

**Rhode Island Higher Education Savings Trust**  
(A Fiduciary Fund of the State of Rhode Island)

**Basic Financial Statements  
and  
Management's Discussion and Analysis  
June 30, 2021**

**(With Independent Auditor's Report Thereon)**

**Rhode Island Higher Education Savings Trust**  
(A Fiduciary Fund of the State of Rhode Island)

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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, 2021, 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.

State of Rhode Island Office of the General Treasurer  
Ascensus College Savings Recordkeeping Services, LLC, Program Manager  
Rhode Island Higher Education Savings Trust

**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, 2021, 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 financial reporting entity as a fiduciary 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, 2021. 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 October 7, 2021, 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 solely 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 the effectiveness of 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.



Little Rock, Arkansas  
October 7, 2021

**Management's Discussion and Analysis**  
**(Unaudited)**

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# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

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, 2021 and 2020. 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 professional or registered investment advisor, and CollegeBound Saver, which is available without the assistance of a financial professional 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) and the Executive Director of the Rhode Island Student Loan Authority (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. 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.

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 ACSR and Invesco that expires concurrently with the Program Management Agreement.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### 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 as a fiduciary fund. Assets are held in trust for account owners and beneficiaries and cannot be used to support other governmental programs.

RIHEST's basic 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 basic financial statements are prepared using the accrual basis of accounting. Investments in exchange-traded funds (ETFs) and mutual funds 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. Realized and unrealized gains and losses are reported as "net increase (decrease) in the fair value of investments" 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 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 and expenses 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, 2021</u>	<u>June 30, 2020</u>
Total assets	\$ 5,414,007,998	\$ 5,259,020,545
Total liabilities	<u>10,120,303</u>	<u>94,160,388</u>
Net position held in trust for account owners and beneficiaries	<u>\$ 5,403,887,695</u>	<u>\$ 5,164,860,157</u>



# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### 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 since RIHEST's inception, increased (decreased) by net investment income (loss), and decreased by withdrawals and net administrative fees and expenses.

Investments, which totaled \$5.4 billion and \$5.2 billion at June 30, 2021 and 2020, respectively, represent over 99% of RIHEST's total assets. Account owners are able to direct investment of their contributions into one or more investment options and unit 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 approved by SIC.

Other assets, which totaled \$9.1 million at June 30, 2021, and \$79.8 million at June 30, 2020, 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 \$10.1 million at June 30, 2021, and \$94.2 million at June 30, 2020, 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 years presented:

	<u>Year Ended</u> <u>June 30, 2021</u>	<u>Year Ended</u> <u>June 30, 2020</u>
Contributions	\$ 270,416,222	\$ 260,353,127
Net investment income	754,455,527	75,442,388
Withdrawals	(765,032,497)	(829,621,839)
Net administrative fees and expenses	<u>(20,811,714)</u>	<u>(21,770,768)</u>
Net increase (decrease)	239,027,538	(515,597,092)
Net position held in trust for account owners and beneficiaries, beginning of year	<u>5,164,860,157</u>	<u>5,680,457,249</u>
Net position held in trust for account owners and beneficiaries, end of year	<u>\$ 5,403,887,695</u>	<u>\$ 5,164,860,157</u>

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary

#### General Market Commentary

Despite the ongoing global pandemic, global markets produced strong gains over the 1-year period ended June 30, 2021. Major central banks remained very accommodative during the year, keeping rates at record lows and committing to bond-buying purchase programs. Capital markets benefited from the strong monetary policy response, and many countries experienced a strong economic rebound over the year. US markets produced the strongest gains, led by cyclical sectors such as technology, financials, materials and industrials. Emerging markets also posted robust returns and outperformed developed markets on expectations of the cyclical recovery. In terms of fixed income, corporate bonds generally outperformed government bonds. Commodities also posted positive returns, with oil and natural gas prices rising significantly.

At the beginning of the period, many countries were able to successfully reduce the spread of COVID-19 pandemic infections and continued to reduce pandemic-related stringency protocols. As a result, global economies grew and flourished throughout much of the third quarter in 2020, as many countries experienced a strong economic rebound. Despite the progress made early in the quarter, economic growth began to slow towards the end of the third quarter due to an increase in COVID-19 pandemic infections in many countries as hospitalizations, and deaths began to rise once again. This caused some countries to implement varying levels of lockdown measures, which put pressure on their respective economic recoveries. In the U.K. and the Eurozone, the services sector came under particular pressure. However, in the fourth quarter of 2020, new developments of various COVID-19 pandemic vaccines with high levels of efficacy were brought to light. This was a very powerful catalyst for a strong stock market rally, especially benefiting cyclical and smaller-capitalization stocks. Additionally, one critical risk facing markets – uncertainty over the US presidential election – was put to rest with a relatively decisive victory by president-elect Joe Biden. As the new calendar year began, the ability to control the COVID-19 pandemic was a major determining factor in the growth of an economy. The Eurozone, the U.K. and Canada as well as some emerging markets countries such as India and Brazil, all experienced a significant increase in COVID-19 pandemic infections. This resulted in varying levels of lockdown measures to combat the spread of the virus, which in turn created headwinds for economic growth. Conversely, vaccination levels rose in many countries, especially in developed ones, causing COVID-19 pandemic infections to decrease and enabling economies to re-open. Major central banks remained very accommodative. The US Federal Reserve indicated a continued commitment to keep rates low, suggesting it would remain patiently accommodative and not pre-emptively raise rates on inflation.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound 529 Investment Options

##### Age-Based Portfolios

- CollegeBound 529 offers 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, 2021			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco CollegeBound 2021-2022 Portfolio	Custom Invesco CollegeBound 2021-2022 Index	9.01%	4.24%
Invesco CollegeBound 2023-2024 Portfolio	Custom Invesco CollegeBound 2023-2024 Index	11.58%	3.63%
Invesco CollegeBound 2025-2026 Portfolio	Custom Invesco CollegeBound 2025-2026 Index	14.23%	2.48%
Invesco CollegeBound 2027-2028 Portfolio	Custom Invesco CollegeBound 2027-2028 Index	16.58%	3.11%
Invesco CollegeBound 2029-2030 Portfolio	Custom Invesco CollegeBound 2029-2030 Index	18.74%	3.67%
Invesco CollegeBound 2031-2032 Portfolio	Custom Invesco CollegeBound 2031-2032 Index	21.48%	3.95%
Invesco CollegeBound 2033-2034 Portfolio	Custom Invesco CollegeBound 2033-2034 Index	24.73%	2.65%
Invesco CollegeBound 2035-2036 Portfolio	Custom Invesco CollegeBound 2035-2036 Index	28.26%	2.08%
Invesco CollegeBound 2037-2038 Portfolio	Custom Invesco CollegeBound 2037-2038 Index	30.27%	1.82%
Invesco CollegeBound 2039-2040 Portfolio	Custom Invesco CollegeBound 2039-2040 Index	30.48%	1.90%
Invesco CollegeBound Today Portfolio	Custom Invesco CollegeBound Today Index	2.71%	2.77%

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound 529 Investment Options (Continued)

##### Age-Based Portfolios (Continued)

Year Ended June 30, 2020			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco CollegeBound 2021-2022 Portfolio	Custom Invesco CollegeBound 2021-2022 Index	2.67%	-3.85%
Invesco CollegeBound 2023-2024 Portfolio	Custom Invesco CollegeBound 2023-2024 Index	2.64%	-3.73%
Invesco CollegeBound 2025-2026 Portfolio	Custom Invesco CollegeBound 2025-2026 Index	2.26%	-4.07%
Invesco CollegeBound 2027-2028 Portfolio	Custom Invesco CollegeBound 2027-2028 Index	1.90%	-4.66%
Invesco CollegeBound 2029-2030 Portfolio	Custom Invesco CollegeBound 2029-2030 Index	1.44%	-5.18%
Invesco CollegeBound 2031-2032 Portfolio	Custom Invesco CollegeBound 2031-2032 Index	0.76%	-5.85%
Invesco CollegeBound 2033-2034 Portfolio	Custom Invesco CollegeBound 2033-2034 Index	-0.08%	-6.01%
Invesco CollegeBound 2035-2036 Portfolio	Custom Invesco CollegeBound 2035-2036 Index	-0.99%	-6.32%
Invesco CollegeBound 2037-2038 Portfolio	Custom Invesco CollegeBound 2037-2038 Index	-1.54%	-6.53%
Invesco CollegeBound 2039-2040 Portfolio	Custom Invesco CollegeBound 2039-2040 Index	0.59% <sup>(1)</sup>	-0.26% <sup>(1)</sup>
Invesco CollegeBound Today Portfolio	Custom Invesco CollegeBound Today Index	2.10%	-2.35%

<sup>(1)</sup> The Invesco CollegeBound 2039-2040 Portfolio was added as an Age-Based Portfolio effective June 29, 2020. The portfolio performance for this portfolio is for the period June 29, 2020 – June 30, 2020.

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

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

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound 529 Investment Options (Continued)

##### Age-Based Portfolios (Continued)

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

- CollegeBound 529 offers 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, 2021			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco Conservative College Portfolio	Custom Invesco Conservative College Index	15.15%	3.04%
Invesco Moderate College Portfolio	Custom Invesco Moderate College Index	24.92%	2.71%
Invesco Growth College Portfolio	Custom Invesco Growth College Index	33.97%	1.28%

Year Ended June 30, 2020			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco Conservative College Portfolio	Custom Invesco Conservative College Index	2.03%	-4.16%
Invesco Moderate College Portfolio	Custom Invesco Moderate College Index	0.51%	-5.24%
Invesco Growth College Portfolio	Custom Invesco Growth College Index	-2.36%	-6.44%

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound 529 Investment Options (Continued)

##### Target Risk Portfolios (Continued)

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

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

##### *Invesco Conservative College Portfolio*

The Invesco Conservative College Portfolio seeks to provide current income and some capital appreciation. This portfolio's indirect stock holdings are a diversified mix of US and foreign large-, mid- and small-capitalization stocks. This 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).

##### *Invesco Moderate College Portfolio*

The Invesco Moderate College Portfolio seeks to provide current income and some capital appreciation. This portfolio's indirect stock holdings are a diversified mix of US and foreign large-, mid- and small-capitalization stocks. This 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.

##### *Invesco Growth College Portfolio*

The Invesco Growth College Portfolio seeks to provide capital appreciation. This portfolio's indirect stock holdings are a diversified mix of US and foreign large-, mid- and small-capitalization stocks. This 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

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound 529 Investment Options (Continued)

##### Individual Portfolios

- CollegeBound 529 offers eleven Individual Portfolios, in which the composition of investments within each portfolio remains fixed over time.

Year Ended June 30, 2021			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco Core Plus Bond Portfolio	Bloomberg Barclays US Aggregate Index	4.22%	4.56%
Invesco Diversified Dividend Portfolio	Russell 1000 Value Index	32.97%	-10.71%
Invesco Equally-Weighted S&P 500 Portfolio	S&P 500 Index TR	49.73%	8.94%
Invesco Equity and Income Portfolio	Russell 1000 Value Index	36.33%	-7.35%
Invesco MSCI World SRI Index Portfolio	MSCI World SRI Index	37.00%	-0.14%
Invesco International Growth Portfolio	MSCI All Country World ex US Growth Index	31.43%	-2.25%
Invesco Short Duration Inflation Protected Portfolio	BofA Merrill Lynch 1-5 Year US Inflation Linked Treasury	5.49%	-0.93%
Invesco Small Cap Growth Portfolio	Russell 2000 Growth Index	62.45%	11.09%
Invesco Stable Value Portfolio	Bloomberg Barclays US Treasury Bellwethers	1.23%	1.13%
Invesco FTSE RAFI Developed Markets ex-US Portfolio	MSCI EAFE Index	40.61%	8.26%
Invesco FTSE RAFI US 1500 Small-Mid Portfolio	Russell 2000 Index	67.16%	5.13%

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound 529 Investment Options (Continued)

##### Individual Portfolios (Continued)

Year Ended June 30, 2020			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
Invesco Core Plus Bond Portfolio	Bloomberg Barclays US Aggregate Index	8.01%	-0.73%
Invesco Diversified Dividend Portfolio	Russell 1000 Value Index	-7.83%	1.01%
Invesco Equally-Weighted S&P 500 Portfolio	S&P 500 Index TR	-3.66%	-11.16%
Invesco Equity and Income Portfolio	Russell 1000 Value Index	-3.55%	5.29%
Invesco MSCI World SRI Index Portfolio <sup>(1)</sup>	MSCI World SRI Index <sup>(1)</sup>	-4.03%	-12.48%
Invesco International Growth Portfolio	MSCI All Country World ex US Growth Index	-2.00%	-7.80%
Invesco Short Duration Inflation Protected Portfolio	BofA Merrill Lynch 1-5 Year US Inflation Linked Treasury	3.12%	-0.52%
Invesco Small Cap Growth Portfolio	Russell 2000 Growth Index	9.05%	5.57%
Invesco Stable Value Portfolio	Bloomberg Barclays US Treasury Bellwethers	1.82%	0.17%
Invesco FTSE RAFI Developed Markets ex-US Portfolio	MSCI EAFE Index	-12.04%	-6.91%
Invesco FTSE RAFI US 1500 Small-Mid Portfolio	Russell 2000 Index	-11.16%	-4.54%

<sup>(1)</sup> Effective June 29, 2020, the name of the Invesco Global Sustainable Equity Portfolio was changed to the Invesco MSCI World SRI Index Portfolio, and the investment strategy was changed from an actively managed strategy to an indexing strategy based on the MSCI World SRI Index. Results prior to June 29, 2020, reflect the performance of the fund's previous strategy.

#### CollegeBound Saver Investment Options

##### Age-Based Portfolios

- CollegeBound Saver offers 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.



# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound Saver Investment Options (Continued)

##### Age-Based Portfolios (Continued)

Year Ended June 30, 2021			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
CollegeBound 2021-2022 Portfolio	Custom CollegeBound 2021-2022 Index	6.61%	-0.17%
CollegeBound 2023-2024 Portfolio	Custom CollegeBound 2023-2024 Index	9.93%	-0.37%
CollegeBound 2025-2026 Portfolio	Custom CollegeBound 2025-2026 Index	13.86%	-0.40%
CollegeBound 2027-2028 Portfolio	Custom CollegeBound 2027-2028 Index	15.70%	-0.35%
CollegeBound 2029-2030 Portfolio	Custom CollegeBound 2029-2030 Index	17.39%	-0.43%
CollegeBound 2031-2032 Portfolio	Custom CollegeBound 2031-2032 Index	19.94%	-0.42%
CollegeBound 2033-2034 Portfolio	Custom CollegeBound 2033-2034 Index	24.64%	-0.61%
CollegeBound 2035-2036 Portfolio	Custom CollegeBound 2035-2036 Index	28.73%	-0.70%
CollegeBound 2037-2038 Portfolio	Custom CollegeBound 2037-2038 Index	30.50%	-0.94%
CollegeBound 2039-2040 Portfolio	Custom CollegeBound 2039-2040 Index	30.94%	-0.58%
CollegeBound Today Portfolio	Custom CollegeBound Today Portfolio Index	0.93%	-0.02%

Year Ended June 30, 2020			
Portfolio Name	Index Name	Portfolio Performance	+/- Index Performance
CollegeBound 2021-2022 Portfolio	Custom CollegeBound 2021-2022 Index	4.82%	-1.70%
CollegeBound 2023-2024 Portfolio	Custom CollegeBound 2023-2024 Index	4.91%	-1.46%
CollegeBound 2025-2026 Portfolio	Custom CollegeBound 2025-2026 Index	4.75%	-1.58%
CollegeBound 2027-2028 Portfolio	Custom CollegeBound 2027-2028 Index	4.91%	-1.65%
CollegeBound 2029-2030 Portfolio	Custom CollegeBound 2029-2030 Index	4.61%	-2.02%
CollegeBound 2031-2032 Portfolio	Custom CollegeBound 2031-2032 Index	4.42%	-2.19%
CollegeBound 2033-2034 Portfolio	Custom CollegeBound 2033-2034 Index	3.65%	-2.28%
CollegeBound 2035-2036 Portfolio	Custom CollegeBound 2035-2036 Index	3.01%	-2.31%
CollegeBound 2037-2038 Portfolio	Custom CollegeBound 2037-2038 Index	2.87%	-2.12%
CollegeBound 2039-2040 Portfolio	Custom CollegeBound 2039-2040 Index	0.79% <sup>(1)</sup>	-0.06% <sup>(1)</sup>
CollegeBound Today Portfolio	Custom CollegeBound Today Portfolio Index	3.15%	-1.30%

<sup>(1)</sup> The CollegeBound 2039-2040 Portfolio was added as an Age-Based Portfolio effective June 29, 2020. The portfolio performance for this portfolio is for the period June 29, 2020 through June 30, 2020.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary *(Continued)*

#### CollegeBound Saver Investment Options

##### 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 II Index Fund
Invesco Treasury Collateral ETF

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

- CollegeBound Saver offers 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.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound Saver Investment Options (Continued)

##### Target Risk Portfolios (Continued)

Year Ended June 30, 2021				
Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Conservative Growth Portfolio	Vanguard LifeStrategy Conservative Growth Fund	Custom Conservative Growth Portfolio Index	14.95%	-1.06%
Moderate Growth Portfolio	Vanguard LifeStrategy Moderate Growth Fund	Custom Moderate Growth Portfolio Index	23.12%	-0.94%
Growth Portfolio	Vanguard LifeStrategy Growth Fund	Custom Growth Portfolio Index	31.83%	-0.73%

Year Ended June 30, 2020				
Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Conservative Growth Portfolio	Vanguard LifeStrategy Conservative Growth Fund	Custom Conservative Growth Portfolio Index	5.95%	-1.02%
Moderate Growth Portfolio	Vanguard LifeStrategy Moderate Growth Fund	Custom Moderate Growth Portfolio Index	4.85%	-2.23%
Growth Portfolio	Vanguard LifeStrategy Growth Fund	Custom Growth Portfolio Index	3.62%	-3.36%

##### Conservative Growth Portfolio

The Conservative Growth Portfolio seeks to provide current income and low to moderate capital appreciation. This portfolio invests 100% of its assets in the Vanguard LifeStrategy Conservative Growth Fund. This 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%

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound Saver Investment Options (Continued)

##### Target Risk Portfolios (Continued)

###### *Moderate Growth Portfolio*

The Moderate Growth Portfolio seeks to provide capital appreciation and a low to moderate level of current income. This portfolio invests 100% of its assets in the Vanguard LifeStrategy Moderate Growth Fund. This 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. This portfolio invests 100% of its assets in the Vanguard LifeStrategy Growth Fund. This 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

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

Year Ended June 30, 2021				
Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Bond Portfolio	Vanguard Total Bond Market Index Fund	Bloomberg Barclays US Aggregate Float Adjusted Index	-0.43%	-0.10%
Equally-Weighted S&P 500 Portfolio	Invesco Equally-Weighted S&P 500 Fund	S&P 500 Index-TR	50.30%	9.50%

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound Saver Investment Options (Continued)

#### Individual Portfolios (Continued)

Year Ended June 30, 2021 (Continued)				
Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Inflation Protected Bond Portfolio	Vanguard Short-Term Inflation-Protected Securities Index Fund	Bloomberg Barclays US Treasury Inflation-Protected Index	5.91%	-0.04%
International Stock Portfolio	Vanguard Total International Stock Index Fund	FTSE Global All Cap ex-US Index-NR	36.59%	-0.61%
Global Responsible Equity Portfolio	Invesco MSCI World SRI Index Fund	MSCI World SRI Index	36.59%	-0.61%
Stable Value Portfolio	Invesco Stable Value Separate Account	Bloomberg Barclays US Treasury Bellwethers (3M)	1.75%	1.66%
US Small-Mid Cap Portfolio	Vanguard Extended Market Index Fund	S&P Completion Index-TR	61.64%	0.05%
US Stock Portfolio	Vanguard Total Stock Market Index Fund	CRSP US Total Market Index-TR	44.34%	-0.01%

Year Ended June 30, 2020				
Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
Bond Portfolio	Vanguard Total Bond Market Index Fund	Bloomberg Barclays US Aggregate Float Adjusted Index	8.97%	0.04%
Equally-Weighted S&P 500 Portfolio	Invesco Equally-Weighted S&P 500 Fund	S&P 500 Index-TR	-3.25%	-10.75%
Inflation Protected Bond Portfolio	Vanguard Short-Term Inflation-Protected Securities Index Fund	Bloomberg Barclays US Treasury Inflation-Protected Index	3.34%	-4.94%
International Stock Portfolio	Vanguard Total International Stock Index Fund	FTSE Global All Cap ex-US Index-NR	-4.07%	0.35%
Global Responsible Equity Portfolio <sup>(1)</sup>	Invesco MSCI World SRI Index Fund <sup>(1)</sup>	MSCI World SRI Index	-3.58%	-12.04%
Stable Value Portfolio	Invesco Stable Value Separate Account	Bloomberg Barclays US Treasury Bellwethers (3M)	2.27%	-0.62%

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Management's Discussion and Analysis

(Unaudited)

June 30, 2021

### Investment Commentary (Continued)

#### CollegeBound Saver Investment Options (Continued)

##### Individual Portfolios (Continued)

Year Ended June 30, 2020 (Continued)				
Portfolio Name	Underlying Fund	Index Name	Portfolio Performance	+/- Index Performance
US Small-Mid Cap Portfolio	Vanguard Extended Market Index Fund	S&P Completion Index-TR	1.19%	0.12%
US Stock Portfolio	Vanguard Total Stock Market Index Fund	CRSP US Total Market Index-TR	6.51%	-0.05%

<sup>(1)</sup> Effective June 29, 2020, the name of the Global Sustainable Equity Portfolio was changed to the Global Responsible Equity Portfolio, and the investment strategy was changed from an actively managed strategy to an indexing strategy based on the MSCI World SRI Index. Results prior to June 29, 2020, reflect the performance of the fund's previous strategy.

### Recent Developments

#### Unit Class Changes

Effective June 25, 2021, all remaining assets held in Class B and Class BX units were automatically converted into Class A units of the same portfolio. As of that date, additional contributions were no longer accepted in Class B and Class BX units. In addition, on that same date, Class RA and Class RZ units were closed to new account owners. Existing account owners holding Class RA and Class RZ units are still permitted to make additional contributions in those unit classes.

#### COVID-19 Impact

As of the date of the independent auditor's report, the COVID-19 pandemic continues to impact both domestic and global financial markets. Management of RIHEST is unable to accurately predict how the COVID-19 pandemic will impact RIHEST, account owner savings behavior or the volume of withdrawals due to uncertainties surrounding the severity of the disease and the duration of its outbreak.

### 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](http://www.collegeboundsaver.com) and [www.collegebound529.com](http://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 Fiduciary Fund of the State of Rhode Island)

## Statement of Fiduciary Net Position

June 30, 2021

### ASSETS

Investments	\$ 5,404,933,437
Cash and cash equivalents	5,293,040
Receivables from investments sold	<u>3,781,521</u>
<b>Total Assets</b>	<u><u>5,414,007,998</u></u>

### LIABILITIES

Payables for investments purchased	1,543,484
Withdrawals payable	4,682,265
Accrued administrative fees and expenses, net	<u>3,894,554</u>
<b>Total Liabilities</b>	<u><u>10,120,303</u></u>

### NET POSITION HELD IN TRUST FOR ACCOUNT OWNERS AND BENEFICIARIES

\$ 5,403,887,695

## Statement of Changes in Fiduciary Net Position

Year Ended June 30, 2021

### ADDITIONS

Contributions	<u>\$ 270,416,222</u>
Investment income:	
Dividends and interest	148,730,400
Net increase in the fair value of investments	<u>605,725,127</u>
Net investment income	<u>754,455,527</u>
<b>Total Additions</b>	<u><u>1,024,871,749</u></u>

### DEDUCTIONS

Withdrawals	<u>765,032,497</u>
Net administrative fees:	
Administrative fees and expenses	21,053,051
Fee waivers	<u>(241,337)</u>
Net administrative fees	<u>20,811,714</u>
<b>Total Deductions</b>	<u><u>785,844,211</u></u>

### NET INCREASE

239,027,538

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

5,164,860,157

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

\$ 5,403,887,695

See accompanying notes to financial statements.



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# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **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 professional or registered investment advisor, and CollegeBound Saver, available without the assistance of a financial professional 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) and the Executive Director of the Rhode Island Student Loan Authority (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 and SIC may incur costs in providing administrative oversight with respect to the Program. These costs, which totaled approximately \$458,000 for the year ended June 30, 2021, are not reported in the accompanying financial statements in the period during which the contribution is paid to RIHEST.

RIHEST is included in the reporting entity of the State of Rhode Island (the State) as a fiduciary 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.

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.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **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.

Pursuant to the terms of their respective agreements, ASCR and Invesco are required to spend certain amounts on marketing the savings options offered through RIHEST. These marketing costs, which totaled approximately \$2.4 million for the year ended June 30, 2021, are not reported in the accompanying financial statements. Additionally, if new account growth in CollegeBound 529 does not meet minimum thresholds, ASCR and Invesco are required to commit \$350,000 annually to the Treasurer. During the year ended June 30, 2021, new account growth did not exceed 18,000, and the “commitment to growth” payment was made as required. This payment is not reported in the accompanying financial statements.

The Services Agreement requires that Invesco pay \$275,000 annually to the Treasurer to cover a portion of the cost of administering the Program. These administrative payments are not reported in the accompanying financial statements. In addition, the Program Management Agreement requires that ASCR spend the greater of \$650,000 annually or \$100 per eligible child in support of CollegeBound**baby**, a program administered by the Treasurer’s office that awards a one-time \$100 grant for college savings to babies born or adopted as Rhode Island residents that meet certain eligibility criteria. Funding in support of these grant awards is included in contributions in the accompanying financial statements in the period during which the contribution is paid to RIHEST.

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 basic financial statements are prepared using the flow of economic resources measurement focus and accrual basis of accounting.

#### **(b) Income Taxes**

The Program has been designed to comply with the requirements for treatment as a “qualified tuition program” under Section 529 of the Internal Revenue Code, as amended, and any regulations and other guidance issued thereunder. RIHEST is exempt from federal and state income tax.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(c) Estimates**

The preparation of basic 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 (collectively, the "Underlying Funds").

The mutual funds and ETFs are reported at fair value, based on the net asset value per share (mutual funds) or closing market prices (ETFs) at the close of the New York Stock Exchange (NYSE) on the reporting date. Net realized and unrealized gains (losses) are included in "net increase (decrease) in the fair 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.

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. Interest accrues as it is earned.

Accounting standards categorize fair value measurements according to a hierarchy that is 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 RIHEST's 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

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(d) Investments (Continued)**

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 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.

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. The combined bank balances of these accounts at June 30, 2021, totaled \$14,584,817. 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 the maximum amount allowed under federal law. Amounts in excess of FDIC insurance limits are not collateralized or covered by supplementary insurance.

#### **(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.

Account owners may elect to invest their contributions in one or more investment 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 RhodRisk 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 investment options, account owners investing in CollegeBound 529 must select from several classes of units, including Class A, Class C and Class I. Class RA and Class RZ, additional unit classes that were available to Rhode Island residents prior to June 25, 2021, are no longer available to new account owners. Existing account owners holding Class RA and Class RZ units are still permitted to make

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(f) Contributions (Continued)**

additional contributions in those unit classes. Class B and Class BX were available prior to July 8, 2016, but were no longer available to new account owners after that date. Class B and Class BX units were closed on June 25, 2021, and all remaining Class B and Class BX units were converted to Class A units. Each unit class is subject to a different fee structure. Account owners investing in Class A and Class RZ units of CollegeBound 529 are generally subject to an initial sales charge of up to 3.50% and 1.25%, respectively, 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, which totaled \$3.4 million for the year ended June 30, 2021. Account owners investing in Class C 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 0.40% for Class A of the amount invested if the account owner withdraws the contribution within twelve months of making the contribution. Until June 25, 2021, Class B and BX units of CollegeBound 529 were also assessed a contingent deferred sales charge amount ranging from 1.10% to 4.00% if the account owner withdrew 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 (see Note 2(g)). All or a portion of these sales charges are paid to the financial advisors through whom account owners invest in CollegeBound 529.

In exchange for contributions, account owners receive full and/or fractional interests, or units, issued by RIHEST. These units are municipal fund securities. Although money contributed is invested in investment 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, nor have they been registered with the Securities and Exchange Commission or any state commission.

In addition, although account owners can select the investment options in which their contributions are invested, they cannot direct the selection or allocation of the Underlying Funds composing each investment 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 annual account fees and other transaction 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

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)**

#### **(g) Withdrawals (Continued)**

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 charges and requests for historical statements. Annual account fees and service fees totaled approximately \$2.0 million for the year ended June 30, 2021, and are paid to ACSR.

In addition, as explained in Note 2(f), certain withdrawals of contributions from CollegeBound 529 may be subject to contingent deferred sales charges, a portion of which is paid to the financial advisors through whom account owners invest in CollegeBound 529. Contingent deferred sales charges totaled \$64.3 thousand for the year ended June 30, 2021.

#### **(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 investment options twice per calendar year. Transfers of funds between investment options are referred to as “exchanges.”

In general, Class C units automatically convert to Class A units in the fifth year after purchase, Class B units and Class BX units automatically converted into Class A units in the eighth year after purchase and, effective June 25, 2021, all remaining Class B units and Class BX units were automatically converted to Class A units. 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.”

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**

Each account owner’s full and/or fractional interest in an investment option is evidenced by a unit. The net asset value of a unit is calculated daily based on the value of the Underlying Funds and uninvested cash balances, adjusted for the effects of transactions such as accrued administrative fees and investment income. The value of any individual account is determined by multiplying the number of units in an investment option attributable to that account owner by the net asset value per unit of that investment option.

#### **(j) Indemnification**

Neither the State Administrators, ACSR nor any other person or entity, indemnifies any account owner or designated beneficiary against losses or other claims arising from the official or unofficial acts, negligent or otherwise, of management of RIHEST. The State Administrators and ACSR enter into contracts related

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### NOTE 2: SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Indemnification (Continued)

to the operation and administration of RIHEST that contain a variety of representations and warranties that provide general indemnifications. The maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the State Administrators or ACSR that have not yet occurred. However, neither the State Administrators nor ACSR have experienced any prior claims or losses pursuant to these contracts, and the risk of loss is expected to be remote.

### NOTE 3: INVESTMENTS

#### (a) Investments by Type

The Underlying Funds held by RIHEST at June 30, 2021, are as follows:

	<u>Category / Designation</u>	<u>Value</u>
<b>Mutual Funds, at fair value</b>		
Vanguard Extended Market Index Fund	Mid-Cap Blend	\$ 16,971,222
Vanguard Total Bond Market Index Fund	Intermediate-Term Bond	5,076,081
Vanguard Short-Term Inflation-Protected Securities Index Fund	Inflation-Protected Bond	29,363,525
Vanguard Total Stock Market Index Fund	Large Blend	52,851,944
Vanguard Total International Stock Index Fund	International Large Blend	18,362,943
Vanguard Global ex-US Real Estate Index Fund	World Stock	1,734,638
Vanguard Short-Term Investment-Grade Fund	Short-Term Bond	22,809,435
Vanguard LifeStrategy Growth Fund	Moderate Allocation	29,060,767
Vanguard LifeStrategy Moderate Growth Fund	Moderate Allocation	16,841,196
Vanguard LifeStrategy Conservative Growth Fund	Conservative Allocation	6,302,528
Vanguard Total Bond Market II Index Fund	Intermediate-Term Bond	46,770,193
Invesco Equally-Weighted S&P 500 Fund	Large Blend	399,648,268
Invesco MSCI World SRI Index Fund	World Large Stock Blend	7,679,015
Invesco Short Duration Inflation-Protected Fund	Inflation-Protected Bond	391,302,560
Invesco Core Plus Bond Fund	Intermediate Core-Plus Bond	695,937,306
Invesco Diversified Dividend Fund	Large Value	357,395,755
Invesco Small Cap Growth Fund	Small Growth	31,405,434
Invesco International Growth Fund	Foreign Large Growth	15,450,219
Invesco Equity and Income Fund	Allocation - 50% - 70% Equity	27,662,113
Invesco Global Growth Fund	World Large-Stock Growth	124,449,522
Invesco Global Real Estate Income Fund	Global Real Estate	40,305,817
Invesco Floating Rate ESG Fund	Bank Loan	338,726,080
Invesco Short-Term Bond Fund	Short-Term Bond	403,925,601
Total Mutual Funds		<u>3,080,032,162</u>

*(Continued)*



# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### NOTE 3: INVESTMENTS (Continued)

#### (a) Investments by Type (Continued)

	<u>Category / Designation</u>	<u>Value</u>
<b>ETFs, at fair value</b>		
iShares Core S&P Total US Stock Market ETF	Large Blend	\$ 24,387,005
Invesco FTSE RAFI US 1500 Small-Mid ETF	Small Blend	172,594,815
Invesco FTSE RAFI Emerging Markets ETF	Diversified Emerging Markets	31,634,837
Invesco S&P Emerging Markets Low Volatility ETF	Diversified Emerging Markets	28,972,936
Invesco FTSE RAFI Developed Markets ex-US ETF	Foreign Large Value	150,135,169
Invesco S&P 500 Pure Growth ETF	Large Growth	304,849,765
Invesco S&P 500 Low Volatility ETF	Large Blend	22,313,587
Invesco S&P Midcap Low Volatility ETF	Mid-Cap Value	37,018,696
Invesco S&P International Developed Low Volatility ETF	Foreign Large Blend	60,973,993
Invesco Treasury Collateral ETF	Ultrashort Bond	45,048,812
Total ETFs		<u>877,929,615</u>
<b>Other Investments</b>		
Investment contracts, at contract value (see Note 3(b))		1,038,320,447
Government money market funds		408,651,213
Total Other Investments		<u>1,446,971,660</u>
<b>Total Investments</b>		<u>\$ 5,404,933,437</u>

#### (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, 2021, are as follows:

American General Life Insurance Company	\$ 143,278,747
Nationwide Life Insurance	139,368,106
Prudential Insurance Company	193,995,335
RGA	195,230,328
State Street Bank	143,219,650
Voya Retirement and Annuity	<u>223,228,281</u>
Total investment contracts, at contract value	<u>\$ 1,038,320,447</u>

Crediting interest rates on these contracts ranged from 1.50% to 1.88% during the year ended June 30, 2021. These rates may reset periodically.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **NOTE 3: INVESTMENTS (Continued)**

#### **(b) Investment Contracts (Continued)**

The contracts are wrap contracts. The underlying assets held in the wrap accounts are set forth in the related agreements and are the Invesco RI 529 Custom Short Fund, Jennison RI 529 SV Intermediate Fund, Invesco RI 529 Core Fund and the Voya RI 529 SV Intermediate Fund.

The aggregate fair value of these contracts is estimated by Invesco to be \$1,070,142,797 at June 30, 2021. While the individual contracts are not rated by a nationally recognized statistical rating organization, the credit ratings of the contract issuers range from A+ to AA- (Standard & Poor's).

The bank investment contracts are not insured by the FDIC or otherwise covered by collateral or supplementary insurance.

#### **(c) Net Increase in the Fair Value of Investments**

The following table calculates the net increase in the fair value of investments during the year ended June 30, 2021:

Fair value of investments, end of year	\$ 5,404,933,437
Less cost of investments purchased and investment income reinvested during the year	(556,623,208)
Plus proceeds from investments sold during the year	936,665,137
Less fair value of investments, beginning of year	<u>(5,179,250,239)</u>
Net increase in the fair value of investments	<u>\$ 605,725,127</u>

#### **(d) Investment Risk**

The mutual funds and ETFs in which RIHEST assets are invested include various investment securities in their asset holdings, such as corporate debt and equity securities, obligations of the US government and government agencies and international securities. 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 basic financial statements.

Generally accepted accounting principles 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.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **NOTE 3: INVESTMENTS (Continued)**

#### **(d) Investment Risk (Continued)**

##### 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.

##### Credit Risk

Certain Underlying Funds invest in bonds issued by corporations, foreign governments, the US government and its agencies and instrumentalities. As a result of its investment in these Underlying Funds, RIHEST is 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.

None of the mutual funds or ETFs in which RIHEST invests are rated as to credit rating by a nationally recognized statistical rating organization. The government money market funds (Invesco Government & Agency Portfolio and Morgan Stanley Institutional Liquidity Funds Government Securities Portfolio) are both rated AAAM (Standard & Poor's).

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.

##### Interest Rate Risk

Certain Underlying Funds invest primarily in short- and intermediate-term bonds and are 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, which is a measure of interest rate risk, 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.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **NOTE 3: INVESTMENTS (Continued)**

#### **(d) Investment Risk (Continued)**

##### Interest Rate Risk (Continued)

As of June 30, 2021, 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	8.6 years
Vanguard Short-Term Inflation-Protected Securities Index Fund	2.7 years
Vanguard Short-Term Investment-Grade Fund	2.7 years
Vanguard Total Bond Market II Index Fund	8.6 years
Invesco Short Duration Inflation-Protected Fund	3.1 years
Invesco Core Plus Bond Fund	10.4 years
Invesco Floating Rate ESG Fund	5.0 years
Invesco Short-Term Bond Fund	3.1 years
Invesco Government & Agency Portfolio	42 days
Morgan Stanley Institutional Liquidity Funds Government Securities Portfolio	55 days

##### Foreign Currency Risk

Certain Underlying Funds invest in non-US stocks and fixed income securities representing the major developed and emerging equity markets (see Note 3(a)). 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, EXPENSES AND WAIVERS**

#### **(a) Administrative Fees and Expenses**

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. All administrative fees are accrued daily and calculated based on the aggregate net position attributable to each applicable investment option. Administrative fees do not include annual account fees or transaction services fees charged directly to the account owners, which are included in withdrawals, as disclosed in Note 3(g).

##### Program Management Fee

All non-Rhode Island resident accounts and Rhode Island resident accounts opened in CollegeBound 529 after June 25, 2021, are assessed a program management fee, which is paid to ACSR to cover the costs of administering and managing the Program.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### **NOTE 4: ADMINISTRATIVE FEES, EXPENSES AND WAIVERS (Continued)**

#### **(a) Administrative Fees and Expenses (Continued)**

##### State Administrative Fees and Expenses

All non-Rhode Island resident accounts and Rhode Island resident accounts opened after June 25, 2021 invested in CollegeBound 529 are assessed a state 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. The amount of state administrative fees and expenses includes 0.5 basis points (0.005%) accrued on all investment options in CollegeBound 529, which is remitted to the Treasurer to cover administrative costs, and 1.5 basis points (0.015%) accrued on all investment options in CollegeBound 529, which is contributed to the Student Fund managed by the Rhode Island Office of the Postsecondary Commissioner to be used to fund Rhode Island Promise scholarships. For the year ended June 30, 2021, the state administrative fee totaled \$238,767, and Student Fund contributions totaled \$711,847.

In addition to the 1.5 basis points paid to the Student Fund from the Program's assets, Invesco is required to contribute 9.5 basis points (0.095%) to the Student Fund. Such contributions, which totaled \$4,516,753 for the year ended June 30, 2021, are paid directly by Invesco and are not included in state administrative fees and expenses in the accompanying financial statements.

##### Distribution and Service Fee

All non-Rhode Island resident accounts, Rhode Island resident accounts invested in Class RA units and Rhode Island resident accounts opened after June 25, 2021 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.

Administrative fees and expenses for the year ended June 30, 2021 are as follows:

Program management fees	\$ 7,230,231
Distribution and service fees	12,872,206
State administrative fees and expenses	<u>950,614</u>
Total administrative fees and expenses	<u><u>\$ 21,053,051</u></u>

#### **(b) 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, referred to as "fee waivers," totaled \$241,337 for the year ended June 30, 2021, and are netted against administrative fees and expenses for purposes of presentation on the statement of changes in fiduciary net position.

# Rhode Island Higher Education Savings Trust

(A Fiduciary Fund of the State of Rhode Island)

## Notes to Financial Statements

June 30, 2021

### ***NOTE 5: COVID-19 IMPACT***

As of the date of the independent auditor's report, the COVID-19 pandemic continues to impact both domestic and global financial markets. Management of RIHEST is unable to accurately predict how the COVID-19 pandemic will impact RIHEST, account owner savings behavior or the volume of withdrawals due to uncertainties surrounding the severity of the disease and the duration of its outbreak.



**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, 2021, and the related notes to the financial statements, which collectively comprise RIHEST’s basic financial statements, and have issued our report thereon dated October 7, 2021, except as explained in the paragraph that follows.

We were unable to complete certain planned audit procedures to test compliance with laws, regulations, contracts and other agreements in accordance with *Government Auditing Standards* due to restrictions placed on our ability to access records related to participant accounts managed through omnibus relationships. At June 30, 2021, these account balances totaled \$219,179,155, which represents approximately 4.1% of fiduciary net position.

**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) as a basis for designing 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.

State of Rhode Island Office of the General Treasurer  
Ascensus College Savings Recordkeeping Services, LLC, Program Manager  
Rhode Island Higher Education Savings Trust

### **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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

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

Little Rock, Arkansas  
October 7, 2021