ON POINT

SCHNEIDER DOWNS
SUMMER/FALL 2016
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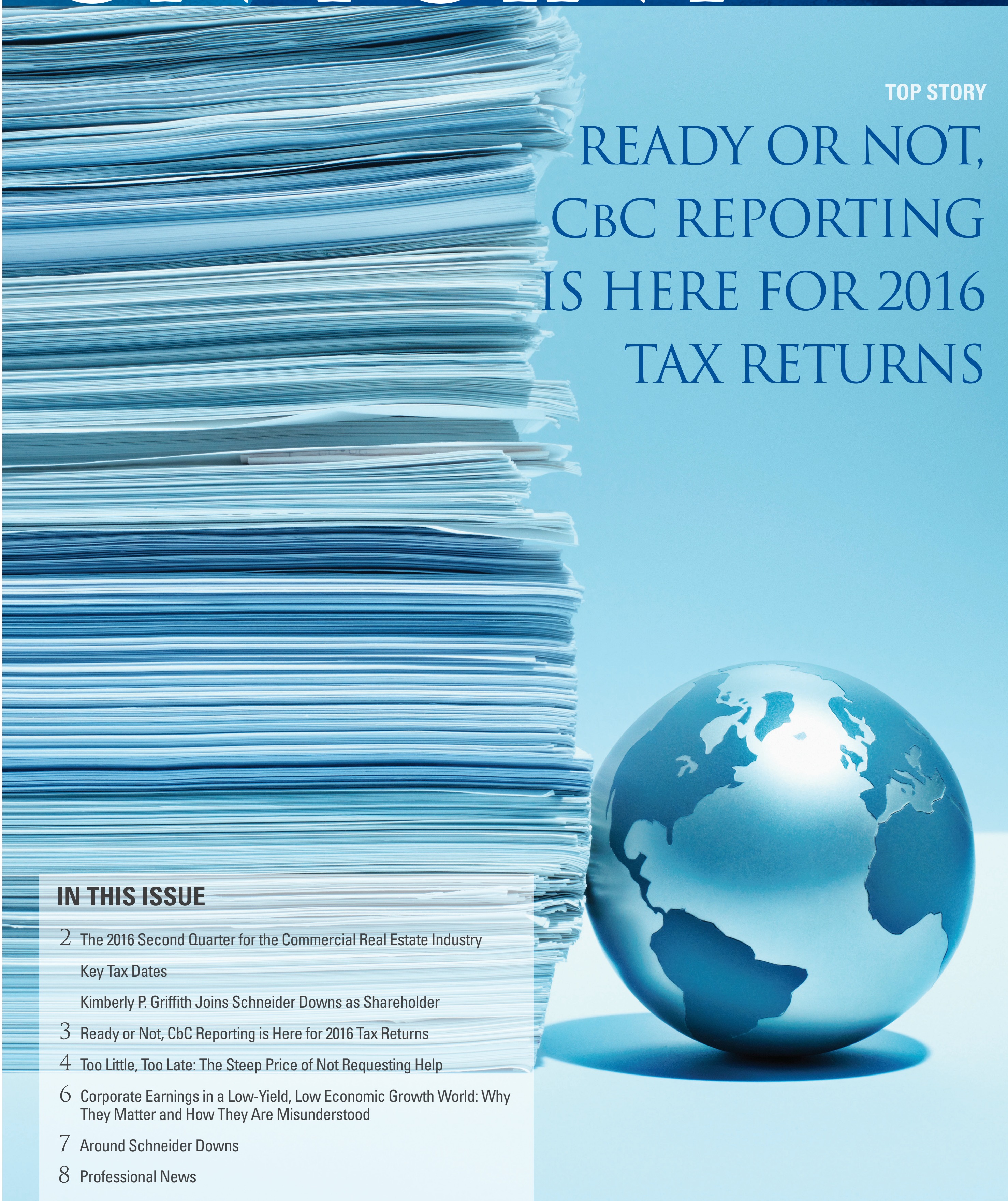

TOP STORY

READY OR NOT, CbC REPORTING IS HERE FOR 2016 TAX RETURNS

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KEY TAX DATES

10.17.2016
INDIVIDUAL TAXES. Last day for filing 2015 income tax returns by individuals who obtained automatic six-month filing extensions.

10.31.2016
EMPLOYERS' TAXES. Employers of nonagricultural and nonhousehold employees must file return on Form 941 to report income tax withholding and FICA taxes for the third quarter of 2016.

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KIMBERLY P. GRIFFITH, CPA JOINS THE FIRM AS SHAREHOLDER

Schneider Downs is proud to announce that Kimberly P. Griffith has been named shareholder, effective August 1, 2016.

Kim has more than 29 years of public accounting experience, all served in Pittsburgh, PA. She has an extensive background serving not-for-profit clients, and will be an essential part of the firm's substantial practice in this sector.

"We're extremely proud to add Kim to our shareholder group. Her broad experience serving not-for-profit clients is an ideal fit for our practice," explained Timothy Hammer, Co-CEO.

Kim is a member of the American and Pennsylvania Institutes of Certified Public Accountants, and a member of the Pittsburgh Society of Association Executives. She serves as Board Treasurer for Vincentian Rehabilitation Services and is Funding Treasurer for Our Lady of Grace School. She was a recipient of the 2010 Women In Business Award from the *Pittsburgh Business Times*.

THE 2016 SECOND QUARTER FOR THE COMMERCIAL REAL ESTATE INDUSTRY

BY SHAWN FOX
SCHNEIDER DOWNS CORPORATE FINANCE DIRECTOR OF REAL ESTATE DEVELOPMENT

It has been an exciting and optimistic second quarter for commercial real estate as we start to see the effects of a variety of policy issues that loom over the industry. These issues include the Brexit vote and increased geopolitical uncertainty; a still historically low interest rate environment and the Federal Reserve Boards' continued discussion of an interest rate hike; and the resilient multifamily sector, which many feared was moving to an oversupply situation with the influx of new construction in Class A luxury apartments. The multifamily sector has seen a decrease in rent growth from the 2014 highs, although rent growth is still above historic norms, and according to REIS, vacancies are close to 100 basis points below the long-term average of 5.4% for the second quarter of 2016.

While the Brexit vote has caused unrest throughout the global economy, many predict it will increase international investors' appetite for the U.S. commercial real estate market as a safe haven. According to Real Capital Analytics, in 2015 alone, international investors contributed $91.1 billion to commercial real estate transactions, which accounted for 17% of total deal volume. This growing appetite has contributed to the cap rate compression in many of the U.S. gateway markets.

On top of these issues, The U.S. posted one of its most positive job reports in recent history. According to the U.S. Bureau of Labor Statistics, the U.S. economy added 287,000 jobs in June, the highest monthly rate since October 2015. The Federal Reserve Board has shown a belief in a strengthening U.S. economy with indications of a possible rate increase, although many are bracing for a U.S. economic slowdown.

As these issues unfold, the U.S. commercial real estate industry posted another strong quarter and continues to show signs of growth in many different asset classes. The industrial real estate market continued steady demand, with vacancy declining in both Warehouse/Distribution as well as Flex/R&D. According to Reis, net absorption exceeded new construction in both markets. In the office market, rents rose by 60 basis points, which is the 22nd quarter that rents have risen in the office market, albeit slightly, quarter after quarter.

Based upon the results of the 2016 Second Quarter, the commercial real estate market continues to perform, especially in the multifamily, office and industrial markets. Even with the discussions of a rate increase and international economic uncertainty, the positive indicators for many of the asset classes in the commercial real estate space are pointing in the right direction.

TOP STORY

READY OR NOT, CbC REPORTING IS HERE FOR 2016 TAX RETURNS!

by Mary D. Richter

BY
MARY D. RICHTER, CPA
TAX SHAREHOLDER

As part of its Base Erosion and Profit Shifting (BEPS) Initiative, the Organization for Economic Co-operation and Development (OECD) created BEPS Action 13 – Country-By-Country reporting. On June 29, 2016, the OECD issued its implementation guide for Action 13. This guidance covers a number of topics, including which group members are includable, application to special types of entities and rules for determining the filing threshold. While currently only applicable to entities with receipts of €750 million or more, it is important to note that countries may individually implement lower thresholds. The information is to be filed with the parent company's (or surrogate) home country, based on locally established rules, and the information is to be made available to other countries where the multinational entity (MNE) operates.

This measure requires certain MNEs to report profits, revenue, taxes paid, capital employed, headcounts and several other items for each group member. The OECD previously issued a draft template for reporting with its previous guidance on transfer pricing documentation; see http://bit.ly/2cCAwqj

On the same date, as a part of BEPS implementation, the U.S. also issued final regulations related to the country-by-country reporting requirements for U.S. companies. The U.S. filing threshold applies to groups with revenues of at least $850 million. The final regulations are similar to the proposed rules issued in December of 2015 and include definitions and a new tax Form 8975. This country-by-country reporting form will be due on or before the tax return due date. While the form has not yet been released, the rules provide details of includable information. This information mirrors the OECD requirements and requires specifics for each group member, such as tax jurisdiction, local country tax identification number, intercompany and third-party revenues, pre-tax profits, cash taxes paid, withholding taxes, headcount and accumulated earnings. The information will help the international tax authorities exchange information and identify potential non-arm's-length transactions. The form will be due for tax years beginning after June 30, 2016. Treasury has also indicated that voluntary filing will be allowed in order to meet requirements of other countries and meet bilateral competent authority arrangements with other jurisdictions. For many companies, that may mean 2016 calendar year filing.

What does this mean to your company? While in some respects this reporting will add consistency and clarity to reporting on intercompany transactions, the level of scrutiny by tax authorities is also certain to increase. Many entities have been collecting some of the required information already; however, most of the data was not previously required to be reported (at least not in the U.S.). The new rules prescribe a specific format and form that must be filed contemporaneously when tax returns are prepared. For those entities that remain subject to tax audits, processes must also be created to retain the information for potential further review in future periods. This will require coordination throughout the organization — tax, treasury, legal, operations, accounting and HR. Are your systems ready?

FEATURE

BY
MICHAEL T. VON LEHMAN
BUSINESS ADVISORY, SCHNEIDER DOWNS MERIDIAN
SENIOR MANAGER

Often, we play a role similar to that of an emergency room doctor. As turnaround consultants, much like ER doctors, we are often introduced to a client that has delayed calling a professional regarding the problems with their business until the situation becomes so critical that it is life-threatening.

Declining sales, reduced margins, mounting losses, increasing leverage and deterioration of the balance sheet are just a few symptoms that a company may be experiencing when it is in a financial decline. The earlier these symptoms are addressed, the easier they are to cure, for a variety of reasons, most notably because the company still has time and capital to address the issues causing the decline.

TOO LITTLE, TOO LATE: THE STEEP PRICE OF NOT REQUESTING HELP

by Michael T. Von Lehman

We recently had a client that lost money for the two years before seeking our help. By the time Schneider Downs Meridian was contacted, the client's company had stretched its accounts payable to its limit, the owners had tapped out their personal finances to fund losses, the bank had reached its breaking point with credit and was demanding immediate repayment, and the company was projecting losses for the foreseeable future. Unfortunately, the company closed its doors two weeks later because it could no longer meet its payroll obligations.

During those trying times, as the executive team struggled with how to tell its employees, customers and vendors that it would cease to exist, the most common comment uttered was, "We should have called you 18 months ago." Three months of losses is a warning, six months of losses is a red flag and 12 months of losses can be a crisis. Deficits over 18 to 24 months are almost assuredly terminal, and there is a very simple reason why: the company already wasted all of its goodwill, time and cash by funding losses instead of using those resources to fix its problems.

There are three main reasons why a company delays contacting a consultant:

Cost – For a company that is losing money, adding the expense of a consultant to mitigate losses appears counterintuitive. Our counter would be that our job is to add value well above and beyond our cost. Increasing efficiencies,

eliminating losses, and optimizing capital sources and deployment are just a few of the ways consultants pay for themselves; and the longer the head start, the easier it is to bring value. As in medicine, addressing an illness early is a lot cheaper than addressing it later.

Over-emphasis on industry or domain expertise – If you make widgets, I can almost guarantee you have forgotten more about making widgets than we will ever know about making widgets. Our job isn't to help you re-engineer your widgets. Our job is to assist the company in analyzing its financial stability, business model, and overall strategic direction while guiding it through a restructuring. That is the type of expertise that is needed when a company is in financial trouble.

Additionally, one of the benefits to seeking turnaround help is that the consultant is an outsider who can bring new perspectives to the company's problems. A management team under the stress of trying to right an unprofitable company sometimes "can't see the forest for the trees."

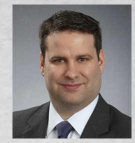
Pride or fear – A consultant's job is not to point fingers or assign blame for the current state of a business. It is to determine the best path forward to preserve the long-term financial viability of the company. Sins of the past are just that: in the past and unalterable.

Like going to the doctor, hiring a turnaround consultant is never fun, but it is much better than sitting in the ER telling the doctor, "We should have called you 18 months ago."

NEWS YOU NEED

SCHNEIDER DOWNS WEALTH MANAGEMENT ADVISORS, LP

QUARTERLY COLUMN



BY
JASON R. STALEY, CFA®
INVESTMENT RELATIONSHIP MANAGER, WEALTH MANAGEMENT ADVISORS

CORPORATE EARNINGS IN A LOW-YIELD, LOW ECONOMIC GROWTH WORLD: WHY THEY MATTER AND HOW THEY ARE MISUNDERSTOOD

Investors, advisors, analysts, and economists have spent the past 18-24 months grappling with how to view corporate earnings in a low (and increasingly negative) global interest rate environment. Combine the low interest rate environment with a sluggish U.S. economy, the lack of efficacy in the latest round of stimulus in Japan, and an economy in Europe that seems to be stalling, and you get an investment atmosphere that is prone to bouts of volatility and elevated investor anxiety.

Despite a lack of clarity about the underlying health of the global economy, 2016 has seen equity markets domestically (S&P 500, Dow Jones Industrial Average, and NASDAQ) reach all-time highs at the same time this summer. For reference, the last time that the three major U.S. equity indices reached all-time highs at the same time was 1999.[1] Intuitively, one would assume that with U.S. equity markets reaching all-time highs, corporate earnings would be robust, U.S. GDP would be strong, and unemployment would be low.

While unemployment is indeed low, hovering around 4.9%, corporate earnings and U.S. GDP have been weak. U.S. GDP increased at an annual rate of 1.2% in the second quarter, which followed a paltry increase of a 0.8% increase in the first quarter.[2] Blended corporate earnings of the S&P 500 once again declined year over year, this time by -3.2% in the second quarter.[3] The second quarter marks the first time the index has recorded five consecutive quarterly year-over-year declines in earnings since the 3Q 2008 through 3Q 2009 time period.[4] While GDP numbers can be revised upward and are subject to seasonal adjustments, the sustained weakness in corporate earnings is concerning.

Corporate earnings are incredibly important as they form the basis for most "valuation" metrics that allow the investing community to determine where and how to invest. One of the most oft-cited valuation metrics is the Price to Earnings, or P/E, ratio. Investors use this ratio to determine if a stock or stock index is trading at a discount, premium, or inline to its history. The P/E valuation metric also allows for a quick comparison of a security to other styles and sectors. It is not without flaws, but it is a useful starting place for discussions about investing in the equity markets.

Net earnings per share of a company are the input or "E" that is used in the P/E valuation ratio; companies also report a gross revenue/sales number, which is referred to as the "top line." For 2Q 2016, 71% of the S&P 500 companies reported net earnings above the mean analyst estimate; however, only 54% reported revenue/sales above the mean estimate.[5] At first glance it appears that almost 75% of companies are "beating" analyst estimates on the bottom line, while only 50% of companies are topping revenue estimates.

While it is important to "beat" on the bottom line, as investors we would like to see companies achieving this by a combination of revenue growth, prudent capital allocation, and expense control. In the short term, it is possible to reduce costs (staff reductions, re-negotiation of contracts, shedding non-core assets, among other actions) in order to beat on the bottom line. However, in order to sustain a business and grow the top line, a company must be able to invest in its core businesses and grow revenue in their various operating verticals. A company cannot, in the intermediate to long term, cut costs as its sole way to sustained profitability and prosperity.

According to JP Morgan's 3Q 2016 Guide to the Market, every domestic equity asset class and style is trading at a higher current P/E than its 15 year average (tables below; tables from JPM 3Q 2016 Guide to Markets).[6]

Current P/E vs. 15-year avg. P/E*

	Value	Blend	Growth
Large	16.1 / 13.9	17.1 / 15.4	18.9 / 17.9
Mid	17.2 / 14.7	18.7 / 16.4	20.7 / 19.6
Small	17.2 / 16.5	22.2 / 20.2	31.0 / 27.5

Current P/E as % of 15-year avg. P/E*

	Value	Blend	Growth
Large	116.1%	110.5%	105.5%
Mid	116.9%	113.6%	106.0%
Small	104.2%	110.0%	112.6%

This doesn't necessarily mean that equities are significantly overvalued relative to other investment assets. With global interest rates at low levels, it makes sense that equities would trade at higher valuation levels, since investors are willing to accept a lower return from equities relative to the returns that they are currently receiving from the bond market. However, it means that future expected returns in both the equity and bond markets may not be as generous as investors have gotten used to over the past 7 years. The best defense against the uncertainty of future returns is a fully diversified portfolio that

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ADDITIONAL TAX DATES

CONTINUED FROM PAGE 2

BENEFIT PLAN DUE DATES

Forms 5500, Annual Return/Report of Employee Benefit Plan.

Year-End	Due Date	With 5558 Extension
2/28	9/30/16	12/15/16
3/31	10/31/16	1/17/17
4/30	11/30/16	2/15/17

Processing of corrective distributions relative to failed 401(k) ADP/401(m) ACP discrimination testing, so as to avoid a 10% employer-imposed excise tax.

Year-End	Due Date
6/30	9/15/16
7/31	10/15/16
8/31	11/15/16

CORPORATE EARNINGS

CONTINUED FROM PAGE 6

includes exposure to U.S. and International equities, Fixed Income, and Alternative/Uncorrelated investment strategies to help tackle the challenging and ever-changing dynamics of the global markets.

[1]Wall Street Journal "Your Money Matters Podcast: Dividends Eat Up A Bigger Slice of Company Profits" published 8/22/2016
[2]Bureau of Economic Analysis, Division of U.S. Dept. of Commerce: http://www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm
[3]FactSet Earnings Insight: http://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_8.19.16
[4]FactSet Earnings Insight: http://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_8.19.16
[5]FactSet Earnings Insight: http://www.factset.com/websitefiles/PDFs/earningsinsight/earningsinsight_8.19.16
[6]https://am.jpmorgan.com/blob-gim/1383280028969/83456/jp-littlebook.pdf

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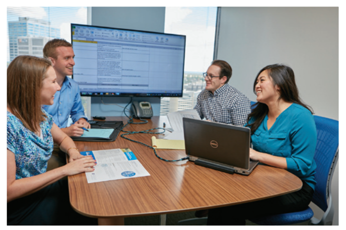
AROUND SCHNEIDER DOWNS

New Columbus Office

Schneider Downs invested in the central Ohio region 38 years ago, and since that time our growth has been overwhelming thanks to our valued partners. In a move that emphasizes our commitment to central Ohio, Schneider Downs moved to a new downtown Columbus location. On August 15, 2016, Schneider Downs moved to the 20th floor of Capitol Square, located at 65 East State Street, leaving the Huntington Center, which had been our home for more than 10 years.

This is exciting news for our firm. Our move to Capitol Square represents the brightness of our future. This location allows us to better tailor our space for the needs of our professionals and visitors, and includes five public conference rooms and multiple collaborative spaces. Our new space incorporates the latest video and conferencing technology, and the use of lower-height workstations and full-height glass partitions emphasize the open architecture and improve the environmentals of the space. This location is a perfect fit with our firm's heritage within our region. Clearly, this is a facility in which we can continue to grow as the Schneider Downs of the future.

We believe this move will make Schneider Downs a better firm…but not a different one. Our fundamental commitment to the highest quality of consulting, coupled with a relentless commitment to client service, is the defining concept of our business. That will continue.



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PROFESSIONAL NEWS

MARY D. RICHTER, Tax Shareholder, has been appointed Chair Elect of ACHIEVA.

MEREDITH J. CHRISTY, Tax Senior Manager, was elected chairman of the board of ACMH Hospital.

BRIAN C. O'BRIEN, Audit Shareholder, **DONALD B. APPLEGARTH**, Audit Shareholder, **MICHAEL A. RENZELMAN**, Audit Shareholder and **ROY M. LYDIC**, Tax Shareholder, attended the AICPA National Advanced Accounting and Auditing Technical Symposium in Salt Lake City, UT in July.

JAY R. MEGLICH, Audit Shareholder, presented at the Risk Management Association Central Ohio Chapter on the topic of current developments in the Ohio oil and gas industry.

DANIEL P. PHILLIPS, Tax Shareholder, spoke with Larry Richert and John Shumway on their KDKA morning radio show about the taxation of prizes and awards for U.S. Olympians.

TROY J. FINE, Risk Advisory Services Manager, received the AICPA's IMTO Standing Ovation Award, which is presented to young professionals in the Information Management and Technology Assurance field.

TINA M. FRYSINGER, Technology Manager, and **KATHRYN FORADORI**, Technology Senior, presented to the Western PA American Payroll Association Chapter Meeting on the topics of software selection, implementation recommendations and payroll controls.

JAMES B. YARD, Risk Advisory Services Shareholder, spoke to the National Association of Corporate Directors on third-party risk management. He also presented to the PACB Directors Summit on enterprise risk management. Jim was also appointed to the board of the national MPS society.

STEVEN D. THOMPSON and **TIMOTHY J. HAMMER**, Co-CEOs, attended the AICPA major firms group conference in July.

STEVEN H. EARLEY, IT Audit and Risk Advisory Services Senior Manager, received his Certified Third Party Risk Professional (CTRP) certification.

MELANIE M. LASOTA, Director Estate and Trust Tax Services, was elected as president of the board of the Pittsburgh Youth Symphony Orchestra.

NANCY L. SKEANS, Wealth Management Partner, has been appointed to the Greater Pittsburgh YWCA's Investment Committee. Nancy is also now a member of JP Morgan's RIA Advisory Board.

EVAN C. OGRODNIK, Tax Shareholder, **JOHN A. KOHLER**, Tax Manager, **BRIAN W. MATTHEWS**, Audit Manager, **ZACK C. DAVIS**, Tax Manager, and **STEVEN H. EARLEY**, presented the results from our 2015 manufacturing survey to members of PrimeGlobal.

JAMES T. GILBOY, JR., Tax Senior Manager, was appointed to the board of directors at St. Joseph High School.