

(5) Investments and Prizes Payable in Installments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value of its investments that are in the possession of an outside party. Investments are held by the custodial bank's trust department in the name of the State Treasurer.

Interest rate risk is the risk that an investment's fair value decreases as market interest rates increase. Typically, this risk is higher in debt securities with longer maturities. The Department purchases investments with maturities scheduled to coincide with cash requirements. Interest rate risk is managed according to the purpose of the investments and the projected time frame for the use of these assets.

The risk that the Department will actually realize, material losses from its investments in government securities resulting from changes in market interest rates is mitigated by the low probability that these securities will have to be sold prior to maturity.

The fair value of the securities is reflected in the accompanying financial statements of the Deferred Prize Winners Trust Fund as assets and the corresponding present value is reflected as annuity prizes payable. The original cost of the securities plus accrued interest is \$24,994,712 more than fair value as of October 31, 2023. These securities were purchased at discount rates ranging from 0.456% to 12.864% and mature in annual installments up to a 30 year period.

Investments in prize securities are in the form of United States Treasury zero-coupon bonds. Investments are held by a custody bank in the name of the Department. Credit ratings are not required for U.S. Government and agency securities that are explicitly guaranteed by the U.S. government. The fair value and investment maturities of the investments at October 31, 2023 are as follows:

<u>Investment Maturities</u> <u>(In Years)</u>		<u>Fair Value</u> <u>Amount</u>
Less than 1 year	\$	25,856,442
1 to 5 years		82,194,983
6 to 10 years		69,423,123
More than 10 years		33,931,661
Total	\$	<u>211,406,209</u>

The Department has an unconditional obligation to pay all grand prizewinners the future value of the prize. The fair value of the future prize payments, which is reported in the Deferred Prize Winners Trust Fund, follows:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<u>For the Fiscal Year:</u>			
2023-2024	\$ 27,047,667	\$ -	\$ 27,047,667
2024-2025		27,224,000	27,224,000
2025-2026		24,433,000	24,433,000
2026-2027		22,257,000	22,257,000
2027-2028		20,627,000	20,627,000
2028-2033		100,539,000	100,539,000
2033-2038		51,671,000	51,671,000
2038-2043		9,952,000	9,952,000
2043-2048		2,856,000	2,856,000
2048-2053		1,790,000	1,790,000
Total Future Prize Payments	<u>27,047,667</u>	<u>261,349,000</u>	<u>288,396,667</u>
Less Present Value Adjustments	<u>2,071,825</u>	<u>49,923,920</u>	<u>51,995,745</u>
Present Value of Future Prize Payments	24,975,842	211,425,080	236,400,922
Add (Less) Adjustment to Reflect Fair Value	<u>880,600</u>	<u>(25,875,313)</u>	<u>(24,994,713)</u>
Fair Value of Future Prize Payments as of October 31, 2023	<u>\$ 25,856,442</u>	<u>\$ 185,549,767</u>	<u>\$ 211,406,209</u>

LOTTERY INVESTMENTS

Certain Lottery prizes awarded are payable to the winners in annual installments ranging from 19 years to life of the prize winners, with the first payment being made at the time of the drawing. Effective July 30, 1985, the law provides that the State Treasurer may, with consent of the Director; contract to invest in securities which provide payments corresponding to the Department's obligations to these winners.

Money may be invested only in bonds, notes, certificates of indebtedness, treasury bills, or other securities constituting direct obligations of the United States of America and all securities or obligations the prompt payment of principal and interest of which is guaranteed by a pledge of the full faith and credit of the United States of America.

October 31, 2023	Fair Value
PNC	\$ 211,406,209
Total	\$ 211,406,209

Interest Rate Percentages:

Minimum interest rate	0.456%
Maximum interest rate	12.864%

Investment Income and Average Yield

Investment Income	\$ 662,541
Average Yield Rate	3.368%

Monthly investment income and the average yield rate is an "effective" income amount and yield rate. There is no cash realization of interest income by the Lottery Department. The yield rate is computed by dividing the effective investment income for the month by the average present value of the investments for the month.

Broker-Dealers:

Multi-Bank Securities, Inc.
Alamo Capital
Cabrera Capital
Penserra Securities, LLC
Loop Capital Markets, LLC
Mischler Financial Group, Inc.
MFR Securities, Inc.
Wells Fargo Securities, LLC
ASL Capital Markets, Inc.
American Veterans Group, PBC
Academy Securities, Inc.

Security Holders:

PNC