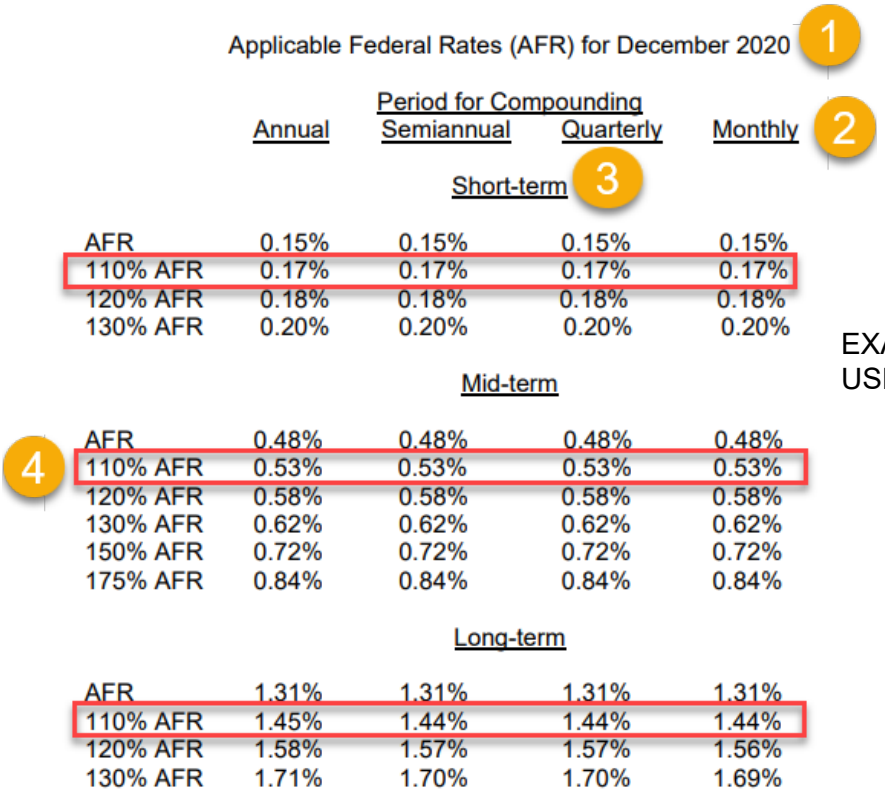
# Governmental Accounting Standards Board (GASB) 87 & 96 – Guidance for Implicit Interest Rate

GASB 87 & 96 require all leases or SBITA's to be paid to principal, interest and (possibly) executory cost general ledger accounts. An amortization schedule must be created if not provided in the lease agreement using either an explicit or implicit interest rate.

- **Explicit Rate**- If an interest rate is specified in the contract, use this. This is the preferable interest rate.
- **Implicit Rate**- If no interest rate is specified in the contract, an interest rate will be determined by type of Asset:
    1. SBITA where no interest rate is specified, use the Federal Reserve Prime ("Bank prime loan") rate effective at time of commencement. Historical prime rates are located at: JP Morgan Chase Historical Prime Rate.
    2. Machinery, Equipment where no interest rate is specified, follow the rate as determined in the statewide contract with Ontario Investments Inc. See Implicit Rates for Machinery and Equipment for further guidance.
    3. Real Estate related leases/rentals where no interest rate is specified, follow the mortgage rate at time of commencement. Updated rates can be found at: IRS implicit rates for real estate



Applicable Federal Rates (AFR) for December 2020 (1)

| | Period for Compounding: Annual | Semiannual | Quarterly | Monthly (2) |
|---|---|---|---|---|
| **Short-term (3)** | | | | |
| AFR | 0.15% | 0.15% | 0.15% | 0.15% |
| 110% AFR | 0.17% | 0.17% | 0.17% | 0.17% |
| 120% AFR | 0.18% | 0.18% | 0.18% | 0.18% |
| 130% AFR | 0.20% | 0.20% | 0.20% | 0.20% |
| **Mid-term** | | | | |
| AFR | 0.48% | 0.48% | 0.48% | 0.48% |
| 110% AFR (4) | 0.53% | 0.53% | 0.53% | 0.53% |
| 120% AFR | 0.58% | 0.58% | 0.58% | 0.58% |
| 130% AFR | 0.62% | 0.62% | 0.62% | 0.62% |
| 150% AFR | 0.72% | 0.72% | 0.72% | 0.72% |
| 175% AFR | 0.84% | 0.84% | 0.84% | 0.84% |
| **Long-term** | | | | |
| AFR | 1.31% | 1.31% | 1.31% | 1.31% |
| 110% AFR | 1.45% | 1.44% | 1.44% | 1.44% |
| 120% AFR | 1.58% | 1.57% | 1.57% | 1.56% |
| 130% AFR | 1.71% | 1.70% | 1.70% | 1.69% |

EXAMPLE - DO NOT USE THESE RATES

Note 1-Use the rate in effect at the commencement of the Lease
Note 2-Select the interest rate based on the repayment cycle
Note 3- Select the appropriate lease term.

Short term- term not over 3 years
Mid-term-term between 3 and 9 years
Long-term-term over 9 years

Note 4-**Do not** use these rates provided in screenshot above!! Use the rates updated per this link:

IRS implicit rates for real estate