Inventory

Work in Process – Clients expect to be billed regularly unless their engagement clearly states that they will be billed when the work is completed, or the case has been won or concluded (contingency).

Examples: WIP converts to AR when a probate has concluded, a business transaction has been finalized, or a personal injury case has been won, and the final settlement for fees & disbursements has been solidified.

Not converting WIP to AR without justification will result in greater difficulty in getting payment if it has aged. No client expects to receive a bill 6 months after the work has been completed.

Accounts Receivable – The clients' amounts are invoiced and due the firm. Clients are generally not charged interest; therefore, unless you make it clear, both in the engagement letter and through excellent communication, that the invoice payment is due upon receipt, you may run into collection issues. Generally, any aging older than 120 days will likely result in an 80% reduction in the likelihood that the client will pay the outstanding balances.

Trust Payments – It NEVER hurts to get the initial payment up front and deposit it into trust. Disbursements "fronted" by a firm on behalf of clients should be an exception, not the rule.

Prompt & diligent WIP & AR management help bring revenue in the door. That aids in cash flow. Cash flow aids LOC elimination, leading to interest income, a stronger P&L, and a sound Balance Sheet. It is all interconnected and extremely important to the firm's health. If you experience a billing attorney not invoicing your work, the best defense is to understand why and/or ask for assistance.

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CASUALTY EXAMPLES OF POOR INVENTORY MANAGEMENT

EXAMPLE 1:
Disbursement Fronting:
If the firm is in the Line of Credit at 5.1% and has hard disbursement receivables of $250,000, it will cost the firm $34.93 per day in interest expense.

EXAMPLE 2:
Late Billing:
If an attorney's collection realization is 75% and they billed out $1M in 2025, the write off is $250,000. $250,000 collected and deposited in money market account when out of the LOC is a missed opportunity of $10.27 per day in interest income.

EXAMPLE 3:
Failure to give work to Direct Timekeepers:
Associates, Paralegals, and Clerks not being billed out or adequately utilized so that their collected fees do not cover their costs; the firm loses money. Collections > Costs = Profit

EXAMPLE 4:
Engagement Agreements lacking payment expectations:
Payment terms & responsibilities, trust payment requirements and interest language lapses can hinder collections on any client matter. Ensure these key elements are included in the engagement letter.

EXAMPLE 5:
WIP Holding:
Clients should be billed monthly unless there is express attorney / client consent that the matter will not be billed until it is complete. Clients who do not receive monthly bills or consistent communication regarding the amount a matter is accumulating in costs will result in 1) disputes and 2) write offs or write downs, costing the firm income.

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BUDGET & FORECAST FUNDAMENTALS

- Budget Templates
- Budgeting Dynamics
- Trend Reporting
- Variance Analyses

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BUDGET TEMPLATES & TIPS

Budget Templates should always **MIMIC** your firm's P&L layouts with a whole lot of detail in the "why" category.

Budget templates should contain:
- New Fiscal Year Budget
- Current Year Annualized**
- Current Year Budget**
- 1-2 years of historical actuals
- Percentage columns (as a % of revenue or a % of total expenses)
- Excel tabs with detail regarding wages, benefits, leasehold agreements & CAM, general ledger details, practice group & location data, and capital expenses
- Balancing tools (how we ensure all the tab data rolls up correctly)

When feasible, based on firm headcount, create employee tables to get down to exact detail:
- Staff person, wages, increases, benefits, and payroll cycles
- Attorneys, wages, increases, benefits, and payroll cycles

Avoid "Lazy Budgeting":
- Detail budgets by the month (do not take the total for the year and divide by 12)
- Create 5-year trend reports in critical areas such as revenues, wages & benefits
- Never blanket assume expense increases across the board – dive deep and educate your estimate

**Assumes you budget in the preceding fiscal year

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BUDGET OVERHEAD EXAMPLE

GENERAL OVERHEAD	Budget 2026	% Over/Under Budget 2025	2025 Expenses (Annualized)	Budget 2025	2025 Actual v. Budget 2026	2025 Actual v. Budget 2025	2024 Actual	Budget 2026 v. Actual 2024
SUPPORT SALARIES	12,000,000	-20%	11,000,000	10,000,000	100%	-10%	11,000,000	-9%
PAYROLL TAXES	900,000	-20%	825,000	750,000	100%	-10%	825,000	-9%
EMPLOYEE BENEFITS	1,800,000	-20%	1,460,000	1,500,000	100%	3%	1,460,000	-23%
PROFIT SHARING / 401K CONTRIBUTION	350,000	-17%	325,000	300,000	100%	-8%	298,000	-17%
LEASEHOLD	3,120,000	-4%	3,000,500	3,000,000	100%	0%	2,900,000	-8%
STORAGE FEES	250,000	-25%	185,000	200,000	100%	8%	200,000	-25%
PHOTOCOPY & EQUIPMENT	150,000	-50%	125,000	100,000	100%	-25%	120,000	-25%
OFFICE SUPPLIES	100,000	0%	120,000	100,000	#DIV/0!	-20%	115,000	13%
COMPUTER NETWORK & SOFTWARE	1,000,000	-18%	925,000	850,000	100%	-9%	750,000	-33%
DEPRECIATION EXPENSE	415,000	2%	400,000	425,000	100%	6%	350,000	-19%
TELECOM	35,000	-75%	28,000	20,000	100%	-40%	18,000	-94%
POSTAGE	25,000	17%	28,000	30,000	100%	7%	35,000	29%
RESEARCH SOFTWARE & REF MATERIALS	860,000	-1%	825,000	850,000	100%	3%	795,000	-8%
FIRM MEETINGS	200,000	0%	188,000	200,000	#DIV/0!	6%	188,000	-6%
CLE & DUES	15,000	-50%	12,500	10,000	100%	-25%	15,000	0%
RECRUITING EXPENSE	45,000	-350%	25,000	10,000	100%	-150%	43,000	-5%
BUSINESS INSURANCE	750,000	-7%	715,000	700,000	100%	-2%	700,000	-7%
TAXES (OTHER THAN PAYROLL)	50,000	0%	31,500	50,000	#DIV/0!	37%	48,300	-4%
FIRM TRAVEL	65,000	-30%	70,000	50,000	100%	-40%	55,000	-18%
PARKING	125,000	-25%	98,500	100,000	100%	2%	100,000	-25%
PROFESSIONAL SERVICES	200,000	-14%	182,000	175,000	100%	-4%	165,000	-21%
MARKETING & CLIENT DEVELOPMENT	1,000,000	-18%	750,000	850,000	100%	12%	800,000	-25%
FINANCIAL EXPENSES	550,000	0%	525,000	550,000	#DIV/0!	5%	750,000	27%
BAD DEBT RESERVES	50,000	17%	60,000	60,000	100%	0%	60,000	17%
SOFT COST RECOVERY	(65,000)	-30%	(45,000)	(50,000)	100%	10%	(42,500)	-53%
MISCELLANEOUS EXPENSE	0		0	0				
TOTAL GENERAL EXPENSES	**23,990,000**	**-15%**	**21,859,000**	**20,830,000**	**100%**	**-5%**	**21,747,800**	**-10%**
ASSOCIATE DIRECT	8,300,000	-14%	7,500,000	7,300,000	100%	-3%	7,200,000	-15%
PARALEGAL DIRECT	1,500,000	12%	1,400,000	1,700,000	100%	18%	1,650,000	9%
LAW CLERK & LIBRARY DIRECT	300,000	0%	275,000	300,000	#DIV/0!	8%	285,000	-5%
TOTAL DIRECT EXPENSES	**10,100,000**	**-9%**	**9,175,000**	**9,300,000**	**100%**	**1%**	**9,135,000**	**-11%**
GRAND TOTAL EXPENSES	**34,090,000**	**-13%**	**31,034,000**	**30,130,000**	**100%**	**-3%**	**30,882,800**	**-10%**

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BUDGET PROFIT MARGIN EXAMPLE

	Budget 2026	2026 versus 2025 Annualized	2025 (Annualized)	Budget 2025	2025 Over/Under Actual 2025 vs 2026 Budget	2024 Actual	2026 versus 2024 Actual
INCOME							
FEE INCOME / REVENUE	92,000,000	8.15%	84,500,000	85,000,000	-8.88%	88,000,000	-4.55%
SOFT DISBURSEMENT INCOME	25,000	-74.00%	43,500	51,000	42.53%	48,000	47.92%
MISCELLANEOUS INCOME	42,000	46.43%	22,500	26,000	-86.67%	28,000	-50.00%
INTEREST INCOME	26,000	-46.15%	38,000	43,000	31.58%	25,000	-4.00%
TOTAL INCOME	92,093,000	8.13%	84,604,000	85,120,000	-8.85%	88,101,000	-4.53%
EXPENSES		**% Exp to Rev '26**			**% Exp to Rev '25**		**% Exp to Rev '24**
SUPPORT SALARIES	12,000,000	13.03%	11,000,000	10,000,000	13.00%	11,000,000	12.49%
PAYROLL TAXES	900,000	0.98%	825,000	750,000	0.98%	825,000	0.94%
EMPLOYEE BENEFITS	1,800,000	1.95%	1,460,000	1,500,000	1.73%	1,460,000	1.66%
PROFIT SHARING / 401K CONTRIBUTION	350,000	0.38%	325,000	300,000	0.38%	298,000	0.34%
LEASEHOLD	3,120,000	3.39%	3,000,500	3,000,000	3.55%	2,900,000	3.29%
STORAGE FEES	250,000	0.27%	185,000	200,000	0.22%	200,000	0.23%
PHOTOCOPY & EQUIPMENT	150,000	0.16%	125,000	100,000	0.15%	120,000	0.14%
OFFICE SUPPLIES	100,000	0.11%	120,000	100,000	0.14%	115,000	0.13%
COMPUTER NETWORK & SOFTWARE	1,000,000	1.09%	925,000	850,000	1.09%	750,000	0.85%
DEPRECIATION EXPENSE	415,000	0.45%	400,000	425,000	0.47%	350,000	0.40%
TELECOM	35,000	0.04%	28,000	20,000	0.03%	18,000	0.02%
POSTAGE	25,000	0.03%	28,000	30,000	0.03%	35,000	0.04%
RESEARCH SOFTWARE & REF MATERIALS	860,000	0.93%	825,000	850,000	0.98%	795,000	0.90%
FIRM MEETINGS	200,000	0.22%	188,000	200,000	0.22%	188,000	0.21%
CLE & DUES	15,000	0.02%	12,500	10,000	0.01%	15,000	0.02%
RECRUITING EXPENSE	45,000	0.05%	25,000	10,000	0.03%	43,000	0.05%
BUSINESS INSURANCE	750,000	0.81%	715,000	700,000	0.85%	700,000	0.79%
TAXES (OTHER THAN PAYROLL)	50,000	0.05%	31,500	50,000	0.04%	48,300	0.05%
FIRM TRAVEL	65,000	0.07%	70,000	50,000	0.08%	55,000	0.06%
PARKING	125,000	0.14%	98,500	100,000	0.12%	100,000	0.11%
PROFESSIONAL SERVICES	200,000	0.22%	182,000	175,000	0.22%	165,000	0.19%
MARKETING & CLIENT DEVELOPMENT	1,000,000	1.09%	750,000	850,000	0.89%	800,000	0.91%
FINANCIAL EXPENSES	550,000	0.60%	525,000	550,000	0.62%	750,000	0.85%
BAD DEBT RESERVES	50,000	0.05%	60,000	60,000	0.07%	60,000	0.07%
MISCELLANEOUS EXPENSE	0	0.00%	0	0	0.00%		
TOTAL GENERAL EXPENSES	**24,055,000**	**26.12%**	**21,904,000**	**20,880,000**	**25.89%**	**21,790,300**	**24.73%**
ASSOCIATE DIRECT	8,300,000	9.01%	7,500,000	7,300,000	8.86%	7,200,000	8.17%
PARALEGAL DIRECT	1,500,000	1.63%	1,400,000	1,700,000	1.65%	1,650,000	1.87%
LAW CLERK & LIBRARY DIRECT	300,000	0.33%	275,000	300,000	0.33%	285,000	0.32%
TOTAL DIRECT EXPENSES	**10,100,000**	**10.97%**	**9,175,000**	**9,300,000**	10.94%	**9,135,000**	10.37%
					0.00%		
GRAND TOTAL EXPENSES	**34,155,000**	**37.09%**	**31,079,000**	**30,180,000**	**36.73%**	**30,925,300**	**35.10%**
PROFIT	**57,938,000**		**53,525,000**	**54,940,000**		**57,175,700**	
MARGIN	**62.91%**		**63.27%**	**64.54%**		**64.90%**	

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FORECASTING

Budgeting is an educated analysis of how we think the year is going to go based on the facts we have when the budgets are created.

Forecasting is imperative in navigating revenue and expense "unexpected events".

EXAMPLES:

In Q1, you budgeted $25M in revenue and on March 31st, you only hit $20M. That is a 20% miss. Forecasting is critical in knowing how that miss will impact your first quarter results and how you should prepare to navigate Q2-Q4.

Forecasting allows you to identify
1) why you missed budget
2) evaluate if there is opportunity to bring in more revenue in future quarters to alleviate the miss
3) how to negate the impacts to the overall profit of the firm in future months
4) preplan for cash-flow impacts
5) evaluate expense reductions to alleviate the shortfall.

In Q2, you find out that 6 of your partners are departing and creating their own firm in 30 days. Forecasting will allow you to somewhat predict the impact of their departure regarding both income and expenses. It will also force you to evaluate capital payouts (if applicable), cash flow disruptions, and staffing navigations. All have an impact on financial performance.

In Q3, you acquire a small firm including 5 attorneys and 3 staff. The ramp-up period for incoming revenues will be slower than the pace of your new expenses. That requires forecasts on how to absorb those expenses and/or analyzing the impact that it will have compared to your initial expectations (budget).

Always think of other scenarios in which your budget can be disrupted and forecast accordingly.

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FINANCIAL RED FLAGS

Inability to stay out of the Line of Credit for greater than 30 days in a row

Excessive long-term debt
Liabilities > or = assets (aka. Debt to Asset Ratio)

Total direct revenues (Associates, Paralegals, & Clerks) are not covering direct expenses OR the profit margin on these timekeepers is less than 20%

Timekeepers with poor time entry, billing and collection habits that are not held accountable

Fronting disbursements as a rule, not an exception

Excessive spending, including attorneys running expenses through the firm that may not be supported by tax law

Failure or inability to forecast cash flow

Low realization rates in both billing and collections (80% and below)

Excessive Accounts Receivable (>25%) at or greater than 180 days outstanding

Increased Professional Liability claims

Overhead is increasing at a higher rate than revenues

Inconsistent or irregular trust account reconciliations

... And MANY more!

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QUESTIONS?

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