

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, 2018
(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, Program Manager
Rhode Island Higher Education Savings Trust

Report on the Basic 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, 2018, and the related notes to the financial statements, which collectively comprise RIHEST's basic financial statements.

Management's Responsibility for the Basic 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, 2018, and the changes in 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, 2018. 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 20 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 September 28, 2018, 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

September 28, 2018
Little Rock, Arkansas

Management's Discussion and Analysis
(Unaudited)

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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, 2018

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 and for the years ended June 30, 2018. 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 22 through 36.

* * * * *

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 educational expenses through the Rhode Island Tuition Savings Program (the Program). The Program administered under RIHEST includes two savings plan options – CollegeBound 529, which is available exclusively through a financial advisor or registered investment advisor, and CollegeBound Saver, which is 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 Office of the Postsecondary Commissioner (which includes 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, 2018

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, 2018</u>	<u>June 30, 2017</u>
Total assets	\$ 6,049,987,328	\$ 6,481,076,959
Total liabilities	<u>17,467,832</u>	<u>75,313,388</u>
Net position held in trust for account owners and beneficiaries	<u>\$ 6,032,519,496</u>	<u>\$ 6,405,763,571</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2018

Financial Analysis (Continued)

Fiduciary Net Position (Continued)

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 \$6.0 billion and \$6.4 billion at June 30, 2018 and 2017, respectively, 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 \$7.6 million at June 30, 2018, and \$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 \$17.5 million at June 30, 2018, and \$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:

	<u>Year Ended</u> <u>June 30, 2018</u>	<u>Year Ended</u> <u>June 30, 2017</u>
Net investment income (loss)	\$ 207,481,992	\$ 390,854,921
Net withdrawals	(547,873,167)	(637,142,237)
Net administrative fees	(32,852,900)	(35,476,688)
Net decrease	(373,244,075)	(281,764,004)
Net position held in trust for account owners and beneficiaries, beginning of year	<u>6,405,763,571</u>	<u>6,687,527,575</u>
Net position held in trust for account owners and beneficiaries, end of year	<u>\$ 6,032,519,496</u>	<u>\$ 6,405,763,571</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Financial Analysis *(Continued)*

Changes in Fiduciary Net Position *(Continued)*

The amounts presented in the table on the preceding page 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.

Investment Commentary

Asset Class Commentary

Global equity markets delivered positive returns over the fiscal year ended June 30, 2018. That positive performance was despite increased volatility in the first half of 2018, during which time stocks were whipsawed — first by concerns about accelerated US Federal Reserve (the Fed) tightening and then by fears of a brewing trade war. The fiscal year saw continued global economic growth despite rising risks from geopolitics and tighter monetary policy. In Europe, economic growth remained positive, with improving employment, industrial production and consumption trends in many countries. The political environment in Germany improved, with Chancellor Angela Merkel finally securing a coalition government in order to continue her leadership. French President Emmanuel Macron continued his efforts at labor reform, boosting business confidence and business spending. The European Central Bank remained supportive of European equities, maintaining a dovish tone throughout the fiscal year.

Economic growth in emerging markets was positive as well for the fiscal year despite experiencing a sharp decline in the second quarter of 2018. While industrial production in emerging markets improved after weakness in the fourth quarter of 2017, global trade tensions and a strengthening US dollar acted as significant headwinds. Latin America produced mixed results, while India continued its economic reforms. Chinese growth appeared to stabilize. President Xi Jinping was able to consolidate power in early 2018, with China abolishing term limits. At the close of the fiscal year, equity valuations in developed and emerging markets appeared relatively full in absolute terms — but non-US equity markets were trading at a material discount to the US.

Equities

Global equities delivered positive returns over the fiscal year despite an increase in volatility during the first half of 2018. The increased volatility brought improved stock market valuations. Since the start of the year, the price-to-earnings ratio on the S&P 500 index has contracted from 22.4 to 20.7. During the period, US equities outperformed international equities as volatility and geopolitical tensions stoked investor concerns. In the US, growth outperformed value and large-caps led performance over small- and midcap stocks. Within the S&P 500 Index, the information technology and energy sectors were the best performers while the consumer staples sector was the only sector to post a negative return. From an international equities perspective, value again trailed growth, with large- and mid-caps lagging small cap stocks.

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Investment Commentary (Continued)

Fixed Income

US bond returns were negative for the period, as neither government nor corporate issuers could avoid the impact of rising interest rates, tariff conflicts and widening credit spreads. High yield bonds resisted the downturn and posted positive returns, outperforming investment grade bonds, while shorter duration outperformed longer duration bonds. International bonds produced positive returns during the fiscal year. However, many markets have seen a rise in yields year-to-date due to concerns around central bank policies, ongoing trade tension, political uncertainties and a stronger US dollar.

Commodities

Commodity prices were generally positive during the period. Crude prices rallied late in early 2018 when the US decided to withdraw from the Iran nuclear accord. Industrial metals such as aluminum, nickel and copper also posted positive returns. In contrast, precious metals such as gold and silver declined along with grains prices due to global trade tensions.

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.

Year Ended June 30, 2018			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco CollegeBound 2017-2018 Portfolio	Custom Invesco CollegeBound 2017-2018 Index	1.65%	-0.10%
Invesco CollegeBound 2019-2020 Portfolio	Custom Invesco CollegeBound 2019-2020 Index	1.73%	-0.10%
Invesco CollegeBound 2021-2022 Portfolio	Custom Invesco CollegeBound 2021-2022 Index	2.56%	-0.62%
Invesco CollegeBound 2023-2024 Portfolio	Custom Invesco CollegeBound 2023-2024 Index	2.93%	-1.14%
Invesco CollegeBound 2025-2026 Portfolio	Custom Invesco CollegeBound 2025-2026 Index	3.10%	-1.36%
Invesco CollegeBound 2027-2028 Portfolio	Custom Invesco CollegeBound 2027-2028 Index	3.55%	-1.75%

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Investment Commentary (Continued)

CollegeBound 529 Portfolios (Continued)

Age-Based Portfolios (Continued)

Year Ended June 30, 2018 (Continued)			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco CollegeBound 2029-2030 Portfolio	Custom Invesco CollegeBound 2029-2030 Index	3.61%	-2.58%
Invesco CollegeBound 2031-2032 Portfolio	Custom Invesco CollegeBound 2031-2032 Index	3.94%	-3.52%
Invesco CollegeBound 2033-2034 Portfolio	Custom Invesco CollegeBound 2033-2034 Index	4.47%	-4.08%
Invesco CollegeBound 2035-2036 Portfolio	Custom Invesco CollegeBound 2035-2036 Index	4.38%	-4.44%
Invesco CollegeBound Today Portfolio	Custom Invesco CollegeBound Today Index	0.89%	0.22%

Period from Conversion Date through June 30, 2017			
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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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
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Investment Commentary (Continued)

CollegeBound 529 Portfolios (Continued)

Age-Based Portfolios (Continued)

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

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

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 dates.

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 US 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.

Year Ended June 30, 2018			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco Conservative College Portfolio	Custom Invesco Conservative College Index	2.85%	-1.11%
Invesco Moderate College Portfolio	Custom Invesco Moderate College Index	3.97%	-2.87%
Invesco Growth College Portfolio	Custom Invesco Growth College Index	5.24%	-4.70%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
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Investment Commentary (Continued)

CollegeBound 529 Portfolios (Continued)

Target-Risk Portfolios (Continued)

Period from Conversion Date through June 30, 2017			
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%

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

Invesco Stable Value Portfolio	Invesco Diversified Dividend Fund
Invesco Government & Agency Portfolio	Invesco FTSE RAFI US 1500 Small-Mid ETF
Invesco Short-Term Bond Fund	Invesco FTSE RAFI Dev Markets ex-US ETF
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	Invesco FTSE RAFI Emerging Markets ETF
Invesco Equally-Weighted S&P 500 Fund	Invesco S&P Emerging Markets Low Volatility ETF

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

Rhode Island Higher Education Savings Trust

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Investment Commentary (Continued)

CollegeBound 529 Portfolios (Continued)

Target-Risk Portfolios (Continued)

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 US and foreign large-, mid- and small-capitalization stocks. The portfolio's indirect bond holdings are a diversified mix of short-, intermediate- and long-term US government, US agency and investment-grade US corporate bonds; mortgage backed and asset-backed securities; and government, agency, corporate and securitized investment-grade foreign bonds issued in currencies other than the US dollar.

Individual Portfolios

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

Year Ended June 30, 2018			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco Core Plus Bond Portfolio	Bloomberg Barclays US Aggregate Index	-1.38%	-0.98%
Invesco Diversified Dividend Portfolio	Russell 1000 Value Index	2.50%	-4.27%
Invesco Equally-Weighted S&P 500 Portfolio	S&P 500 Index TR	11.39%	-2.98%
Invesco Equity and Income Portfolio	Russell 1000 Value Index	5.16%	-1.61%
Invesco Global Sustainable Equity Portfolio	MSCI World Index	10.65%	-0.44%
Invesco International Growth Portfolio	MSCI All Country World ex US Growth Index	1.13%	-8.77%
Invesco Short Duration Inflation Protected Portfolio	BofA Merrill Lynch 1-5 Year US Inflation Linked Treasury	0.50%	-0.72%
Invesco Small Cap Growth Portfolio	Russell 2000 Growth Index	23.74%	1.88%
Invesco Stable Value Portfolio	Bloomberg Barclays US Treasury Bellwethers	1.39%	0.02%
Invesco FTSE RAFI Developed Markets ex-US Portfolio	MSCI EAFE Index	5.74%	-1.10%
Invesco FTSE RAFI US 1500 Small-Mid Portfolio	Russell 2000 Index	18.23%	0.66%

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Investment Commentary (Continued)

CollegeBound 529 Portfolios (Continued)

Individual Portfolios (Continued)

Period from Conversion Date through June 30, 2017			
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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Investment Commentary (Continued)

CollegeBound Saver Portfolios (Continued)

Age-Based Portfolios (Continued)

Year Ended June 30, 2018			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
CollegeBound 2017-2018 Portfolio	Custom CollegeBound 2017-2018 Index	1.96%	0.21%
CollegeBound 2019-2020 Portfolio	Custom CollegeBound 2019-2020 Index	2.12%	0.30%
CollegeBound 2021-2022 Portfolio	Custom CollegeBound 2021-2022 Index	3.33%	0.15%
CollegeBound 2023-2024 Portfolio	Custom CollegeBound 2023-2024 Index	4.16%	0.08%
CollegeBound 2025-2026 Portfolio	Custom CollegeBound 2025-2026 Index	4.40%	-0.06%
CollegeBound 2027-2028 Portfolio	Custom CollegeBound 2027-2028 Index	5.19%	-0.11%
CollegeBound 2029-2030 Portfolio	Custom CollegeBound 2029-2030 Index	6.10%	-0.09%
CollegeBound 2031-2032 Portfolio	Custom CollegeBound 2031-2032 Index	7.17%	-0.28%
CollegeBound 2033-2034 Portfolio	Custom CollegeBound 2033-2034 Index	8.10%	-0.45%
CollegeBound 2035-2036 Portfolio	Custom CollegeBound 2035-2036 Index	8.27%	-0.54%
CollegeBound Today	Custom CollegeBound Today Portfolio Index	0.80%	0.13%

Period from Conversion Date through June 30, 2017			
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%

Rhode Island Higher Education Savings Trust
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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2018

Investment Commentary (Continued)

CollegeBound Saver Portfolios (Continued)

Age-Based Portfolios (Continued)

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

iShares Core S&P Total US Stock Market ETF
Invesco Equally-Weighted S&P 500 Fund
Vanguard Total International Stock Index Fund
Invesco FTSE RAFI Developed Markets ex-US ETF
Vanguard Global ex-US 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 US Aggregate Bond ETF
Invesco Government & Agency Portfolio

The Age-Based Portfolios seek to achieve capital appreciation, income and preservation of capital as appropriate for proximity to their applicable target dates. 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 Portfolios allocate their assets to Underlying Funds consisting of ETFs and mutual funds, seeking to provide access to broad asset classes, including domestic US 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 a single Underlying Fund.

Year Ended June 30, 2018				
Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Conservative Growth Portfolio	Vanguard LifeStrategy Conservative Growth Fund	Custom Conservative Growth Portfolio Index	5.00%	-0.05%
Moderate Growth Portfolio	Vanguard LifeStrategy Moderate Growth Fund	Custom Moderate Growth Portfolio Index	7.18%	-0.14%
Growth Portfolio	Vanguard LifeStrategy Growth Fund	Custom Growth Portfolio Index	9.38%	-0.24%

Rhode Island Higher Education Savings Trust
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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2018

Investment Commentary (Continued)

CollegeBound Saver Portfolios (Continued)

Target-Risk Portfolios (Continued)

Period from Conversion Date through June 30, 2017				
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 Portfolio	Vanguard LifeStrategy Growth Fund	Custom Growth Portfolio Index	14.10%	-0.15%

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%

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Investment Commentary (Continued)

CollegeBound Saver Portfolios (Continued)

Growth Portfolio

The Growth Portfolio seeks to provide capital appreciation and some current income. The portfolio invests 100% of its assets in the 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%

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.

Year Ended June 30, 2018				
Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Bond Portfolio	Vanguard Total Bond Market Index Fund	Bloomberg Barclays US Aggregate Float Adjusted I	-0.51%	-0.05%
Equally-Weighted S&P 500 Portfolio	Invesco Equally-Weighted S&P 500 Fund	S&P 500 Index-TR	11.87%	-2.51%
Inflation Protected Bond Portfolio	Vanguard Short-Term Inflation-Protected Securities Index Fund	Bloomberg Barclays US Treasury Inflation-Protected Index	1.30%	-0.81%
International Stock Portfolio	Vanguard Total International Stock Index Fund	FTSE Global All Cap ex-US Index-NR	7.12%	-0.46%
Global Sustainable Equity Portfolio	Invesco Global Sustainable Equity Fund	MSCI World Index-NR	11.04%	-0.04%
Stable Value Portfolio	Invesco Stable Value Fund Separate Account	Bloomberg Barclays US Treasury Bellwethers (3M)	1.97%	0.60%
US Small-Mid Cap Portfolio	Vanguard Extended Market Index Fund	S&P Completion Index-TR	16.85%	0.13%
US Stock Portfolio	Vanguard Total Stock Market Index Fund	CRSP US Total Market Index-TR	14.84%	0.00%

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MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)
June 30, 2018

Investment Commentary (Continued)

CollegeBound Saver Portfolios (Continued)

Individual Portfolios (Continued)

Period from Conversion Date through June 30, 2017				
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%

Legislative Highlights

On December 22, 2017, President Trump signed the *Tax Cuts and Jobs Act* into law. The legislation includes the following provisions related specifically to 529 plan accounts, beginning with the 2018 tax year:

- Account owners may use assets accumulated in their 529 plan accounts to pay for private, public and religious elementary, middle or high school tuition, up to \$10,000 per year, per student. Withdrawals to pay elementary, middle or high school tuition are treated as qualified withdrawals with respect to federal income tax benefits.
- Account owners may roll over 529 plan account assets to a 529 ABLÉ plan account for the same beneficiary or a member of the family of the beneficiary, up to the ABLÉ annual contribution limit, without incurring federal income taxes.

Rhode Island Higher Education Savings Trust

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MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

June 30, 2018

Legislative Highlights *(Continued)*

The Student Empowerment Act (S.3102) was introduced on June 21, 2018 and, if passed, would amend the Internal Revenue Code of 1986, as amended, to permit Kindergarten through Grade 12 educational expenses to be paid from a 529 account. This bill was referred to the Committee on Finance on June 21, 2018.

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, 2018

ASSETS

Investments	\$ 6,042,418,380
Cash and cash equivalents	7,012,984
Receivables for investments sold	<u>555,964</u>
Total Assets	<u><u>6,049,987,328</u></u>

LIABILITIES

Payables for investments purchased	6,064,784
Withdrawals payable	4,949,339
Accrued administrative fees, net	<u>6,453,709</u>
Total Liabilities	<u><u>17,467,832</u></u>

NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES

\$ 6,032,519,496

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, 2018

ADDITIONS

Contributions	\$ 293,494,959
Investment income:	
Dividends and interest	126,317,268
Net appreciation in value of investments	81,164,724
Net investment income	<u>207,481,992</u>
Total Additions	<u>500,976,951</u>

DEDUCTIONS

Withdrawals	<u>841,368,126</u>
Net administrative fees:	
Administrative fees	33,105,661
Fee waivers	<u>(252,761)</u>
Net administrative fees	<u>32,852,900</u>
Total Deductions	<u>874,221,026</u>

NET DECREASE (373,244,075)

NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, BEGINNING OF YEAR 6,405,763,571

NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES, END OF YEAR \$ 6,032,519,496

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, 2018

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 educational expenses through the Rhode Island Tuition Savings Program (the Program). The Program administered under RIHEST includes two 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 Office of the Postsecondary Commissioner (which includes 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. Ascensus College Savings Recordkeeping Services, LLC (ACSR) serves as Program Manager, 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, 2018

NOTE 1: ORGANIZATION AND NATURE OF OPERATIONS (Continued)

(b) Administration (Continued)

Invesco Advisers, Inc. (Invesco), The Vanguard Group, Inc. and BlackRock, Inc. provide investment management services in accordance with an 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.

The Bank of New York Mellon Corporation (BNY Mellon) is the custodial agent for certain assets invested through the Program, responsible for maintaining a custody account to provide for safekeeping and recordkeeping.

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 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.

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, 2018

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments (Continued)

Accounting standards categorize fair value measurements 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 investment contracts, which include contracts issued by financial institutions and insurance companies, 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. These contracts, also referred to as “wrap contracts,” are backed by a diversified portfolio of high-quality bonds, including government securities, corporate bonds, mortgage-backed and asset-backed securities and cash equivalents. Each wrap contract represents a general obligation of the issuing company to pay account owner distributions at contract value, even if the market value of the assets associated with each contract is less than the contract value of the assets. Crediting interest rates, which may be reset periodically, ranged from 2.17% to 2.25% at June 30, 2018. Interest accrues as it is earned. 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 US government obligations and repurchase agreements that are fully collateralized by US 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 fair value measurement hierarchy discussed above 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.

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, 2018

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Cash and Cash Equivalents (Continued)

Contribution 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, 2018, totaled \$336,424. Balances in these accounts are insured by the Federal Deposit Insurance Corporation (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.

Daily, excess cash balances are swept from these BNY Mellon accounts into an account where they are invested in the Dreyfus Government Cash Management Institutional Fund, which is a money market mutual fund rated AAAm (Standard & Poor's). The weighted average maturity of the underlying debt securities in this fund was 17 days at June 30, 2018. The balance of this account as of June 30, 2018, is \$14,804,060 and is also included in cash and cash equivalents. Balances in this account are not insured or collateralized; however, government money market mutual funds are not exposed to custodial credit risk.

(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 allow account owners to invest based on risk tolerance and investment goals. 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 July 8, 2016, but are no longer available to new account owners. On or about September 7, 2018, Class AR units will be converted to Class A units of the same portfolio. As more fully disclosed in Note 4, each unit class is subject to a different fee structure.

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, 2018

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Contributions (Continued)

CollegeBound*baby* is a program designed to help Rhode Island families get an early start on saving for their child's 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.

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 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, Conversions 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."

In general, Class C units automatically convert into Class A units in the fifth year after purchase, and Class B units and Class BX units automatically convert into Class A units in the eighth year after purchase. These transactions are referred to as "conversions."

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."

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, 2018

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Exchanges, Conversions and Transfers (Continued)

The amounts of contributions and withdrawals reported on the statement of changes in fiduciary net position do not include exchanges, conversions or transfers, as these types of transactions 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.

NOTE 3: INVESTMENTS

(a) Investments by Type

The Underlying Funds held by RIHEST at June 30, 2018, are as follows:

	<u>Category / Designation</u>	<u>Value</u>
Mutual Funds, at fair value		
Vanguard Extended Market Index Fund	Domestic Mid-Cap Blend	\$ 9,803,282
Vanguard Total Bond Market Index Fund	Intermediate-Term Bond	22,433,017
Vanguard Short-Term Inflation-Protected Securities Index Fund	Inflation Protected Bond	22,525,441
Vanguard Total Stock Market Index Fund	Domestic Large Blend	31,353,262
Vanguard Total International Stock Index Fund	International Large Blend	13,734,776
Vanguard Global ex-U.S. Real Estate Index Fund	International World Stock	1,196,520
Vanguard Short-Term Investment-Grade Fund	Short-Term Bond	17,644,106
Vanguard LifeStrategy Growth Fund	Moderate Allocation	17,883,521
Vanguard LifeStrategy Moderate Growth Fund	Moderate Allocation	11,354,071
Vanguard LifeStrategy Conservative Growth Fund	Conservative Allocation	3,521,124
Invesco Equally-Weighted S&P 500 Fund	Large-Cap Blend	461,390,416
Invesco Global Responsibility Equity Fund	International/Global Blend	7,105,045
Invesco Short Duration Inflation Protected Fund	Short-Term Taxable Inflation-Protected	669,905,577
Invesco Core Plus Bond Fund	Intermediate-Term Taxable Investment Grade	800,828,641

(Continued)

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, 2018

NOTE 3: INVESTMENTS (Continued)

(a) Investments by Type (Continued)

	Category / Designation	Value
Mutual Funds, at fair value <i>(continued)</i>		
Invesco Diversified Dividend Fund	Large-Cap Value	\$ 662,983,819
Invesco Small Cap Growth Fund	Small-Cap Growth	11,201,676
Invesco International Growth Fund	International/Global Growth	10,286,321
Invesco Equity and Income Fund	Balanced	16,938,625
Invesco Global Growth Fund	International/Global Growth	296,496,610
Invesco Global Real Estate Income Fund	Real Estate	50,279,593
Invesco Floating Rate Fund	Taxable Noninvestment Grade	400,922,912
Invesco Short Term Bond Fund	Short-Term Taxable	
	Investment Grade	436,822,142
Total Mutual Funds		3,976,610,497
ETFs, at fair value		
iShares Core S&P Total U.S. Stock Market ETF	Large Blend	17,201,768
iShares Core U.S. Aggregate Bond ETF	Intermediate-Term Bond	15,477,854
Invesco FTSE RAFI US 1500 Small-Mid ETF	Small Blend	282,150,798
Invesco FTSE RAFI Emerging Markets ETF	International and Global Equity	26,995,992
Invesco S&P Emerging Markets Low Volatility ETF	International and Global Equity	30,616,544
Invesco FTSE RAFI Developed Markets ex-U.S. ETF	Foreign Large Value	188,852,365
Total ETFs		561,295,321
Other Investments		
Investment contracts, at contract value (see Note 3(b))		1,123,395,603
Government money market funds		381,116,959
Total Other Investments		1,504,512,562
Total Investments		\$ 6,042,418,380

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, 2018

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, 2018, are as follows:

American General Life Insurance Company	\$ 138,610,191
Nationwide Life Insurance	134,013,074
Prudential Insurance Company	240,421,277
RGA	240,718,235
State Street Bank	138,588,274
Voya Retirement and Annuity	<u>231,044,552</u>
 Total investment contracts, at contract value	 <u><u>\$ 1,123,395,603</u></u>

The aggregate fair value of these contracts is estimated by Invesco to be \$1,099,876,966. The credit ratings of the issuers range from AA- to A+ (Standard & Poor's). The bank investment contracts are not insured by the FDIC or otherwise covered by collateral or supplementary 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, 2018:

Value of investments, end of year	\$ 6,042,418,380
Less cost of investments purchased and investment income reinvested during the year	(958,809,765)
Plus proceeds from investments sold during the year	1,428,260,806
Less value of investments, beginning of year	<u>(6,430,704,697)</u>
 Net appreciation in value of investments	 <u><u>\$ 81,164,724</u></u>

(d) Investment Risk

The mutual funds and ETFs in which RIHEST assets are invested include various investment securities, such as 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 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.

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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 SIC has set forth investment objectives and performance monitoring requirements applicable to RIHEST in an investment policy statement. The overarching objective is to provide account owners with a range of investment options, allowing for diverse levels of risk tolerance, return expectations and time horizons. 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 credit risk, 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, foreign governments, the US 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 exposed to 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.

None of the mutual funds or ETFs in which RIHEST invests are rated 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 AAAm (Standard & Poor's).

Interest Rate Risk

Certain Underlying Funds invest primarily in short- and intermediate-term bonds and may be exposed to interest rate risk. Interest rate risk 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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 3: INVESTMENTS (Continued)

(d) Investment Risk (Continued)

Interest Rate Risk (Continued)

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, 2018, the average maturity of holdings in each of the bond funds in which RIHEST is invested is as follows:

	<u>Average Maturity</u>
Vanguard Total Bond Market Index Fund	8.4 years
Vanguard Short Term Inflation-Protected Securities Index Fund	2.8 years
Vanguard Short-Term Investment-Grade Fund	3.5 years
Invesco Short Duration Inflation Protected Fund	3.0 years
Invesco Core Plus Bond Fund	14.1 years
Invesco Floating Rate Fund	5.4 years
Invesco Short Term Bond Fund	3.9 years
iShares Core U.S. Aggregate Bond ETF	8.1 years
Invesco Government & Agency Portfolio	28 days
Morgan Stanley Institutional Liquidity Funds Government Portfolio	26 days

Foreign Currency Risk

Certain Underlying Funds invest in a diversified index of non-US 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 and the possible prevention or delay of currency exchange due to foreign governmental laws or restrictions.

NOTE 4: ADMINISTRATIVE FEES, ACCOUNT FEES, SALES 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.

Program Management Fee

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

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NOTES TO FINANCIAL STATEMENTS
June 30, 2018

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

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 educational 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 aggregate net position attributable to non-Rhode Island resident accounts in each portfolio option.

Administrative fees for the year ended June 30, 2018 are as follows:

Program management fees	\$ 8,723,913
Distribution and service fees	23,223,063
State administrative fees	<u>1,158,685</u>
Total administrative fees	<u>\$ 33,105,661</u>

(b) Sales Charges

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.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 4: ADMINISTRATIVE FEES, ACCOUNT FEES, SALES CHARGES AND WAIVERS (Continued)

(b) Sales Charges (Continued)

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 \$6.4 million, and contingent deferred sales charges totaled approximately \$244,000 for the year ended June 30, 2018.

(c) Annual Account Fees and Service Fees

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 \$2.8 million for the year ended June 30, 2018, 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.

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 \$253,000 for the year ended June 30, 2018, 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, Program Manager
Rhode Island Higher Education Savings Trust

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, 2018, and the related notes to the financial statements, which collectively comprise RIHEST's basic financial statements, and have issued our report thereon dated September 28, 2018.

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

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Compliance and Other Matters (Continued)

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

Thomas & Thomas LLP

Certified Public Accountants

September 28, 2018
Little Rock, Arkansas