From:	CROUCHO@sao.wa.gov
To:	sbattulga@lynnwoodwa.gov
Cc:	Cowgill, Christie (SAO); Ard, Sherrie (SAO); Young, Joshua (SAO); Hylton, Scott (SAO); Strand, Ann (SAO); Adams, Haji (SAO); Tellers, Stacie (SAO); Crouch, Olivia (SAO); Ard, Sherrie (SAO); Wolf, Andrew (SAO); Cowgill, Christie (SAO); Pagio, Kayley (SAO); Vandenburg, Vivian (SAO); Fenton, Crystal (SAO)
Subject:	Response to Client Helpdesk Request 93376
Date:	Thursday, March 9, 2023 2:51:01 PM

Your request # 93376 for Lynnwood, City of has been resolved.

Your question was:
We have a NASPO-ValuePoint contract for mailroom equipment. This was a piggyback on state contract. In the contracts, I cannot find any language stating a noncancelable period. We have a purchase order that simply states 60 months. In this case, is this considered a lease?

The background information you provided was:
The NASPO-ValuePoint Contract (WA Master Contract No. 05516) does not have any language stating non-cancelable period. There is a termination for convenience clause and it states that "the state reserves the right to terminate the contract, in whole or in part at any time when in the best interest of the state, without penalty or recourse" This leads me to believe that this contract is cancelable and therefore it should not be included in our list of capital leases. Please advise.

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Our response is as follows:
Hello,

For a lot of master contracts, there are clauses that allow the contract to be cancelled at any time, but it normally only applies to the master contract and not any sub-contracts/agreements awarded under the master contract. You will need to refer to the master agreement to determine if it states what happens to sub-contracts/agreements in the event the master contract is cancelled. The wording you provided said the State reserves the right to cancel the contract at any time.

However, we need to know about the agreement between the City and the equipment vendor. If both the City and the equipment vendor can cancel your mailroom equipment contract at any time, then it's a short-term lease. But if only one of you can cancel at any time (or if neither of you can cancel at any time), then it's not a short-term lease, and would be accounted for like other leases under GASB 87.

Please let me know if you have any additional questions!
Olivia

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If you have additional follow-up questions, please reference this request number when you contact us again. A copy of this response is provided to your audit team to ensure that we are consistent and efficient when working with you.

Sincerely,
OLIVIA Crouch

Disclaimer: Answers are informational only and are based on the specific circumstances presented. As laws and circumstances change, or additional facts are presented, the answer is subject to change. The information provided by the Washington State Auditor's client helpdesk is not a legal or a binding opinion.

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