November XX, 2018

To the Board of Directors
and Management
Cantus
Minneapolis, Minnesota

We have audited the financial statements of Cantus for the year ended July 31, 2018, and have issued our report thereon dated November XX, 2018. Professional standards require that we communicate to you certain matters related to our audit. In addition to required communications, we wish to make you aware of certain additional matters. The appendixes to this letter cover these topics as follows:

Appendix I – Communication of significant audit matters

Appendix II – New accounting standards

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

We thank management and staff for the courtesies extended to us during the course of our work. If there are any questions regarding our audit or this letter, we would be happy to discuss them with you.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 2, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Cantus are described in Note 2 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the current year. We noted no transactions entered into by Cantus during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the valuation of in-kind contributions and the allocation of expenses by function.

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Management's estimated valuation of in-kind contributions is based on values provided by the donor. Management's allocation of expenses by function is based on direct costs and estimates of how employees spend their time. We evaluated the key factors and assumptions used by management to develop these estimates in determining they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November XX, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Cantus' financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

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Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Cantus' auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Appendix II – New Accounting Standards
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The following accounting standards updates (ASU's) have been adopted by the Financial Accounting Standards Board and will be effective in future years. Changes to Cantus' accounting system may be necessary to implement some of these updates.

ASU 2016-14 Amendments to Not-for-Profit Financial Statements

The Financial Accounting Standards Board (FASB) released a set of changes in accounting standards for nonprofit organizations in August 2016. The requirements will affect Cantus' 2019 financial statements. We do not expect all of these changes to significantly affect Cantus.

Some of the highlights include:

- Net assets without donor restriction which are designated for specific periods or purposes by a not-for-profit's governing board will require enhanced disclosures.
- Nonprofits will continue to be allowed to use either the direct or indirect method for presenting operating cash flows. The current requirement to reconcile income (loss) to net operating cash flows when using the direct method is eliminated.
- Temporarily and permanently restricted net assets will be merged into one net asset class (named Net Assets with Donor Restrictions). Unrestricted net assets will be renamed Net Assets without Donor Restrictions.
- Enhanced disclosures about:
  - how a not-for-profit manages its liquid resources to meet cash needs if it is not already apparent on the statement of financial position.
  - composition of net assets with donor restrictions.
  - the availability of financial assets at the balance sheet date to meet cash needs for general expenditures.
  - expenses by their natural and functional classification.
  - method(s) used to allocate costs by function.

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ASU 2014-09 New Revenue Recognition Accounting Standard

In May 2014 FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. Under the new standard, entities will be required to take a five-step approach in determining when it is appropriate to recognize revenue.

The five steps in the new approach are:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract(s)
3. Determine the transaction price
4. Allocate the transaction price among the performance obligations in the contract(s)
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The standard will be effective for fiscal years beginning after December 15, 2018. A task force is currently working on implementation guidance for nonprofit entities.

ASU 2016-02 Leases

The update replaces the existing accounting model for leases and requires that lessees put most leases on their balance sheets. This standard does not affect contributed office space. The standard will be effective for fiscal years beginning after December 15, 2019. Early implementation is permitted.

ASU No. 2018-08 Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made

FASB issued an accounting standards update on June 21, 2018, which will help determine whether grants and similar contracts should be recorded as exchange transactions under the new revenue recognition standards or treated as a type of contribution. Not-for-profits must evaluate each grant and contract based on a new framework to determine if it meets the requirements to be classified as a contribution or an exchange transaction. If considered a contribution, the not-for-profit must determine whether the grant or contract meets the requirements to be recorded as a conditional contribution or unconditional contribution, and then if considered an unconditional contribution, whether it is a restricted contribution or unrestricted. Decision trees are provided to help evaluate each transaction. Upon implementation, this standard is expected to result in recharacterizing many grants and contracts from exchange transactions to conditional contributions. The effective date for applying the new guidance for resources received will coincide with implementation of ASU No. 2014-09.

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If you have any questions regarding the new standards and how they may affect Cantus, we would be happy to discuss them with you.