

Communication of Internal Control Related and Other Matters

January 8, 2010

To the Board of Directors
American College of Veterinary Pathologists, Inc.
Madison, Wisconsin

In planning and performing our audit of the financial statements of American College of Veterinary Pathologists, Inc. as of and for the year ended September 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered American College of Veterinary Pathologists, Inc.'s internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our Responsibilities

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness. It is important to note that control deficiencies are not necessarily problems you will choose to address, however, they do represent potential risks. Our job as your auditors is to ensure that you understand where you have these deficiencies or weaknesses so that you can make informed business decisions on how best to respond to those risks.

Definitions Related to Internal Control Deficiencies

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

Identified Deficiencies in Internal Control

We believe the following deficiency constitutes a material weakness:

Provide Oversight of the Financial Reporting Process

Management is responsible for establishing and maintaining internal controls in the financial reporting system and for the fair presentation of the financial position, changes in net assets, cash flows, and disclosures in the financial statements in conformity with generally accepted accounting principles. The Organization has systems in place to prepare the basic financial statements needed for operations but

relies on external auditors to assist in preparation of the financial statements and related footnote disclosures in accordance with generally accepted accounting principles. The outsourcing of this service is not unusual in organizations of your size and is a result of management's cost benefit decision to use our accounting expertise rather than to incur internal resource costs.

Other Comments

In addition, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated January 8, 2010 on the financial statements of American College of Veterinary Pathologists, Inc. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Adopting FASB Interpretation No. 48

In June 2006 the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, commonly referred to as FIN 48. Basically, FIN 48 requires entities to compute income taxes for financial statement purposes by only considering tax positions that are more likely than not to be sustained if the taxing authority examined the position. For purposes of FIN 48, the phrase "more likely than not" means that there is a greater than 50% chance that a tax position would be sustained. Any tax positions that do not meet the more-likely-than-not standard must be disclosed in the financial statements.

At first glance it may appear that FIN 48 does not apply to the Organization because it is a not-for-profit organization that by nature does not pay income taxes. Yet, not-for-profit organizations can and do have taxable income, usually in the form of unrelated business income. In addition, a not-for-profit organization can lose its tax-exempt status for any number of reasons, including failing to further its exempt purpose; private inurement, including employee compensation judged to be unreasonably high; private benefit; political campaign intervention; and lobbying activity that exceeds specified limits. Thus, while FIN 48 undoubtedly will have a greater impact on commercial enterprises, not-for-profit organization cannot simply ignore it.

The primary focus in adopting FIN 48 should be on the process of identifying uncertain tax positions. As a best practice, we recommend that you first analyze the appropriate documents to ensure that you have identified all of the Organization's tax positions. This process should include:

- A line-by-line review of the Organization's income tax filings (e.g., IRS Form 990) in all significant jurisdictions for all tax years in which the statute of limitations remains open.
- A review of all activities of the Organization, including those performed by volunteers and members of the governing body.
- A review of the Organization's application for tax-exempt status and any related correspondence to and from the IRS.
- A review of your financial statements and trial balances for all legal entities for all open years.
- A review of the minutes of the meetings of the governing body for all open years.
- Discussions with human resource, legal, and financial and accounting personnel.
- A review of the results of prior income tax audits, if any.

Common tax-related matters applicable to not-for-profit organizations that you may need to consider during this process include:

- Do the Organization's activities appear to be in accordance with the tax-exempt purpose specified in the Internal Revenue Code section under which it is exempt or the information filed on its application for tax-exempt status?
- Did the Organization generate any revenue from "business activities" such as fees, publications, advertising, or rental income on debt-financed property? If yes, do any such activities appear to be not substantially related to the Organization's exempt purpose?
- Did the Organization properly classify its revenue on Form 990 as either related or exempt function revenue, unrelated business income, or revenue statutorily excluded from tax?
- Did the Organization engage in any direct or indirect political campaign or lobbying activities?
- Did the Organization engage in any transactions with a current or former trustee, director, officer, or key employee?

Each tax position you identify should then be cataloged (e.g., on an Excel worksheet) and put into one of three categories: highly certain, uncertain, or immaterial. Highly certain positions are those with virtually no tax risk and generally need less documentation, other than a brief description as to why the tax law applies clearly to the particular facts. Uncertain positions are those other than highly certain positions and require additional analysis. Immaterial positions are those positions that should be monitored going forward in case they later become material.

After you have identified all material uncertain tax positions, FIN 48 requires a two-step process for evaluating each position. First, you must determine whether the tax position meets the more-likely-than-not standard. Second, if the standard is met, the position is measured to determine the amount of benefit to recognize in the financial statements.

You may find that FIN 48 will have no effect on your financial statements if there is greater than a 50% chance that all tax positions would be sustained upon examination and the full amount of the tax benefits of those positions would be realized. However, you must be able to support your conclusions regarding FIN 48. FIN 48 prohibits considering the possibility that a return may not be examined or that, even if a return is examined, the position may not be examined. Some organizations may seek formal tax opinions from attorneys or tax professionals to support their financial statement treatment of uncertain tax positions. Furthermore, an auditor can assist the Organization in applying the provisions of FIN 48 provided the Organization is able to make informed judgments on the results of the auditor's services (for example, understand why tax positions do or do not meet the more-likely-than-not standard and the basis for any unrecognized tax benefit). That way, the Organization meets its responsibility for the amounts reported in the financial statements as a result of FIN 48.

FIN 48 has been effective for public companies since 2007 and is essentially effective for all other entities for fiscal years beginning after December 15, 2008 (generally calendar year 2009). The most important lesson that can be learned from the experiences of public companies is to start the FIN 48 process sooner rather than later. Doing so will make you aware of uncertain tax positions while there is still time to address them, as well as to carefully consider how they need to be reflected in your financial statements.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Wegner LLP
CPAs & Consultants

Jenny Tarkowski, CPA

Partner

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