

CONNECTICUT HIGHER EDUCATION TRUST COLLEGE SAVINGS PROGRAM

Financial Statements

June 30, 2006



CONNECTICUT
HIGHER EDUCATION TRUST
COLLEGE SAVINGS PROGRAM

**CONNECTICUT HIGHER EDUCATION TRUST
COLLEGE SAVINGS PROGRAM**

INDEX

June 30, 2006

| | <u>Page</u> |
|---|-------------|
| Report of Independent Auditors | 2 |
| Audited Financial Statements: | |
| Statement of Assets and Liabilities | 4 |
| Statement of Operations | 6 |
| Statement of Changes in Net Assets | 8 |
| Financial Highlights | 10 |
| Notes to Financial Statements | 12 |

REPORT OF INDEPENDENT AUDITORS

To the Account Owners and Trustee of
Connecticut Higher Education Trust College Savings Program:

In our opinion, the accompanying statement of assets and liabilities and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of the eleven portfolios constituting Connecticut Higher Education Trust College Savings Program (hereafter referred to as the "Program") at June 30, 2006, the results of each of their operations, the changes in each of their net assets and each of their financial highlights for each of the periods in the year then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Program Manager. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these financial statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by the Program Manager, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

PricewaterhouseCoopers LLP
New York, New York
September 15, 2006

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CONNECTICUT HIGHER EDUCATION TRUST COLLEGE SAVINGS PROGRAM

STATEMENT OF ASSETS AND LIABILITIES

June 30, 2006

| | Managed Allocation Option | | | | |
|---|---|---------------------|----------------------|---------------------|---------------------|
| | Age of Beneficiaries, as provided by the Account Owners | | | | |
| | Ages 0-3 | Ages 4-7 | Ages 8-11 | Ages 12-14 | Ages 15-17 |
| ASSETS | | | | | |
| Investments, at value: | | | | | |
| TIAA-CREF Institutional Mutual Funds (Institutional Class): | | | | | |
| Inflation-Linked Bond Fund | \$ 1,673,421 | \$ 8,500,543 | \$ 13,845,630 | \$13,860,870 | \$11,178,890 |
| Equity Index Fund | 21,317,531 | 51,524,718 | 44,692,795 | 29,572,919 | 21,801,909 |
| International Equity Index Fund | 2,732,837 | 6,570,613 | 5,694,961 | 3,714,446 | 2,805,252 |
| Bond Fund | 4,934,614 | 25,412,842 | 41,311,560 | 40,853,119 | 33,382,807 |
| Real Estate Securities Fund | 2,708,172 | 6,588,978 | 5,741,616 | 3,779,893 | 2,779,437 |
| Money Market Fund | — | — | — | — | 17,747,152 |
| Growth Equity Fund | — | — | — | — | — |
| Mid-Cap Growth Fund | — | — | — | — | — |
| Mid-Cap Value Fund | — | — | — | — | — |
| Large-Cap Value Fund | — | — | — | — | — |
| S&P 500 Index Fund | — | — | — | — | — |
| Small-Cap Equity Fund | — | — | — | — | — |
| SUBTOTAL | <u>33,366,575</u> | <u>98,597,694</u> | <u>111,286,562</u> | <u>91,781,247</u> | <u>89,695,447</u> |
| TIAA-CREF Life Insurance Company— | | | | | |
| Funding Agreement (Note 1) | — | — | — | — | — |
| TIAA-CREF Retail Mutual Funds: | | | | | |
| Money Market Fund | — | — | — | — | — |
| TOTAL INVESTMENTS | <u>33,366,575</u> | <u>98,597,694</u> | <u>111,286,562</u> | <u>91,781,247</u> | <u>89,695,447</u> |
| Cash | 107,635 | 161,528 | 96,289 | 61,925 | 170,100 |
| Receivable for securities transactions | — | — | — | — | 72,170 |
| Receivable for Program shares sold | 10,754 | 28,787 | 46,116 | 37,363 | 22,411 |
| Dividends & interest receivable | — | — | — | — | — |
| TOTAL ASSETS | <u>33,484,964</u> | <u>98,788,009</u> | <u>111,428,967</u> | <u>91,880,535</u> | <u>89,960,128</u> |
| LIABILITIES | | | | | |
| Accrued management fee | 14,420 | 38,684 | 40,363 | 31,840 | 31,436 |
| Payable for securities transactions | 3,525 | 12,756 | 43,423 | 8,339 | 10,226 |
| Payable for Program shares sold | — | 50 | — | — | 26,200 |
| TOTAL LIABILITIES | <u>17,945</u> | <u>51,490</u> | <u>83,786</u> | <u>40,179</u> | <u>67,862</u> |
| NET ASSETS | <u>\$33,467,019</u> | <u>\$98,736,519</u> | <u>\$111,345,181</u> | <u>\$91,840,356</u> | <u>\$89,892,266</u> |
| SHARES OUTSTANDING | <u>2,569,301</u> | <u>8,660,408</u> | <u>9,469,103</u> | <u>7,645,975</u> | <u>7,535,898</u> |
| NET ASSETS VALUE PER SHARE | <u>\$13.03</u> | <u>\$11.40</u> | <u>\$11.76</u> | <u>\$12.01</u> | <u>\$11.93</u> |
| Investments at cost | <u>\$31,510,494</u> | <u>\$96,317,593</u> | <u>\$110,435,227</u> | <u>\$91,397,631</u> | <u>\$89,544,432</u> |
| Percentage of Total Investments based on Net Assets: | | | | | |
| TIAA-CREF Institutional Mutual Funds (Institutional Class) | 99.70% | 99.86% | 99.95% | 99.94% | 99.78% |
| TIAA-CREF Life Insurance Company—Funding Agreement . | — | — | — | — | — |
| TIAA-CREF Retail Mutual Funds | — | — | — | — | — |

** Investments are in the process of being allocated to the new target investment allocation effective June 19, 2006.

See accompanying notes to financial statements

| <u>Ages 18 & over</u> | <u>High Equity Option**</u> | <u>100% Equity Index Option</u> | <u>100% Fixed- Income Option</u> | <u>Principal Plus Interest Option</u> | <u>Administrative Account</u> | <u>Total</u> |
|-------------------------------|---------------------------------|-------------------------------------|--------------------------------------|---|-----------------------------------|----------------------|
| \$ 3,605,088 | \$ 7,027,336 | \$ — | \$ 3,968 | \$ — | \$ — | \$ 59,695,746 |
| 6,650,931 | — | 296,418 | — | — | — | 175,857,221 |
| 862,828 | 14,174,802 | 76,033 | — | — | — | 36,631,772 |
| 10,777,192 | 20,991,848 | — | 11,838 | — | — | 177,675,820 |
| 848,388 | — | — | — | — | — | 22,446,484 |
| 18,298,079 | — | — | — | — | — | 36,045,231 |
| — | 25,708,048 | — | — | — | — | 25,708,048 |
| — | 474,281 | — | — | — | — | 474,281 |
| — | 473,295 | — | — | — | — | 473,295 |
| — | 29,498,082 | — | — | — | — | 29,498,082 |
| — | 34,204,085 | — | — | — | — | 34,204,085 |
| — | 6,955,880 | — | — | — | — | 6,955,880 |
| <u>41,042,506</u> | <u>139,507,657</u> | <u>372,451</u> | <u>15,806</u> | <u>—</u> | <u>—</u> | <u>605,665,945</u> |
| — | — | — | — | 97,728,800 | — | 97,728,800 |
| — | — | — | — | — | 189,589 | 189,589 |
| <u>41,042,506</u> | <u>139,507,657</u> | <u>372,451</u> | <u>15,806</u> | <u>97,728,800</u> | <u>189,589</u> | <u>703,584,334</u> |
| 200,612 | 65,580 | 76 | — | — | — | 863,745 |
| 12,182 | — | — | — | — | — | 84,352 |
| 20,781 | 44,458 | 2,520 | 6,600 | 61,707 | — | 281,497 |
| 67,789 | — | — | — | — | — | 67,789 |
| <u>41,343,870</u> | <u>139,617,695</u> | <u>375,047</u> | <u>22,406</u> | <u>97,790,507</u> | <u>189,589</u> | <u>704,881,717</u> |
| 14,117 | 50,229 | 22 | — | — | — | 221,111 |
| — | 63,221 | 50 | — | 61,707 | — | 203,247 |
| 77,668 | 9,200 | — | — | — | — | 113,118 |
| <u>91,785</u> | <u>122,650</u> | <u>72</u> | <u>—</u> | <u>61,707</u> | <u>—</u> | <u>537,476</u> |
| <u>\$41,252,085</u> | <u>\$ 139,495,045</u> | <u>\$ 374,975</u> | <u>\$ 22,406</u> | <u>\$ 97,728,800</u> | <u>\$ 189,589</u> | <u>\$704,344,241</u> |
| <u>3,408,057</u> | <u>11,665,095</u> | <u>36,548</u> | <u>2,243</u> | <u>8,034,048</u> | <u>—</u> | |
| <u>\$12.10</u> | <u>\$11.96</u> | <u>\$10.26</u> | <u>\$9.99</u> | <u>\$12.16</u> | <u>—</u> | |
| <u>\$41,358,774</u> | <u>\$ 137,149,847</u> | <u>\$ 362,690</u> | <u>\$ 15,772</u> | <u>\$ 97,728,800</u> | <u>\$ 189,589</u> | <u>\$696,010,849</u> |
| 99.49% | 100.01% | 99.33% | 70.54% | — | — | |
| — | — | — | — | 100.00% | — | |
| — | — | — | — | — | 100.00% | |

See accompanying notes to financial statements

CONNECTICUT HIGHER EDUCATION TRUST COLLEGE SAVINGS PROGRAM

STATEMENT OF OPERATIONS

For the Period Ended June 30, 2006

| | Managed Allocation Option | | | | |
|--|---|---------------------|---------------------|---------------------|---------------------|
| | Age of Beneficiaries, as provided by the Account Owners | | | | |
| | <u>Ages 0-3</u> | <u>Ages 4-7</u> | <u>Ages 8-11</u> | <u>Ages 12-14</u> | <u>Ages 15-17</u> |
| INVESTMENT INCOME | | | | | |
| Income: | | | | | |
| Interest | \$ 4,674 | \$ 5,996 | \$ 3,738 | \$ 3,114 | \$ 6,558 |
| Dividends | <u>1,069,879</u> | <u>3,246,645</u> | <u>3,846,004</u> | <u>3,396,583</u> | <u>3,188,172</u> |
| TOTAL INCOME | <u>1,074,553</u> | <u>3,252,641</u> | <u>3,849,742</u> | <u>3,399,697</u> | <u>3,194,730</u> |
| Expenses: | | | | | |
| Management fee | 192,955 | 504,214 | 537,417 | 443,700 | 407,246 |
| Trustee fee | <u>3,556</u> | <u>9,491</u> | <u>10,390</u> | <u>8,722</u> | <u>7,910</u> |
| TOTAL EXPENSES | <u>196,511</u> | <u>513,705</u> | <u>547,807</u> | <u>452,422</u> | <u>415,156</u> |
| INVESTMENT INCOME, NET | <u>878,042</u> | <u>2,738,936</u> | <u>3,301,935</u> | <u>2,947,275</u> | <u>2,779,574</u> |
| REALIZED AND UNREALIZED GAIN (LOSS) | | | | | |
| ON INVESTMENTS | | | | | |
| Net realized gain on investments | 811,908 | 1,350,386 | 1,259,521 | 1,157,505 | 673,864 |
| Realized gain distributions | | | | | |
| from underlying mutual funds | 1,343,780 | 3,434,601 | 2,996,790 | 2,112,911 | 1,472,234 |
| Net change in unrealized appreciation (depreciation) | | | | | |
| of investments | <u>(420,962)</u> | <u>(1,749,388)</u> | <u>(3,084,919)</u> | <u>(3,455,459)</u> | <u>(2,523,242)</u> |
| NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS | <u>1,734,726</u> | <u>3,035,599</u> | <u>1,171,392</u> | <u>(185,043)</u> | <u>(377,144)</u> |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | <u>\$ 2,612,768</u> | <u>\$ 5,774,535</u> | <u>\$ 4,473,327</u> | <u>\$ 2,762,232</u> | <u>\$ 2,402,430</u> |

* For the period June 21, 2006 (commencement of operations) through June 30, 2006.

See accompanying notes to financial statements

| <u>Ages 18 & over</u> | <u>High Equity Option</u> | <u>100% Equity Index Option*</u> | <u>100% Fixed- Income Option*</u> | <u>Principal Plus Interest Option</u> | <u>Administrative Account</u> | <u>Total</u> |
|-------------------------------|-------------------------------|--------------------------------------|---------------------------------------|---|-----------------------------------|----------------------|
| \$ 8,502 | \$ 5,406 | \$ 26 | \$ 23 | \$ 3,016,842 | \$ — | \$ 3,054,879 |
| <u>1,255,527</u> | <u>2,962,976</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>6,461</u> | <u>18,972,247</u> |
| <u>1,264,029</u> | <u>2,968,382</u> | <u>26</u> | <u>23</u> | <u>3,016,842</u> | <u>6,461</u> | <u>22,027,126</u> |
| 158,018 | 630,546 | 22 | — | — | — | 2,874,118 |
| <u>3,006</u> | <u>12,494</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>55,569</u> |
| <u>161,024</u> | <u>643,040</u> | <u>22</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>2,929,687</u> |
| <u>1,103,005</u> | <u>2,325,342</u> | <u>4</u> | <u>23</u> | <u>3,016,842</u> | <u>6,461</u> | <u>19,097,439</u> |
| 50,875 | 8,125,044 | — | — | — | — | 13,429,103 |
| 386,599 | 1,105,363 | — | — | — | — | 12,852,278 |
| <u>(582,107)</u> | <u>(1,903,494)</u> | <u>9,762</u> | <u>34</u> | <u>—</u> | <u>—</u> | <u>(13,709,775)</u> |
| <u>(144,633)</u> | <u>7,326,913</u> | <u>9,762</u> | <u>34</u> | <u>—</u> | <u>—</u> | <u>12,571,606</u> |
| <u>\$ 958,372</u> | <u>\$ 9,652,255</u> | <u>\$ 9,766</u> | <u>\$ 57</u> | <u>\$ 3,016,842</u> | <u>\$ 6,461</u> | <u>\$ 31,669,045</u> |

See accompanying notes to financial statements

CONNECTICUT HIGHER EDUCATION TRUST COLLEGE SAVINGS PROGRAM

STATEMENT OF CHANGES IN NET ASSETS

For the Period Ended June 30, 2006

| | Managed Allocation Option | | | | |
|--|---|---------------------|----------------------|---------------------|---------------------|
| | Age of Beneficiaries, as provided by the Account Owners | | | | |
| | <u>Ages 0-3</u> | <u>Ages 4-7</u> | <u>Ages 8-11</u> | <u>Ages 12-14</u> | <u>Ages 15-17</u> |
| FROM OPERATIONS | | | | | |
| Investment income, net | \$ 878,042 | \$ 2,738,936 | \$ 3,301,935 | \$ 2,947,275 | \$ 2,779,574 |
| Net realized gain on investments | 2,155,688 | 4,784,987 | 4,256,311 | 3,270,416 | 2,146,098 |
| Net change in unrealized appreciation (depreciation) of investments | <u>(420,962)</u> | <u>(1,749,388)</u> | <u>(3,084,919)</u> | <u>(3,455,459)</u> | <u>(2,523,242)</u> |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | <u>2,612,768</u> | <u>5,774,535</u> | <u>4,473,327</u> | <u>2,762,232</u> | <u>2,402,430</u> |
| FROM ACCOUNT OWNER TRANSACTIONS | | | | | |
| Subscriptions | 13,931,817 | 16,770,217 | 17,293,253 | 12,764,180 | 9,240,296 |
| Exchanges-net | (17,371,039) | (7,364,314) | (2,607,569) | (3,659,887) | 10,168,381 |
| Redemptions | <u>(1,070,005)</u> | <u>(2,268,014)</u> | <u>(2,059,787)</u> | <u>(1,516,910)</u> | <u>(2,298,081)</u> |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM ACCOUNT OWNER TRANSACTIONS | <u>(4,509,227)</u> | <u>7,137,889</u> | <u>12,625,897</u> | <u>7,587,383</u> | <u>17,110,596</u> |
| NET INCREASE (DECREASE) IN NET ASSETS | (1,896,459) | 12,912,424 | 17,099,224 | 10,349,615 | 19,513,026 |
| NET ASSETS | | | | | |
| Beginning of period | <u>35,363,478</u> | <u>85,824,095</u> | <u>94,245,957</u> | <u>81,490,741</u> | <u>70,379,240</u> |
| End of period | <u>\$33,467,019</u> | <u>\$98,736,519</u> | <u>\$111,345,181</u> | <u>\$91,840,356</u> | <u>\$89,892,266</u> |
| UNITS | | | | | |
| Sold | 1,095,808 | 1,500,285 | 1,489,639 | 1,072,382 | 783,055 |
| Exchanged | (1,369,425) | (653,386) | (225,741) | (308,494) | 861,839 |
| Redeemed | <u>(84,851)</u> | <u>(203,018)</u> | <u>(177,922)</u> | <u>(127,441)</u> | <u>(195,910)</u> |
| Net increase (decrease) | <u>(358,468)</u> | <u>643,881</u> | <u>1,085,976</u> | <u>636,447</u> | <u>1,448,984</u> |

* For the period June 21, 2006 (commencement of operations) to June 30, 2006.

See accompanying notes to financial statements

| <u>Ages 18 & over</u> | <u>High Equity Option</u> | <u>100% Equity Index Option*</u> | <u>100% Fixed- Income Option*</u> | <u>Principal Plus Interest Option</u> | <u>Administrative Account</u> | <u>Total</u> |
|-------------------------------|-------------------------------|--------------------------------------|---------------------------------------|---|-----------------------------------|----------------------|
| \$ 1,103,005 | \$ 2,325,342 | \$ 4 | \$ 23 | \$ 3,016,842 | \$ 6,461 | \$ 19,097,439 |
| 437,474 | 9,230,407 | — | — | — | — | 26,281,381 |
| <u>(582,107)</u> | <u>(1,903,494)</u> | <u>9,762</u> | <u>34</u> | <u>—</u> | <u>—</u> | <u>(13,709,775)</u> |
| <u>958,372</u> | <u>9,652,255</u> | <u>9,766</u> | <u>57</u> | <u>3,016,842</u> | <u>6,461</u> | <u>31,669,045</u> |
| 3,336,002 | 26,190,404 | 112,470 | 22,349 | 15,167,365 | 56,095 | 114,884,448 |
| 19,781,572 | 806,105 | 252,739 | — | (5,988) | — | — |
| <u>(10,758,837)</u> | <u>(5,855,061)</u> | <u>—</u> | <u>—</u> | <u>(12,076,224)</u> | <u>(24,510)</u> | <u>(37,927,429)</u> |
| <u>12,358,737</u> | <u>21,141,448</u> | <u>365,209</u> | <u>22,349</u> | <u>3,085,153</u> | <u>31,585</u> | <u>76,957,019</u> |
| 13,317,109 | 30,793,703 | 374,975 | 22,406 | 6,101,995 | 38,046 | 108,626,064 |
| <u>27,934,976</u> | <u>108,701,342</u> | <u>—</u> | <u>—</u> | <u>91,626,805</u> | <u>151,543</u> | <u>595,718,177</u> |
| <u>\$41,252,085</u> | <u>\$139,495,045</u> | <u>\$ 374,975</u> | <u>\$ 22,406</u> | <u>\$ 97,728,800</u> | <u>\$ 189,589</u> | <u>\$704,344,241</u> |
| 279,253 | 2,224,401 | 11,220 | 2,242 | 1,268,324 | 56,095 | |
| 1,651,372 | 67,632 | 25,327 | — | (1,751) | — | |
| (905,297) | (501,948) | — | — | (1,013,492) | (24,510) | |
| <u>1,025,328</u> | <u>1,790,085</u> | <u>36,547</u> | <u>2,242</u> | <u>253,081</u> | <u>31,585</u> | |

See accompanying notes to financial statements

CONNECTICUT HIGHER EDUCATION TRUST COLLEGE SAVINGS PROGRAM

FINANCIAL HIGHLIGHTS

For the Period Ended June 30, 2006

Age of Beneficiaries, as provided by the Account Owners

| | <u>Ages 0-3</u> | <u>Ages 4-7</u> | <u>Ages 8-11</u> | <u>Ages 12-14</u> | <u>Ages 15-17</u> |
|--|-----------------|-----------------|------------------|-------------------|-------------------|
| SELECTED PER SHARE DATA | | | | | |
| Net asset value, beginning of period | \$12.08 | \$10.71 | \$11.24 | \$11.63 | \$11.56 |
| Gain (loss) from investment operations: | | | | | |
| Net investment income (b) | 0.31 | 0.32 | 0.37 | 0.40 | 0.41 |
| Net realized and unrealized gain (loss) on investments . . | 0.64 | 0.37 | 0.15 | (0.02) | (0.04) |
| Total gain (loss) from investment operations | 0.95 | 0.69 | 0.52 | 0.38 | 0.37 |
| Net asset value, end of period | <u>\$13.03</u> | <u>\$11.40</u> | <u>\$11.76</u> | <u>\$12.01</u> | <u>\$11.93</u> |
| | | | | | |
| TOTAL RETURN | <u>7.86%</u> | <u>6.44%</u> | <u>4.63%</u> | <u>3.27%</u> | <u>3.20%</u> |
| | | | | | |
| RATIOS AND SUPPLEMENTAL DATA | | | | | |
| Net assets at end of period (in thousands) | \$33,467 | \$98,737 | \$111,345 | \$91,840 | \$89,892 |
| Ratio of expenses to average net assets (c) | 0.55% | 0.54% | 0.53% | 0.52% | 0.52% |
| Ratio of net investment income to average net assets | 2.47% | 2.89% | 3.18% | 3.38% | 3.51% |

(a) The percentages shown for this period are annualized.

(b) Based on average shares outstanding.

(c) Does not include expenses on Program investments in the TIAA-CREF Institutional Mutual Funds.

* For the period June 21, 2006 (commencement of operations) through June 30, 2006.

See accompanying notes to financial statements

| <u>Ages 18 & over</u> | <u>High Equity Option</u> | <u>100% Equity Index Option*</u> | <u>100% Fixed-Income Option*</u> | <u>Principal Plus Interest Option</u> |
|-------------------------------|-------------------------------|--|--|---|
| \$11.72 | \$11.01 | \$10.00 | \$10.00 | \$11.78 |
| 0.44 | 0.22 | — | 0.05 | 0.38 |
| (0.06) | 0.73 | 0.26 | (0.06) | — |
| <u>0.38</u> | <u>0.95</u> | <u>0.26</u> | <u>(0.01)</u> | <u>0.38</u> |
| <u>\$12.10</u> | <u>\$11.96</u> | <u>\$10.26</u> | <u>\$9.99</u> | <u>\$12.16</u> |
| <u>3.24%</u> | <u>8.63%</u> | <u>2.60%</u> | <u>(0.10)%</u> | <u>3.23%</u> |
| | | | | |
| \$41,252 | \$139,495 | \$375 | \$22 | \$97,729 |
| 0.53% | 0.51% | 0.45%(a) | 0.00%(a) | 0.00% |
| 3.66% | 1.86% | 0.08%(a) | 16.51%(a) | 3.25% |

See accompanying notes to financial statements

CONNECTICUT HIGHER EDUCATION TRUST COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS

NOTE 1 — ORGANIZATION

The Connecticut Higher Education Trust College Savings Program (the "Program") was formed on July 1, 1997 by Connecticut law, to help people save for the costs of education after high school. The Program is administered by the Treasurer of the State of Connecticut, as trustee (the "Trustee") of the Connecticut Higher Education Trust (the "Trust"). The Trustee has the authority to enter into contracts for program management services, adopt regulations for the administration of the Program and establish investment policies for the Program. TIAA-CREF Tuition Financing, Inc. ("TFI"), a wholly-owned subsidiary of Teachers Insurance and Annuity Association of America ("TIAA"), and the Trustee have entered into a Management Agreement under which TFI serves as Program Manager. The Management Agreement which was for an initial five-year term ending on March 13, 2005, has been automatically extended for a second five-year term through March 13, 2010. The Program is operated in a manner such that it is exempt from registration as an investment company under the Investment Company Act of 1940.

An individual, entity, or a custodian under the Uniform Gifts to Minors Act or the Uniform Transfers to Minors Act participating in the Program establishes an Account in the name of a beneficiary. Contributions may be allocated among five investment options: the Managed Allocation Option, the High Equity Option, the 100% Equity Index Option, the 100% Fixed-Income Option, and the Principal Plus Interest Option. Contributions in the Managed Allocation Option are allocated among six age bands, based on the age of the beneficiary. Each age band invests in varying percentages in the institutional class of the Inflation-Linked Bond, Equity Index, International Equity Index, Bond, Real Estate Securities and Money Market Funds of the TIAA-CREF Institutional Mutual Funds. Contributions in the High Equity Option are allocated in certain percentages in the institutional class of the Inflation-Linked Bond, International Equity Index, Bond, Growth Equity, Mid-Cap Growth, Mid-Cap Value, Large-Cap Value, S&P 500 Index, and Small-Cap Equity of the TIAA-CREF Institutional Mutual Funds. Contributions in the 100% Equity Index Option are allocated in certain percentages in the institutional class of the Equity Index and the International Equity Index Funds of the TIAA-CREF Institutional Mutual Funds. Contributions in the 100% Fixed Income Option are allocated in certain percentages in the institutional class of the Inflation-Linked Bond and Bond Funds of the TIAA-CREF Institutional Mutual Funds. All allocation percentages are determined by the Treasurer and are subject to change. The assets in the Principal Plus Interest Option are allocated to a funding agreement issued by TIAA-CREF Life Insurance Company, a subsidiary of TIAA, which provides the Trust with a guarantee of principal and a minimum annual rate of return of 3%, the possibility of such additional returns as may be declared in advance by TIAA-CREF Life.

Teachers Advisors, Inc. ("Advisors"), an affiliate of TFI, is registered with the Securities and Exchange Commission ("Commission") as an investment adviser and provides investment advisory services to the TIAA-CREF Institutional Mutual Funds. Teachers Personal Investors Services, Inc. ("TPIS"), an affiliate of TFI, and TIAA-CREF Individual & Institutional Services, LLC ("Services"), also an affiliate of TFI, both of which are registered with the Securities and Exchange Commission as broker-dealers and are members of the National Association of Securities Dealers, Inc., provide the telephone counseling, marketing and information services required of TFI as Program Manager of the Program.

NOTE 2 — SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial statements may require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, expenses and related disclosures. Actual results may differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Program, which are in conformity with accounting principles generally accepted in the United States.

Valuation of Investments: The market value of the investments in the mutual funds is based on the respective net asset values of the respective classes of the mutual funds on the close of business on the valuation date. The value of the TIAA-CREF Life Funding Agreement, an illiquid investment restricted as to resale, is stated at the principal contributed and earnings credited less any withdrawals to date which in the good faith judgment of the Program Manager approximates fair value.

Accounting for Investments: Securities transactions are accounted for as of the date the securities are purchased or sold (trade date). Interest income is recorded as earned. Dividend and capital gain distributions from TIAA-CREF Institutional Mutual Funds are recorded on the ex-dividend date. Realized gains and losses are based upon the specific identification method.

Federal and State Income Tax: No provision for federal income tax has been made. The Program is established to be a qualified tuition program under Section 529 of the Internal Revenue Code, which exempts earnings on qualified withdrawals from federal income tax, and does not expect to have any unrelated business income subject to tax. Earnings on qualified withdrawals are exempt from Connecticut income tax.

Units: The beneficial interest of each participant in the net assets of the portfolios are represented by units. Contributions to and redemptions from the portfolios are subject to terms and limitations defined in the Participation Agreement between the participant and the Program. Contributions and redemptions are recorded upon receipt of participant's instructions in good order, based on the next determined net asset value per unit (unit value). Unit values for each portfolio are determined daily. There are no distributions of net investment gains or net income to the portfolio's participants or beneficiaries.

CONNECTICUT HIGHER EDUCATION TRUST COLLEGE SAVINGS PROGRAM

NOTES TO FINANCIAL STATEMENTS (Concluded)

NOTE 3 — MANAGEMENT AGREEMENTS

For its services as Program Manager with respect to the Managed Allocation Option the 100% Equity Index Option, the 100% Fixed-Income Option and the High Equity Option, TFI, and related entities, are paid (i) an annual aggregate management fee of 0.29% to 0.55% of the average daily net assets of the Trust, so invested, excluding certain administrative funds, plus (ii) the specific investment management fees for the underlying investments in the TIAA-CREF Institutional Mutual Funds, plus (iii) state fee (described below) the total of which shall not exceed 0.65% of the average daily net assets of the Trust invested in such investment options excluding certain administrative funds. This fee structure was effective July 1, 2006. For the period February 1, 2006 to June 30, 2006, the fees for its services as program manager to TFI and related entities did not exceed 0.70%. For the period July 1, 2005 to January 31, 2006, the fees for its services as program manager to TFI and related entities did not exceed 0.79%. Except for the State Fee, no fee is charged on assets in the Principal Plus Interest Option; however, an expense fee is paid to TFI by TIAA-CREF Life Insurance Company for distribution, administrative and other reasonable expenses. On July 1, 2005, the Trustee began collecting a State Fee of 0.01% of the average daily net assets of the Trust annually to pay for expenses related to the oversight of the Trust. The Trustee is authorized to withdraw a State Fee of up to 0.02% of the average daily net assets of the Trust. Total fees earned by TFI, and related entities, for the year ended June 30, 2006 were \$3,900,681, which includes \$2,929,687 due directly from the Program and \$970,994 due on Program investments in the TIAA-CREF Institutional Mutual Funds. The fees charged to each portfolio are disclosed in the Statement of Operations. Telephone counseling, marketing and information services required of TFI are provided by TPIS and Services in accordance with a Distribution Agreement among TFI, TPIS and Services.

NOTE 4 — INVESTMENTS

At June 30, 2006, net unrealized appreciation of portfolio investments was \$7,573,485, consisting of gross unrealized appreciation of \$19,236,997 and gross unrealized depreciation of \$11,663,512.

Purchases and sales of portfolio securities for the year ended June 30, 2006 were \$211,127,837 and \$109,355,985, respectively.

At June 30, 2006, the Program's investments consisted of the following:

| | 2006 | | |
|---|------------|---------------|-----------------|
| | SHARES | COST | MARKET VALUE |
| TIAA-CREF Institutional Mutual Funds (Institutional class): | | | |
| Inflation-Linked Bond Fund | 6,048,201 | \$ 63,608,828 | \$ 59,695,746 |
| Equity Index Fund | 18,223,546 | 163,567,288 | 175,857,221 |
| International Equity Index Fund | 1,968,392 | 33,832,201 | 36,631,772 |
| Bond Fund | 18,260,619 | 185,353,231 | 177,675,820 |
| Real Estate Securities Fund | 1,570,783 | 21,134,809 | 22,446,484 |
| Money Market Fund | 36,045,231 | 36,045,131 | 36,045,231 |
| Growth Equity Fund | 3,699,000 | 24,885,825 | 25,708,048 |
| Mid-Cap Growth Fund | 27,719 | 460,000 | 474,281 |
| Mid-Cap Value Fund | 26,323 | 460,000 | 473,295 |
| Large Cap Value Fund | 1,962,614 | 27,926,427 | 29,498,082 |
| S&P 500 Index Fund | 2,352,413 | 34,277,104 | 34,204,085 |
| Small Cap Equity Fund | 436,379 | 6,541,616 | 6,955,880 |
| TIAA-CREF Life Insurance Company: | | | |
| Funding Agreement | 97,728,800 | 97,728,800 | 97,728,800 |
| TIAA-CREF Retail Mutual Funds: | | | |
| Money Market Fund* | 189,589 | 189,589 | 189,589 |
| | | \$696,010,849 | \$703,584,334 |

* Represents the assets of Administrative Account.

At June 30, 2006, the State of Connecticut held assets in an administrative account of the Trust. The assets were invested in the Money Market Fund of the TIAA-CREF Retail Mutual Funds. At June 30, 2006, the value of the administrative account was \$189,589.

Dear Account Owners:

Enclosed is summary financial information for the Connecticut Higher Education Trust College Savings Program (the "Program") for the fiscal year ended June 30, 2006. It includes information for the Managed Allocation Option, the High Equity Option, 100% Equity Index Option, 100% Fixed-Income Option and the Principal Plus Interest Option. If you have any questions about this information, or if you would like a copy of the complete audited financial statements of the Program for the fiscal year 2006, please call us at 1-888-799-CHET (2438).

CONNECTICUT HIGHER EDUCATION TRUST COLLEGE SAVINGS PROGRAM

Summary Financial Information

For the Period Year Ended June 30, 2006

| | Managed Allocation Option | | | | | | | High Equity Option | 100% Equity Index Option* | 100% Fixed-Income Option* | Principal Plus Interest Option | Administrative Account | Total |
|---|---|--------------|---------------|--------------|--------------|--------------|----------------|--------------------|---------------------------|---------------------------|--------------------------------|------------------------|-------|
| | Age of Beneficiaries, as Provided by the Account Owners | Ages 0-3 | Ages 4-7 | Ages 8-11 | Ages 12-14 | Ages 15-17 | Ages 18 & over | | | | | | |
| CHANGES IN NET ASSETS: | | | | | | | | | | | | | |
| Investment income—net | \$ 878,042 | \$ 2,738,936 | \$ 3,301,935 | \$ 2,947,275 | \$ 2,779,574 | \$ 1,103,005 | \$ 2,325,342 | \$ 4 | \$ 23 | \$ 3,016,842 | \$ 6,461 | \$ 19,097,439 | |
| Net realized gain on investments | 2,155,688 | 4,784,987 | 4,256,311 | 3,270,416 | 2,146,098 | 437,474 | 9,230,407 | — | — | — | — | 26,281,381 | |
| Net change in unrealized appreciation (depreciation) on investments | (420,962) | (1,749,388) | (3,084,919) | (3,455,459) | (2,523,242) | (582,107) | (1,903,494) | 9,762 | 34 | — | — | (13,709,775) | |
| NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS | 2,612,768 | 5,774,535 | 4,473,327 | 2,762,232 | 2,402,430 | 958,372 | 9,652,255 | 9,766 | 57 | 3,016,842 | 6,461 | 31,669,045 | |
| NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM ACCOUNT OWNER TRANSACTIONS | (4,509,227) | 7,137,889 | 12,625,897 | 7,587,383 | 17,110,596 | 12,358,737 | 21,141,448 | 365,209 | 22,349 | 3,085,153 | 31,585 | 76,957,019 | |
| NET INCREASE (DECREASE) IN NET ASSETS | (1,896,459) | 12,912,424 | 17,099,224 | 10,349,615 | 19,513,026 | 13,317,109 | 30,793,703 | 374,975 | 22,406 | 6,101,995 | 38,046 | 108,626,064 | |
| NET ASSETS | 35,363,478 | 85,824,095 | 94,245,957 | 81,490,741 | 70,379,240 | 27,934,976 | 108,701,342 | — | — | 91,626,805 | 151,543 | 595,718,177 | |
| Beginning of period | \$33,467,019 | \$98,736,519 | \$111,345,181 | \$91,840,356 | \$89,892,266 | \$41,252,085 | \$139,495,045 | \$ 374,975 | \$ 22,406 | \$ 97,728,800 | \$ 189,589 | \$704,344,241 | |
| End of period | | | | | | | | | | | | | |

* From June 21, 2006 to June 30, 2006

Managed Allocation Option

| | Age of Beneficiaries, as Provided by the Account Owners | | | | Ages 15-17 | Ages 18 & over |
|---------------------------------------|---|----------|-----------|------------|------------|----------------|
| | Ages 0-3 | Ages 4-7 | Ages 8-11 | Ages 12-14 | | |
| TIAA-CREF Institutional Mutual Funds: | | | | | | |
| Growth Equity Fund | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| International Equity Index Fund | 8.00% | 6.50% | 5.00% | 4.00% | 3.00% | 2.00% |
| Equity Index Fund | 64.00% | 52.00% | 40.00% | 32.00% | 24.00% | 16.00% |
| Small-Cap Equity Fund | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Real Estate Securities Fund | 8.00% | 6.50% | 5.00% | 4.00% | 3.00% | 2.00% |
| S&P 500 Index Fund | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Mid-Cap Growth Fund | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Mid-Cap Value Fund | 15.00% | 26.25% | 37.50% | 45.00% | 37.50% | 26.25% |
| Bond Fund | 5.00% | 8.75% | 12.50% | 15.00% | 12.50% | 8.75% |
| Inflation-Linked Bond Fund | 0.00% | 0.00% | 0.00% | 0.00% | 20.00% | 45.00% |
| Money Market Fund | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |
| TOTAL | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% | 100.00% |

CURRENT ALLOCATION GUIDELINES:

| | High Equity Option | 100% Equity Index Option | 100% Fixed-Income Option |
|---------------------------------------|--------------------|--------------------------|--------------------------|
| TIAA-CREF Institutional Mutual Funds: | | | |
| Growth Equity Fund | 0.00% | 0.00% | 0.00% |
| International Equity Index Fund | 10.00% | 20.00% | 0.00% |
| Equity Index Fund | 0.00% | 80.00% | 0.00% |
| Small-Cap Equity Fund | 6.30% | 0.00% | 0.00% |
| Real Estate Securities Fund | 0.00% | 0.00% | 0.00% |
| S&P 500 Index Fund | 0.00% | 0.00% | 0.00% |
| Mid-Cap Growth Fund | 5.60% | 0.00% | 0.00% |
| Mid-Cap Value Fund | 5.60% | 0.00% | 0.00% |
| Bond Fund | 15.00% | 0.00% | 0.00% |
| Inflation-Linked Bond Fund | 5.00% | 0.00% | 75.00% |
| Money Market Fund | 0.00% | 0.00% | 25.00% |
| TOTAL | 100.00% | 100.00% | 100.00% |

The Connecticut Higher Education Trust College Savings Program is described in the current Program Disclosure Booklet and Participation Agreements. Accounts are opened by completing an Account Application. All of these documents should be read carefully before opening an Account. The State of Connecticut, its agencies, TIAA-CREF Tuition Financing, Inc., Teachers Insurance and Annuity Association of America and its affiliates do not insure any Account or guarantee its principal or investment return except to the extent of the guarantee by TIAA-CREF Life Insurance Company to the Trust of the Connecticut Higher Education Trust Program under the Funding Agreement for the Principal Plus Interest Option. Account values will fluctuate based upon a number of factors, including general financial market conditions. Federal, state, and local tax benefits are subject to certain limitations. You should consult your tax advisor. TIAA-CREF Individual & Institutional Services, LLC and Teachers Personal Investors Services, Inc. distribute securities products

Consider the investment objectives, risks, charges and expenses before investing in the Program. Please call 1-888-799-CHET (2438) or visit www.abouttchet.com for a Disclosure Booklet containing this information. Read it carefully.

Before investing in a 529 plan, you should consider whether the state you or your designated beneficiary reside in or have taxable income in has a 529 plan that offers favorable state income tax or other benefits that are only available if you invest in that state's 529 plan.