

CONNECTICUT HIGHER EDUCATION TRUST PROGRAM

DIRECT PLAN

Financial Statements

Including

Supplemental Information

June 30, 2014



**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM
DIRECT PLAN
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June 30, 2014**

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Independent Auditor's Report

To the Trustee of the Connecticut Higher Education Trust Program-Direct Plan:

We have audited the accompanying financial statements of the Connecticut Higher Education Trust Program-Direct Plan (the "Direct Plan"), which comprise the Statement of Fiduciary Net Position as of June 30, 2014 and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, which collectively comprise the Direct Plan's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Direct Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Direct Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Statement of Fiduciary Net Position of the Connecticut Higher Education Trust Program-Direct Plan, at June 30, 2014, and the Statement of Changes in Fiduciary Net Position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The accompanying management's discussion and analysis on pages 4 through 6 are required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the



Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Matter

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Direct Plan's basic financial statements. The accompanying supplemental information of the Statements of Fiduciary Net Position on pages 14 through 19, Statements of Changes in Fiduciary Net Position on pages 20 through 25 and Financial Highlights on pages 26 through 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplemental information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2014 on our consideration of the Direct Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Direct Plan's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

September 5, 2014

**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM
DIRECT PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (unaudited)**

As Plan manager of the Connecticut Higher Education Trust Program – Direct Plan (the “Direct Plan”), TIAA-CREF Tuition Financing, Inc. (“TFI”) offers readers of the Direct Plan’s financial statements this discussion and analysis of the financial performance for the fiscal year ended June 30, 2014. Readers should consider the information presented in this section in conjunction with the Direct Plan’s financial statements and notes to financial statements. The Direct Plan is comprised of 11 investment options (the “Options”) in which account owners (“Account Owners”) may invest.

Financial Highlights

During the year ended June 30, 2014, the Options within the Direct Plan posted returns as follows:

<u>Moderate Managed Allocation Option</u>		<u>Aggressive Managed Allocation Option</u>	
Ages 0-3	19.05%	Ages 0-3	22.51%
Ages 4-7	16.27	Ages 4-7	19.98
Ages 8-11	13.68	Ages 8-11	17.26
Ages 12-14	11.73	Ages 12-14	15.28
Ages 15-17	9.54	Ages 15-17	13.49
Ages 18 & Over	7.06	Ages 18 & Over	9.40
<u>Conservative Managed Allocation Option</u>		<u>Multi-Fund Investment Options</u>	
Ages 0-3	15.40%	Equity Index Option	23.08%
Ages 4-7	12.75	Active Equity Option	22.04
Ages 8-11	10.25	High Equity Option	19.72
Ages 12-14	7.78	Active Fixed-Income Option	6.36
Ages 15-17	5.38	Social Choice Option	23.85
Ages 18 & Over	2.78	Index Fixed-Income Option	4.01
		Money Market Option	0.00
		Principal Plus Interest Option	1.35

The Direct Plan received \$100.6 million in net contributions from Account Owners during the year ended June 30, 2014.

The Direct Plan earned \$42.0 million from investment income and paid out \$3.0 million for operating expenses during the year ended June 30, 2014.

Overview of the Financial Statements

The Direct Plan’s financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board.

This report consists of two parts: Management’s Discussion and Analysis (this section) and the basic financial statements. The basic financial statements are composed of a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position, and Notes to Financial Statements that explain some of the information in the financial statements and provide more detailed information.

The Statement of Fiduciary Net Position presents information on the Direct Plan’s assets and liabilities, with the difference between the two reported as net position as of June 30, 2014. This statement, along with all of the Direct Plan’s financial statements, is

prepared using the accrual basis of accounting. Contributions are recognized when enrollment in the Direct Plan is finalized; subsequent subscriptions and redemptions are recognized on trade date; expenses and liabilities are recognized when services are provided, regardless of when cash is disbursed.

The Statement of Changes in Fiduciary Net Position presents information showing how the Direct Plan's assets changed during the most recent period. Changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal years.

The Notes to Financial Statements provides additional information that is essential to a full understanding of the data provided in the basic financial statements.

This report presents the operating results and financial status of the Direct Plan, which the State of Connecticut reports as a fiduciary fund. Fiduciary fund reporting is used to account for resources held for the benefit of parties outside the governmental entity.

Financial Analysis

Net position - The following are condensed Statements of Fiduciary Net Position as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Investments	\$ 2,292,644,898	\$ 1,941,399,733
Cash	141,942	32,380
Receivables	3,447,945	2,046,752
Total Assets	<u>2,296,234,785</u>	<u>1,943,478,865</u>
Payables	4,121,969	2,208,108
Total Liabilities	<u>4,121,969</u>	<u>2,208,108</u>
Total Net Position	<u>\$ 2,292,112,816</u>	<u>\$ 1,941,270,757</u>

Net position represents total contributions from Account Owners, plus the net increases (decreases) from operations, less withdrawals and expenses.

Investments are approximately 100% of total net position, and consist of the Options, each of which invests in varying percentages in multiple TIAA-CREF Funds and other third-party mutual funds, or the funding agreement ("Funding Agreement") issued by TIAA-CREF Life Insurance Company to the Connecticut Higher Education Trust. Receivables consist of securities sold, contributions and accrued income. Liabilities consist mainly of payables for securities purchased, withdrawals, and accrued expenses.

Changes in net position - The following are condensed Statements of Changes in Fiduciary Net Position for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Additions:		
Subscriptions	\$ 766,188,733	\$ 677,242,411
Investment Income	42,035,649	37,666,830
Net increase in fair value of investments	211,218,421	101,776,110
Total Additions	<u>1,019,442,803</u>	<u>816,685,351</u>
Deductions:		
Redemptions	(665,586,621)	(567,034,150)
Plan manager fee, net	(2,829,316)	(2,880,777)
Administrative fee, net	(184,807)	(159,636)
Total Deductions	<u>(668,600,744)</u>	<u>(570,074,563)</u>
Changes in Net Position	350,842,059	246,610,788
Net position - beginning of year	1,941,270,757	1,694,659,969
Net position - end of year	<u>\$ 2,292,112,816</u>	<u>\$ 1,941,270,757</u>

**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014**

ASSETS

Cash	\$ 141,942
Investments, at value (Cost: \$1,899,631,388)	2,292,644,898
Dividends and interest receivable	950,119
Receivable from securities transactions	768,647
Receivable from Direct Plan units sold	<u>1,729,179</u>
TOTAL ASSETS	<u>2,296,234,785</u>

LIABILITIES

Accrued Plan manager fee	501,093
Accrued administrative fee	33,407
Payable for securities transactions	2,082,801
Payable for Direct Plan units redeemed	<u>1,504,668</u>
TOTAL LIABILITIES	<u>4,121,969</u>

NET POSITION

Held in trust for Account Owners in the Direct Plan	<u>\$ 2,292,112,816</u>
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**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

ADDITIONS

Subscriptions	\$ 766,188,733
Investment income:	
Interest	3,015,316
Dividends	39,020,333
Total investment income	<u>42,035,649</u>
Net increase (decrease) in fair value of investments	<u>211,218,421</u>
Total additions	<u>1,019,442,803</u>

DEDUCTIONS

Redemptions	(665,586,621)
Plan manager fee, net	(2,829,316)
Administrative fee, net	<u>(184,807)</u>
Total deductions	<u>(668,600,744)</u>
Changes in net position	350,842,059
Net position – beginning of year	<u>1,941,270,757</u>
Net position – end of year	<u><u>\$ 2,292,112,816</u></u>

See notes to financial statements

CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1 – Organization and Significant Accounting Policies

The Connecticut Higher Education Trust Program - Direct Plan (the "Direct Plan") is designed to help people save for the costs of higher education. The Direct Plan is administered by the Treasurer of the State of Connecticut, as the trustee (the "Trustee") of the Connecticut Higher Education Trust (the "Trust"). The Trustee has the authority to establish, develop, implement and maintain the Direct Plan and to make and enter into contracts to service the Direct Plan. TIAA-CREF Tuition Financing, Inc. ("TFI"), a wholly owned, indirect subsidiary of Teachers Insurance and Annuity Association of America ("TIAA"), and the Trustee have entered into a management agreement ("Management Agreement") under which TFI serves as Direct Plan manager. The Direct Plan is intended to meet the requirements of a qualified tuition program under Section 529 of the Internal Revenue Code ("Code"). Investment options (the "Options" or individually "Option"); and allocations, and fees, as approved by the Trustee, are described in the current Disclosure Booklet for the Direct Plan.

The assets in the Principal Plus Interest Option are allocated to a funding agreement ("Funding Agreement") issued by TIAA-CREF Life Insurance Company ("TIAA-CREF Life"), a subsidiary of TIAA, to the Trust, as policyholder. The Funding Agreement provides for a return of principal plus a guaranteed rate of interest and allows for the possibility that additional interest as may be credited as declared periodically by TIAA-CREF Life.

Teachers Advisors, Inc. ("Advisors"), an affiliate of TFI, is registered with the Securities and Exchange Commission as an investment adviser and provides investment advisory services to the TIAA-CREF Funds (the "Funds").

The accompanying financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Government Accounting Standards Board ("GASB") which may require the use of estimates made by management and the evaluation of subsequent events. Actual results may differ from those estimates. The following is a summary of the significant accounting policies consistently followed by the Direct Plan.

Investment income: Securities transactions are accounted for as of the trade date for financial reporting purposes. Interest income is recorded as earned. Dividend Income and capital gain distributions from the underlying mutual funds are recorded on the ex-dividend date. Income distributions from underlying mutual funds are included in total investment income and gain distributions are included in net increase in fair value of investments. Realized gains and losses are based upon the specific identification method.

Income tax: No provision for federal income tax has been made. The Direct Plan is designed to constitute a qualified tuition program under Section 529 of the Code and does not expect to have any unrelated business income subject to tax.

Units: The beneficial interests for each account owner ("Account Owner") in the Options are represented by Direct Plan units. Subscriptions and redemptions are recorded upon receipt of Account Owner's instructions in good order, based on the next determined net position value per unit ("Unit Value"). Unit Values for each Option are determined at the close of business of the New York Stock Exchange. The Unit Value for financial reporting purposes may differ from the Unit Value for processing transactions. The Unit Value for financial reporting purposes includes security and shareholder transactions through the date of the report. There are no distributions of net investment gains or net investment income to the Option's Account Owners or beneficiaries.

Subscriptions and redemptions: Subscriptions on the Statement of Changes in Fiduciary Net Position include any contributions to the Direct Plan made by Account Owners and any exchanges within the Direct Plan that result in a reinvestment of assets. Redemptions on the Statement of Changes in Fiduciary Net Position include any withdrawals to the Direct Plan made by Account Owners and any exchanges within the Direct Plan that result in a reinvestment of assets.

New accounting pronouncement: In June 2011, GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63"). GASB 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources, which are financial statement elements distinct from assets and liabilities. GASB 63 also amends the net asset reporting requirements in GASB 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of net assets, and by changing the term "net assets" to "net position." The Direct Plan has no balances or transactions that meet the definition of deferred outflow of resources or deferred inflows of resources as set forth in GASB 63. The Direct Plan has adopted this new guidance beginning with the June 30, 2013 financial statements. Adoption of GASB 63 did not have any impact on the Direct Plan's financial statements, other than to change all references to "net assets" in the financial statements and note disclosures to "net position".

CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 – Valuation of Investments

A description of the valuation techniques applied to the Direct Plan's investments follows:

Investments in registered investment companies: These investments are valued at their net asset value on the valuation date.

Funding Agreement: The Funding Agreement, to which the Principal Plus Interest Option allocates assets, is considered a nonparticipating interest-earning investment contract and is accounted for at cost.

Note 3 – Direct Plan Fees

For its services as Direct Plan manager, each Option (with the exception of the Principal Plus Interest Option) pays TFI a Direct Plan manager fee of 0.15% of the average daily net assets held by that Option. On May 15, 2013, the net assets of the Direct Plan reached \$2.0 billion. Effective August 12, 2013, TFI agreed to waive the requirement that total assets in the Direct Plan be equal to or greater than \$2.0 billion for a period of at least 90 consecutive days, thereby reducing the Direct Plan manager fee to 0.15%. In addition, Advisors is paid investment management fees on the underlying investments in the Funds. The Direct Plan manager fee indicated applies on total assets in the Direct Plan up to \$2.5 billion. The Direct Plan manager fee will revert to 0.18%, however, if total assets in the Direct Plan decrease to below \$2.0 billion for a period of at least 90 consecutive days. The terms of the Management Agreement provide that if total assets in the Direct Plan reach \$2.5 billion or above for a period of at least 90 consecutive days, TFI and the Trustee will, in good faith, meet and negotiate a further reduction in the Direct Plan manager fee.

The Principal Plus Interest Option does not pay a Direct Plan manager fee; however, TIAA-CREF Life pays to TFI an annual asset-based fee for other services that TFI provides for the Principal Plus Interest Option.

For its services administering the Direct Plan, each Option (with the exception of the Principal Plus Interest Option) pays to the Trustee an administrative fee at an annual rate of 0.01% of the average daily net assets of the Option. The administrative fee is deposited in an administrative account held by the Trust used to pay certain Direct Plan administrative expenses. The assets held in the administrative account were \$710,638 and \$679,812 at June 30, 2014 and 2013, respectively.

Effective August 1, 2011, TFI and the Trustee have agreed to voluntarily waive the Money Market Options's Direct Plan manager fee and administrative fee, respectively, in an attempt to maintain a 0.00% return for the Option. TFI and the Trustee may discontinue the waiver at any time without notice. For the year ended June 30, 2014, TFI waived \$31,981 of the Plan manager fee and the Trustee waived \$2,112 of the administrative fee.

Note 4 – Investments

Cash deposits: All cash deposits at June 30, 2014 were covered by federal depository insurance coverage.

Investments: As of June 30, 2014, net unrealized appreciation (depreciation) of portfolio investments was \$393,013,510 consisting of gross unrealized appreciation of \$393,427,633 and gross unrealized depreciation of \$(414,123).

CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
NOTES TO FINANCIAL STATEMENTS (continued)

At June 30, 2014, the Direct Plan's investments consist of the following:

	<u>Units</u>	<u>Cost</u>	<u>Value</u>
TIAA-CREF Funds (Institutional Class):			
Bond Fund	2,193,740	\$ 22,016,638	\$ 23,187,833
Bond Index Fund	39,519,081	416,032,788	427,991,646
Emerging Markets Equity Index Fund	1,871,688	19,054,698	20,457,546
Equity Index Fund	26,353,531	217,369,332	397,938,322
Growth & Income Fund	448,576	4,843,306	5,705,887
High-Yield Fund	442,766	4,330,992	4,640,186
Inflation-Linked Bond Fund	11,335,057	120,001,056	132,393,470
International Equity Index Fund	21,844,424	344,891,347	440,165,144
Large-Cap Value Fund	144,016	2,208,442	2,681,580
Mid-Cap Growth Fund	506,430	8,154,078	12,134,074
Mid-Cap Value Fund	533,413	8,751,134	13,308,645
Money Market Fund	71,633,492	71,633,493	71,633,493
Real Estate Securities Fund	4,850,134	47,273,683	68,095,878
S&P 500 Index Fund	4,748,231	61,122,735	105,078,353
Short-Term Bond Fund	10,565,791	109,801,646	110,306,864
Social Choice Equity Fund	1,383,299	17,299,812	22,948,931
Non-Proprietary Funds:			
DFA Emerging Markets Core Equity Portfolio (Institutional Class)	3,408,902	68,324,990	70,905,156
GE Institutional Small-Cap Equity Fund (Institutional Investment Class)	737,734	10,990,330	15,315,366
GMO International Equity Allocation Fund (R6 Class)	367,199	3,930,051	4,578,967
T. Rowe Price Institutional Large-Cap Growth Fund (Institutional Class)	97,245	2,046,785	2,739,379
Templeton Global Bond Fund (Advisor Class)	7,517,647	99,615,019	100,059,878
Thornburg International Value Fund (Institutional Class)	205,200	5,926,031	6,365,298
TIAA-CREF Life Insurance Company:			
Funding Agreement	15,548,924	234,013,002	234,013,002
		<u>\$ 1,899,631,388</u>	<u>\$ 2,292,644,898</u>

Note 5 – Investment Risks

Certain investments are subject to a variety of investment risks based on the amount of risk in the underlying funds. GASB requires that entities disclose certain essential risk information about deposits and investments. All of the Direct Plan's Options are uninsured and unregistered and are held by a custodian in the Direct Plan's name.

Custodial credit risk: Custodial credit risk is the risk that in the event of a failure, the Direct Plan deposits and investments may not be returned. An Account Owner has an investment in an Option and not a direct investment in any underlying mutual fund or other investment vehicle to which funds in that Option may be allocated. Because of this ownership structure, the custodial credit risk is mitigated.

Investment policy: The Direct Plan does not have specific investment policies which address credit, interest rate, foreign currency or custodial credit risk. The Direct Plan's Options are managed based on specific investment objectives and strategies which are disclosed in the current Direct Plan Disclosure Booklet.

Credit risk: The underlying mutual funds investing primarily in fixed income securities are subject to credit risk. Credit risk refers to the ability of the issuer to make timely payments of interest and principal. The underlying mutual funds do not carry a formal credit

CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
NOTES TO FINANCIAL STATEMENTS (concluded)

quality rating. The underlying Funding Agreement is a guaranteed insurance product issued by TIAA-CREF Life. TIAA-CREF Life had a AA+ credit rating at June 30, 2014.

Interest rate risk: Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At June 30, 2014, the average maturities for the underlying fixed income mutual funds are as follows:

<u>Investment</u>	<u>Market Value</u>	<u>Average Maturity</u>
TIAA-CREF Funds (Institutional Class):		
Bond Fund	\$ 23,187,833	6.51 years
Bond Index Fund	427,991,646	7.22 years
High-Yield Fund	4,640,186	7.00 years
Inflation-Linked Bond Fund	132,393,470	8.57 years
Short-Term Bond Fund	110,306,864	2.43 years
Non-Proprietary Funds:		
Templeton Global Bond Fund (Advisor Class)	100,059,878	2.51 years

Foreign currency risk: Foreign currency is the risk that changes in exchange rates will adversely affect the fair value of investments in foreign securities. The Direct Plan does not have any direct investment in foreign securities. Certain Direct Plan Options allocate assets to underlying mutual funds that are exposed to foreign currency risk. At June 30, 2014, the value of investments in underlying mutual funds that significantly invest in foreign denominated contracts are as follows:

<u>Investment</u>	<u>Market Value</u>
TIAA-CREF Funds (Institutional Class):	
Emerging Markets Equity Index Fund	\$ 20,457,546
International Equity Index Fund	440,165,144
Non-Proprietary Funds:	
DFA Emerging Markets Core Equity Portfolio (Institutional Class)	70,905,156
GMO International Equity Allocation Series Fund (R6 Class)	4,578,967
Templeton Global Bond Fund (Advisor Class)	100,059,878
Thornburg International Value Fund (Institutional Class)	6,365,298

SUPPLEMENTAL INFORMATION

The following information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Connecticut Higher Education Trust Program - Direct Plan ("Direct Plan"). It shows financial information relating to the investment options, which are included in the Direct Plan during the period ended June 30, 2014.

**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2014**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	<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>	<u>Ages 18 & Over</u>	<u>Total</u>
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ 3,733,673	\$ 22,699,619	\$ 69,375,869	\$ 96,013,284	\$ 85,859,906	\$ 48,360,303	\$ 326,042,654
Equity Index Fund	12,863,510	36,313,491	52,964,400	49,562,070	43,977,574	22,932,528	218,613,573
Inflation-Linked Bond Fund	822,875	7,876,725	18,939,722	26,929,074	25,507,060	15,619,148	95,694,604
International Equity Index Fund	9,585,206	29,388,889	46,280,386	39,128,958	33,566,153	18,030,048	175,979,640
Money Market Fund	—	—	—	—	15,676,717	28,700,413	44,377,130
Real Estate Securities Fund	2,893,394	6,488,325	11,428,173	11,154,628	9,559,290	5,594,847	47,118,657
Short-Term Bond Fund	—	—	—	—	35,055,333	65,701,564	100,756,897
SUBTOTAL	<u>29,898,658</u>	<u>102,767,049</u>	<u>198,988,550</u>	<u>222,788,014</u>	<u>249,202,033</u>	<u>204,938,851</u>	<u>1,008,583,155</u>
Non-Proprietary Funds:							
DFA Emerging Market Core Equity Portfolio	2,051,174	4,286,642	7,294,769	7,193,805	6,257,148	3,619,889	30,703,427
Templeton Global Bond Fund	937,335	5,047,916	14,871,744	21,144,735	19,984,630	11,929,692	73,916,052
SUBTOTAL	<u>2,988,509</u>	<u>9,334,558</u>	<u>22,166,513</u>	<u>28,338,540</u>	<u>26,241,778</u>	<u>15,549,581</u>	<u>104,619,479</u>
TIAA-CREF Life Insurance Company:							
Funding Agreement	—	—	—	—	—	—	—
TOTAL INVESTMENTS	<u>32,887,167</u>	<u>112,101,607</u>	<u>221,155,063</u>	<u>251,126,554</u>	<u>275,443,811</u>	<u>220,488,432</u>	<u>1,113,202,634</u>
Cash	5,121	7,149	14,846	15,829	19,654	28,454	91,053
Dividends and interest receivable	7,410	43,437	126,609	176,128	193,959	147,537	695,080
Receivable from securities transactions	—	—	—	—	—	359,761	359,761
Receivable from Plan units sold	35,050	40,959	51,980	255,070	205,120	100,680	688,859
TOTAL ASSETS	<u>32,934,748</u>	<u>112,193,152</u>	<u>221,348,498</u>	<u>251,573,581</u>	<u>275,862,544</u>	<u>221,124,864</u>	<u>1,115,037,387</u>
LIABILITIES							
Accrued Plan manager fee	8,858	29,335	55,250	63,310	68,472	50,117	275,342
Accrued administrative fee	590	1,956	3,684	4,221	4,565	3,341	18,357
Payable for securities transactions	42,094	91,127	188,660	426,636	323,148	147,537	1,219,202
Payable for Plan units redeemed	5,487	400	4,770	19,283	95,585	488,855	614,380
TOTAL LIABILITIES	<u>57,029</u>	<u>122,818</u>	<u>252,364</u>	<u>513,450</u>	<u>491,770</u>	<u>689,850</u>	<u>2,127,281</u>
NET POSITION	<u>\$ 32,877,719</u>	<u>\$ 112,070,334</u>	<u>\$ 221,096,134</u>	<u>\$ 251,060,131</u>	<u>\$ 275,370,774</u>	<u>\$ 220,435,014</u>	<u>\$ 1,112,910,106</u>
UNITS OUTSTANDING	<u>1,604,137</u>	<u>6,270,212</u>	<u>11,982,519</u>	<u>13,511,294</u>	<u>15,783,524</u>	<u>13,345,682</u>	
NET POSITION VALUE PER UNIT	<u>\$ 20.50</u>	<u>\$ 17.87</u>	<u>\$ 18.45</u>	<u>\$ 18.58</u>	<u>\$ 17.45</u>	<u>\$ 16.52</u>	
INVESTMENTS AT COST	<u>\$ 20,043,317</u>	<u>\$ 79,888,130</u>	<u>\$ 173,690,805</u>	<u>\$ 209,359,416</u>	<u>\$ 240,550,889</u>	<u>\$ 199,521,297</u>	<u>\$ 923,053,854</u>

Conservative Allocation Option
Age Bands Within the Conservative Managed Allocation Option

	Ages 0-3	Ages 4-7	Ages 8-11	Ages 12-14	Ages 15-17	Ages 18 & Over	Total
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ 1,300,479	\$ 1,549,265	\$ 2,040,789	\$ 1,991,542	\$ 2,907,933	\$ 1,900,181	\$ 11,690,189
Equity Index Fund	1,602,464	1,023,471	697,663	637,229	527,557	—	4,488,384
Inflation-Linked Bond Fund	356,605	445,077	589,584	599,688	880,645	572,531	3,444,130
International Equity Index Fund	1,253,439	817,020	572,579	452,656	389,539	—	3,485,233
Money Market Fund	—	—	—	279,448	1,009,091	1,261,485	2,550,024
Real Estate Securities Fund	331,926	221,651	154,639	123,843	104,696	—	936,755
Short-Term Bond Fund	—	—	—	710,557	2,486,532	3,037,699	6,234,788
SUBTOTAL	<u>4,844,913</u>	<u>4,056,484</u>	<u>4,055,254</u>	<u>4,794,963</u>	<u>8,305,993</u>	<u>6,771,896</u>	<u>32,829,503</u>
Non-Proprietary Funds:							
DFA Emerging Market Core Equity Portfolio	261,966	178,129	122,422	95,225	84,877	—	742,619
Templeton Global Bond Fund	293,945	359,479	478,578	486,615	711,470	467,226	2,797,313
SUBTOTAL	<u>555,911</u>	<u>537,608</u>	<u>601,000</u>	<u>581,840</u>	<u>796,347</u>	<u>467,226</u>	<u>3,539,932</u>
TIAA-CREF Life Insurance Company:							
Funding Agreement	—	—	—	—	—	—	—
TOTAL INVESTMENTS	<u>5,400,824</u>	<u>4,594,092</u>	<u>4,656,254</u>	<u>5,376,803</u>	<u>9,102,340</u>	<u>7,239,122</u>	<u>36,369,435</u>
Cash	795	342	255	265	698	309	2,664
Dividends and interest receivable	2,423	2,870	3,536	4,881	7,563	6,494	27,767
Receivable from securities transactions	—	—	—	—	—	3,667	3,667
Receivable from Plan units sold	5,788	1,703	2,359	2,683	4,405	8,755	25,693
TOTAL ASSETS	<u>5,409,830</u>	<u>4,599,007</u>	<u>4,662,404</u>	<u>5,384,632</u>	<u>9,115,006</u>	<u>7,258,347</u>	<u>36,429,226</u>
LIABILITIES							
Accrued Plan manager fee	1,370	1,163	1,087	1,459	2,115	1,708	8,902
Accrued administrative Fee	91	78	72	97	141	114	593
Payable for securities transactions	9,006	4,915	6,150	7,829	9,365	6,493	43,758
Payable for Plan units redeemed	—	—	—	—	3,300	12,731	16,031
TOTAL LIABILITIES	<u>10,467</u>	<u>6,156</u>	<u>7,309</u>	<u>9,385</u>	<u>14,921</u>	<u>21,046</u>	<u>69,284</u>
NET POSITION	<u>\$ 5,399,363</u>	<u>\$ 4,592,851</u>	<u>\$ 4,655,095</u>	<u>\$ 5,375,247</u>	<u>\$ 9,100,085</u>	<u>\$ 7,237,301</u>	<u>\$ 36,359,942</u>
UNITS OUTSTANDING	<u>395,853</u>	<u>350,743</u>	<u>369,925</u>	<u>451,357</u>	<u>800,961</u>	<u>673,893</u>	
NET POSITION VALUE PER UNIT	<u>\$ 13.64</u>	<u>\$ 13.09</u>	<u>\$ 12.58</u>	<u>\$ 11.91</u>	<u>\$ 11.36</u>	<u>\$ 10.74</u>	
INVESTMENTS AT COST	<u>\$ 4,555,782</u>	<u>\$ 4,090,382</u>	<u>\$ 4,259,041</u>	<u>\$ 5,002,561</u>	<u>\$ 8,814,892</u>	<u>\$ 7,172,156</u>	<u>\$ 33,894,814</u>

**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2014**

**Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option**

	<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>	<u>Ages 18 & Over</u>	<u>Total</u>
ASSETS							
Investments, at value:							
TIAA-CREF Funds (Institutional Class):							
Bond Index Fund	\$ —	\$ 6,865,700	\$ 12,040,674	\$ 11,981,610	\$ 11,353,838	\$ 5,875,984	\$ 48,117,806
Equity Index Fund	12,964,041	28,903,151	21,527,001	13,708,577	9,630,861	3,081,853	89,815,484
Inflation-Linked Bond Fund	—	1,908,911	3,359,456	3,257,607	3,558,994	1,812,764	13,897,732
International Equity Index Fund	10,282,986	23,554,080	17,237,571	10,502,016	7,146,488	2,425,595	71,148,736
Money Market Fund	—	—	—	—	—	1,277,662	1,277,662
Real Estate Securities Fund	2,488,031	6,666,605	4,912,388	3,129,515	2,120,810	723,117	20,040,466
Short-Term Bond Fund	—	—	—	—	—	3,315,179	3,315,179
SUBTOTAL	<u>25,735,058</u>	<u>67,898,447</u>	<u>59,077,090</u>	<u>42,579,325</u>	<u>33,810,991</u>	<u>18,512,154</u>	<u>247,613,065</u>
Non-Proprietary Funds:							
DFA Emerging Market Core Equity Portfolio	2,118,583	5,599,119	3,315,047	2,041,563	1,434,696	522,936	15,031,944
Templeton Global Bond Fund	—	1,131,910	2,581,421	2,580,807	2,571,994	1,352,111	10,218,243
SUBTOTAL	<u>2,118,583</u>	<u>6,731,029</u>	<u>5,896,468</u>	<u>4,622,370</u>	<u>4,006,690</u>	<u>1,875,047</u>	<u>25,250,187</u>
TIAA-CREF Life Insurance Company:							
Funding Agreement	—	—	—	—	—	—	—
TOTAL INVESTMENTS	<u>27,853,641</u>	<u>74,629,476</u>	<u>64,973,558</u>	<u>47,201,695</u>	<u>37,817,681</u>	<u>20,387,201</u>	<u>272,863,252</u>
Cash	2,675	3,120	4,591	3,006	2,199	1,846	17,437
Dividends and interest receivable	—	12,347	21,679	21,144	19,935	13,055	88,160
Receivable from securities transactions	—	—	—	—	—	48,459	48,459
Receivable from Plan units sold	64,194	64,651	44,122	57,771	36,153	5,114	272,005
TOTAL ASSETS	<u>27,920,510</u>	<u>74,709,594</u>	<u>65,043,950</u>	<u>47,283,616</u>	<u>37,875,968</u>	<u>20,455,675</u>	<u>273,289,313</u>
LIABILITIES							
Accrued Plan manager fee	7,583	18,203	15,897	11,288	9,025	4,557	66,553
Accrued administrative fee	506	1,213	1,060	753	602	304	4,438
Payable for securities transactions	66,869	80,040	70,238	81,850	58,187	13,055	370,239
Payable for Plan units redeemed	—	53	54	—	100	54,419	54,626
TOTAL LIABILITIES	<u>74,958</u>	<u>99,509</u>	<u>87,249</u>	<u>93,891</u>	<u>67,914</u>	<u>72,335</u>	<u>495,856</u>
NET POSITION	<u>\$ 27,845,552</u>	<u>\$ 74,610,085</u>	<u>\$ 64,956,701</u>	<u>\$ 47,189,725</u>	<u>\$ 37,808,054</u>	<u>\$ 20,383,340</u>	<u>\$ 272,793,457</u>
UNITS OUTSTANDING	<u>2,005,875</u>	<u>5,449,071</u>	<u>4,664,128</u>	<u>3,363,906</u>	<u>2,724,672</u>	<u>1,563,809</u>	
NET POSITION VALUE PER UNIT	<u>\$ 13.88</u>	<u>\$ 13.69</u>	<u>\$ 13.93</u>	<u>\$ 14.03</u>	<u>\$ 13.88</u>	<u>\$ 13.03</u>	
INVESTMENTS AT COST	<u>\$ 16,697,762</u>	<u>\$ 57,434,071</u>	<u>\$ 51,882,116</u>	<u>\$ 39,046,081</u>	<u>\$ 32,282,568</u>	<u>\$ 18,508,691</u>	<u>\$ 215,851,289</u>

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**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2014**

Multi-Fund Investment Options

	Equity Index Option	Active Equity Option	High Equity Option	Active Fixed- Income Option	Social Choice Option	Index Fixed- Income Option
ASSETS						
Investments, at value:						
TIAA-CREF Funds (Institutional Class):						
Bond Fund	\$ —	\$ —	\$ —	\$ 23,187,833	\$ —	\$ —
Bond Index Fund	—	—	33,050,599	—	—	9,090,398
Emerging Markets Equity Index Fund	20,457,546	—	—	—	—	—
Equity Index Fund	85,020,881	—	—	—	—	—
Growth & Income Fund	—	5,705,887	—	—	—	—
High-Yield Fund	—	—	—	4,640,186	—	—
Inflation-Linked Bond Fund	—	—	10,958,534	8,398,470	—	—
International Equity Index Fund	83,158,854	—	106,392,681	—	—	—
Large-Cap Value Fund	—	2,681,580	—	—	—	—
Mid-Cap Growth Fund	—	372,613	11,761,461	—	—	—
Mid-Cap Value Fund	—	390,269	12,918,376	—	—	—
Money Market Fund	—	—	—	—	—	—
S&P 500 Index Fund	—	—	105,078,353	—	—	—
Social Choice Equity Fund	—	—	—	—	22,948,931	—
SUBTOTAL	<u>188,637,281</u>	<u>9,150,349</u>	<u>280,160,004</u>	<u>36,226,489</u>	<u>22,948,931</u>	<u>9,090,398</u>
Non-Proprietary Funds:						
DFA Emerging Market Core Equity Portfolio	—	—	24,427,166	—	—	—
GE Institutional Small-Cap Equity Fund	—	1,030,351	14,285,015	—	—	—
GMO International Equity Allocation Fund	—	4,578,967	—	—	—	—
T. Rowe Price Inst. Large-Cap Growth Fund	—	2,739,379	—	—	—	—
Templeton Global Bond Fund	—	—	6,533,599	6,594,671	—	—
Thornburg International Value fund	—	6,365,298	—	—	—	—
SUBTOTAL	<u>—</u>	<u>14,713,995</u>	<u>45,245,780</u>	<u>6,594,671</u>	<u>—</u>	<u>—</u>
TIAA-CREF Life Insurance Company:						
Funding Agreement	—	—	—	—	—	—
TOTAL INVESTMENTS	<u>188,637,281</u>	<u>23,864,344</u>	<u>325,405,784</u>	<u>42,821,160</u>	<u>22,948,931</u>	<u>9,090,398</u>
Cash	6,742	931	12,941	4,119	2,860	551
Dividends and interest receivable	—	—	59,741	63,054	—	16,317
Receivable from securities transactions	—	—	145,403	48,081	—	—
Receivable from Plan units sold	116,751	123,872	109,894	10,045	80,221	7,208
TOTAL ASSETS	<u>188,760,774</u>	<u>23,989,147</u>	<u>325,733,763</u>	<u>42,946,459</u>	<u>23,032,012</u>	<u>9,114,474</u>
LIABILITIES						
Accrued Plan manager fee	46,067	5,763	80,154	10,626	5,467	2,219
Accrued administrative fee	3,071	384	5,344	708	364	148
Payable for securities transactions	105,381	117,497	59,741	63,054	79,853	24,076
Payable for Plan units redeemed	18,112	7,300	268,224	62,245	3,199	—
TOTAL LIABILITIES	<u>172,631</u>	<u>130,944</u>	<u>413,463</u>	<u>136,633</u>	<u>88,883</u>	<u>26,443</u>
NET POSITION	<u>\$ 188,588,143</u>	<u>\$ 23,858,203</u>	<u>\$ 325,320,300</u>	<u>\$ 42,809,826</u>	<u>\$ 22,943,129</u>	<u>\$ 9,088,031</u>
UNITS OUTSTANDING	<u>11,991,153</u>	<u>1,644,631</u>	<u>17,172,085</u>	<u>2,783,651</u>	<u>1,398,320</u>	<u>815,317</u>
NET POSITION VALUE PER UNIT	<u>\$ 15.73</u>	<u>\$ 14.51</u>	<u>\$ 18.94</u>	<u>\$ 15.38</u>	<u>\$ 16.41</u>	<u>\$ 11.15</u>
INVESTMENTS AT COST	<u>\$ 137,855,471</u>	<u>\$ 20,472,973</u>	<u>\$ 244,428,411</u>	<u>\$ 40,385,125</u>	<u>\$ 17,299,812</u>	<u>\$ 8,947,960</u>

Money Market Option	Principal Plus Interest Option	Total
\$ —	\$ —	\$ 23,187,833
—	—	42,140,997
—	—	20,457,546
—	—	85,020,881
—	—	5,705,887
—	—	4,640,186
—	—	19,357,004
—	—	189,551,535
—	—	2,681,580
—	—	12,134,074
—	—	13,308,645
23,428,677	—	23,428,677
—	—	105,078,353
—	—	22,948,931
<u>23,428,677</u>	<u>—</u>	<u>569,642,129</u>
—	—	24,427,166
—	—	15,315,366
—	—	4,578,967
—	—	2,739,379
—	—	13,128,270
—	—	6,365,298
<u>—</u>	<u>—</u>	<u>66,554,446</u>
—	234,013,002	234,013,002
23,428,677	234,013,002	870,209,577
2,644	—	30,788
—	—	139,112
40,253	123,023	356,760
13,541	281,090	742,622
<u>23,485,115</u>	<u>234,417,115</u>	<u>871,478,859</u>
—	—	150,296
—	—	10,019
—	—	449,602
56,438	404,113	819,631
<u>56,438</u>	<u>404,113</u>	<u>1,429,548</u>
<u>\$ 23,428,677</u>	<u>\$ 234,013,002</u>	<u>\$ 870,049,311</u>
<u>2,313,019</u>	<u>15,548,924</u>	
<u>\$ 10.13</u>	<u>\$ 15.05</u>	
<u>\$ 23,428,677</u>	<u>\$ 234,013,002</u>	<u>\$ 726,831,431</u>

**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	<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>	<u>Ages 18 & Over</u>	<u>Total</u>
ADDITIONS							
Subscriptions	\$ 14,973,606	\$ 33,276,023	\$ 65,143,498	\$ 92,392,717	\$ 113,049,919	\$ 105,020,482	\$ 423,856,245
Increase from investment operations:							
Dividends from underlying funds	719,637	2,560,811	4,841,684	5,553,362	5,151,291	3,118,095	21,944,880
Realized gain distributions from underlying funds	88,061	239,282	387,151	395,465	377,274	255,039	1,742,272
Net unrealized appreciation on underlying fund shares	4,265,647	11,802,149	19,887,205	20,124,015	17,461,274	9,230,629	82,770,919
Net realized gain on investments in underlying fund shares	676,493	2,805,367	2,547,404	1,190,010	660,925	449,080	8,329,279
Net increase from investment operations	<u>5,749,838</u>	<u>17,407,609</u>	<u>27,663,444</u>	<u>27,262,852</u>	<u>23,650,764</u>	<u>13,052,843</u>	<u>114,787,350</u>
TOTAL ADDITIONS	<u>\$ 20,723,444</u>	<u>\$ 50,683,632</u>	<u>\$ 92,806,942</u>	<u>\$ 119,655,569</u>	<u>\$ 136,700,683</u>	<u>\$ 118,073,325</u>	<u>\$ 538,643,595</u>
DEDUCTIONS							
Redemptions	\$ 16,709,721	\$ 46,356,728	\$ 75,556,324	\$ 98,185,267	\$ 98,476,796	\$ 86,987,158	\$ 422,271,994
Expenses:							
Program manager fee	50,449	175,160	324,795	372,251	390,117	281,426	1,594,198
State administrative fee	<u>3,297</u>	<u>11,433</u>	<u>21,194</u>	<u>24,304</u>	<u>25,483</u>	<u>18,362</u>	<u>104,073</u>
Total expenses	<u>53,746</u>	<u>186,593</u>	<u>345,989</u>	<u>396,555</u>	<u>415,600</u>	<u>299,788</u>	<u>1,698,271</u>
TOTAL DEDUCTIONS	<u>\$ 16,763,467</u>	<u>\$ 46,543,321</u>	<u>\$ 75,902,313</u>	<u>\$ 98,581,822</u>	<u>\$ 98,892,396</u>	<u>\$ 87,286,946</u>	<u>\$ 423,970,265</u>
NET POSITION							
Net increase (decrease) in fiduciary net position	3,959,977	4,140,311	16,904,629	21,073,747	37,808,287	30,786,379	114,673,330
Beginning of year	<u>28,917,742</u>	<u>107,930,023</u>	<u>204,191,505</u>	<u>229,986,384</u>	<u>237,562,487</u>	<u>189,648,635</u>	<u>998,236,776</u>
End of year	<u>\$ 32,877,719</u>	<u>\$ 112,070,334</u>	<u>\$ 221,096,134</u>	<u>\$ 251,060,131</u>	<u>\$ 275,370,774</u>	<u>\$ 220,435,014</u>	<u>\$ 1,112,910,106</u>
UNITS							
Sold	789,523	1,976,311	3,712,004	5,220,803	6,733,747	6,539,201	24,971,589
Redeemed	<u>(864,348)</u>	<u>(2,729,274)</u>	<u>(4,314,401)</u>	<u>(5,535,461)</u>	<u>(5,862,726)</u>	<u>(5,487,732)</u>	<u>(24,793,942)</u>
NET INCREASE (DECREASE)	<u>(74,825)</u>	<u>(752,963)</u>	<u>(602,397)</u>	<u>(314,658)</u>	<u>871,021</u>	<u>1,051,469</u>	<u>177,647</u>

Conservative Managed Allocation Option
Age Bands Within the Conservative Managed Allocation Option

	<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>	<u>Ages 18 & Over</u>	<u>Total</u>
ADDITIONS							
Subscriptions	\$ 2,281,435	\$ 2,424,328	\$ 2,492,240	\$ 4,316,215	\$ 6,210,365	\$ 5,420,869	\$ 23,145,452
Increase from investment operations:							
Dividends from underlying funds	108,374	81,861	88,209	103,496	122,741	88,718	593,399
Realized gain distributions from underlying funds	9,910	5,717	5,117	6,211	7,075	5,479	39,509
Net unrealized appreciation on underlying fund shares	592,214	366,054	300,236	310,824	270,612	134,825	1,974,765
Net realized gain on investments in underlying fund shares	—	139	—	—	—	—	139
Net increase from investment operations	<u>710,498</u>	<u>453,771</u>	<u>393,562</u>	<u>420,531</u>	<u>400,428</u>	<u>229,022</u>	<u>2,607,812</u>
TOTAL ADDITIONS	<u>\$ 2,991,933</u>	<u>\$ 2,878,099</u>	<u>\$ 2,885,802</u>	<u>\$ 4,736,746</u>	<u>\$ 6,610,793</u>	<u>\$ 5,649,891</u>	<u>\$ 25,753,264</u>
DEDUCTIONS							
Redemptions	\$ 1,652,509	\$ 1,112,436	\$ 1,391,554	\$ 3,358,316	\$ 3,249,813	\$ 3,828,403	\$ 14,593,031
Expenses:							
Plan manager fee	7,392	5,637	5,733	7,681	10,220	8,719	45,382
Administrative fee	484	369	375	503	668	570	2,969
Total expenses	<u>7,876</u>	<u>6,006</u>	<u>6,108</u>	<u>8,184</u>	<u>10,888</u>	<u>9,289</u>	<u>48,351</u>
Net realized loss on investments in underlying fund shares	14,608	—	22,238	37,908	27,605	57,843	160,202
TOTAL DEDUCTIONS	<u>\$ 1,674,993</u>	<u>\$ 1,118,442</u>	<u>\$ 1,419,900</u>	<u>\$ 3,404,408</u>	<u>\$ 3,288,306</u>	<u>\$ 3,895,535</u>	<u>\$ 14,801,584</u>
NET POSITION							
Net increase (decrease) in fiduciary net position	1,316,940	1,759,657	1,465,902	1,332,338	3,322,487	1,754,356	10,951,680
Beginning of year	<u>4,082,423</u>	<u>2,833,194</u>	<u>3,189,193</u>	<u>4,042,909</u>	<u>5,777,598</u>	<u>5,482,945</u>	<u>25,408,262</u>
End of year	<u>\$ 5,399,363</u>	<u>\$ 4,592,851</u>	<u>\$ 4,655,095</u>	<u>\$ 5,375,247</u>	<u>\$ 9,100,085</u>	<u>\$ 7,237,301</u>	<u>\$ 36,359,942</u>
UNITS							
Sold	178,925	194,998	206,258	375,911	559,904	513,052	2,029,048
Redeemed	<u>(128,515)</u>	<u>(88,280)</u>	<u>(115,736)</u>	<u>(290,570)</u>	<u>(294,670)</u>	<u>(363,673)</u>	<u>(1,281,444)</u>
NET INCREASE (DECREASE)	<u>50,410</u>	<u>106,718</u>	<u>90,522</u>	<u>85,341</u>	<u>265,234</u>	<u>149,379</u>	<u>747,604</u>

**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOT THE YEAR ENDED JUNE 30, 2014**

**Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option**

	<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>	<u>Ages 18 & Over</u>	<u>Total</u>
ADDITIONS							
Subscriptions	\$ 13,742,010	\$ 28,308,811	\$ 28,426,229	\$ 26,297,877	\$ 20,107,517	\$ 12,032,626	\$ 128,915,070
Increase from investment operations:							
Dividends from underlying funds	594,165	1,365,901	1,205,125	842,542	687,153	302,969	4,997,855
Realized gain distributions from underlying funds	78,857	169,928	126,839	78,813	56,021	22,407	532,865
Net unrealized appreciation on underlying fund shares	4,232,470	9,872,389	7,400,298	4,599,384	3,318,163	1,173,162	30,595,866
Net realized gain on investments in underlying fund shares	644,418	—	27,978	—	—	—	672,396
Net increase from investment operations	<u>5,549,910</u>	<u>11,408,218</u>	<u>8,760,240</u>	<u>5,520,739</u>	<u>4,061,337</u>	<u>1,498,538</u>	<u>36,798,982</u>
TOTAL ADDITIONS	<u>\$ 19,291,920</u>	<u>\$ 39,717,029</u>	<u>\$ 37,186,469</u>	<u>\$ 31,818,616</u>	<u>\$ 24,168,854</u>	<u>\$ 13,531,164</u>	<u>\$ 165,714,052</u>
DEDUCTIONS							
Redemptions	\$ 14,501,560	\$ 17,018,259	\$ 17,575,103	\$ 15,722,457	\$ 12,545,196	\$ 7,454,428	\$ 84,817,003
Expenses:							
Plan manager fee	41,928	96,665	84,534	58,594	47,444	23,798	352,963
Administrative fee	2,741	6,325	5,532	3,835	3,104	1,556	23,093
Total expenses	<u>44,669</u>	<u>102,990</u>	<u>90,066</u>	<u>62,429</u>	<u>50,548</u>	<u>25,354</u>	<u>376,056</u>
Net realized loss on investments in underlying fund shares	—	1,574	—	54,562	71,432	45,575	173,143
TOTAL DEDUCTIONS	<u>\$ 14,546,229</u>	<u>\$ 17,122,823</u>	<u>\$ 17,665,169</u>	<u>\$ 15,839,448</u>	<u>\$ 12,667,176</u>	<u>\$ 7,525,357</u>	<u>\$ 85,366,202</u>
NET POSITION							
Net increase (decrease) in fiduciary net position	4,745,691	22,594,206	19,521,300	15,979,168	11,501,678	6,005,807	80,347,850
Beginning of year	<u>23,099,861</u>	<u>52,015,879</u>	<u>45,435,401</u>	<u>31,210,557</u>	<u>26,306,376</u>	<u>14,377,533</u>	<u>192,445,607</u>
End of year	<u>\$ 27,845,552</u>	<u>\$ 74,610,085</u>	<u>\$ 64,956,701</u>	<u>\$ 47,189,725</u>	<u>\$ 37,808,054</u>	<u>\$ 20,383,340</u>	<u>\$ 272,793,457</u>
UNITS							
Sold	1,080,781	2,216,807	2,170,637	1,981,450	1,525,342	958,671	9,933,688
Redeemed	<u>(1,113,579)</u>	<u>(1,326,503)</u>	<u>(1,332,016)</u>	<u>(1,181,780)</u>	<u>(952,446)</u>	<u>(602,067)</u>	<u>(6,508,391)</u>
NET INCREASE (DECREASE)	<u>(32,798)</u>	<u>890,304</u>	<u>838,621</u>	<u>799,670</u>	<u>572,896</u>	<u>356,604</u>	<u>3,425,297</u>

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**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014**

Multi-Fund Investment Options

	Equity Index Option	Active Equity Option	High Equity Option	Active Fixed- Income Option	Social Choice Option	Index Fixed- Income Option
ADDITIONS						
Subscriptions	\$ 38,789,389	\$ 12,114,234	\$ 36,250,031	\$ 7,771,590	\$ 9,825,928	\$ 4,289,002
Increase from investment operations:						
Interest	—	—	—	—	—	—
Dividends from underlying funds	3,464,787	229,321	6,130,733	1,271,333	220,113	167,545
Realized gain distributions from underlying funds	225,725	636,760	3,280,334	294,029	140,551	4,519
Net unrealized appreciation on underlying fund shares	29,029,471	2,322,003	44,704,942	1,527,158	3,109,246	243,139
Net realized gain on investments in underlying fund shares	—	—	21,995	—	—	—
Net increase from investment operations	<u>32,719,983</u>	<u>3,188,084</u>	<u>54,138,004</u>	<u>3,092,520</u>	<u>3,469,910</u>	<u>415,203</u>
TOTAL ADDITIONS	\$ 71,509,372	\$ 15,302,318	\$ 90,388,035	\$ 10,864,110	\$ 13,295,838	\$ 4,704,205
DEDUCTIONS						
Redemptions	\$ 14,123,399	\$ 2,003,852	\$ 36,998,546	\$ 16,109,814	\$ 1,025,469	\$ 2,843,798
Expenses:						
Program manager fee	245,515	26,695	460,140	66,357	25,385	12,314
State administrative fee	16,065	1,755	30,059	4,321	1,667	805
Total expenses	<u>261,580</u>	<u>28,450</u>	<u>490,199</u>	<u>70,678</u>	<u>27,052</u>	<u>13,119</u>
Less: Fee waived by Program Manager	—	—	—	—	—	—
Less: State fee waiver	—	—	—	—	—	—
Net expenses	<u>261,580</u>	<u>28,450</u>	<u>490,199</u>	<u>70,678</u>	<u>27,052</u>	<u>13,119</u>
Net realized loss on investments in underlying fund shares	<u>150,119</u>	<u>20,662</u>	<u>—</u>	<u>399,325</u>	<u>1,708</u>	<u>74,302</u>
TOTAL DEDUCTIONS	\$ 14,535,098	\$ 2,052,964	\$ 37,488,745	\$ 16,579,817	\$ 1,054,229	\$ 2,931,219
NET POSITION						
Net increase (decrease) in fiduciary net position	56,974,274	13,249,354	52,899,290	(5,715,707)	12,241,609	1,772,986
Beginning of year	131,613,869	10,608,849	272,421,010	48,525,533	10,701,520	7,315,045
End of year	<u>\$ 188,588,143</u>	<u>\$ 23,858,203</u>	<u>\$ 325,320,300</u>	<u>\$ 42,809,826</u>	<u>\$ 22,943,129</u>	<u>\$ 9,088,031</u>
UNITS						
Sold	2,683,672	900,999	2,073,826	525,291	660,081	396,734
Redeemed	<u>(987,632)</u>	<u>(148,697)</u>	<u>(2,125,328)</u>	<u>(1,096,522)</u>	<u>(69,146)</u>	<u>(263,974)</u>
NET INCREASE (DECREASE)	<u>1,696,040</u>	<u>752,302</u>	<u>(51,502)</u>	<u>(571,231)</u>	<u>590,935</u>	<u>132,760</u>

Money Market Option	Principal Plus Interest Option	Total
<u>\$ 14,077,044</u>	<u>\$ 67,154,748</u>	<u>\$ 190,271,966</u>
—	3,015,316	3,015,316
367	—	11,484,199
—	—	4,581,918
—	—	80,935,959
—	—	21,995
<u>367</u>	<u>3,015,316</u>	<u>100,039,387</u>
<u>\$ 14,077,411</u>	<u>\$ 70,170,064</u>	<u>\$ 290,311,353</u>
<u>\$ 10,100,214</u>	<u>\$ 60,699,501</u>	<u>\$ 143,904,593</u>
32,348	—	868,754
2,112	—	56,784
<u>34,460</u>	<u>—</u>	<u>925,538</u>
(31,981)	—	(31,981)
(2,112)	—	(2,112)
<u>367</u>	<u>—</u>	<u>891,445</u>
—	—	646,116
<u>\$ 10,100,581</u>	<u>\$ 60,699,501</u>	<u>\$ 145,442,154</u>
3,976,830	9,470,563	144,869,199
<u>19,451,847</u>	<u>224,542,439</u>	<u>725,180,112</u>
<u>\$ 23,428,677</u>	<u>\$ 234,013,002</u>	<u>\$ 870,049,311</u>
1,389,640	4,494,357	13,124,600
<u>(997,060)</u>	<u>(4,066,462)</u>	<u>(9,754,821)</u>
<u>392,580</u>	<u>427,895</u>	<u>3,369,779</u>

**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 30, 2014**

**Moderate Managed Allocation Option
Age Bands Within the Moderate Managed Allocation Option**

	<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>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 17.22	\$ 15.37	\$ 16.23	\$ 16.63	\$ 15.93	\$ 15.43
Gain (loss) from investment operations:						
Net investment (a)	0.38	0.35	0.37	0.37	0.31	0.25
Net realized and unrealized gain on investments	<u>2.90</u>	<u>2.15</u>	<u>1.85</u>	<u>1.58</u>	<u>1.21</u>	<u>0.84</u>
Total gain from investment operations	<u>3.28</u>	<u>2.50</u>	<u>2.22</u>	<u>1.95</u>	<u>1.52</u>	<u>1.09</u>
Net position value, end of year	<u>\$ 20.50</u>	<u>\$ 17.87</u>	<u>\$ 18.45</u>	<u>\$ 18.58</u>	<u>\$ 17.45</u>	<u>\$ 16.52</u>
 TOTAL RETURN	 <u>19.05%</u>	 <u>16.27%</u>	 <u>13.68%</u>	 <u>11.73%</u>	 <u>9.54%</u>	 <u>7.06%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of period (in thousands)	\$ 32,878	\$ 112,070	\$ 221,096	\$ 251,060	\$ 275,371	\$ 220,435
Ratio of expenses to average net position(b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Ratio of net investment income to average net position	2.02%	2.08%	2.12%	2.12%	1.86%	1.53%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

Conservative Managed Allocation Option
Age Bands Within the Conservative Managed Allocation Option

	<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>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 11.82	\$ 11.61	\$ 11.41	\$ 11.05	\$ 10.78	\$ 10.45
Gain (loss) from investment operations:						
Net investment (a)	0.27	0.25	0.26	0.22	0.19	0.15
Net realized and unrealized gain on investments	<u>1.55</u>	<u>1.23</u>	<u>0.91</u>	<u>0.64</u>	<u>0.39</u>	<u>0.14</u>
Total gain from investment operations	<u>1.82</u>	<u>1.48</u>	<u>1.17</u>	<u>0.86</u>	<u>0.58</u>	<u>0.29</u>
Net position value, end of year	<u>\$ 13.64</u>	<u>\$ 13.09</u>	<u>\$ 12.58</u>	<u>\$ 11.91</u>	<u>\$ 11.36</u>	<u>\$ 10.74</u>
TOTAL RETURN	<u>15.40%</u>	<u>12.75%</u>	<u>10.25%</u>	<u>7.78%</u>	<u>5.38%</u>	<u>2.78%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of period (in thousands)	\$ 5,399	\$ 4,593	\$ 4,655	\$ 5,375	\$ 9,100	\$ 7,237
Ratio of expenses to average net position(b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Ratio of net investment income to average net position	2.08%	2.05%	2.19%	1.89%	1.67%	1.39%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

**CONNECTICUT HIGHER EDUCATION TRUST PROGRAM – DIRECT PLAN
FINANCIAL HIGHLIGHTS
FOR THE YEAR ENDED JUNE 30, 2014**

**Aggressive Managed Allocation Option
Age Bands Within the Aggressive Managed Allocation Option**

	<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>	<u>Ages 18 & Over</u>
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR						
Net position value, beginning of year	\$ 11.33	\$ 11.41	\$ 11.88	\$ 12.17	\$ 12.23	\$ 11.91
Gain (loss) from investment operations:						
Net investment (a)	0.26	0.25	0.26	0.27	0.27	0.22
Net realized and unrealized gain on investments	<u>2.29</u>	<u>2.03</u>	<u>1.79</u>	<u>1.59</u>	<u>1.38</u>	<u>0.90</u>
Total gain from investment operations	<u>2.55</u>	<u>2.28</u>	<u>2.05</u>	<u>1.86</u>	<u>1.65</u>	<u>1.12</u>
Net position value, end of year	<u>\$ 13.88</u>	<u>\$ 13.69</u>	<u>\$ 13.93</u>	<u>\$ 14.03</u>	<u>\$ 13.88</u>	<u>\$ 13.03</u>
TOTAL RETURN	<u>22.51%</u>	<u>19.98%</u>	<u>17.26%</u>	<u>15.28%</u>	<u>13.49%</u>	<u>9.40%</u>
RATIOS AND SUPPLEMENTAL DATA						
Net position at end of period (in thousands)	\$ 27,846	\$ 74,610	\$ 64,957	\$ 47,190	\$ 37,808	\$ 20,383
Ratio of expenses to average net position(b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
Ratio of net investment income to average net position	2.00%	2.00%	2.02%	2.03%	2.05%	1.78%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

Multi-Fund Investment Options

	Equity Index Option	Active Equity Option	High Equity Option	Active Fixed- Income Option	Social Choice Option	Index Fixed- Income Option	Money Market Option	Principal Plus Interest Option
FOR A UNIT OUTSTANDING THROUGHOUT THE YEAR								
Net position value, beginning of year	\$ 12.78	\$ 11.89	\$ 15.82	\$ 14.46	\$ 13.25	\$ 10.72	\$ 10.13	\$ 14.85
Gain (loss) from investment operations:								
Net investment income (a)	0.29	0.16	0.33	0.41	0.17	0.21	—	0.20
Net realized and unrealized gain on investments	<u>2.66</u>	<u>2.46</u>	<u>2.79</u>	<u>0.51</u>	<u>2.99</u>	<u>0.22</u>	—	—
Total gain from investment operations	<u>2.95</u>	<u>2.62</u>	<u>3.12</u>	<u>0.92</u>	<u>3.16</u>	<u>0.43</u>	—	<u>0.20</u>
Net position value, end of year	<u>\$ 15.73</u>	<u>\$ 14.51</u>	<u>\$ 18.94</u>	<u>\$ 15.38</u>	<u>\$ 16.41</u>	<u>\$ 11.15</u>	<u>\$ 10.13</u>	<u>\$ 15.05</u>
 TOTAL RETURN	 <u>23.08%</u>	 <u>22.04%</u>	 <u>19.72%</u>	 <u>6.36%</u>	 <u>23.85%</u>	 <u>4.01%</u>	 <u>0.00%</u>	 <u>1.35%</u>
 RATIOS AND SUPPLEMENTAL DATA								
Net position at end of period (in thousands)	\$ 188,588	\$ 23,858	\$ 325,320	\$ 42,810	\$ 22,943	\$ 9,088	\$ 23,429	\$ 234,013
Ratio of expenses to average net position before expense waiver (b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	—%
Ratio of expenses to average net position after expense waiver (b)	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%	0.00% (d)	—%
Ratio of net investment income to average net position	1.99%	1.14%	1.88%	2.78%	1.16%	1.92%	0.00%	1.35%

(a) Based on average units outstanding

(b) Does not include expenses on Direct Plan investments in the TIAA-CREF Funds and other third party mutual funds

(d) Amount represents less than \$0.01 per share



Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Trustee of the Connecticut Higher Education Trust Program-Direct Plan:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the basic financial statements of the Connecticut Higher Education Trust Program-Direct Plan (the "Direct Plan"), which comprise the Statement of Fiduciary Net Position as of June 30, 2014, and the related Statement of Changes in Fiduciary Net Position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 26, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Direct Plan's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Direct Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Direct Plan's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Direct Plan's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Direct Plan's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Direct Plan's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Direct Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

September 5, 2014