



# Hill, Barth & King, Inc.

Certified Public Accountants

8/17/96

Market Street  
Boardman,  
Telephone (330) 226-8613  
Fax ( )

August 15, 1996

Mr. Nelson L. Llewellyn  
Welsh National Gymanfa Ganu Association  
Melwood Drive N.E.  
Warren, Ohio 44483

Dear Nelson:

As we discussed over the phone, this memo is to confirm our conversation and discussion regarding the Welsh National Gymanfa Ganu Association's (WNGGA) Federal tax filing obligations.

As we have previously discussed, 501(c)(3) organizations are exempt from filing Federal form 990 if gross receipts are less than \$25,000. An organization's gross receipts are the total amount it received from all sources during its annual accounting period, without subtracting any cost or expenses. An organization's gross receipts are considered to be greater than \$25,000 if the organization averages \$25,000 or more in gross receipts for the immediately preceding three tax years (including the year for which the return would be filed).

As noted below in the table, WNGGA has exceeded the \$25,000 gross receipts test for the years ending July 31, 1994 and 1995. Thus, Federal form 990 should have been filed for the respective years:

| <u>FY Ending</u> | <u>3-Year Average<br/>Gross Receipts</u> | <u>Is 990<br/>Required ?</u> |
|------------------|--|------------------------------|
| 7/31/95          | \$32,581                                 | Yes                          |
| 7/31/94          | 29,339                                   | Yes                          |
| 7/31/93          | 24,305                                   | No                           |

If an organization fails to file the necessary tax return, the organization may become ineligible to receive tax deductible contributions. In addition, a penalty of \$10 a day, not to exceed the smaller of \$5,000 or 5% of the gross receipts of the organization for that year, may be charged when a return is filed late, unless the organization can show that the late filing was due to reasonable cause. The penalty begins on the due date for filing the Form 990.

Based on the penalties explained above, if WNGGA filed their 1994 and 1995 returns, they could be assessed penalties of approximately \$1,500 and \$1,900, respectively. The 1996 tax return will be due on December 15, 1996.

In terms of deciding what you think WNGGA should do about the late returns, let me provide you with three options that you may want to consider.

The first option, and probably the most undesirable, would be to file the 1994 and 1995 Federal Forms 990 and pay the related tax penalties with the filing.

The second option would be to file the 1994 and 1995 Federal Forms 990 with the filing of the 1996 return. The thought behind this option would be the demonstration to the IRS that WNGGA was unaware of any filing obligations, however, once identified, WNGGA took the appropriate steps to be in compliance. If WNGGA can show a reasonable cause for filing late, it is possible that the IRS could waive any late filing penalties.

The third option would be to file the 1996 Federal Form 990 "only" on December 15, 1996. This option will bring WNGGA into compliance for the current year. However, WNGGA must be willing to assume the risk that the IRS will not go back and review their filing requirements for previous years. If it is determined by the IRS that a return should have been filed in previous years, penalties and interest may be assessed. The likelihood that the IRS would do so is not high.

We should arrange a time to meet and discuss the three options in further detail, as well as determine what necessary steps your organization would like to pursue.

The other concern deals with the issue on whether your officer's are an "employee versus independent contractor". Currently, WNGGA does not file any tax forms for any services performed for the organization. Also, you mentioned that no forms were filed because the payments were less than \$600 to each individual. One thing to keep in mind, is that the \$600 threshold only pertains to independent contractors, not employees of an organization.

The honorariums that are paid to the executive director, treasurer and secretary, appear to be wages paid for services rendered to the organization. These wages would be subject to federal, state and local income taxes, as well as FICA taxes. However, as we briefly discussed, these payments could easily be reclassified to unreimbursed business expenses incurred by these individuals.

In order to do so, the individuals would have to retain receipts for all the expenses incurred on behalf of the organization that are not reimbursed. Amounts equaling the honorariums can be excluded from income to the individual as well as wages paid by the organization. Any excess honorarium above and beyond any documented unreimbursed business expense should be considered wages to the employer and to the employee.

Mr. Nelson L. Llewellyn

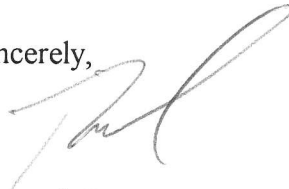
-3-

August 15, 1996

We should further discuss the compensation issue.

Please feel free to call me to arrange a meeting time and/or phone conversation at your convenience. The phone number is (330) 758-8613.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Morrow', written in a cursive style.

Richard C. Morrow, CPA  
Supervisor

jay

**WELSH NATIONAL GYMANFA GANU ASSOCIATION, INC.**

8-5-96

For the year ending 7-31-95

Form 990, Gross receipts test

| Source  | For the years ending 7-31 |                  |                  | 3-year average   |
|---|---------------------------|------------------|------------------|------------------|
|   | 1993                      | 1994             | 1995             |                  |
| WNGGA normal operations                                   | \$ 17,452                 | \$ 20,709        | \$ 28,882        |                  |
| WNGGA money market  | 11,408                    | 672              | 416              |                  |
| WNGGA memorial fund                                       | -                         | 1,003            | 642              |                  |
| WNGGA Endowment fund                                      | 1,662                     | 7,751            | 7,146            |                  |
| Total receipts  | <u>\$ 30,522</u>          | <u>\$ 30,135</u> | <u>\$ 37,086</u> |                  |
| Average gross receipts over three-year period             |                           |                  |                  | <u>\$ 32,581</u> |
| Gross receipts test threshold (requiring filing form 990) |                           |                  |                  | <u>\$ 25,000</u> |

**WELSH NATIONAL GYMANFA GANU ASSOCIATION, INC.**

8-5-96

For the year ending 7-31-94

Form 990, Gross receipts test

| Source  | For the years ending 7-31 |                  |                  | 3-year average   |
|---|---------------------------|------------------|------------------|------------------|
|   | 1992                      | 1993             | 1994             |                  |
| WNGGA normal operations                                   | \$ 16,154                 | \$ 17,452        | \$ 20,709        |                  |
| WNGGA money market  | \$ 11,207                 | 11,408           | 672              |                  |
| WNGGA memorial fund                                       | \$ -                      | -                | 1,003            |                  |
| WNGGA Endowment fund                                      |                           | 1,662            | 7,751            |                  |
| Total receipts  | <u>\$ 27,361</u>          | <u>\$ 30,522</u> | <u>\$ 30,135</u> |                  |
| Average gross receipts over three-year period             |                           |                  |                  | <u>\$ 29,339</u> |
| Gross receipts test threshold (requiring filing form 990) |                           |                  |                  | <u>\$ 25,000</u> |

**WELSH NATIONAL GYMANFA GANU ASSOCIATION, INC.**

8-5-96

For the year ending 7-31-93

Form 990, Gross receipts test

| Source  | For the years ending 7-31 |                  |                  | 3-year average   |
|---|---------------------------|------------------|------------------|------------------|
|   | 1991                      | 1992             | 1993             |                  |
| WNGGA normal operations                                   | \$ 12,955                 | \$ 16,154        | \$ 17,452        |                  |
| WNGGA money market  | \$ 2,076                  | \$ 11,207        | 11,408           |                  |
| WNGGA memorial fund                                       | \$ -                      | \$ -             | -                |                  |
| WNGGA Endowment fund                                      |                           |                  | 1,662            |                  |
| Total receipts  | <u>\$ 15,031</u>          | <u>\$ 27,361</u> | <u>\$ 30,522</u> |                  |
| Average gross receipts over three-year period             |                           |                  |                  | <u>\$ 24,305</u> |
| Gross receipts test threshold (requiring filing form 990) |                           |                  |                  | <u>\$ 25,000</u> |

# The Welsh National Gymanfa Ganu Association, Inc.

Comparative Balance Sheet as of July 31

|                                 | <u>1994-1995</u>           | <u>1995-1996</u>           |
|---------------------------------|----------------------------|----------------------------|
| <b>Operating Assets</b>         |                            |                            |
| Checking                        |                            |                            |
| Beginning Balance               | 3,909.58                   | 7,961.54                   |
| Revenue                         | 21,881.87                  | 62,739.54                  |
| Disbursements                   | 24,828.91                  | 33,714.22                  |
| Ending Balance                  | 7,961.54                   | 36,986.86                  |
| Money Market                    |                            |                            |
| Beginning Balance               | 18,982.40                  | 20,398.83                  |
| Additional Investment           | 1,000.00                   | 0.00                       |
| Interest                        | 416.43                     | 489.36                     |
| Disbursements                   | 0.00                       |                            |
| Ending Balance                  | 20,398.83                  | 20,888.19                  |
| Memorial Fund                   |                            |                            |
| Beginning Balance               | 21,328.43                  | 21,970.48                  |
| Additional Investment           | 0.00                       | 205.00                     |
| Interest                        | 642.05                     | 240.49                     |
| Disbursements                   | 0.00                       | 14,000.00                  |
| Ending Balance                  | 21,970.48                  | 8,415.97                   |
| <b>Total Operating Assets</b>   | <b><u>50,330.85</u></b>    | <b><u>66,291.02</u></b>    |
| <b>Long-Term Investments</b>    |                            |                            |
| Endowment Fund                  |                            |                            |
| Beginning Balance               | 101,276.91                 | 102,736.83                 |
| Dividends                       | 6,016.50                   | 6,463.79                   |
| Interest                        | 545.72                     | 780.01                     |
| Capital Gains                   | 583.56                     | 173.35                     |
| Unreported Gain                 | 1,274.14                   | 664.13                     |
| Disbursements                   | 6,960.00                   | 4,410.00                   |
| Ending Balance                  | <b><u>102,736.83</u></b>   | <b><u>106,408.11</u></b>   |
| Inventory on Hand as of July 31 |                            |                            |
| Equipment                       | 6,468.00                   | 6,468.00                   |
| Computer                        | 350.00                     | 350.00                     |
| Printer                         | 160.00                     | 160.00                     |
| Storage Cabinet                 | 100.00                     | 100.00                     |
| Filing Cabinet                  | 100.00                     | 100.00                     |
| Sectional Card Cabinet          | 250.00                     | 250.00                     |
| Publications                    |                            |                            |
| 79 Ed. Hymnals @2.10            | 1,323.00 (630 on hand)     | 1,260.00 (600 on hand)     |
| 95 Ed. Hymnals @5.00            | 0.00                       | 11,220.00 (2244 on hand)   |
| 93 Ed. Folk Song Books @4.00    | 3,680.00 (920 on hand)     | 3,380.00 (845 on hand)     |
| Phonetic Hymnals @3.00          | 75.00 (24 on hand)         | 72.00 (24 on hand)         |
| <b>Total Inventory</b>          | <b><u>12,506.00</u></b>    | <b><u>23,360.00</u></b>    |
| <b>Total Assets</b>             | <b><u>\$165,573.68</u></b> | <b><u>\$196,059.13</u></b> |
| <b>Liabilities</b>              | <b><u>\$0.00</u></b>       | <b><u>\$0.00</u></b>       |
| <b>Equity</b>                   | <b><u>\$165,573.68</u></b> | <b><u>\$196,059.13</u></b> |

# The Welsh National Gymanfa Ganu Association, Inc.

## Comparative Statement of Cash Receipts & Disbursements

| <b>Revenue:</b>                          | 1994-1995          | 1995-1996          |
|--|--------------------|--------------------|
| Membership                               |                    |                    |
| Life Individual                          | 3,290.00           | 3,371.00           |
| Life Organizational                      | 430.00             | 0.00               |
| Annual Individual                        | 469.00             | 756.00             |
| Hymnals                                  | 2,595.09           | 20,814.60          |
| Sales & Postage                          |                    |                    |
| Folk Song Books                          | 1,261.71           | 860.00             |
| Sales & Postage                          |                    |                    |
| Cassettes                                | 0.00               | 38.00              |
| Sales & Postage                          |                    |                    |
| Transfer From Money Market Account       | 0.00               | 14,000.00          |
| Venue Proceeds                           | 15,524.46          | 9,817.77           |
| Venue Postage Reimbursement              | 3,357.20           | 3,250.92           |
| National GG Registration                 | 0.00               | 8,865.00           |
| Contributions                            | 1,054.10           | 255.00             |
| Breakfast                                | 900.31             | 711.25             |
| Miscellaneous Revenue                    | 0.00               | 0.00               |
| <b>Total Revenue</b>                     | <b>\$28,881.87</b> | <b>\$62,739.54</b> |
| <b>Disbursements:</b>                    |                    |                    |
| Office Rent                              | 2,340.00           | 2,160.00           |
| Insurance                                | 2,767.00           | 250.00             |
| Copying & Printing:                      |                    |                    |
| Office                                   | 293.57             | 859.92             |
| Newsletter, Stationery & Other           | 1,013.99           | 396.45             |
| Hymnal/Folk Song Books                   | 5,914.14           | 16,634.97          |
| Venue                                    | 2,694.77           | 3,715.59           |
| Supplies                                 | 161.45             | 497.73             |
| Board of Trustee Expenses                | 625.42             | 1,247.56           |
| Currency Conversion                      | 7.93               | 0.00               |
| Office Equipment                         | 126.35             | 214.31             |
| 1995 RFE Hymnal Announcements            | 94.40              | 0.00               |
| Expense Reimb                            |                    |                    |
| Executive Director                       | 1,000.00           | 1,000.00           |
| Honorariums:                             |                    |                    |
| Treasurer                                | 300.00             | 300.00             |
| Recording Secretary                      | 300.00             | 300.00             |
| Advertising                              | 1,093.09           | 1,414.00           |
| Postage:                                 |                    |                    |
| Office                                   | 1,119.59           | 1,021.78           |
| FSB, Newsletter                          | 0.00               | 193.07             |
| Hymnal (included in basic cost for 95/6) | 1,215.92           | 0.00               |
| Other                                    | 192.55             | 16.00              |
| Telephone                                | 854.30             | 885.49             |
| Bank Charges                             | 68.95              | 30.85              |
| Office Help                              | 1,148.50           | 2,276.50           |
| Breakfast for 81 persons                 | 941.42             | 0.00               |
| Contributions - NYAF & ENFYS             | 400.00             | 300.00             |
| Miscellaneous Disbursements              | 155.57             | 0.00               |
| <b>Total Disbursements</b>               | <b>\$24,828.91</b> | <b>\$33,714.22</b> |