

# EXHIBIT A: Evaluation Checklist - Interest Rate Swap

## Summary

**Financial Instrument or Contract Reviewed:** UCLAMC Interest Rate Swap -

Hedgeable item is 2007C-2 MC Pooled Revenue Bonds - Deutsche Bank Counterparty

**Evaluation as of:** June 30, 2009

**Evaluation Prepared By:** J. Plotts

**Reviewed By:** Yoon Lee

Interest rate swap	<u>        X        </u>	Swaptions	<u>                        </u>
Commodity swap	<u>                        </u>	Forward contracts	<u>                        </u>
Interest rate lock	<u>                        </u>	Futures contracts	<u>                        </u>
Options:		Other:	<u>        X        </u>
Caps	<u>                        </u>	Describe:	
Floors	<u>                        </u>	Hybrid Instrument - Interest rate swap	
Collars	<u>                        </u>	at the market, with a companion instrument	
		that is a borrowing.	

### Is this financial instrument is a derivative instrument under GASB 53?

	<u>Reference Questions</u>	<u>Check as Appropriate</u>
Derivative instrument	1-3	<u>                        </u>
Hybrid instrument	4-7	<u>        X        </u>
Synthetic Guaranteed Investment Contract	8-14	<u>                        </u>
If a derivative instrument, is it excluded from scope?	15-19	<u>                        </u>
This is not a derivative instrument		<u>                        </u>

### Is this an investment derivative or a potential hedging derivative?

		<u>Check one</u>
Investment derivative	20	<u>                        </u>
Potential hedging derivative:		
Existing or expected financial instrument?	21	<u>        X        </u>
Existing or expected commodity?	21	<u>                        </u>

### For existing or expected financial instruments:

21-29         Check one        

Effective hedge (hedge accounting applies): (1)		
Cash flow hedge		<u>        X        </u>
Fair value hedge		<u>                        </u>
Indicate method used to document effectiveness:		
Consistent Critical Terms method		<u>                        </u>
Ineffective hedge (hedge accounting does not apply)		<u>                        </u>

### For existing or expected commodity transactions:

30-37         Check one        

Effective hedge (hedge accounting applies): (1)		
Cash flow hedge		<u>                        </u>
Fair value hedge		<u>                        </u>
Indicate method used to document effectiveness: <i>Dollar Offset Method &amp; Regression Analysis Method</i>		
Ineffective hedge (hedge accounting does not apply)		<u>                        </u>

(1) Once determined to be an effective hedge, an evaluation must be performed each subsequent year to validate continued effectiveness, unless Consistent Critical Terms Method is used.

## EXHIBIT A: Evaluation Checklist for Interest Rate Swaps

### *Evaluation Checklist for:* UCLAMC Interest Rate Swap -

Hedgeable item is 2007C-2 MC Pooled Revenue Bonds - Deutsche Bank Counterparty

Refer to the GASB Statement No. 53 Outline for details

*Note:* Attach comments as necessary for further discussion of the conclusion. Certain questions may not result in simple "yes" or "no" answers and the substance of the financial instrument or contract must be considered in order to arrive at the conclusion.

**Determine whether the financial instrument or contract qualifies as a derivative instrument. If so, evaluate whether it is a hedging derivative. If a hedging derivative, determine whether it is a cash flow or fair value hedge.**

### **Does this Meet the Definition of a Derivative Instrument? (§7-13)**

	YES/ NO	Source Document/ X - Reference
1. Does the financial instrument have settlement factors that include a) a reference rate and b) a notional amount?	Yes	10/21/08 Deutsche Confirmation
2. Is there leverage, i.e. little or no initial net investment?	No, there is an initial receipt of \$31,348,471 from Deutsche.	10/21/08 Deutsche Confirmation - combined "Fixed Amount II" of \$31,348,471 paid to UC by Deutsche.
3. Are there net settlement provisions?	Yes	ISDA-Part 2c

*If "yes," to question 1-3, the financial instrument or contract is a derivative instrument. However, continue the evaluation beginning with question 15 to determine whether the type of financial instrument or contract is excluded from the scope of Statement No. 53.*

*If "no" to any one of questions 1-3, the financial instrument or contract is not be a derivative instrument. However, continue the evaluation beginning with question 4 to assess whether a hybrid instrument is involved.*

### **If Not, Does this Meet the Definition of a Hybrid Instrument? (§64)**

4. Is this a situation where there may be a derivative instrument that accompanies, or is incorporated within, a companion document?	Yes, the swap is comprised of a derivative instrument "at the market," and a companion instrument, the "borrowing" of \$31,348,471.	10/21/08 Deutsche Confirmation. 3/27/09 Swap Financial Group memo.
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*If "yes," to question 4, the financial instrument or contract may be a hybrid instrument and must be further evaluated. Continue the evaluation beginning with question 5 to determine whether the type of financial instrument or contract is a hybrid instrument.*

*If "no" to question 4, the financial instrument or contract is not a hybrid instrument. However, continue the evaluation beginning with question 8 to determine whether an SGIC is involved.*

5. Is it a true statement that the companion instrument is not measured at fair value on the Statement of Net Assets?	Yes, companion instrument is a borrowing that is not measured at FV on the SNA.	SNA
6. Would a separate instrument with the same terms as a derivative instrument meet the definition of a derivative instrument using questions 1-3 above?	Yes. Excluding the companion instrument, the "borrowing," the separate derivative instrument would have had no initial investment and therefore would have qualified as a derivative instrument, as defined.	3/27/09 Swap Financial Group memo.
7. Is it a true statement that the economic characteristics and risks of the derivative instrument are not closely related to the economic characteristics and risks of the companion instrument?	Yes	The economic characteristics and risks of the interest rate swap are not closely related to the companion instrument "borrowing."

*If "yes" to all questions of 5-7 the financial instrument or contract is a hybrid instrument. However, continue the evaluation beginning with question 15 to determine whether the type of financial instrument or contract is excluded from the scope of Statement No. 53.*

*If "no" to any one of questions 4-6, the financial instrument or contract is not a hybrid instrument. However, continue the evaluation beginning with question 8 to assess whether an SGIC is involved.*

**If Not, Does this Meet the Definition of a Synthetic Guaranteed Investment Contract (SGIC)? (§67)**

8. Does the SGIC prohibit the University from assigning or selling the contract or its proceeds to another party without the consent of the issuer?	N/A	Not an SGIC
9. Are prospective interest crediting rate adjustments provided to plan participants and UC on a designated pool of investments by a financially responsible third party?	N/A	Not an SGIC
10. Do the adjustments provide assurance that probable future rate adjustments would result in an interest crediting rate of less than zero is remote?	N/A	Not an SGIC
11. Do the pool of investments in total meet both of the following criteria? * The pool is of high credit quality such that the possibility of credit loss is remote? * The pool may be prepaid or otherwise settled in such a way that UC and its plan participants would recover contract value?	N/A	Not an SGIC

12. Do the terms of the SGIC require all permitted participant-initiated transactions with UC to occur at contract value with no conditions, limits, or restrictions? (permitted participant-initiated transactions are those transactions allowed by UC, such as withdrawals for benefits, loans, or transfers to other investment choices)	N/A	Not an SGIC
13. Some events may limit UC's ability to transact with participants at contract value. Examples are premature termination of contracts, layoffs, plan terminations, bankruptcies, and early retirement incentives. Is the probability of such an event occurring within one year of the date of the financial statements remote?	N/A	Not an SGIC
14. Does UC allow participants reasonable access to their investments?	N/A	Not an SGIC

*If "yes" to all questions of 8-14 the financial instrument or contract is an SGIC under Statement No. 53. Measure at contract value and disclose in accordance with that Statement. The evaluation does not continue.*

*If "no" to any of questions 8-14, the financial instrument or contract is not an SGIC under Statement No. 53. The evaluation does not continue.*

**If this Meets the Definition of a Derivative Instrument, is it Excluded from the Scope of GASB Statement No. 53? (§14-18)**

15. Is the derivative instrument a normal purchase or sale contract for a commodity used in the normal course of operations? Consider whether the contract results in the purchase or sale of a commodity such as natural gas or electricity, whether the contract includes a net settlement feature, whether the University has entered into such a contract in the past, whether the University has a practice of taking delivery or selling a commodity, and whether the quantity of the commodity in the contract is consistent with the volume used in the University's activities.	No, entered into to create a synthetic fixed interest rate and reduce the cost of borrowing and future cash flows.	6/27/07 Approval Memo. 10/16/08 Approval Memo-transaction to terminate Lehman as the counterparty and substitute Deutsche. 10/21/08 Deutsche confirmation.
16. Is this a risk financing or insurance related contract?	No	6/27/07 Approval Memo. 10/16/08 Approval Memo. 10/21/08 Deutsche confirmation.
17. Is this a financial guarantee contract that does not respond to changes in a reference rate?	No	6/27/07 Approval Memo. 10/16/08 Approval Memo. 10/21/08 Deutsche confirmation.
18. Is this a specific type of contract that is not exchange traded and includes a reference rate based upon climate, geological, other physical variables, or the price of a nonfinancial asset?	No	6/27/07 Approval Memo. 10/16/08 Approval Memo. 10/21/08 Deutsche confirmation.
19. Is this a loan commitment contract?	No	6/27/07 Approval Memo. 10/16/08 Approval Memo. 10/21/08 Deutsche confirmation.

If "yes" to any one of questions 15-19, the financial instrument or contract is excluded from the scope of Statement No. 53 and the evaluation does not continue.

However, if "no" to all of questions 14-19, the financial instrument or contract is a derivative instrument that must be further evaluated under Statement No. 53 to determine whether it is an "investment derivative" or a "hedging derivative," and if a "hedging derivative," whether it is "effective" or "ineffective" hedge. Begin the next stage of the evaluation with question 20.

**Determine Whether the Derivative Instrument is an "Investment Derivative" or a Potential "Hedging Derivative" (§20)**

20. Was the derivative instrument or contract entered into for the purpose of making a profit?	No, entered into to entered into to create a synthetic fixed interest rate and reduce the cost of borrowing and future cash flows.	6/27/07 Approval Memo-10/16/08 Approval Memo-transaction to terminate Lehman as the counterparty and substitute Deutsche. 10/21/08 Deutsche confirmation.
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If "yes" to question 20, the financial instrument or contract is an investment derivative under Statement No. 53. Apply investment derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to question 20, the financial instrument or contract is a hedging derivative and must be further evaluated to determine whether it is an "effective" or "ineffective" hedge. Begin the next stage of the evaluation with question 21.

21. Is the hedgeable item an existing or expected financial instrument?	Yes	10/21/08 Deutsche Confirmation - hedging MC Pooled Revenue Bonds, 2007C-2 Series
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If "yes" to question 21, continue the evaluation with question 22.

If "no" to question 21, the hedgeable item item is an existing or expected commodity transaction. Skip to question 30.

**Evaluate Whether the Potential Hedging Derivative Where the Hedgeable Item is a Existing or Expected Financial Instrument is an "Effective" or Ineffective" Hedge. (§34-48)**

If the derivative instrument is an interest rate swap or forward contract, determine whether it is "effective" under the Consistent Critical Terms Method by continuing with question 22a, 23a or 24a.

Based upon the answers to the following, determine whether the Consistent Critical Terms Method of evaluating an interest rate swap or forward contract results in an "effective" hedge:

## EXISTING OR EXPECTED FINANCIAL INSTRUMENTS

### Consistent Critical Terms Method

#### *For an "effective" interest rate swap-cash flow hedge (§37):*

<p>22a. Is the notional amount of the interest rate swap the same as the principal amount of the hedgeable item throughout the life of the hedging relationship? This criterion is met if the notional amount of the interest rate swap and principal amount of the hedgeable item are equal for each hedged interest payment, even if the hedged item amortizes or otherwise adjusts subsequent to the inception of the hedge.</p>	<p>Yes</p>	<p>3/27/09 Swap Financial Group memo. 10/21/08 Deutsche Confirmations-same as Series C-2 maturities on pages 9-12 in the Official Statement</p>
<p>22b. Upon association with the hedgeable item, does the interest rate swap have a zero fair value? (the value of a derivative instrument that is either entered into or exited with no consideration being exchanged. A zero fair value should be within a dealer's normal bid/offer spread.)</p>	<p>Yes</p>	<p>3/27/09 Swap Financial Group memo. 10/21/08 Deutsche Confirmations.</p>
<p>22c. Is the formula for computing net settlements under the interest rate swap the same for each net settlement? (That is, the fixed rate is the same throughout the term of the interest rate swap. Likewise, each variable payment of the interest rate swap is based on the same variable, such as the same reference rate or index.)</p>	<p>Yes</p>	<p>3/27/09 Swap Financial Group memo. 10/21/08 Deutsche Confirmations.</p>
<p>22d. Is the reference rate of the interest rate swap's variable payment consistent with one of the following: (1) The reference rate or payment of the hedgeable item. For example, an interest rate swap provides variable payments to the University equal to the total variable payments of variable-rate bonds—a cost-of-funds hedge. (2) A benchmark interest rate as specified in paragraph 35 if interest rate risk is the hedged risk. The reference rate cannot be multiplied by a coefficient, such as 68 percent of LIBOR, but it may be adjusted by addition or subtraction of a constant, such</p>	<p>Yes, VR swap payments are equal to FRN interest payments on the FRN's, a cost of funds hedge.</p>	<p>3/27/09 Swap Advisors memo.</p>
<p>22e. Do interest receipts or payments of the interest rate swap occur during the term of the hedgeable item, and no interest receipts or payments of the interest rate swap occur after the term of the hedgeable item? (For example, an interest rate swap that hedges the first 10 years of a 15-year variable-rate bond meets this criterion.)</p>	<p>Yes, swap payments are consistent with the Series C-2 term and maturities in the Official Statement. Termination dates for the swaps are the same as the final principal payment on the 2007C-2 bonds.</p>	<p>3/27/09 Swap Advisors memo. 10/21/08 Deutsche Confirmations.</p>

22f. Is it true that the reference rate of the interest rate swap does not have a floor or cap unless the hedgeable item has a floor or cap. If the hedgeable item has a floor or cap, does the interest rate swap have a floor or cap on the variable interest rate that is comparable to the floor or cap on the hedgeable item? (Comparable does not necessarily mean equal. For example, an interest rate swap's reference rate is the SIFMA swap index, while the hedgeable bond's variable rate is the SIFMA swap index plus 2 percent. A 10 percent cap on the interest rate swap would be comparable to a 12 percent cap on the bonds and would meet this criterion as both caps produce equal changes in cash flows if the SIFMA swap index exceeds 10 percent.)	Yes, no effective floor or cap.	3/27/09 Swap Advisors memo. 10/21/08 Deutsche Confirmations. See memo to PwC on the irrelevant effect of the cap.
22g. Is the time interval of the reference rate, commonly referred to as the designated maturity, employed in the variable payment of the interest rate swap the same as the time interval of the rate reset periods of the hedgeable item? (Examples that meet this criterion include an interest rate swap with a variable payment referenced to (1) the SIFMA swap index—a seven-day index—that hedges variable-rate bonds with a rate reset every seven days and (2) an interest rate swap with a variable payment referenced to the one-month LIBOR index that hedges taxable variable-rate bonds with a monthly rate reset.)	Yes	1/18/07 Confirmation - designated maturity is one month. Official Statement - VRB's bear interest that resets on either a daily or weekly basis.
22h. Are the frequency of the rate resets of the variable payment of the swap and the hedgeable item the same? (For example, this criterion is met by an interest rate swap with a reference rate that resets monthly and hedges bonds with a variable interest rate that also resets monthly.)	Yes, the frequency of rate resets is quarterly for both the interest rate swap and the Series 2007 C-2 FRN's.	3/27/09 Swap Advisors memo. 10/21/08 Deutsche Confirmations.
22i. Are the rate reset dates of the interest rate swap within six days of the rate reset dates of the hedgeable item? (For example, this criterion is met by an interest rate swap with a reference rate that resets on the 15th day of the month that hedges bonds with a variable interest rate that resets on the 18th day of the month.)	Yes, the rate reset dates under the swap terms and the Series C-2 FRN's are the same - 2/15, 5/15, 8/15, and 11/15.	3/27/09 Swap Advisors memo. 10/21/08 Deutsche Confirmations.
22j. Are the periodic interest rate swap payments within 15 days of the periodic payments of the hedgeable item?	Yes, periodic swap interest rate payments are on the same date as interest payments on the FRN's.	3/27/09 Swap Advisors memo. 10/21/08 Deutsche Confirmations.

If "yes" to all of questions 22a-j, the interest rate swap is an "effective" cash flow hedge under the Consistent Critical Terms Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to any one of questions 22 a-j, the interest rate swap is not an "effective" cash flow hedge under the Consistent Critical Terms Method and must be further evaluated. Begin the next stage of the evaluation with question 23.

*For an "effective" interest rate swap-fair value hedge (§38):*

23a. Is the notional amount of the interest rate swap the same as the principal amount of the hedgeable item throughout the life of the hedging relationship? (This criterion is met if the notional amount of the interest rate swap and principal amount of the hedgeable item are equal over the entire term of the hedgeable item, even if the hedgeable item amortizes or otherwise adjusts subsequent to the inception of the hedge.)	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
23b. Upon association with the hedgeable item, does the interest rate swap have a zero fair value?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
23c. Is the formula for computing net settlements under the interest rate swap the same for each net settlement? (That is, the fixed rate is the same throughout the term of the interest rate swap. Likewise, each variable payment of the interest rate swap is based on the same variable, such as the same reference rate or index.)	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
23d. Is it true that the interest rate swap that hedges interest rate risk has a variable payment based on a benchmark interest rate without multiplication by a coefficient, such as 68 percent of LIBOR? (The benchmark interest rate, however, may be adjusted by addition or subtraction of a constant, such as the SIFMA swap index plus 10 basis points, provided that the constant is specifically attributed to the effect of state-specific tax rates.)	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
23e. Is it true that the hedgeable item is not prepayable? (that is, the hedgeable item is not able to be settled by either party prior to its scheduled maturity). This criterion does not apply to a call option in an interest-bearing hedgeable item that is matched by a mirror-image call option in an interest rate swap if both of the following criteria are met: (1) A mirror-image call option matches the terms of the call option in the hedgeable item. The terms include maturities, strike price, related notional amounts, timing and frequency of payments, and dates on which the instruments may be called. (2) The University is the writer of one call option and the holder (or purchaser) of the other call option.	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
23f. Is the expiration date of the interest rate swap on or about the maturity date of the hedgeable item so that the University will not be exposed to interest rate risk or market risk?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
23g. Is it true that the reference rate of the interest rate swap has neither a floor nor a cap?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
23f. Does the reference rate of the interest rate swap reset at least every 90 days so that the variable payment or receipt is considered to be at a market rate?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A



If "yes" to all of questions 22a-f, the interest rate swap is an "effective" fair value hedge under the Consistent Critical Terms Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to any one of questions 23 a-f, the interest rate swap is not an "effective" fair value hedge under the Consistent Critical Terms Method and must be further evaluated. Begin the next stage of the evaluation with question 24a.

**For an "effective" forward contract-cash flow hedge (§39):**

24a. Is the forward contract for the purchase or sale of the same quantity or notional amount and at the same time as the hedgeable item?	N/A, not a forward contract.	N/A
24b. Upon association with the hedgeable item, does the forward contract have a zero fair value?	N/A, not a forward contract.	N/A
24c. Is the reference rate of the forward contract consistent with the reference rate of the hedgeable item?	N/A, not a forward contract.	N/A

If "yes" to all of questions 24a-c, the forward contract is an "effective" cash flow hedge under the Consistent Critical Terms Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to any one of questions 24a-c, the forward contract is not an "effective" cash flow hedge under the Consistent Critical Terms Method and must be further evaluated. Begin the next stage of the evaluation with question 25a.

**Quantitative Methods**

If the interest rate swap or forward contract is not "effective" under the Consistent Critical Terms Method, continue the evaluation using at least one of the quantitative methods discussed below.

**Synthetic instrument method-cash flow hedge (§42-43):**

25a. Is the notional amount of the potential hedging derivative instrument the same as the principal amount of the associated variable-rate asset or liability throughout the life of the hedging relationship? (This criterion is met if the notional amount of the swap and principal amount of the hedgeable item match for each hedged interest payment, even if the hedged item amortizes or otherwise adjusts subsequent to the inception of the hedge.)	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
25b. Upon association with the variable-rate asset or liability, does the potential hedging derivative instrument have a zero fair value or is the forward price at-the-market?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
25c. Is the formula for computing net settlements under the potential hedging derivative instrument the same for each net settlement; that is, the same fixed rate, reference rate, and constant adjustment, if any, throughout the term of the potential hedging derivative instrument?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A

25d. Do the interest receipts or payments of the potential hedging derivative instrument occur during the term of the variable-rate asset or liability, and no interest receipts or payments occur after the term of the variable-rate asset or liability? (For example, a swap that hedges the first 10 years of a 15-year variable-rate bond meets this criterion.)	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
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*If "yes" to all of questions 25a-d, the Synthetic Instrument Method may be applied to evaluate the effectiveness of a potential hedging derivative. Continue with question 26.*

*If "no" to any one of questions 25a-d, the Synthetic Instrument Method may not be applied to evaluate the effectiveness of a potential hedging derivative. Skip to question 27 for another quantitative method.*

26. Under the synthetic instrument method, a potential hedging derivative instrument is effective if the actual synthetic rate is substantially fixed. The results of this analysis should be evaluated as follows:		
26a. Is the actual synthetic rate within a range of 90 to 111 percent of the fixed rate of the potential hedging derivative instrument?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
26b. If the actual synthetic rate is outside the required range for the current reporting period, the actual synthetic rate should be calculated on a life-to-date basis. Is the actual synthetic rate on a life-to-date basis within the required range?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
26c. If a short time period has elapsed since inception of the hedge and the actual synthetic rate is outside the required range, the evaluation may include hypothetical payments, as if the hedge had been established at an earlier date. Effectiveness should then be reevaluated. For example, the first reporting period ends 90 days into a 10-year hedge, and when the government prepares its financial statements, it finds that the actual synthetic rate for the 90-day period is outside the 90 to 111 percent range. In that case, hypothetical payments from periods prior to the establishment of the hedge may be added to the evaluation. Does that analysis show a synthetic rate within the required range?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A

*If "yes" to any of questions 26a-c, the derivative instrument is an "effective" cash flow hedge under the Synthetic Instrument Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.*

*If "no" to any one of questions 26a-c, the derivative instrument is not an "effective" cash flow hedge under the Synthetic Instrument Method and must be further evaluated. Skip to question 27 for another quantitative method.*

**Dollar-offset method-fair value or cash flow hedge (§44):**

27. The dollar-offset method evaluates effectiveness by comparing the changes in expected cash flows or fair values of the potential hedging derivative instrument with the changes in expected cash flows or fair values of the hedgeable item. This evaluation may be made using changes in the current period or on a life-to-date basis. Do changes in either the hedgeable item or the potential hedging derivative instrument divided by the other result within a range of 80 to 125 percent in absolute terms?	N/A - effective cash flow hedge under the Consistent Critical Terms method.	N/A
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*If "yes" to question 27, the derivative instrument is an "effective" as either a cash flow or fair value hedge under the Dollar Offset Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.*

If "no" to question 27, the derivative instrument is not an "effective" cash flow or fair value hedge under the Dollar Offset Method and must be further evaluated. Skip to question 28 for another quantitative method.

**Regression analysis method (§45-47):**

**Cash flow hedges.** If a potential hedging derivative instrument is employed as a cash flow hedge, the relationship analyzed should be relevant cash flows, rates, or fair values of the potential hedging derivative instrument and the hedgeable item. See §46.

**Fair value hedges.** If a potential hedging derivative instrument is employed as a fair value hedge, the relationship analyzed should be the changes in fair values of the potential hedging derivative instrument and the hedgeable item.

28. For either a cash flow or fair value hedge, under the regression analysis method:

28a. Is the R-squared of the regression analysis is at least 0.80?	N/A - effective cash flow hedge under the Consistent Critical Terms <u>method.</u>	N/A
28b. Does the F-statistic calculated for the regression model demonstrate that the model is significant using a 95 percent confidence interval?	N/A - effective cash flow hedge under the Consistent Critical Terms <u>method.</u>	N/A
28c. Is the regression coefficient for the slope is between -1.25 and -0.80?	N/A - effective cash flow hedge under the Consistent Critical Terms <u>method.</u>	N/A

If "yes" to all of questions 28a-c, the derivative instrument is either an "effective" cash flow hedge or fair value hedge under the Regression Analysis Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to any one of questions 28a-c, the derivative instrument is not an "effective" cash flow or fair value hedge under the Regression Analysis Method and must be further evaluated. Skip to question 29 for another quantitative method.

**Other Quantitative Methods (§48):**

The University may use a quantitative method to evaluate effectiveness not specifically identified in Statement No. 53 if the method meets all of the following criteria:

29a. Through identification and analysis of critical terms, does the method demonstrates that the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item?	N/A - effective cash flow hedge under the Consistent Critical Terms <u>method.</u>	N/A
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29b. Can replicable evaluations of effectiveness be generated that are sufficiently complete and documented such that different evaluators using the same method and assumptions would reach substantially similar results?	N/A - effective cash flow hedge under the Consistent Critical Terms method	N/A
29c. Have the substantive characteristics of the hedgeable item and the potential hedging derivative instrument that could affect their cash flows or fair values been considered?	N/A - effective cash flow hedge under the Consistent Critical Terms method	N/A

If "yes" to all of questions 29a-c, another quantitative method may be used to demonstrate effectiveness.

If "no" to any of questions 29a-c, another quantitative method may not be used to demonstrate effectiveness.

### EXISTING OR EXPECTED COMMODITY TRANSACTIONS

Based upon the answers to the following, determine whether the Consistent Critical Terms Method of evaluating a commodity asset or expected transaction results in an "effective" hedge:

#### Consistent Critical Terms Method

*For an "effective" commodity swap-cash flow hedge (§51):*

30a. Is the commodity swap for the purchase or sale of the same quantity (notional amount) of the same hedgeable item at the same time and delivery location as the hedgeable item?	N/A, not an existing or expected commodity transaction.	N/A
30b. Upon association with the hedgeable item, does the commodity swap have a zero fair value?	N/A, not an existing or expected commodity transaction.	N/A
30c. Is the reference rate of the commodity swap consistent with the reference rate of the hedgeable item. (For example, a commodity swap hedges the University's natural gas purchases at the Henry Hub pricing point. That commodity swap also should have a reference rate based on the Henry Hub pricing point to meet this criterion.)	N/A, not an existing or expected commodity transaction.	N/A
30d. Is it true that the reference rate of the commodity swap does not have a floor or cap unless the hedgeable item has a floor or cap? (Floors and caps place limits on expected cash flows. If the hedgeable item has a floor or cap, the commodity swap has a comparable floor or cap on the variable commodity price.)	N/A, not an existing or expected commodity transaction.	N/A

If "yes" to all of questions 30a-d, the interest rate swap is an "effective" cash flow hedge under the Consistent Critical Terms Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to any one of questions 30 a-d, the interest rate swap is not an "effective" cash flow hedge under the Consistent Critical Terms Method and must be further evaluated. Begin the next stage of the evaluation with question 31.

*For an "effective" commodity swap-fair value hedge (§52):*

31a. Is the commodity swap for the purchase or sale of the same quantity (notional amount) of the same hedgeable item at the same time and delivery location as the hedgeable item?	N/A, not an existing or expected commodity transaction.	N/A
31b. Upon association with the hedgeable item, does the commodity swap have a zero fair value?	N/A, not an existing or expected commodity transaction.	N/A
31c. Is it true that the hedgeable item is not prepayable? (that is, the hedgeable item is not able to be settled by either party prior to its scheduled maturity). This criterion does not apply to a call option in an interest-bearing hedgeable item that is matched by a mirror-image call option in a commodity swap if both of the following criteria are met: (1) A mirror-image call option matches the terms of the call option in the hedgeable item. The terms include maturities, strike price, related notional amounts, timing and frequency of payments, and dates on which the instruments may be called. (2) The University is the writer of one call option and the holder (or purchaser) of the other call option.	N/A, not an existing or expected commodity transaction.	N/A
31d. Is the expiration date of the commodity swap on or about the maturity date of the hedgeable item so that the University will not be exposed to interest rate risk or market risk?	N/A, not an existing or expected commodity transaction.	N/A
31e. Is it true that the reference rate of the commodity swap has neither a floor nor a cap?	N/A, not an existing or expected commodity transaction.	N/A
31f. Does the reference rate of the commodity swap reset at least every 90 days so that the variable payment or receipt is considered to be at a market rate?	N/A, not an existing or expected commodity transaction.	N/A

*If "yes" to all of questions 31a-f, the commodity swap is an "effective" fair value hedge under the Consistent Critical Terms Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.*

*If "no" to any one of questions 31 a-f, the commodity swap is not an "effective" fair value hedge under the Consistent Critical Terms Method and must be further evaluated. Begin the next stage of the evaluation with question 33a.*

***For an "effective" commodity forward contract-cash flow hedge (§53):***

32a. Is the forward contract for the purchase or sale of the same quantity or notional amount and at the same time as the hedgeable item?	N/A, not a commodity forward contract.	N/A
32b. Upon association with the hedgeable item, does the forward contract have a zero fair value?	N/A, not a commodity forward contract.	N/A

32c. Is the reference rate of the forward contract consistent with the reference rate of the hedgeable item?	N/A, not a commodity forward contract.	N/A
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If "yes" to all of questions 32a-c, the commodity forward contract is an "effective" cash flow hedge under the Consistent Critical Terms Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to any one of questions 32 a-c, the commodity forward contract is not an "effective" cash flow hedge under the Consistent Critical Terms Method and must be further evaluated. Begin the next stage of the evaluation with question 33a.

**Quantitative Methods**

If the commodity swap or forward contract is not "effective" under the Consistent Critical Terms Method, continue the evaluation using at least one of the quantitative methods discussed below.

**Synthetic instrument method-cash flow hedge (§56-57):**

33a. Is the notional amount of the potential hedging derivative instrument the same as the quantity of the hedgeable item?	N/A, not a commodity forward contract.	N/A
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33b. Upon association with the hedgeable item, does the potential hedging derivative instrument have a zero fair value or is the forward price at-the-market?	N/A, not a commodity forward contract.	N/A
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If "yes" to all of questions 33 a-b, the Synthetic Instrument Method may be applied to evaluate the effectiveness of a potential hedging derivative. Continue with question 34.

If "no" to any one of questions 33 a-b, the Synthetic Instrument Method may not be applied to evaluate the effectiveness of a potential hedging derivative. Skip to question 35 for another quantitative method.

34. Under the synthetic instrument method, a potential hedging derivative instrument is effective if the actual synthetic rate is substantially fixed. The results of this analysis should be evaluated as follows:	N/A, not a commodity forward contract.	N/A
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34a. Is the actual synthetic rate within a range of 90 to 111 percent of the fixed rate of the potential hedging derivative instrument?	N/A, not a commodity forward contract.	N/A
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**Dollar-offset method-fair value or cash flow hedge (§58):**

35. The dollar-offset method evaluates effectiveness by comparing the changes in expected cash flows or fair values of the potential hedging derivative instrument with the changes in expected cash flows or fair values of the hedgeable item. This evaluation may be made using changes in the current period or on a life-to-date basis. Do changes in either the hedgeable item or the potential hedging derivative instrument divided by the other result within a range of 80 to 125 percent in absolute terms?	N/A, not a commodity forward contract.	N/A
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If "yes" to question 35, the derivative instrument is an "effective" as either a cash flow or fair value hedge under the Dollar Offset Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to question 35, the derivative instrument is not an "effective" cash flow or fair value hedge under the Dollar Offset Method and must be further evaluated. Skip to question 36 for another quantitative method.

**Regression analysis method (¶59):**

**Cash flow hedges.** If a potential hedging derivative instrument is employed as a cash flow hedge, the relationship analyzed should be relevant cash flows, rates, or fair values of the potential hedging derivative instrument and the hedgeable item. See ¶60.

**Fair value hedges.** If a potential hedging derivative instrument is employed as a fair value hedge, the relationship analyzed should be the changes in fair values of the potential hedging derivative instrument and the hedgeable item.

For either a cash flow or fair value hedge, under the regression analysis method:

36a. Is the R-squared of the regression analysis is at least 0.80?	N/A, not a commodity swap or forward contract.	N/A
36b. Does the F-statistic calculated for the regression model demonstrate that the model is significant using a 95 percent confidence interval?	N/A, not a commodity swap or forward contract.	N/A
36c. Is the regression coefficient for the slope is between -1.25 and -0.80?	N/A, not a commodity swap or forward contract.	N/A

If "yes" to all of questions 36a-c, the derivative instrument is either an "effective" cash flow hedge or fair value hedge under the Regression Analysis Method. Apply hedging derivative financial reporting treatment and disclosures as outlined in the IRM.

If "no" to any one of questions 36a-c, the derivative instrument is not an "effective" cash flow or fair value hedge under the Regression Analysis Method and must be further evaluated. Skip to question 37 for another quantitative method.

**Other Quantitative Methods (¶62):**

The University may use a quantitative method to evaluate effectiveness not specifically identified in Statement No. 53 if the method meets all of the following criteria:

37a. Through identification and analysis of critical terms, does the method demonstrates that the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item?	N/A	N/A
37b. Can replicable evaluations of effectiveness be generated that are sufficiently complete and documented such that different evaluators using the same method and assumptions would reach substantially similar results?	N/A	N/A

37c. Have the substantive characteristics of the hedgeable item and the potential hedging derivative instrument that could affect their cash flows or fair values been considered?

N/A

N/A

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*If "yes" to all of questions 37 a-c, another quantitative method may be used to demonstrate effectiveness.*

*If "no" to any of questions 37 a-c, another quantitative method may not be used to demonstrate effectiveness.*