

EXHIBIT E: Evaluation Checklist - GICs

Initial Year Evaluation Checklist for: Principal Financial Group GIC -
Effective Date of 1/02/02; Expiration Date 12/31/2008 - Contract: 4-6259

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?	No	Contract 4-6259
2. Is there leverage, i.e. little or no initial net investment?	No	Contract 4-6259
3. Are there net settlement provisions?	No	Contract 4-6259

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?	No	Contract 4-6259
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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 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?	N/A	No companion instrument
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?	N/A	No companion instrument
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?	N/A	No companion instrument

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?	<u>N/A</u>	<u>GIC, not a SGIC</u>
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?	<u>N/A</u>	<u>GIC, not a SGIC</u>
10. Do the adjustments provide assurance that probable future rate adjustments would result in an interest crediting rate of less than zero is remote?	<u>N/A</u>	<u>GIC, not a SGIC</u>
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?	<u>N/A</u>	<u>GIC, not a SGIC</u>
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)	<u>N/A</u>	<u>GIC, not a SGIC</u>
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?	<u>N/A</u>	<u>GIC, not a SGIC</u>
14. Does UC allow participants reasonable access to their investments?	<u>N/A</u>	<u>GIC, not a SGIC</u>

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.		
16. Is this a risk financing or insurance related contract?		

- 17. Is this a financial guarantee contract that does not respond to changes in a reference rate?
- 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?
- 19. Is this a loan commitment contract?

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?

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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?

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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 an 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):

- 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.

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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.)

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23b. Upon association with the hedgeable item, does the interest rate swap have a zero fair value?

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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.)

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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.)

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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.

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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?

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23g. Is it true that the reference rate of the interest rate swap has neither a floor nor a cap?

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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?

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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 object of the hedge an existing single asset or liability, or group of assets and liabilities, that are currently measured at fair value on the SRECNA, such as debt or

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If "yes" to question 24a, the derivative instrument is an investment derivative. Apply investment derivative financial reporting treatment and disclosures as outlined in the
If "no" to question 24a, continue to 24b.

24b. Is the object of the hedge an expected single asset or liability, or group of assets and liabilities, that are not currently measured at fair value on the SRECNA, such as the

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If "yes" to question 24b, a hedgeable item exists and therefore continue the evaluation to 24c to determine whether the potential hedging derivative is "effective".
If "no" to question 24b, the derivative instrument is an investment derivative. Apply investment derivative financial reporting treatment and disclosures as outlined in the

24c. 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?

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24d. Upon association with the hedgeable item, does the forward contract have a zero fair value?

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24e. Is the reference rate of the forward contract consistent with the reference rate of the hedgeable item?

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If "yes" to all of questions 24c-e, 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. Discontinue the evaluation.

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. Do not apply hedging derivative financial reporting treatment. Apply investment derivative financial reporting treatment and disclosures as outlined in the IRM. Discontinue the evaluation.

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.)

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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?

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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?

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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.)

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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:

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26a. Is the actual synthetic rate within a range of 90 to 111 percent of the fixed rate of the potential hedging derivative instrument?

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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?

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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?

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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 (§144):

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?

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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?

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28b. Does the F-statistic calculated for the regression model demonstrate that the model is significant using a 95 percent confidence interval?

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28c. Is the regression coefficient for the slope is between -1.25 and -0.80?

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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?

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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?

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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?

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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?

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- 30b. Upon association with the hedgeable item, does the commodity swap have a zero fair value?
- 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.)
- 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.)

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?
- 31b. Upon association with the hedgeable item, does the commodity swap have a zero fair value?
- 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.
- 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?
- 31e. Is it true that the reference rate of the commodity swap has neither a floor nor a cap?
- 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?

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?
- 32b. Upon association with the hedgeable item, does the forward contract have a zero fair value?
- 32c. Is the reference rate of the forward contract consistent with the reference rate of the hedgeable item?

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?
- 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?

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:
- 34a. Is the actual synthetic rate within a range of 90 to 111 percent of the fixed rate of the potential hedging derivative instrument?

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?

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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?
- 36b. Does the F-statistic calculated for the regression model demonstrate that the model is significant using a 95 percent confidence interval?
- 36c. Is the regression coefficient for the slope is between -1.25 and -0.80?

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?
- 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?
- 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?

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.

Principal[®]

**Financial
Group**

**Principal Life
Insurance Company**

July 18, 2002

Mel Stanton
University of California
1111 Broadway, Suite 400
Oakland, CA 94607-4036

RE University of California Tax-Deferred Annuity Plan
And Supplemental Retirement Programs
Annuity Contract No. 4-6259

Dear Mel

I have enclosed copies of revised Page 1 of the Schedule of Specifications and Values for the University of California contract. The total deposits have been updated in Item 4.

Please have Page 4 of the Schedule signed and returned to me. If you have any questions, please feel free to call me at the number below.

Sincerely



Lori K. Lopez
Sr. Contract Analyst
Phone 800 543-4015
Ext. 77861

Enclosure

cc: Vicki Prorock - RIS Adm GI 01

Schedule of Specifications and Values

Contract No. 4-6259

This schedule is made a part of the contract to which it is attached. Terms defined in the contract have the same meaning where used in this Schedule.

For identification purposes, this schedule may be referred to as Schedule 8

1. Plan

The name of the Plan(s): University of California Tax-Deferred Annuity Plan and Supplemental Retirement Programs

2. Important Dates and Periods (dates are expressed as month/day/year)

The Deposit Period for this Schedule is from: January 2, 2002 to December 31, 2002

Effective Date of this Deposit Arrangement	End of Deposit Period	End of Guarantee Period
11/16/2001	12/31/2002	12/30/2008

3. Guaranteed Interest Rate

The effective annual Guaranteed Interest Rate for this Deposit Arrangement is 5.75% Has the rate shown been adjusted to be NET after expenses (as shown in 5(a))? [X] Yes [] No

4. Deposits

Deposits under the Deposit Arrangement are a part of the Insurance Co. Investment Contract (ICC) investment option.

[X] (a) Single Deposit(s) will be limited to: (amounts are approximate)

Due Date	Amount	Due Date	Amount	Due Date	Amount
01 / 02 / 02	\$28,000,000.00	/ /	\$	/ /	\$
(Reinvestment from 4-6259, Schedule 3)					
/ /	\$	/ /	\$	/ /	\$

[X] (b) Periodic Deposits will be made as follows:

- [X] (i) 100% of Plan funds resulting from current year contributions and transfers from other plan investments. The approximate amount expected to be received as Deposits is \$7,000,000.00
- [X] (ii) Deposits must total at least \$60,000,000.00 Deposits may not total more than \$60,000,000.00
- [X] (iii) If net Deposits total less than \$60,000,000.00 on 12/31/2002, the difference will be deposited on or about 01/02/2003
- [X] (iv) If net Deposits exceed \$60,000,000.00 on 12/31/2002, the excess will be refunded on or about 01/02/2003
- [] (v) We will continue to accept Deposits until the earlier of _____, or the date _____ Deposits total \$ _____

Each single or periodic Deposit, of at least the minimum specified, must be received by its due date or within its Grace Period or this Arrangement may be changed or cancelled. SEE ARTICLE II, SECTION 1, OF THIS CONTRACT.

Revised 07/18/02

5. Expenses

Contract No. 4-6259

Schedule 8

(a) Expenses applicable to this Deposit Arrangement may be paid in one of the following ways:

- (i) As a deduction from the effective annual Guaranteed Interest Rate for this Deposit Arrangement. The reduction equals .05%.
- (ii) In a single sum on or before the due date of the first Deposit. This single sum equals \$ _____.
- (iii) In installments equal to _____ % of the fund, to be billed monthly quarterly annually

In any event, the minimum annual charge for expenses under the Contract will be the greater of the amount determined from the percentage shown above, if applicable or \$ N/A. This amount supersedes the minimum annual charge on all prior Schedules. If (ii) or (iii) is chosen and expenses are not paid when due, see Article III, Section 1, of the contract.

(b) Additional expense charges are those charges we make for services you ask us to do which are not covered by (a) of this Item, as provided for in Article III, Section 1, of the contract. For this Deposit Arrangement these expenses are:

- (i) A check charge of \$ _____ for each check drawn to an individual Member.
- (ii) A transaction charge of \$ _____ for each transaction (deposit, withdrawal, etc.) requested in excess of _____.
- (iii) Other (specify): _____.

6. Reports

Reports on the value of the fund will be made monthly quarterly semiannually _____.

7. Interest Crediting

Interest credited to this Deposit Arrangement will be:

- (a) Compounded daily from the date we accept each Deposit hereunder until the date of payment under Items 8, 10, 11, or 12 below.
- (b) Compounded daily from the date we accept each Deposit hereunder and paid to you or to the Funding Agent you designate semi-annually annually starting on _____.

8. Disposition of a Guaranteed Interest Fund

The Guaranteed Interest Fund will be paid on Termination of Plan as provided in Article II, Section 3, Subsection 1. Disposition of the Guaranteed Interest Fund other than at Termination of Plan will be as follows:

- (a) In a single sum at the end of the Guarantee Period. Payment will be made the day after the Guarantee Period ends.
- (b) By payment of installments in the following amounts or percentages on the dates shown:

33.3% of the fund balance to be paid on December 31, 2006.

50% of the remaining fund balance to be paid on December 31, 2007.

100% of the remaining fund balance to be paid on December 31, 2008.

If a percentage of the fund is shown above, the amount of that installment will be determined by us as of the date of payment by multiplying the value of the fund on that date by the indicated percentage.

Each payment may be paid to you (if you are a trustee under the Plan), used to purchase annuities for Members, used to create a new Deposit Arrangement under this contract, or transferred to another Funding Agent. Before the date of payment, you must provide Notification to us stating which alternative is desired.

Member Payments

9. Method of Payment

Contract No. 4-6259

Schedule 8

Payment will be made from the Guaranteed Interest Fund using one of the methods listed below. See Article IV, Section 1.

- | | Yes | No | | Yes | No |
|-------------------------------------------|-------------------------------------|-------------------------------------|-----------------------------|--------------------------|-------------------------------------|
| 1. Last In, First Out (LIFO) Method | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 4. Net Pro Rata Method..... | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 2. LIFO/Pro Rata Method..... | <input type="checkbox"/> | <input checked="" type="checkbox"/> | 5. Class Year Method | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 3. Pro Rata Method | <input type="checkbox"/> | <input checked="" type="checkbox"/> | | | |

Payment will use the _____ method modified as follows:

10. Payments For Members During A Deposit Arrangement

Are payments allowed for Members during a Deposit Arrangement? Yes No

If yes, payment will be allowed from the Guaranteed Interest Fund for the events indicated below. Such payments will be made without a Surrender Charge.

- | | Yes | No | |
|-------------------------------------------------------------|-------------------------------------|--------------------------|------------------------------------------------|
| 1. Death, Disability, Retirement, Termination of Employment | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| 2. Loan..... | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| 3. Hardship Withdrawal | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| 4. In-Service Withdrawal | <input checked="" type="checkbox"/> | <input type="checkbox"/> | |
| 5. Other, if yes, describe | <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Pre 01/01/89 accumulations and rollover</u> |
- accumulations – anytime.

All payments under this Item 10 are subject to the limitations contained in Item 13 of this Schedule.

11. Transfers to Plan Investment Funds

Are transfers allowed? Yes No

If yes, transfers will be permitted to the Plan Investment Funds indicated below. Such transfers will be made without a Surrender Charge.

- | | Yes | No | Other funds as named below | Yes | No |
|-------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------------------------------|-------------------------------------|-------------------------------------|
| 1. Equity Fund | <input checked="" type="checkbox"/> | <input type="checkbox"/> | 7. <u>Bond Fund</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 2. Balanced Fund | <input type="checkbox"/> | <input checked="" type="checkbox"/> | 8. <u>Savings Fund</u> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| 3. Employer Stock Fund | <input type="checkbox"/> | <input checked="" type="checkbox"/> | 9. <u>Multi-Asset Fund</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 4. Long Term Bond Fund..... | <input type="checkbox"/> | <input checked="" type="checkbox"/> | 10. <u>Calvert Social Investment Fund Balanced Portfolio</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 5. Intermediate Term Bond Fund..... | <input type="checkbox"/> | <input checked="" type="checkbox"/> | 11. <u>Fidelity Investments</u> | <input checked="" type="checkbox"/> | <input type="checkbox"/> |
| 6. Money Market Fund..... | <input type="checkbox"/> | <input checked="" type="checkbox"/> | 12. _____ | <input type="checkbox"/> | <input type="checkbox"/> |

Transfers will be allowed annually semi-annually quarterly other monthly

subject to the following limitations: Direct transfers to competing funds are not allowed. Simultaneous fund transfers are not allowed.

Transfers will be paid out of Guaranteed Interest Funds as shown in Item 9 of this Schedule. **All transfers will be subject to the limitations contained in Item 13 of this Schedule.**

(a) In addition to the payments permitted by Items 10 and 11 of this Schedule, the following payments are permitted from the Guaranteed Interest Fund. No Surrender Charge (Article VI, Section 1) will be taken, but such payments or transfers will be subject to the limitations of Item 13 of this Schedule.

(b) No payments will be permitted under this item 12.

13. Limitations on Payments and Transfers from the Guaranteed Interest Fund

Payments and transfers requested under Items 10, 11, and 12(a) in any twelve-month period will be limited to N/A % of the value of the fund under this Schedule at the beginning of this twelve-month period, plus the same percentage of the interest earned to the date of payment or transfer.

Notations (by us)

[Empty box for notations]

For the Contractholder:

Name Melvin I. Stanton
Title Assistant Treasurer
Date 7-23-02

For Principal Life Insurance Company:

Name _____
Title _____
Date _____