

**(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 as reserved fund equity. The original cost of the securities plus accrued interest is \$26,735,961 less than fair value as of October 31, 2021. These securities were purchased at discount rates ranging from 0.004% to 7.741% 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 State Treasurer. 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, 2021 are as follows:

<u>Investment Maturities</u> <u>(In Years)</u>	<u>Fair Value</u> <u>Amount</u>
Less than 1 year	\$ 27,430,326
1 to 5 years	97,994,663
6 to 10 years	91,324,297
More than 10 years	65,145,514
Total	<u>\$281,894,800</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>			
2021-2022	\$ 27,452,667	\$ -	\$ 27,452,667
2022-2023		26,770,667	26,770,667
2023-2024		25,371,667	25,371,667
2024-2025		25,700,000	25,700,000
2025-2026		22,900,000	22,900,000
2026-2031		102,403,000	102,403,000
2031-2036		66,430,000	66,430,000
2036-2041		15,174,000	15,174,000
2041-2046		1,420,000	1,420,000
Total Future Prize Payments	<u>27,452,667</u>	<u>286,169,334</u>	<u>313,622,001</u>
Less Present Value Adjustments	<u>2,961,918</u>	<u>55,501,244</u>	<u>58,463,162</u>
Present Value of Future Prize Payments	24,490,749	230,668,090	255,158,839
Add Adjustment to Reflect Fair Value	<u>2,939,577</u>	<u>23,796,384</u>	<u>26,735,961</u>
Fair Value of Future Prize Payments as of October 31, 2021	<u>\$ 27,430,326</u>	<u>\$254,464,474</u>	<u>\$ 281,894,800</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.

<b>October 31, 2021</b>	<b>Fair Value</b>
PNC	\$ 281,894,800
Total	\$ 281,894,800

### **Interest Rate Percentages:**

Minimum interest rate	0.004%
Maximum interest rate	7.741%

### **Investment Income and Average Yield**

Investment Income	\$ 710,445
Average Yield Rate	3.346%

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

### **Security Holders:**

PNC

## 8. Investments and Prizes Payable in Installments

Prior to July 30, 1985, certain prizes awarded were payable to the winners in annual installments ranging from 10 years to life of the prize winners, with the first payment being made at the time of the drawing. The Department entered into agreements with insurance companies under which the Department purchased annuities under group contracts that provide payments corresponding to the Department's obligation to these winners.

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 investment in prize annuities are subject to fluctuations in fair value due to interest rate risk, but these annuities are held to maturity to satisfy the annual installment obligations to prize winners. The fair value at maturity is the face value of the annuity, regardless of the fluctuations in value during the time period that the investments are outstanding.

As required by generally accepted governmental accounting principles, the present value of the annuities and the present value of the related liabilities have been reported in the financial statements for those annuities which were purchased in the name of the Department and which the Department has retained the rights of ownership. The Department would be liable for future payments if the insurance companies were to default on their payments. The investments in annuities have a weighted average maturity of 1.00 years. The present value of future prize payments, which is reported in the State Lottery Fund, follows:

	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
<u>For the Fiscal Year</u>			
2021-2022	\$50,000	\$ -	\$50,000
Total Future Prize Payments	50,000	-	50,000
Less: Present Value Adjustments	1,257	-	1,257
Present Value of Future Prize Payments as of October 31, 2021	<u>\$48,743</u>	<u>\$ -</u>	<u>\$48,743</u>