



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

GASB 87 requires all leases 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. Machinery, Equipment where no interest rate is specified, follow the rate as determined in the statewide contract with Presidio Technology Capital, LLC. (link-[Interest Rates as specified in contract with Presidio Technology Capital, LLC](#)). The “Bank prime loan” rate can be located on the Federal Reserve website (link-[Federal Reserve Prime Rate](#)).
  2. 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 March 2020 1

	<u>Annual</u>	<u>Period for Compounding</u>		<u>Monthly</u>
		<u>Semiannual</u>	<u>Quarterly</u>	<span style="border: 1px solid black; border-radius: 50%; padding: 2px 5px;">2</span>
<u>Short-term</u>				
<span style="border: 1px solid black; border-radius: 50%; padding: 2px 5px;">3</span>				
AFR				
<span style="border: 1px solid black; border-radius: 50%; padding: 2px 5px;">4</span> 110% AFR	1.65%	1.64%	1.64%	1.63%
<del>120% AFR</del>				
<del>130% AFR</del>				
<u>Mid-term</u>				
AFR				
<span style="border: 1px solid black; border-radius: 50%; padding: 2px 5px;">4</span> 110% AFR	1.68%	1.67%	1.67%	1.66%
<del>120% AFR</del>				
<del>130% AFR</del>				
<del>150% AFR</del>				
<del>175% AFR</del>				
<u>Long-term</u>				
AFR				
<span style="border: 1px solid black; border-radius: 50%; padding: 2px 5px;">4</span> 110% AFR	2.12%	2.11%	2.10%	2.10%
<del>120% AFR</del>				
<del>130% AFR</del>				

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](#)