

(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 \$12,324,494 more than fair value as of January 31, 2026. These securities were purchased at discount rates ranging from 0.456% to 47.656% 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 January 31, 2026, are as follows:

<u>Investment Maturities</u> <u>(In Years)</u>		<u>Fair Value</u> <u>Amount</u>
Less than 1 year	\$	24,732,197
1 to 5 years		78,479,672
6 to 10 years		68,806,259
More than 10 years		29,059,228
Total	\$	<u>201,077,356</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:

	Current	Long-Term	Total
<u>For the Fiscal Year:</u>			
2026	\$ 25,158,000	\$ -	\$ 25,158,000
2027		22,667,000	22,667,000
2028		21,477,000	21,477,000
2029		20,877,000	20,877,000
2030		22,176,000	22,176,000
2031-2035		91,300,000	91,300,000
2036-2040		39,954,000	39,954,000
2041-2045		8,833,000	8,833,000
2046-2050		3,847,000	3,847,000
2051-2055		1,352,000	1,352,000
Total Future Prize Payments	<u>25,158,000</u>	<u>232,483,000</u>	<u>257,641,000</u>
Less Present Value Adjustments	<u>1,290,110</u>	<u>42,949,040</u>	<u>44,239,150</u>
Present Value of Future Prize Payments	23,867,890	189,533,960	213,401,850
Add (Less) Adjustment to Reflect Fair Value	864,307	(13,188,801)	(12,324,494)
Fair Value of Future Prize Payments as of January 31, 2026	<u>\$ 24,732,197</u>	<u>\$ 176,345,159</u>	<u>\$ 201,077,356</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.

January 31, 2026	Fair Value
PNC	\$ 201,077,356
Total	\$ 201,077,356

Interest Rate Percentages:

Minimum interest rate	0.456%
Maximum interest rate	47.656%

Investment Income and Average Yield

Investment Income	\$ 679,013
Average Yield Rate	3.824%

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.
Academy Securities, Inc.
StoneX Group Inc.
Mesirow Financial Holdings, Inc.
Fifth Third Securities, Inc.

Security Holders:

PNC