



January 17, 2024

Board of Regents
Washington State University
Pullman, Washington

We have audited the financial statements of Washington State University (the University) as of and for the year ended June 30, 2023, and have issued our report thereon dated January 17, 2024. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit under Generally Accepted Auditing Standards and Government Auditing Standards

As communicated in our letter dated October 9, 2023, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the University solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, our firm, and other firms utilized in the engagement, if applicable, have complied with all relevant ethical requirements regarding independence.

Significant Risks Identified

As stated in our auditor’s report, professional standards require us to design our audit to provide reasonable assurance that the financial statements are free of material misstatement whether caused by fraud or error. In designing our audit procedures, professional standards require us to evaluate the financial statements and assess the risk that a material misstatement could occur. Areas that are potentially more susceptible to misstatements, and thereby require special audit considerations, are designated as “significant risks”. The most sensitive accounting estimates affecting the financial statements were:

- Management Override of Controls – Professional standards require auditors to address the possibility of management overriding controls. Accordingly, we identified as a significant risk that management of the University may have the ability to override controls that the University has implemented. Management may override the University’s controls in order to modify the financial records with the intent of manipulating the financial statements to overstate the University’s financial performance or with the intent of concealing fraudulent transactions.
- Revenue Recognition – We identified revenue recognition as a significant risk due to financial and operational incentives for the University to overstate revenues.
- Allowance for Doubtful Accounts – We identified the allowance for doubtful accounts as a significant risk as the allowance is a significant estimate for the University. GAAP requires management to estimate the collectability of outstanding accounts receivable and establish a reserve when needed. To establish the allowance management uses historical results, their current knowledge of facts, and assumptions about the future to establish the estimate.
- GASB 96 Implementation – We identified the GASB 96 implementation as a significant risk as the implementation requirements requires present value calculation and an analysis of all contracts leaving the possibility that a significant contract agreement may be misclassified.
- Cash Reconciliation – We identified the cash reconciliation process as a significant risk due to management not being able to fully reconcile cash subsequent to the implementation of Work Day.

Qualitative Aspects of the Entity’s Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by the University is included in Note 1 to the financial statements. As described in Note 1, the University changed accounting policies related to accounting for right-to-use subscription assets to adopt the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. Accordingly, the accounting change has been retrospectively applied to the financial statements beginning July 1, 2022. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on 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 markedly from management's current judgments.

The most sensitive accounting estimates affecting the financial statements are:

- Management's estimate of the collectability of receivables and student accounts are based on history of the same type of receivables. We evaluated the key factors and assumptions used to develop the collectability of receivables and student accounts and determined that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the State other post-employment benefit (OPEB) liability and the deferred inflows/outflows of resources related to the liability is based on actuarial estimates provided by the Washington State Office of the State Actuary and amounts provided by the Public Employees Benefits Board. We evaluated the key factors and assumptions used to develop the OPEB liability and determined that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability (asset) and the deferred inflows/outflows of resources related to the net pension liability (asset) is based on actuarial estimates provided by the Washington State Office of the State Actuary and amounts provided by the Washington State Department of Retirement Systems. This schedule was audited by independent auditors. We evaluated the key factors and assumptions used to develop the net pension liability (asset) and determined that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the net pension liability and the deferred inflows/outflows of resources related to the University's Supplemental Retirement Plan is based on actuarial estimates provided by the Washington State Office of the State Actuary and amounts provided by the Washington State Department of Retirement Systems. We evaluated the key factors and assumptions used to develop the net pension liability and determined that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the asset retirement obligation is based on the expected actual costs to retire the asset at the time of determination, adjusted for inflation each year. We evaluated the key factors and assumptions used to develop the asset retirement obligation and determined that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgment and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the University's financial statements relate to:

- The disclosure of employer pension assumptions in Note 16 to the financial statements is sensitive as this note supports assumptions made and inputs used to determine the employer pension assumption.

- The disclosure of other post-employment benefits other than pensions in Note 17 to the financial statements is sensitive as this note supports the assumptions made and inputs used to determine the other post-employment benefit liability.

Significant Difficulties Encountered during the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole. Uncorrected misstatements or matters underlying those uncorrected misstatements could potentially cause future-period financial statements to be materially misstated, even though the uncorrected misstatements are immaterial to the financial statements under audit.

The following summarizes uncorrected financial statement misstatements whose effects in the current and prior periods, as determined by management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- To pass on an adjustment to reclass credit balances in accounts receivable to accounts payable. This resulted in accounts receivable and accounts payable to be understated by \$1,858,668.
- To pass on recording the subscription-based information technology arrangements in accordance with GASB 96 per the internal capitalization policy. This resulted in right to use subscription-based information technology arrangements to be understated by \$5,732,695 and lease liabilities to be understated by the same amount.
- To pass on recording the lessee arrangements in accordance with GASB 87 per the internal capitalization policy. This resulted in right to use leased assets to be understated by \$1,644,857 and lease liabilities to be understated by the same amount.
- To pass on recording the lessor arrangements in accordance with GASB 87 per the internal capitalization policy. This resulted in receivables to be understated by \$2,868,515 and deferred inflow of resources to be understated by the same amount.

The effect of these uncorrected misstatements, including the effect of the reversal of prior year uncorrected misstatements as of and for the year ended June 30, 2023, is an understatement of net income of approximately \$3.9 million, an overstatement of beginning net position of approximately \$3.9 million and no impact on ending net position.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to the University's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Circumstances that Affect the Form and Content of the Auditor's Report

For purposes of this letter, professional standards require that we communicate any circumstances that affect the form and content of our auditor's report.

Emphasis of Matter

As discussed in Note 1, the financial statements of the University, an agency of the state of Washington, are intended to present the financial position, the changes in financial position, and cash flows of only that portion of the business-type activities of the state of Washington that is attributable to the transactions of the University. They do not purport to, and do not, present fairly the financial position of the state of Washington as of June 30, 2023, the changes in its financial position, or its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Adoption of New Accounting Standard

As discussed in Note 1 to the financial statements, the University has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 96, *Subscription Based Information Technology Arrangements*, for the year ended June 30, 2023. Accordingly, a restatement has been made to the business-type activities as of July 1, 2022, to restate beginning net position. Our opinions are not modified with respect to this matter.

Representations Requested from Management

We have requested certain written representations from management which are included in the management representation letter dated January 17, 2024.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with the University, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, significant events or transactions that occurred during the year, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the University's auditors.

The financial statements include the financial statements of Washington State University Foundation (the Foundation), which we considered to be a discretely presented component unit of the University. The financial statements of the Foundation were audited by other auditors, and we did not assume responsibility for the audit performed by the other auditors, rather have referred to their audit in our report. Our decision to refer to the report of the other auditor is based upon our evaluation of the materiality of the Foundation with respect to the financial statements as a whole and our consideration of the timing requirements of the engagement. Our audit procedures with respect to Foundation included required correspondence with the other auditor, obtaining and reading their auditor's report and the related financial statements, and other procedures as

considered necessary. Our audit procedures with respect to the Foundation included obtaining an understanding of the Foundation and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements of the Foundation and completion of further audit procedures.

This report is intended solely for the information and use of the Board of Regents and management of the University and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Erik Sully LLP". The signature is written in a cursive, flowing style.

Boise, Idaho