

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

**BASIC FINANCIAL STATEMENTS
AND MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017
(With Independent Auditor's Report Thereon)**

**Thomas &
Thomas LLP**

Certified Public Accountants

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

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INDEPENDENT AUDITOR'S REPORT

State of Rhode Island Office of the General Treasurer
Ascensus College Savings Recordkeeping Services, LLC

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position and statement of changes in fiduciary net position of the **Rhode Island Higher Education Savings Trust (RIHEST)**, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise RIHEST's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 these basic 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 basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the basic 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 entity'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 basic 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 basic financial statements referred to on the preceding page present fairly, in all material respects, the fiduciary net position of RIHEST as of June 30, 2017, and the changes in its fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As disclosed in Note 1, RIHEST is included in the State of Rhode Island and Providence Plantations financial reporting entity as a private purpose trust fund. These basic financial statements present only the activities and balances attributable to RIHEST and do not purport to, and do not, present fairly the fiduciary net position or changes in fiduciary net position of any other fiduciary funds of the state of Rhode Island and Providence Plantations as of and for the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 5 through 16 be presented 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, as it is considered 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 in management's discussion and analysis because the limited procedures we performed do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2017, on our consideration of RIHEST's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 RIHEST's internal control over financial reporting and compliance.

Thomas & Thomas LLP
Certified Public Accountants

October 11, 2017
Little Rock, Arkansas

Management's Discussion and Analysis
(Unaudited)

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Rhode Island Higher Education Savings Trust

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2017

This management's discussion and analysis is intended to provide readers an objective discussion of the financial statements of the Rhode Island Higher Education Savings Trust (RIHEST) as of June 30, 2017, and for the year then ended, with comparative information, as applicable, as of and for the year ended June 30, 2016. This discussion and analysis, which is supplementary information required by the Governmental Accounting Standards Board (GASB), is intended to provide a highly summarized overview of RIHEST's assets, liabilities, fiduciary net position and changes in fiduciary net position and should be read in conjunction with the RIHEST's financial statements and notes thereto, which are included on pages 18 through 32.

* * * * *

RIHEST was created pursuant to Section 16-57-6.1 of the General Laws of Rhode Island and enables residents of Rhode Island and any other state to save money on a tax-advantaged basis to pay for qualified higher education expenses through the Rhode Island Tuition Savings Program (the Program). The Program administered under RIHEST includes two college savings plan options – CollegeBound 529 available exclusively through a financial advisor or registered investment advisor and CollegeBound Saver available without the assistance of a financial advisor or registered investment advisor. The Program is designed to comply with the requirements for treatment as a “qualified tuition program” under Section 529 of the Internal Revenue Code of 1986, as amended, and any regulations and other guidance issued thereunder. Assets of the Program are held in trust for account owners and their beneficiaries.

The Program is administered by the State of Rhode Island Office of the General Treasurer (the Treasurer) in conjunction with the Rhode Island Division of Higher Education, the Rhode Island State Investment Commission (SIC), the Executive Director of the Rhode Island Student Loan Authority and the Commissioner of Postsecondary Education (collectively, the “State Administrators”). The Treasurer has administrative oversight of RIHEST and is responsible for implementing the Program, as well as establishing rules and regulations governing the Program. SIC is responsible for oversight of the investment of the Program's assets.

The Treasurer may contract with third-party service providers to perform administrative duties and to manage the Program's investments. Until July 8, 2016 (the Conversion Date), AllianceBernstein L.P. (AllianceBernstein) served as Program Manager. On the Conversion Date, the then existing agreement with AllianceBernstein was terminated, and Ascensus College Savings Recordkeeping Services, LLC (ACSR) became Program Manager. ACSR is responsible for the day-to-day operations of the Program, including recordkeeping and administrative services and marketing, as specified in the Program Management Agreement executed by and between ACSR and the Treasurer, which expires in 2026 (inclusive of a 5-year automatic renewal period).

Until the Conversion Date, AllianceBernstein and The Vanguard Group, Inc. (Vanguard) provided investment management and advisory services for all investment portfolio options in the Program. On the Conversion Date, assets totaling \$6.7 billion then under AllianceBernstein and Vanguard management were transferred to Invesco Advisers, Inc. (Invesco), Vanguard and BlackRock, Inc. to be invested and managed in accordance with a new asset allocation strategy recommended by Invesco and approved by SIC. Invesco provides all investment advisory services for the Program, pursuant to a Services Agreement executed by and between ACSR and Invesco that expires concurrently with the Program Management Agreement.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2017

A few months after the conversion, Morningstar awarded CollegeBound Saver a "Silver" rating and CollegeBound 529 a "Bronze" rating. These ratings were attributable to improvements in plan design, lower fees, and sensible asset-allocation process. Additionally, these ratings represented a significant improvement from previous reviews, which regularly ranked the program at the bottom among its peers.

Overview of the Basic Financial Statements

RIHEST's basic financial statements comprise the statement of fiduciary net position, the statement of changes in fiduciary net position and the related notes to the financial statements. The statement of fiduciary net position presents information on RIHEST's assets and liabilities, with the difference between them representing net position held in trust for account owners and their beneficiaries. The statement of changes in fiduciary net position shows how RIHEST's fiduciary net position changed during the year. The notes to the financial statements provide additional explanatory information about the amounts presented in the financial statements. It is essential that readers of this report consider the information in the notes to obtain a full understanding of RIHEST's financial statements.

RIHEST is included in the financial reporting entity of the State of Rhode Island and Providence Plantations as a "private purpose trust fund." A private purpose trust fund is a type of fiduciary fund that is used to report assets held by a government in a trust or agency capacity for others and cannot be used to support the government's own programs.

RIHEST's financial statements are prepared in accordance with accounting and financial reporting standards for governmental entities set forth by the GASB. As required under generally accepted accounting principles applicable to fiduciary fund types, RIHEST's financial statements are prepared using the accrual basis of accounting. Mutual funds and exchange-traded funds (ETFs) are reported at fair value, and investment contracts, which are held in a separate account, are reported at contract value. All investment transactions are recorded on a trade-date basis. Changes in investment value, along with realized gains (losses), are reported as net appreciation (depreciation) on the statement of changes in fiduciary net position. Dividends and capital gain distributions are recorded on the ex-dividend date, rather than when they are received. Contributions to RIHEST are recognized when they are received, provided enrollment in RIHEST has been successfully completed, and withdrawals are recognized when the withdrawal request has been received and approved for payment. Net administrative fees are recognized when the related services are provided, regardless of when cash is paid.

Financial Analysis

Fiduciary Net Position

The following condensed statements of fiduciary net position provide a "snapshot" of the overall financial position of RIHEST:

	<u>June 30, 2017</u>	<u>June 30, 2016⁽¹⁾</u>
Total assets	\$ 6,481,076,959	\$ 6,704,924,672
Total liabilities	75,313,388	17,397,097
Net position held in trust for account owners and beneficiaries	<u>\$ 6,405,763,571</u>	<u>\$ 6,687,527,575</u>

⁽¹⁾Information provided by AllianceBernstein.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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The reported balance of net position held in trust for account owners and their beneficiaries represents the cumulative total of contributions from account owners since RIHEST's inception, increased (decreased) by net investment income (loss), and decreased by withdrawals and net administrative fees.

Investments, which totaled \$6.4 billion at June 30, 2017, represent over 99% of RIHEST's total assets. Account owners are able to direct investment of their contributions into one or more portfolio options and share classes, each of which is invested in one or more mutual funds, ETFs or investment contracts (the Underlying Funds) in accordance with an asset allocation strategy developed and approved by SIC.

Other assets, which totaled \$50.4 million at June 30, 2017, comprise amounts to be invested or distributed on behalf of account owners and their beneficiaries and receivables for proceeds from Underlying Fund sales transactions. RIHEST's liabilities, which totaled \$75.3 million at June 30, 2017, comprise net accrued administrative fees, payables for withdrawals approved but not yet paid and payables for Underlying Fund purchase transactions.

Changes in Fiduciary Net Position

The following condensed statements of changes in fiduciary net position summarize how RIHEST's net position held in trust for account owners and their beneficiaries changed during the year presented:

	Year Ended June 30, 2017	Year Ended June 30, 2016⁽¹⁾
Net investment income (loss)	\$ 390,854,921	\$ (80,601,114)
Net withdrawals	(637,142,237)	(585,330,051)
Net administrative fees	(35,476,688)	(63,856,439)
Net decrease	(281,764,004)	(729,787,604)
Net position held in trust for account owners and beneficiaries, beginning of year	6,687,527,575	7,417,315,179
Net position held in trust for account owners and beneficiaries, end of year	\$ 6,405,763,571	\$ 6,687,527,575

⁽¹⁾Information provided by AllianceBernstein.

The amounts presented in the table above for the year ended June 30, 2017, include transactions from July 1, 2016 through the Conversion Date based on information provided by AllianceBernstein. All amounts subsequent to the Conversion Date are provided by ACSR. From the Conversion Date to June 30, 2017, contributions and withdrawals totaled \$296.4 million and \$891.2 million, respectively. Also during this period, net investment income totaled \$352.3 million. Net administrative fees, which are based on RIHEST's fiduciary net position and paid to the State Administrators, ACSR and Invesco for performing oversight, administrative services and investment management services, totaled \$34.2 million during the period from the Conversion Date to June 30, 2017.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2017

Investment Commentary

The investment commentary that follows applies to the period from the Conversion Date through June 30, 2017.

Asset Class Commentary

Investor confidence pushed global equity markets higher in the second quarter. In the U.S., stronger macroeconomic indicators and expectations of U.S. tax reform contributed to positive sentiment, despite continued U.S. policy uncertainty. Confidence in U.S. economic growth supported the U.S. Federal Reserve's decision to raise its target Fed funds rate by 0.25% in June, its second rate increase this year. International equity markets outperformed U.S. equity markets for most of the quarter, although concerns about tepid growth and tighter monetary policy pushed European equities lower in June. Emerging markets extended their gains from the first quarter. Overall, markets were relatively calm, although volatility spiked a few times during the quarter, particularly at times of major geopolitical events, such as the French elections. Crude oil prices continued to fall this quarter, amid rising supply driven by major production increases from U.S. shale reserves.

Equities

Global equity markets posted positive returns in the second quarter. In the U.S., large-cap stocks outperformed mid- and small-cap stocks, while U.S. growth stocks extended their gains from the first quarter, outperforming U.S. value stocks. In terms of sectors, health care posted strong gains, while energy stocks and telecommunication services continued to struggle. International equity markets performed better than U.S. equity markets for most of the quarter until potentially slower growth and the possibility of tighter monetary policy caused European equities to decline in June. Emerging markets performed well, building on their gains from the first quarter.

Fixed Income

U.S. bond returns were positive for the quarter, despite pressure on valuations of shorter maturity bonds due to the Fed's interest rate hike. While short interest rates were notably higher during the quarter, Treasury yields on longer maturities continued to decline. The moderate pace of U.S. GDP growth, as well as global deflationary forces, supported bond yields and proved favorable for valuations. Bond returns also benefited from investors' demand for yield and for bonds perceived as 'risk' assets, which enhanced relative valuations. The credit-related fixed income sectors – corporates, commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) – and lower rated securities were the primary drivers of the market's relative performance. In contrast, the Agency mortgage-backed securities (MBS) sector slightly underperformed due to policy uncertainties and persistently tight spread premiums.

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Investment Commentary (Continued)

Commodities

Commodity prices were generally lower during the quarter. Oversupply continued to push crude oil prices lower. In a reversal from last quarter, precious metals — particularly silver — posted losses, hampered by concern that central banks would begin to tighten global monetary policies.

CollegeBound 529 Portfolios

Age-Based Portfolios

- Eleven Age-Based Portfolios that are designed to correspond with the expected date of college enrollment.
- The asset allocation of the Age-Based Portfolios adjusts quarterly, becoming progressively more conservative as high school graduation and college enrollment approach.
- Each Age-Based Portfolio invests in multiple Underlying Funds.

Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco CollegeBound 2017-2018 Portfolio	Custom Invesco CollegeBound 2017-2018 Index	3.10%	1.30%
Invesco CollegeBound 2019-2020 Portfolio	Custom Invesco CollegeBound 2019-2020 Index	4.20%	0.84%
Invesco CollegeBound 2021-2022 Portfolio	Custom Invesco CollegeBound 2021-2022 Index	5.30%	0.19%
Invesco CollegeBound 2023-2024 Portfolio	Custom Invesco CollegeBound 2023-2024 Index	5.90%	0.02%
Invesco CollegeBound 2025-2026 Portfolio	Custom Invesco CollegeBound 2025-2026 Index	6.40%	-0.34%
Invesco CollegeBound 2027-2028 Portfolio	Custom Invesco CollegeBound 2027-2028 Index	7.00%	-0.89%
Invesco CollegeBound 2029-2030 Portfolio	Custom Invesco CollegeBound 2029-2030 Index	8.10%	-1.93%
Invesco CollegeBound 2031-2032 Portfolio	Custom Invesco CollegeBound 2031-2032 Index	9.00%	-2.94%
Invesco CollegeBound 2033-2034 Portfolio	Custom Invesco CollegeBound 2033-2034 Index	9.50%	-3.40%
Invesco CollegeBound 2035-2036 Portfolio	Custom Invesco CollegeBound 2035-2036 Index	9.50%	-3.46%
Invesco CollegeBound Today Portfolio	Custom Invesco CollegeBound Today Index	1.10%	1.25%

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Investment Commentary (Continued)

CollegeBound 529 Portfolios (Continued)

Age-Based Portfolios (Continued)

The Age-Based Portfolios comprise different weighting of the funds listed below:

Invesco Stable Value Portfolio	Invesco Diversified Dividend Fund
Invesco Government & Agency Portfolio	PowerShares FTSE RAFI US 1500 Small-Mid Portfolio
Invesco Short-Term Bond Fund	PowerShares FTSE RAFI Dev Markets ex-US Portfolio
Invesco Core Plus Bond Fund	Invesco Global Growth Fund
Invesco Short Duration Inflation Protected Fund	Invesco Global Real Estate Income Fund
Invesco Floating Rate Fund	PowerShares FTSE RAFI Emerging Markets Portfolio
Invesco Equally-Weighted S&P 500 Fund	PowerShares S&P Emerging Markets Low Volatility Portfolio

The Age-Based Portfolios seek to achieve capital appreciation, income and preservation of capital as appropriate for proximity to their applicable target date. The target date is the year which corresponds to the potential college enrollment year of the beneficiary. The objectives of the Age-Based Portfolios become more focused on capital preservation and income as they approach their applicable target date.

The Age-Based Portfolios allocate their assets to Underlying Funds consisting of ETFs and mutual funds, seeking to provide access to broad asset classes, including domestic U.S. stocks, international stocks, bonds and cash. The Underlying Funds represent different investment objectives and strategies. The allocation to broad asset classes and weights in the Underlying Funds are expected to change — reducing exposure to stocks and increasing holdings in fixed income and cash equivalents — until the beneficiary enrolls in college. The asset class allocations and investment in Underlying Funds may periodically be rebalanced or modified.

Target Risk Portfolios

- Three Target Risk Portfolios, in which the asset allocation seeks to meet a specific investment goal and risk tolerance.
- The risk profile of each Target Risk Portfolio will be fixed over time.
- Each Target Risk Portfolio invests in multiple Underlying Funds.

Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco Conservative College Portfolio	Custom Invesco Conservative College Index	5.20%	-0.16%
Invesco Moderate College Portfolio	Custom Invesco Moderate College Index	8.30%	-1.79%
Invesco Growth College Portfolio	Custom Invesco Growth College Index	10.60%	-4.44%

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Investment Commentary (Continued)

CollegeBound 529 Portfolios (Continued)

Target Risk Portfolios (Continued)

The Target Risk Portfolios comprise different weighting of the funds listed below:

Invesco Stable Value Portfolio	Invesco Diversified Dividend Fund
Invesco Government & Agency Portfolio	PowerShares FTSE RAFI US 1500 Small-Mid Portfolio
Invesco Short-Term Bond Fund	PowerShares FTSE RAFI Dev Markets ex-US Portfolio
Invesco Core Plus Bond Fund	Invesco Global Growth Fund
Invesco Short Duration Inflation Protected Fund	Invesco Global Real Estate Income Fund
Invesco Floating Rate Fund	PowerShares FTSE RAFI Emerging Markets Portfolio
Invesco Equally-Weighted S&P 500 Fund	PowerShares S&P Emerging Markets Low Volatility Portfolio

Invesco Conservative College Portfolio

The Invesco Conservative College Portfolio seeks to provide current income and some capital appreciation. The portfolio's indirect bond and cash holdings are a diversified mix of short-, intermediate- and long-term U.S. government, U.S. agency and investment-grade U.S. corporate bonds; mortgage backed and asset-backed securities; and government, agency, corporate and securitized investment-grade foreign bonds issued in currencies other than the U.S. dollar (but hedged by Invesco to minimize foreign currency exposure). The portfolio's indirect stock holdings are a diversified mix of U.S. and foreign large-, mid-, and small-capitalization stocks.

Invesco Moderate College Portfolio

The Invesco Moderate College Portfolio seeks to provide current income and some capital appreciation. The portfolio's indirect stock holdings are a diversified mix of U.S. and foreign large-, mid- and small-capitalization stocks. The portfolio's indirect bond holdings are a diversified mix of short-, intermediate- and long-term U.S. government, U.S. agency and investment-grade U.S. corporate bonds; mortgage backed and asset-backed securities; and government, agency, corporate and securitized investment-grade foreign bonds issued in currencies other than the U.S. dollar.

Invesco Growth College Portfolio

The Invesco Growth College Portfolio seeks to provide capital appreciation. The portfolio's indirect stock holdings are a diversified mix of U.S. and foreign large-, mid- and small-capitalization stocks. The portfolio's indirect bond holdings are a diversified mix of short-, intermediate- and long-term U.S. government, U.S. agency and investment-grade U.S. corporate bonds; mortgage backed and asset-backed securities; and government, agency, corporate, and securitized investment-grade foreign bonds issued in currencies other than the U.S. dollar.

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Investment Commentary (Continued)

CollegeBound 529 Portfolios (Continued)

Individual Portfolios

- Eleven Individual Portfolios, in which the composition of investments within each portfolio remains fixed over time.

Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco Core Plus Bond Portfolio	Bloomberg Barclays US Aggregate Index	1.30%	2.41%
Invesco Diversified Dividend Portfolio	Russell 1000 Value Index	7.80%	-6.63%
Invesco Equally-Weighted S&P 500 Portfolio	S&P 500 Index TR	14.10%	-2.00%
Invesco Equity and Income Portfolio	Russell 1000 Value Index	16.40%	1.97%
Invesco Global Sustainable Equity Portfolio	MSCI World Index	16.40%	-1.11%
Invesco International Growth Portfolio	MSCI All Country World ex US Growth Index	14.70%	-3.18%
Invesco Short Duration Inflation Protected Portfolio	BofA Merrill Lynch 1-5 Year US Inflation Linked Treasury	-0.70%	-0.70%
Invesco Small Cap Growth Portfolio	Russell 2000 Growth Index	18.80%	-2.23%
Invesco Stable Value Portfolio	Bloomberg Barclays U.S. Treasury Bellwethers	1.00%	0.50%
Powershares FTSE RAFI Developed Markets Portfolio	MSCI EAFE Index	23.70%	2.22%
PowerShares FTSE RAFI US 1500 Small-Mid Portfolio	Russell 2000 Index	18.50%	-3.38%

CollegeBound Saver Portfolios

Age-Based Portfolios

- Eleven Age-Based Portfolios that are designed to correspond with the expected date of college enrollment.
- The asset allocation of the Age-Based Portfolios adjusts quarterly, becoming progressively more conservative as high school graduation and college enrollment approach.
- Each Age-Based Portfolio invests in multiple Underlying Funds.

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(Unaudited)
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Investment Commentary (Continued)

CollegeBound Saver Portfolios (Continued)

Age-Based Portfolios (Continued)

Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
CollegeBound 2017-2018 Portfolio	Custom CollegeBound 2017-2018 Index	2.30%	0.50%
CollegeBound 2019-2020 Portfolio	Custom CollegeBound 2019-2020 Index	3.60%	0.24%
CollegeBound 2021-2022 Portfolio	Custom CollegeBound 2021-2022 Index	5.20%	0.09%
CollegeBound 2023-2024 Portfolio	Custom CollegeBound 2023-2024 Index	5.90%	0.02%
CollegeBound 2025-2026 Portfolio	Custom CollegeBound 2025-2026 Index	6.80%	0.06%
CollegeBound 2027-2028 Portfolio	Custom CollegeBound 2027-2028 Index	7.90%	0.01%
CollegeBound 2029-2030 Portfolio	Custom CollegeBound 2029-2030 Index	9.80%	-0.23%
CollegeBound 2031-2032 Portfolio	Custom CollegeBound 2031-2032 Index	11.50%	-0.44%
CollegeBound 2033-2034 Portfolio	Custom CollegeBound 2033-2034 Index	12.30%	-0.60%
CollegeBound 2035-2036 Portfolio	Custom CollegeBound 2035-2036 Index	12.40%	-0.56%
CollegeBound Today Portfolio	Custom CollegeBound Today Portfolio Index	0.20%	0.35%

The Age-Based Portfolios comprise different weighting of the funds listed below:

iShares Core S&P 500 Equity ETF
Invesco Equally-Weighted S&P 500 Fund
Vanguard Total International Stock Index Fund
PowerShares FTSE RAFI Developed Markets ex-U.S. Portfolio
Vanguard Global ex-U.S. Real Estate Index Fund
Vanguard Short Term Inflation-Protected Securities Index Fund
Vanguard Short-Term Investment-Grade Fund
Vanguard Total Bond Market Index Fund
iShares Core U.S. Aggregate Bond ETF
Invesco Government & Agency Portfolio

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(Unaudited)

June 30, 2017

Investment Commentary (Continued)

CollegeBound Saver Portfolios (Continued)

Age-Based Portfolios (Continued)

The Age-Based Portfolios seeks to achieve capital appreciation, income and preservation of capital as appropriate for its proximity to its target date. The target date is the year which corresponds to the potential college enrollment year of the beneficiary. The objective of the Age-Based Portfolios becomes more focused on capital preservation and income as it approaches its target date. The Age-Based Portfolio allocates its assets to Underlying Funds consisting of ETFs and mutual funds, seeking to provide access to broad asset classes, including domestic U.S. stocks, international stocks, fixed income and capital preservation. The Underlying Funds represent different investment objectives and strategies. The allocation to broad asset classes and weights in the Underlying Funds are expected to change — reducing exposure to stocks and increasing holdings in fixed income and cash equivalents — until the beneficiary enrolls in college. The asset class allocations and investment in Underlying Funds may periodically be rebalanced or modified.

Target Risk Portfolios

- Three Target Risk Portfolios, in which the asset allocation seeks to meet a specific investment goal and risk tolerance.
- The risk profile of each Target Risk Portfolio will be fixed over time.
- Each Target Risk Portfolio invests in a single Underlying Fund.

Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Conservative Growth Portfolio	Vanguard LifeStrategy Conservative Growth Fund	Custom Conservative Growth Portfolio Index	6.10%	0.05%
Moderate Growth Portfolio	Vanguard LifeStrategy Moderate Growth Fund	Custom Moderate Growth Portfolio Index	10.00%	-0.08%
Growth College Portfolio	Vanguard LifeStrategy Growth Fund	Custom Growth Portfolio Index	14.10%	-0.15%

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Investment Commentary (*Continued*)

CollegeBound Saver Portfolios (*Continued*)

Target Risk Portfolios (*Continued*)

Conservative Growth Portfolio

The Conservative Growth Portfolio seeks to provide current income and low to moderate capital appreciation. The portfolio invests 100% of its assets in the Vanguard LifeStrategy Conservative Growth Fund. The underlying fund invests in other Vanguard mutual funds according to a fixed formula that reflects an allocation of approximately 60% of the underlying fund's assets to bonds and 40% to common stocks. The targeted percentage of the Underlying Fund's assets allocated to each of the underlying funds is:

- Vanguard Total Bond Market II Index Fund 42%
- Vanguard Total Stock Market Index Fund 24%
- Vanguard Total International Bond Index Fund 18%
- Vanguard Total International Stock Index Fund 16%

Moderate Growth Portfolio

The Moderate Growth Portfolio seeks to provide capital appreciation and a low to moderate level of current income. The portfolio invests 100% of its assets in the Vanguard LifeStrategy Moderate Growth Fund. The underlying fund invests in other Vanguard mutual funds according to a fixed formula that reflects an allocation of approximately 60% of the underlying fund's assets to common stocks and 40% to bonds. The targeted percentage of the underlying fund's assets allocated to each of the underlying funds is:

- Vanguard Total Stock Market Index Fund 36%
- Vanguard Total Bond Market II Index Fund 28%
- Vanguard Total International Stock Index Fund 24%
- Vanguard Total International Bond Index Fund 12%

Growth Portfolio

The Growth Portfolio seeks to provide capital appreciation and some current income. The portfolio invests 100% of its assets in Vanguard LifeStrategy Growth Fund. The underlying fund invests in other Vanguard mutual funds according to a fixed formula that reflects an allocation of approximately 80% of the underlying fund's assets to common stocks and 20% to bonds. The targeted percentage of the underlying fund's assets allocated to each of the underlying funds is:

- Vanguard Total Stock Market Index Fund 48%
- Vanguard Total International Stock Index Fund 32%
- Vanguard Total Bond Market II Index Fund 14%
- Vanguard Total International Bond Index Fund 6%

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2017

Investment Commentary (Continued)

CollegeBound Saver Portfolios (Continued)

Individual Portfolios

- Eight Individual Portfolios, in which the composition of investments within the portfolio remains fixed over time.
- Except for the Stable Value Portfolio, each Portfolio invests in a single Underlying Fund.

Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Bond Portfolio	Vanguard Total Bond Market Index Fund	Bloomberg Barclays U.S. Aggregate Float Adjusted I	-1.30%	-0.12%
Equally-Weighted S&P 500 Portfolio	Invesco Equally-Weighted S&P 500 Fund	S&P 500 Index-TR	14.60%	-1.50%
Inflation Protected Bond Portfolio	Vanguard Short-Term Inflation-Protected Securities Index	Bloomberg Barclays U.S. Treasury Inflation-Protected Index	0.10%	1.95%
International Stock Portfolio	Vanguard Total International Stock Index Fund	FTSE Global All Cap ex-US Index-NR	20.80%	-0.52%
Invesco Global Sustainable Equity Portfolio	Invesco Global Sustainable Equity Fund	MSCI World Index-NR	16.80%	-0.71%
Stable Value Portfolio	Invesco Stable Value Separate Account	Bloomberg Barclays U.S. Treasury Bellwethers (3M)	1.50%	1.01%
U.S. Small-Mid Cap Portfolio	Vanguard Extended Market Index Fund	S&P Completion Index-TR	19.30%	0.11%
U.S. Stock Portfolio	Vanguard Total Stock Market Index Fund	CRSP US Total Market Index-TR	16.60%	0.00%

Requests for Information

This financial report is designed to provide a general overview of the Program's financial status and changes in financial status. Additional information is available at www.collegeboundsaver.com and www.collegebound529.com. If you have any questions about the information provided, please call the Program's customer service representatives at 1-877-517-4829 (CollegeBound Saver) or 1-877-615-4116 (CollegeBound 529).

Basic Financial Statements

Rhode Island Higher Education Savings Trust

(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

STATEMENT OF FIDUCIARY NET POSITION

June 30, 2017

ASSETS

Investments	\$ 6,430,704,697
Cash and cash equivalents	8,973,000
Receivables for investments sold	<u>41,399,262</u>
Total Assets	<u>6,481,076,959</u>

LIABILITIES

Payables for investments purchased	63,665,709
Withdrawals payable	4,701,273
Accrued administrative fees, net	<u>6,946,406</u>
Total Liabilities	<u>75,313,388</u>

NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES

\$ 6,405,763,571

See accompanying notes to financial statements.

Rhode Island Higher Education Savings Trust

(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

Year Ended June 30, 2017

ADDITIONS

Contributions	\$ 309,268,745
Investment income:	
Dividends and interest	102,256,483
Net appreciation in value of investments	288,598,438
Net investment income	<u>390,854,921</u>
Total Additions	<u>700,123,666</u>

DEDUCTIONS

Withdrawals	<u>946,410,982</u>
Net administrative fees:	
Administrative fees	35,724,501
Fee waivers	<u>(247,813)</u>
Net administrative fees	<u>35,476,688</u>
Total Deductions	<u>981,887,670</u>

NET DECREASE

(281,764,004)

NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, BEGINNING OF YEAR

6,687,527,575

NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, END OF YEAR

\$ 6,405,763,571

See accompanying notes to financial statements.

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Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS

(a) General

The Rhode Island Higher Education Savings Trust (RIHEST) was created pursuant to Section 16-57-6.1 of the General Laws of Rhode Island and enables residents of Rhode Island and any other state to save money on a tax-advantaged basis to pay for qualified higher education expenses through the Rhode Island Tuition Savings Program (the Program). The Program administered under RIHEST includes two college savings plan options – CollegeBound 529, available exclusively through a financial advisor or registered investment advisor, and CollegeBound Saver, available without the assistance of a financial advisor or registered investment advisor. The Program is designed to comply with the requirements for treatment as a “qualified tuition program” under Section 529 of the Internal Revenue Code of 1986, as amended, and any regulations and other guidance issued thereunder. Assets of the Program are held in trust for account owners and their beneficiaries.

The Program is administered by the State of Rhode Island Office of the General Treasurer (the Treasurer) in conjunction with the Rhode Island Division of Higher Education, the Rhode Island State Investment Commission (SIC), the Executive Director of the Rhode Island Student Loan Authority and the Commissioner of Postsecondary Education (collectively, the “State Administrators”). The Treasurer has administrative oversight of RIHEST and is responsible for implementing the Program, as well as establishing rules and regulations governing the Program. SIC is responsible for oversight of the investment of the Program’s assets.

RIHEST is a fiduciary fund of the State of Rhode Island and Providence Plantations (the State) and is included in the State’s financial reporting entity as a private purpose trust fund. Fiduciary funds are used to report assets that are held in a trust or agency capacity for others and therefore cannot be used to support a government’s own programs. A private purpose trust fund is a type of fiduciary fund used to report certain trust arrangements under which principal and income benefit individuals, private organizations or other governments.

These financial statements present only the balances and transactions that are directly attributable to RIHEST. These financial statements are not intended to, and do not, represent a complete presentation of the financial position and changes in financial position of any other fiduciary funds of the State.

(b) Administration

The Treasurer may contract with third-party service providers to perform administrative duties and to manage the Program’s investments. Until July 8, 2016 (the Conversion Date), AllianceBernstein L.P. (AllianceBernstein) served as Program Manager. On the Conversion Date, the then existing agreement with AllianceBernstein was terminated, and Ascensus College Savings Recordkeeping Services, LLC (ACSR) became Program Manager. ACSR is responsible for the day-to-day operations of the Program, including recordkeeping and administrative services and marketing, as specified in the Program Management Agreement executed by and between ACSR and the Treasurer, which expires in 2026 (inclusive of a 5-year automatic renewal period).

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS (Continued)

(b) Administration (Continued)

Until the Conversion Date, AllianceBernstein and The Vanguard Group, Inc. (Vanguard) provided investment management and advisory services for all investment portfolio options in the Program. On the Conversion Date, assets totaling \$6.7 billion then under AllianceBernstein and Vanguard management were transferred to Invesco Advisers, Inc. (Invesco), Vanguard and BlackRock, Inc. to be invested and managed in accordance with a new asset allocation strategy recommended by Invesco and approved by SIC. Invesco provides all investment advisory services for the Program, pursuant to a Services Agreement executed by and between ASCR and Invesco that expires concurrently with the Program Management Agreement.

Effective on the Conversion Date, the Bank of New York Mellon Corporation (BNY Mellon) became the custodial agent for certain assets invested through the Program, responsible for maintaining a custody account to provide for safekeeping and recordkeeping. Prior to the Conversion Date, State Street Bank and Trust Co. served as custodial agent.

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

In accordance with accounting principles generally accepted in the United States of America applicable to fiduciary fund types prescribed by the Governmental Accounting Standards Board (GASB), RIHEST's financial statements are prepared using the flow of economic resources measurement focus and accrual basis of accounting.

(b) Income Taxes

RIHEST is exempt from federal and state income tax.

(c) Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(d) Investments

RIHEST's investments consist of mutual funds, exchange traded funds (ETFs) and investment contracts, which are held in a separate account (the Underlying Funds).

The mutual funds and ETFs are reported at fair value, based on net asset value per share (mutual funds) or closing market prices (ETFs) as of the close of the New York Stock Exchange (NYSE) on the reporting date. Net realized and unrealized gains (losses) are included in "net appreciation (depreciation) in value of investments" on the statement of changes in fiduciary net position. Purchases and sales of shares of

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments (Continued)

mutual funds and ETFs are recorded on a trade-date basis. Dividends and capital gain distributions are recorded on the ex-dividend date and are automatically reinvested in additional shares of the respective mutual fund or ETF.

The investment contracts are fully benefit-responsive and are reported at contract value, which is equal to contributions, plus interest credited at a guaranteed rate, less withdrawals and any applicable fees and expenses. Interest is accrued as it is earned. The crediting interest rates, which may reset periodically, ranged from 1.78% to 1.90% at June 30, 2017.

Accounting standards categorize fair value measurement according to a hierarchy based on valuation inputs that are used to measure fair value. Level 1 inputs are quoted prices for identical assets in active markets that can be accessed at the measurement date. Level 2 inputs are inputs other than quoted prices that are observable for an asset, either directly or indirectly. Level 3 inputs are unobservable. The fair values of mutual funds and ETFs are determined using Level 1 inputs. The fair value standards are not applicable to the investment contracts, as they are reported at contract value, rather than fair value.

RIHEST maintains investments in government money market funds to ensure sufficient liquid resources are available to process account owner transactions and pay administrative fees when due. In addition, these government money market funds are included in the underlying asset allocation of certain Age-Based Portfolios and Target Risk Portfolios (see Note 2(f)). These funds are not subject to withdrawal restrictions. The government money market funds are reported in RIHEST's financial statements based on the net asset value per share, as determined by the fund administrator. These funds seek to maintain a stable net asset value of \$1 per share by using the amortized cost method to value the underlying portfolio of assets, which include cash, highly liquid U.S. government obligations and repurchase agreements that are fully collateralized by U.S. government obligations. The amortized cost method approximates fair value, based on the nature of the underlying assets. There is no guarantee that the net asset value will always remain at \$1 per share. The leveling hierarchy discussed in the preceding paragraph does not apply to these government money market funds.

(e) Cash and Cash Equivalents

Cash and cash equivalents generally include contributions received from account owners that have not yet been invested in Underlying Funds and/or redemption proceeds from Underlying Funds for withdrawals that have not yet been distributed in accordance with account owners' instructions. Contributions and withdrawal transactions are processed through non-interest bearing accounts maintained for CollegeBound 529 and CollegeBound Saver at BNY Mellon. These accounts are registered in the name and taxpayer identification number of the state of Rhode Island. The combined bank balance of these accounts at June 30, 2017, totaled \$14,844,951. Balances in these accounts are insured by the FDIC, along with any other accounts maintained at BNY Mellon under the same taxpayer identification number, in the aggregate, up to \$250,000. Amounts in excess of FDIC insurance limits are not collateralized or covered by supplementary insurance.

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Contributions

Individuals or entities meeting eligibility requirements that have properly executed a participation agreement with the Program may establish an account to which cash contributions may be made, subject to certain minimum contribution requirements and limitations on the aggregate amount of contributions that may be made. Contributions received by ACSR prior to the close of the NYSE are recorded as increases in fiduciary net position on the date they are received, provided that all related documentation is found to be in good order and approved by ACSR. Contributions are reported net of applicable initial sales charges, as more fully discussed in Note 4(b).

Account owners may elect to invest their contributions in one or more portfolio options, including Age-Based Portfolios, Target Risk Portfolios and Individual Portfolios. The Age-Based Portfolios allow account owners to choose a predetermined investment strategy based on the beneficiary's expected date of college enrollment. Over time, assets will transition from a heavier weight in equities in earlier years to more conservative investments in fixed-income securities and cash as the beneficiary approaches college enrollment. The Target Risk Portfolios seek to meet a specific investment goal and risk tolerance. The risk profile of each Target Risk Portfolio will be fixed over time. The Individual Portfolios are structured for exposure to a single type of asset class.

In addition to the various portfolio options, account owners investing in CollegeBound 529 must select from several classes of units, including Class A, Class C, Class I and Class AR. Class RA and Class RZ are additional share classes that are only available to Rhode Island residents. Class B, Class BX and Class CX were available prior to the Conversion Date, but are no longer available to new account owners. As more fully disclosed in Note 4, each unit class is subject to a different fee structure.

CollegeBound*baby* is a program designed to help Rhode Island families get an early start on saving for their child's higher education. Effective January 1, 2015, children born to or adopted by Rhode Island parents are eligible for a one-time, \$100 grant to be used for qualified educational expenses, provided that the request is received by the Treasurer within a year of the birth or adoption and a Program account is established for the designated beneficiary. CollegeBound*baby* grants are reported as contributions on the statement of changes in fiduciary net position in the year they are received by the Program.

In exchange for contributions, account owners receive full and/or fractional interests, or units, issued by RIHEST. These units are municipal securities. Although money contributed is invested in portfolio options that hold mutual funds, ETFs or investment contracts, the units themselves are not direct investments in the mutual funds, ETFs or investment contracts. These units are not insured by the FDIC or the state of Rhode Island, nor have they been registered with the Securities and Exchange Commission or any state commission.

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Contributions (Continued)

In addition, although account owners can select the portfolio options in which their contributions are invested, they cannot direct the selection or allocation of the Underlying Funds composing each portfolio option.

(g) Withdrawals

Account owners may request withdrawals for qualified or non-qualified expenses. It is the responsibility of the account owner to determine whether or not the withdrawal is for qualified higher educational expenses and to calculate the applicable amount of federal or state tax or penalties for non-qualified withdrawals, if any. Withdrawals are recorded as deductions from fiduciary net position on the date the withdrawal request is found to be in good order and approved by ACSR.

Withdrawals presented on the statement of changes in fiduciary net position include contingent deferred sales charges, annual account fees and service fees, as more fully discussed in Note 4(b) and Note 4(c), respectively.

(h) Exchanges and Transfers

Subject to certain limitations and restrictions, account owners may generally direct that their account balance be reinvested in one or more different portfolio options twice per calendar year. Transfers of funds between portfolio options are referred to as "exchanges." Under certain conditions, account assets may be transferred from one beneficiary to another or from one account owner to another. These transactions are referred to as "transfers." The amounts of contributions and withdrawals reported on the statement of changes in fiduciary net position do not include material amounts of exchanges or transfers, as these have no impact on the overall financial position of RIHEST.

(i) Unit Valuation

As explained in Note 2(f), each account owner's full and/or fractional interest in a portfolio option is evidenced by a unit. The net asset value of a unit is calculated daily based on the value of the Underlying Funds, adjusted for the effects of transactions such as accrued fees and investment income. The value of any individual account is determined by multiplying the number of units in a portfolio option attributable to that account owner by the net asset value per unit of that portfolio option.

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: INVESTMENTS

(a) Investments by Type

The Underlying Funds held by RIHEST at June 30, 2017, are as follows:

	Category / Designation	Value
Mutual Funds, at fair value		
Vanguard Extended Market Index Fund	Domestic Mid-Cap Blend	\$ 9,026,405
Vanguard Total Bond Market Index Fund	Intermediate-Term Bond	19,732,922
Vanguard Short-Term Inflation-Protected Securities Index Fund	Inflation Protected Bond	20,680,132
Vanguard Total Stock Market Index Fund	Domestic Large Blend	27,787,662
Vanguard Total International Stock Index Fund	International Large Blend	11,554,477
Vanguard Global ex-U.S. Real Estate Index Fund	International World Stock	1,084,812
Vanguard Short-Term Investment-Grade Fund	Short-Term Bond	16,297,478
Vanguard LifeStrategy Growth Fund	Moderate Allocation	15,123,131
Vanguard LifeStrategy Moderate Growth Fund	Moderate Allocation	9,184,308
Vanguard LifeStrategy Conservative Growth Fund	Conservative Allocation	2,232,564
Invesco Equally-Weighted S&P 500 Fund	Large-Cap Blend	451,910,766
Invesco Global Responsibility Equity Fund	International/Global Blend	3,024,361
Invesco Short Duration Inflation Protected Fund	Short-Term Taxable Inflation-Protected	706,575,702
Invesco Core Plus Bond Fund	Intermediate-Term Taxable Investment Grade	857,291,814
Invesco Diversified Dividend Fund	Large-Cap Value	707,618,548
Invesco Small Cap Growth Fund	Small-Cap Growth	3,438,285
Invesco International Growth Fund	International/Global Growth	4,037,311
Invesco Equity and Income Fund	Balanced	9,616,427
Invesco Global Growth Fund	International/Global Growth	314,832,309
Invesco Global Real Estate Income Fund	Real Estate	53,172,624
Invesco Floating Rate Fund	Taxable Noninvestment Grade	424,642,365
Invesco Short Term Bond Fund	Short-Term Taxable Investment Grade	453,021,576
Total Mutual Funds		4,121,885,979
ETFs, at fair value		
iShares Core S&P 500 ETF	Large Blend	15,557,551
iShares Core U.S. Aggregate Bond ETF	Intermediate-Term Bond	14,480,727
PowerShares FTSE RAFI US 1500 Small-Mid Portfolio	Small Blend	293,504,667
PowerShares FTSE RAFI Emerging Markets Portfolio	International and Global Equity	32,257,580
PowerShares S&P Emerging Markets Low Volatility Portfolio	International and Global Equity	36,982,572
PowerShares FTSE RAFI Developed Markets ex-U.S. Portfolio	Equity	201,503,564
Total ETFs		594,286,661
Other Investments		
Investment contracts, at contract value		1,250,383,165
Government money market funds		464,148,892
Total Other Investments		1,714,532,057
Total Investments		\$ 6,430,704,697

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: INVESTMENTS (Continued)

(b) Investment Contracts

RIHEST maintains a stable value separate account which is managed by Invesco. This account invests in guaranteed investment contracts issued by insurance companies and bank investment contracts issued by financial institutions. The contract values, by issuer, of each contract outstanding at June 30, 2017, are as follows:

American General Life Insurance Company	\$ 100,373,895
Bank of Tokyo	267,635,688
Prudential Insurance Company	267,666,149
RGA	267,716,328
State Street Bank	100,358,880
Voya Retirement and Annuity	<u>246,632,225</u>
 Total investment contracts, at contract value	 <u><u>\$ 1,250,383,165</u></u>

The aggregate fair value of these contracts is estimated by Invesco to be \$1,253,465,008. The credit ratings of the issuers range from Aa3 to A1 (Moody's) and AA- to A (Standard & Poor's). The bank investment contracts are not insured by the FDIC or otherwise covered by collateral or supplemental insurance.

(c) Net Appreciation in Value of Investments

The following table calculates the net change in the value of investments during the year ended June 30, 2017:

Investments, end of year	\$ 6,430,704,697
Less cost of investments purchased and investment income reinvested during the year	(11,922,337,441)
Plus proceeds from investments sold during the year	12,473,716,599
Investments, beginning of year	<u>(6,693,485,417)</u>
 Net appreciation in value of investments	 <u><u>\$ 288,598,438</u></u>

(d) Investment Risk

The mutual funds and ETFs in which RIHEST assets are invested comprise various investment securities, which include corporate debt and equity securities, obligations of the United States government and government agencies and international equity securities in their asset holdings. These securities are exposed to various risks, such as interest rate, market and credit risk, and it is at least reasonably possible that changes in their fair values could occur in the near term, materially affecting account owner balances and the amounts reported in RIHEST's financial statements.

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: INVESTMENTS (Continued)

(d) Investment Risk (Continued)

GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, GASB Statement No. 40, *Deposit and Investment Risk Disclosures* and GASB Statement No. 59, *Financial Instruments Omnibus*, require that certain disclosures be made related to RIHEST's investment policy and its exposure to credit risk, interest rate risk and foreign currency risk, which are included in the paragraphs that follow.

Investment Policy

The Treasurer has adopted an investment policy statement that sets forth investment objectives and performance monitoring requirements applicable to RIHEST. The overarching objective is to provide account owners with a range of investment options, allowing for diverse time horizons, return expectations and levels of risk tolerance. The policy requires analysis of investment managers to assess investment manager performance and to determine adherence to investment policy guidelines.

There are no provisions of the policy that specifically address interest rate risk, concentrations of credit risk or foreign currency risk. However, the Treasurer believes that portfolio options available to account owners are appropriately structured to allow account owners to manage these specific risk types, to the greatest extent possible, given the nature of the Underlying Funds.

Credit Risk

Certain Underlying Funds invest in bonds issued by corporations, the U.S. government and its agencies and instrumentalities. RIHEST may be indirectly exposed to credit risk, which is the risk that a bond issuer will fail to pay interest and principal when due as a result of adverse market or economic conditions.

RIHEST's mutual funds, ETFs and government money market funds are not subject to classification by custodial credit risk, which is the risk that RIHEST will not recover the value of investments that are in the possession of an outside party. In addition, the investment contracts are considered a contractual investment, rather than investment securities, and are not exposed to custodial credit risk, except as disclosed in Note 3(b) regarding bank investment contracts.

The mutual funds and ETFs in which RIHEST invests are not rated as to credit quality by a nationally recognized statistical rating organization. The government money market funds (Invesco Government & Agency Portfolio and Morgan Stanley Institutional Liquidity Funds Government Portfolio), are both rated Aaa-mf (Moody's) and AAAm (Standard & Poor's).

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 3: INVESTMENTS (Continued)

(d) Investment Risk (Continued)

Interest Rate Risk

Certain Underlying Funds invest primarily in short- and intermediate-term bonds and may be exposed to interest rate risk, which is the risk that changes in interest rates will adversely impact the fair value of an investment. Average maturity is the average length of time until fixed-income securities held by a fund reach maturity and will be repaid, taking into consideration the possibility that the issuer may call a bond before its maturity date. In general, the longer the average maturity, the more a fund's share price will fluctuate in response to changes in interest rates. As of June 30, 2017, the average maturity of holdings in each of the bond funds in which RIHEST is invested is as follows:

	<u>Average Maturity</u>
Invesco Short Duration Inflation Protected Fund	3.2 years
Invesco Floating Rate Fund	5.2 years
Invesco Core Plus Bond Fund	8.3 years
Invesco Short Term Bond Fund	3.4 years
Vanguard Short Term Inflation-Protected Securities Index Fund	2.8 years
Vanguard Short-Term Investment-Grade Fund	3.2 years
Vanguard Total Bond Market Index Fund	8.3 years
iShares Core U.S. Aggregate Bond ETF	8.0 years
Invesco Government & Agency Portfolio	24 days
Morgan Stanley Institutional Liquidity Funds Government Portfolio	13 days

Foreign Currency Risk

Certain Underlying Funds invest in a diversified index of non-U.S. stocks representing the major developed and emerging equity markets. There are certain inherent risks involved when investing in international securities that are not present with investments in domestic securities, such as foreign currency exchange rate fluctuations, adverse political and economic developments, natural disasters and the possible prevention or delay of currency exchange due to foreign governmental laws or restrictions.

NOTE 4: ADMINISTRATIVE FEES, CHARGES AND WAIVERS

(a) Administrative Fees

Administrative fees presented on the statement of changes in fiduciary net position include program management fees, state administrative fees, and distribution and service fees, as described below.

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: ADMINISTRATIVE FEES, CHARGES AND WAIVERS

(a) Administrative Fees (Continued)

Pre-conversion Fees

Prior to the Conversion Date, account owners were assessed program management and distribution fees according to the then applicable unit class and fee structure.

Program Management Fee

All non-Rhode Island resident accounts are assessed a program management fee, which is paid to ACSR to cover the cost of administering and managing the Program.

State Administrative Fee

All non-Rhode Island resident accounts invested in CollegeBound 529 are assessed an administrative fee, which is paid to the State Administrators to support the administration and operation of CollegeBound 529 and the establishment and marketing of education activities and scholarship funds in the state of Rhode Island.

Distribution and Service Fee

All non-Rhode Island resident accounts in CollegeBound 529 are subject to an annual distribution and service fee, which is paid to Invesco and financial advisors for the performance of certain distribution and account servicing functions.

All administrative fees are accrued daily and calculated based on the net position of each portfolio option.

Administrative fees for the year ended June 30, 2017 are as follows:

Pre-conversion fees	\$ 1,324,803
Program management fees	8,862,059
Distribution and service fees	24,357,392
State administrative fees	<u>1,180,247</u>
Total administrative fees	<u><u>\$ 35,724,501</u></u>

(b) Sales Charges

This disclosure regarding sales charges is applicable to the period from the Conversion Date through June 30, 2017.

Rhode Island Higher Education Savings Trust
(A Private Purpose Trust Fund of the State of Rhode Island and Providence Plantations)

NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: ADMINISTRATIVE FEES, CHARGES AND WAIVERS (Continued)

(b) Sales Charges (Continued)

Account owners investing in Class A and Class RZ units of CollegeBound 529 are generally subject to an initial sales charge of up to 4.00% on amounts contributed. Individual contribution transactions that equal or exceed \$500,000 are not subject to initial sales charges. In addition, there are certain limited circumstances, as more fully described in the CollegeBound 529 Program Description, where these initial sales charges do not apply. Contributions are presented on the statement of changes in fiduciary net position net of initial sales charges.

Account owners investing in Class C and AR units of CollegeBound 529 and \$500,000 or more in Class A units of CollegeBound 529 may be assessed a contingent deferred sales charge of 1.00% for Class C and AR and 0.40% for Class A of the amount invested if the account owner withdraws the contribution within twelve months of making the contribution. Class B and BX units of CollegeBound 529 may also be assessed a contingent deferred sales charge amount ranging from 1.10% to 4.00% if the account owner withdraws the contributions within four years of making the contribution for Class B units and within five years of making the contribution for Class BX units.

All or a portion of these sales charges are paid to the financial advisors through whom account owners invest in CollegeBound 529.

Initial sales charges totaled approximately \$6.9 million, and contingent deferred sales charges totaled approximately \$328,000 for the period from the Conversion Date through June 30, 2017.

(c) Annual Account Fees and Service Fees

This disclosure regarding annual account fees and service fees is applicable to the period from the Conversion Date through June 30, 2017.

Annual account fees are assessed annually in the anniversary month of the account opening for all non-Rhode Island resident accounts in CollegeBound 529. In addition, this fee is waived if the account balance is at least \$25,000, there is an active recurring contribution to the account or a payroll direct deposit is made at least 90 days before the annual account fee is charged. In addition to the annual account fees, account owners may be subject to service fees for other transactions, such as returned checks, outgoing wire transfers, overnight delivery and requests for historical statements. Annual account fees and service fees, which totaled approximately \$326,000 for the period from the Conversion Date through June 30, 2017, are paid to ACSR.

(d) Underlying Fund Expenses

Fees related to management of the Underlying Funds (Underlying Fund Expense) reduce the amount of income available for distribution to RIHEST. These expenses are not direct expenses paid from RIHEST assets, and therefore, are not included in administrative fees in RIHEST's financial statements.

Rhode Island Higher Education Savings Trust
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NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 4: ADMINISTRATIVE FEES, CHARGES AND WAIVERS (Continued)

(d) Underlying Fund Expenses (Continued)

The Underlying Fund Expense on certain Underlying Funds may not exceed certain amounts as specified in the CollegeBound 529 Program Description and the CollegeBound Saver Program Description. In the event that the Underlying Fund Expense exceeds the maximum limit, Invesco is required to reimburse RIHEST for the excess. Such reimbursements, which totaled approximately \$248,000 for the period from the Conversion Date through June 30, 2017, are netted against administrative fees for purposes of presentation on the statement of changes in fiduciary net position.

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*

State of Rhode Island Office of the General Treasurer
Ascensus College Savings Recordkeeping Services, LLC

We have audited, in accordance with the 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 financial statements of the **Rhode Island Higher Education Savings Trust (RIHEST)**, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise RIHEST's basic financial statements, and have issued our report thereon dated October 11, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered RIHEST'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 basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of RIHEST's internal control. Accordingly, we do not express an opinion on the effectiveness of RIHEST'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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity'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 RIHEST's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and agreements, 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*.

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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 RIHESST's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering RIHESST's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas & Thomas LLP

Certified Public Accountants

October 11, 2017
Little Rock, Arkansas