

changes in interest rates or currency valuations. The mortgage-backed securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives held by the Funds result from the same considerations as other counterparty risk assumed by the Funds, which is the risk that the counterparty will be unable to meet its obligations.

The Funds invest in foreign currency forward contracts to hedge the currency risk in its international and global portfolios. The following summary shows the foreign currency forward contracts outstanding as of June 30, 1997 (amounts expressed in thousands).

Purchases

Currency	Purchase Amount (In Local Currency)	Fair Value as of June 30, 1997
Australian dollar.....	7,574	\$ 5,679
Belgian franc.....	194,281	5,419
Canadian dollar.....	66,965	48,757
Deutsche mark.....	277,338	159,934
French franc.....	292,558	50,052
Irish pound.....	2,101	3,167
Italian lira.....	73,222,491	42,988
Japanese yen.....	16,263,891	143,236
Netherlands guilder.....	46,900	24,051
Polish zloty.....	9,684	2,583
Pound sterling.....	29,967	49,792
Spanish peseta.....	1,600,000	10,887
Swedish krona.....	180,000	23,340
Swiss franc.....	96,953	67,003
U.S. dollar.....	1,377,261	1,377,261
Total purchases.....		<u>\$2,014,149</u>

Sales

Currency	Sale Amount (In Local Currency)	Fair Value as of June 30, 1997
Australian dollar.....	91,717	\$ 68,760
Austrian schilling.....	9,900	808
Belgian franc.....	864,000	24,131
Canadian dollar.....	77,831	56,641
Danish krone.....	124,109	18,796
Deutsche mark.....	488,617	281,699
French franc.....	786,599	134,515
Hong Kong dollar.....	100,000	12,897
Irish pound.....	2,101	3,167
Italian lira.....	196,121,437	115,111
Japanese yen.....	17,458,566	153,542
Netherlands guilder.....	280,898	143,880
New Zealand dollar.....	10,614	7,182
Pound sterling.....	145,287	241,292
Spanish peseta.....	6,395,321	43,502
Swedish krona.....	118,049	15,299
Swiss franc.....	160,954	110,966
U.S. dollar.....	576,426	576,426
Total sales.....		<u>\$2,008,614</u>

*C. Component Units:*

Cash and cash equivalents of the Component Units as of June 30, 1997, was \$104,784,000, most of which is pooled by the State except for \$7,166,000. The bank balance of cash deposited with financial institutions was \$8,889,000, of which \$8,271,000 was collateralized or insured and \$618,000 was uninsured and uncollateralized.

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, certificates of deposit, commercial paper, repurchase agreements, banker's acceptances and money market funds.