Memo

Date: January 1, 2022

From: Accounting

Subject: Application of risk-free rate for lease discount rate

\_\_\_\_\_\_\_\_\_ (“the company”) has elected to use a risk-free rate as the lease discount rate for all leases as allowed by ASC 842-20-30-3. The company is eligible to use this approach because it is not a public company. The same approach will apply to all leases. The company will use the *Daily Treasury Par Yield Curve Rates* as published by the department of the treasury. The risk-free rate for each lease is determined using the following steps:

1. Navigate to the [treasury website](https://home.treasury.gov/resource-center/data-chart-center/interest-rates/TextView?type=daily_treasury_yield_curve&field_tdr_date_value_month=202207)
2. Filter for the year of lease commencement and find the yield curve values for the lease commencement date (or the date immediately preceding the commencement date if it falls on a non-business day)
3. Extrapolate between the two rate values that are shorter and longer than the lease term on a pro-rata basis to find the risk-free rate for the term that matches the lease term

The company updates the risk-free rate at for a lease when it is modified as required by ASC 842-20-35-5.