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Governor

Kim Reynolds  
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Terry Rich  
Chief Executive Officer

## Iowa Lottery Report On Operations

**To: Members of the House Government Oversight Committee and Senate Government Oversight Committee**

**From: Terry Rich, CEO**

**Date: December 2014**

**The Iowa Lottery finished fiscal year 2014 with strong results, and its sales and proceeds in the current year continue that trend, running ahead of both budget and the lottery's five-year average through November.**

The lottery puts great emphasis on having variety in its games to offer choices to consumers and has seen success from those efforts, particularly in recent years. But some of the lottery's good fortune in FY 2015 also has come from falling gasoline prices, which have meant more discretionary income for consumers after they've fueled up their vehicles. Rising gas prices historically have had a negative impact on lottery sales, and current conditions indicate that the opposite is true as well.

Instant-scratch tickets in particular are having a very strong year in FY 2015, with year-to-date sales through November totaling nearly \$82 million in that product category. That is \$6.5 million ahead of last year's total for the same time period, and scratch-ticket sales have exceeded the FY 2014 total in each month of the fiscal year thus far.



Statistically, we know that our results will fluctuate from year to year, but we anticipate that with the lottery's healthy long-term position, lottery games will continue to be a consistent, key source of proceeds for vital state causes here in Iowa.

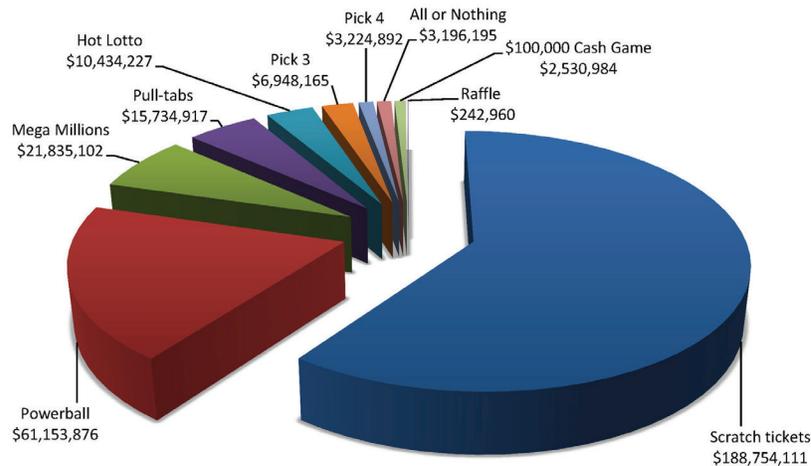
Lottery sales in FY 2014 totaled more than \$314 million, marking the third year in a row that the total has topped the \$300 million mark. Proceeds to state causes totaled nearly \$74 million, the fourth-highest amount for the lottery since its start in 1985. Prizes to lottery players totaled \$186.9 million in FY 14, the second-highest total in the lottery's history. And local Iowa businesses received \$20.1 million in commissions from the lottery for selling its products in FY 2014.

Here is a year-to-year comparison of lottery product sales in the last two fiscal years:

	<b>FY 2014</b>	<b>FY 2013</b>
Instant-scratch games	\$188.8 million	\$202.3 million
Pick 3	\$6.9 million	\$6.8 million
Powerball	\$61.2 million	\$81.4 million
Mega Millions	\$21.8 million	\$13.3 million
Hot Lotto	\$10.4 million	\$11.7 million
Pick 4	\$3.2 million	\$3.1 million
Iowa's \$100,000 Cash Game	\$2.5 million	\$4.5 million
All or Nothing*	\$3.2 million	\$-----
Pull-tab games	\$15.7 million	\$16.2 million
Raffle game**	\$0.2 million	\$-----

\*The All or Nothing lotto game replaced Iowa's \$100,000 Cash Game. All or Nothing began sales in January 2014.

\*\*The lottery offers raffle games only occasionally, so there will be years, such as FY 2013, when it does not sell such a product.



As always, we are closely tracking lottery results and will keep your committees apprised of significant developments. We also provide regular updates about sales and proceeds through the state's I-3 accounting system for review. The lottery's latest financial performance figures are included in this report as **Attachment A**.

## **FY 2016 and FY 2017 Budgets**

At its Sept. 23 meeting, the Iowa Lottery Board approved the lottery's preliminary budgets for FY 2016 and FY 2017 in accordance with state budgeting guidelines.

Sales are budgeted at \$312.7 million each year, with lottery proceeds to state causes budgeted at \$69.1 million for FY 2016 and \$69.7 million for FY 2017. The anticipated results for both sales and proceeds are an increase from the lottery's budgeted figures for FY 2015. However, salary and benefit adjustments are not yet included for either year, as is the routine procedure. Once the Legislature has made decisions concerning state salary adjustments, the Lottery Board will approve final modifications to the lottery's budget, with the FY 2016 budget modification expected in June.

The lottery remains optimistic that our publicly stated goal of providing at least \$60 million in annual proceeds to state causes will be attainable in the coming years. (This goal is based on the highest core-product proceeds amount raised during the lottery's first 25 years.)

Copies of the lottery's Overall Budget and Operating Expenses for FY 2016 and FY 2017 are included with this report as **Attachments B** and **Attachment C**. And as always, the lottery's budget details are available through the state's I-3 accounting system.



Mike Klappholz



Herman Richter



Deb Burnight



Matt McDermott



Ying Sa



Michael Fitzgerald

The members of the Lottery Board are: Mike Klappholz of Cedar Rapids, retired police chief of that city; Chairperson Herman Richter, president of The Three Sons clothing store in Milford and a co-founder of the popular and mythical University of Okoboji; Deb Burnight, a certified professional facilitator and trainer from Sioux City; Vice Chair Matt McDermott of West Des Moines, an attorney at a Des Moines law firm; Ying Sa, the founder and principal certified public accountant at a CPA firm in Des Moines, where she also resides; and State Treasurer Michael Fitzgerald, who serves on the board as a nonvoting member.

## **Lottery Headquarters Moving To Clive This Month**

A major project we have discussed with your committees for the past two years is nearing completion – and remains on time and under budget. At noon on Dec. 31, Iowa Lottery headquarters will open for business at its new location at 13001 University Ave. in Clive.

The Lottery Board had approved a total of \$7 million in the lottery's budgets for fiscal years 2014 and 2015 for a possible headquarters purchase and relocation (\$3.5 million in each year). And the plan has come to fruition just as it was designed: The lottery will complete the project and ultimately be debt free.



Meantime, Des Moines Public Schools has purchased the lottery's current headquarters property at 2323 Grand Ave. in Des Moines for \$1.6 million and plans to use the location for the district's administrative offices. From the school district's description of its plan, it will be able to accomplish what the lottery can't as the business currently operating at the site: The school district has purchased the property and will be able to do the major repairs necessary to the building's mechanical systems while it is empty, then

move in once the work is done. That was one of the major complications that the lottery faced with the location.

The lottery had been reviewing its headquarters situation since late 2012, when its internal long-range planning led to the discovery of some maintenance issues at its Des Moines headquarters building. Since that time, the lottery's concern has been to minimize the risk of a disruption in its operations that could be caused by the headquarters maintenance issues. Iowa Code Chapter 99G.21 gives the lottery the ability to acquire real and personal property by lease or purchase and to incur debt in its own name, however, any purchase of real property and any borrowing of more than \$1 million requires prior approval of the Executive Council of Iowa and notification to your Government Oversight committees. The Executive Council approved the lottery's purchase of the Clive property during its meeting on Feb. 3, and the lottery provided notification to your committees that same day.

The lottery consulted with a number of building and maintenance specialists in its property review and ultimately worked with the state of Iowa's property experts – the General Services Enterprise Real Estate Team within the Iowa Department of Administrative Services – to ensure an open and thorough process.

The DAS-GSE Real Estate Team evaluated the options of renovating the lottery's existing headquarters location in Des Moines; purchasing land and constructing a new building; and moving to an available existing property. The option identified as providing the lowest operational risk for the lottery and the best financial option for the state was for the lottery to move to a different existing building within the Des Moines metropolitan area.

The purchase of the Clive property had a lower effective occupancy cost (defined as the price for the lottery to operate at the particular site over a 10-year period, minus any property value at the end of that time) than the other two options.

The DAS Real Estate Team handled all public input, notification and negotiations for the lottery project. DAS identified more than 20 potential properties and toured several of them before ultimately making an offer on the commercial property at 13001 University Ave. in Clive. The location had once been listed at \$7.9 million, but after aggressive negotiations, the lottery agreed to a purchase price of \$5.35 million as described above.

The Class A office building was unoccupied at the time of the lottery's offer and in the possession of several different banks.

### **Art In Public Buildings Project At Lottery Building In Clive**

The Art in State Buildings program applies to the lottery's Clive headquarters project. Under Iowa law, 0.5 percent of the state's portion of total construction costs for new and renovated state buildings is dedicated to public art at those locations.

The Iowa Lottery is working with the Iowa Arts Council to facilitate the artist selection and design concept phases of the public art project, with a total art budget of \$27,000. The lottery's goal with the project is to incorporate at the site a statement piece of art that conveys the fun and excitement in the lottery's mission of providing entertainment and prizes to its players while raising proceeds for vital state causes.

The lottery hopes to have artwork installed at its Clive location by June 30.

## Proposed Code Change – Lottery Proceeds To Veterans Trust Fund

The Iowa Lottery has filed a bill-draft request for the upcoming 2015 legislative session with the goal of stabilizing proceeds to help Iowa veterans and their families through the Iowa Veterans Trust Fund (IVTF).

The Iowa Lottery has raised proceeds for the IVTF since 2008, providing more than \$16 million to this worthy cause to date. The Lottery is proud to provide support for the brave men and women who have served our country and our goal is to ensure that we continue to provide a stable, ongoing source of funding for the IVTF.



However, in FY 2014, for the first time since it began raising money for the cause, the lottery did not reach its publicly stated goal of providing between \$2 million and \$3 million for the IVTF. (The annual total raised by the lottery for the IVTF in FY 2014 was \$1.8 million.)

There is a larger issue that must be addressed in order to ensure continued lottery proceeds for the IVTF.

While overall lottery sales and proceeds in recent years have been strong and repeatedly exceeded budget projections, the lottery is seeing a long-term decline in the sale of its pull-tab games, which have the oldest play style among the lottery's products. Pull-tabs currently are closely tied to the lottery's efforts to benefit the IVTF, as Iowa Code 99G.9A requires the lottery to use two pull-tab games in conjunction with two scratch-ticket games each year to generate the proceeds it transfers to the IVTF. The continued sales decline of pull-tabs will negatively impact the lottery's ability to support the IVTF.

**In order to stabilize ongoing proceeds to the IVTF and provide the lottery with the business flexibility it needs to maximize its overall proceeds to state causes, the lottery suggests that the Code references to lottery support for veterans' causes be changed in 2015. We are requesting that a specific amount in lottery proceeds (\$2.5 million) be dedicated annually to the IVTF.** That amount is the midpoint of the lottery's publicly stated goal for this ongoing initiative, and it also is the yearly average that the lottery has raised for the cause to date.

Lottery proceeds to the IVTF in individual years have varied, with overall results both higher and lower than \$2.5 million, so the lottery anticipates no fiscal impact to the General Fund from this change. The impact to the IVTF would be positive, with lottery proceeds to that cause being stabilized.

## Sales In Lotto Game Suspended



Sales in the current format of the MONOPOLY MILLIONAIRES' CLUB™ lottery game will end Dec. 26 in Iowa and across the country.

The \$5 game had debuted Oct. 19 with Iowa and 22 other lotteries offering it. But sales came in below industry projections, leading the Texas Lottery Commission to suspend sales of the game in that state following the Dec. 12 drawing. Lotteries participating in the game then made the decision to end all sales in its current format later this month.

Like any good business, lotteries have to try new ideas. We incorporated concepts into this game that have been popular elsewhere, but they just didn't do as well here. We will continue to discuss the possible future of this game and certainly believe in the concept of spreading the winnings around to players.

As a lottery, we look to provide our players with the new and innovative forms of entertainment so we can continue to maximize our proceeds for state causes. And with innovation, every project gives you the chance to experience and grow.

Players who purchase MONOPOLY MILLIONAIRES' CLUB lottery tickets can continue to win prizes in the game's remaining weekly drawings this month. Tickets will be sold until the cutoff for the game's final weekly drawing, which will occur at 10:15 p.m. on Dec. 26. The sales cutoff time here in Iowa is 8:59 p.m. on the night of the drawing.

Lotteries have repeatedly heard from players who say they want to see more people have a share of the winnings rather than just one gigantic top prize. That was the inspiration for the current game, but players didn't respond to it as well as we'd hoped. We'll continue to review this concept, much like other ideas are evaluated and evolve over time.

### **Internet Gambling Discussions In D.C.**

As the current Congressional session draws to a close in Washington, D.C., it does not appear that any of the proposals at the federal level concerning Internet gaming will be passed. However, Congressional leaders have said they expect such discussions to be renewed when the new Congress begins its work next year.

You'll likely recall that three groups representing state lawmakers all contacted Congressional leadership in recent weeks to urge states' rights on regulatory decisions about Internet gaming.

Two bills were introduced during the current Congressional session to establish federal regulation of Internet gaming, while another proposal was introduced that would federally prohibit all forms of Internet gambling.

The Iowa Lottery will continue to monitor developments on the federal level to analyze their potential impact on Iowa.

Members of the National Governor's Association (NGA), the National Council of Legislators from Gaming States (NCLGS), and the National Conference of State Legislators (NCSL) all had contacted Congressional leadership this session, urging Congress to include state input in any decisions at the federal level that could affect state regulatory authority concerning gaming; and to respect the sovereignty of states in deciding if they want to participate in online gaming.

The Iowa Lottery has the authority to conduct Internet gaming and continues to study the issue, remaining cognizant of the fact that there would be a negative impact on proceeds to state causes if it does not adapt to player expectations for convenience and use of technology.



IOWA LOTTERY  
PERFORMANCE MEASURES  
FY 2015

**Attachment A**

		JUL	AUG	SEP	OCT	NOV		DEC	JAN	FEB	MAR	APR	MAY	JUN	
Month															
Gross Sales	Budget '15	22,563,936	24,740,910	22,564,660	24,167,717	26,654,393		26,233,633	25,403,221	27,386,408	30,744,113	26,649,057	28,047,356	24,344,596	
	5-year av.	22,329,041	24,483,352	22,329,757	23,036,491	25,497,280		25,080,900	24,259,133	26,221,675	29,544,425	25,492,000	26,875,742	23,211,529	
	Actual '15	24,451,416	24,918,146	24,528,311	26,637,717	25,534,403		-	-	-	-	-	-	-	
Prize Expense	Budget '15	13,220,985	14,496,549	13,221,409	14,160,695	15,617,724	58.59% 1)	15,371,186	14,884,619	16,046,637	18,014,031	15,614,597	16,433,909	14,264,334	
	5-year av.	13,441,873	14,083,100	13,068,239	13,476,179	14,382,302	56.41% 2)	15,169,339	15,004,176	15,762,623	17,196,943	14,965,463	15,587,091	13,784,285	
	Actual '15	14,654,310	15,464,731	14,661,732	15,939,727	15,369,268	60.19% 3)	-	-	-	-	-	-	-	
Operating Expenses	Budget '15	529,360	1,043,576	1,492,457	919,971	1,043,576		1,043,576	1,043,576	1,043,576	1,492,457	1,043,576	919,971	1,862,686	
	5-year av.	515,122	831,945	936,425	1,039,663	967,638		866,257	877,836	943,890	888,817	1,036,369	1,040,534	1,564,606	
	Actual '15	507,364	883,294	1,470,640	813,553	992,429		-	-	-	-	-	-	-	
Proceeds to General Fund	Budget '15	5,301,997	5,350,392	4,339,088	5,325,863	5,844,907		5,736,167	5,521,558	6,034,087	6,452,961	5,843,528	6,328,505	4,428,862	
	5-year av.	5,148,789	5,940,071	5,238,419	5,649,789	7,017,504		5,589,852	5,164,542	5,961,690	7,243,875	6,015,535	6,781,189	4,460,700	
	Actual '15	5,416,154	3,446,294	7,068,157	6,293,178	5,450,756		-	-	-	-	-	-	-	
Proceeds to Veterans Trust	Budget '15	122,382	380,593	217,733	119,495	102,878		110,798	198,509	328,309	245,822	159,426	118,212	95,843	
	5-year av.	138,154	429,641	245,792	134,894	116,136		125,077	224,091	370,618	277,501	179,971	133,446	108,194	
	Actual '15	266,208	521,130	259,202	70,185	160,296		-	-	-	-	-	-	-	
Total Proceeds	Budget '15	5,424,379	5,730,985	4,556,821	5,445,358	5,947,785		5,846,965	5,720,067	6,362,396	6,698,783	6,002,954	6,446,717	4,524,705	
	5-year av.	5,286,943	6,369,712	5,484,211	5,784,683	7,133,640		5,714,929	5,388,633	6,332,308	7,521,376	6,195,506	6,914,635	4,568,894	
	Actual '15	5,682,362	3,967,424	7,327,359	6,363,363	5,611,052		-	-	-	-	-	-	-	
YEAR TO DATE															
Gross Sales	Budget '15	22,563,936	47,304,846	69,869,506	94,037,223	120,691,616		146,925,249	172,328,470	199,714,878	230,458,991	257,108,048	285,155,404	309,500,000	
	5-year av.	22,329,041	46,812,393	69,142,150	92,178,641	117,675,921	7.13% 4)	142,756,821	167,015,954	193,237,629	222,782,054	248,274,054	275,149,796	298,361,325	
	Actual '15	24,451,416	49,369,562	73,897,873	100,535,590	126,069,993	4.46% 5)								
Prize Expense	Budget '15	13,220,985	27,717,534	40,938,943	55,099,638	70,717,362	58.59% 1)	86,088,548	100,973,167	117,019,804	135,033,835	150,648,432	167,082,341	181,346,675	
	5-year av.	13,441,873	27,524,973	40,593,212	54,069,391	68,451,693	58.17% 2)	83,621,032	98,625,208	114,387,831	131,584,774	146,550,237	162,137,328	175,921,613	
	Actual '15	14,654,310	30,119,041	44,780,773	60,720,500	76,089,768	60.36% 3)								
Operating Expenses	Budget '15	529,360	1,572,936	3,065,393	3,985,364	5,028,940		6,072,516	7,116,092	8,159,668	9,652,125	10,695,701	11,615,672	13,478,358	
	5-year av.	515,122	1,347,067	2,283,492	3,323,155	4,290,793		5,157,050	6,034,886	6,978,776	7,867,593	8,903,962	9,944,496	11,509,102	
	Actual '15	507,364	1,390,658	2,861,298	3,674,851	4,667,280									
Proceeds to General Fund	Budget '15	5,301,997	10,652,389	14,991,477	20,317,340	26,162,247		31,898,414	37,419,972	43,454,059	49,907,020	55,750,548	62,079,053	66,507,915	
	5-year av.	5,148,789	11,088,860	16,327,279	21,977,068	28,994,572		34,584,424	39,748,966	45,710,656	52,954,531	58,970,066	65,751,255	70,211,955	
	Actual '15	5,416,154	8,862,448	15,930,605	22,223,783	27,674,539									
Proceeds to Veterans Trust	Budget '15	122,382	502,976	720,708	840,203	943,081		1,053,879	1,252,388	1,580,697	1,826,519	1,985,945	2,104,158	2,200,000	
	5-year av.	138,154	567,795	813,587	948,481	1,064,617		1,189,694	1,413,785	1,784,403	2,061,904	2,241,875	2,375,321	2,483,515	
	Actual '15	266,208	787,338	1,046,540	1,116,725	1,277,021									
Total Proceeds	Budget '15	5,424,379	11,155,365	15,712,185	21,157,543	27,105,328		32,952,293	38,672,360	45,034,756	51,733,539	57,736,493	64,183,211	68,707,915	
	5-year av.	5,286,943	11,656,655	17,140,866	22,925,549	30,059,189	-3.68% 4)	35,774,118	41,162,751	47,495,059	55,016,435	61,211,941	68,126,576	72,695,470	
	Actual '15	5,682,362	9,649,786	16,977,145	23,340,508	28,951,560	6.81% 5)								

1) Budget FY15 Prize Payout

**Attachment B****Budget for Lottery Fund**

	<b>FY 2014 ACTUAL</b>	<b>FY 2015 BOARD APPROVED FINAL BUDGET</b>	<b>FY 2016 BOARD APPROVED BUDGET</b>	<b>FY 2017 BOARD APPROVED BUDGET</b>
<b>Resources</b>				
Lottery sales	314,055,429	309,500,000	312,700,000	312,700,000
Interest income	51,716	500,000	500,000	500,000
Application fees	4,375	5,000	5,000	5,000
Other	99,932	5,000	5,000	5,000
<b>Total Resources</b>	<b>314,211,452</b>	<b>310,010,000</b>	<b>313,210,000</b>	<b>313,210,000</b>
<b>Expenses and Change in Net Assets</b>				
Prizes	186,948,985	181,346,675	184,122,172	184,122,172
Retailer compensation	20,131,428	20,037,982	20,044,543	20,044,543
Advertising production and media purchases	6,933,352	12,380,000	12,508,000	12,508,000
Retailer Lottery system/Terminal Communications	6,453,429	7,248,100	7,388,828	7,311,608
Instant/Pull-tab ticket expense & machine maintenance	4,077,813	4,295,000	4,328,000	3,728,000
Vending machines/Ticket dispensers	81,787	250,000	1,723,333	2,018,000
Courier delivery of instant tickets	322,729	610,000	660,000	660,000
Interest expense (ITVM/PTVM/Building)	12,622	-	3,220	-
Lottery operating expense	12,073,776	13,478,358	13,264,328	13,264,328
Building (purchase and sale)	3,432,016	1,964,000	-	-
Increase (decrease) in net assets	(202,339)	(308,030)	25,400	(185,000)
<b>Total Expenses and Change in Net Assets</b>	<b>240,265,598</b>	<b>241,302,085</b>	<b>244,067,824</b>	<b>243,471,651</b>
<b>Proceeds</b>				
Proceeds Transfer to General Fund	72,141,420	66,507,915	66,942,176	67,538,349
Proceeds Transfer to Veterans Trust Fund	1,804,434	2,200,000	2,200,000	2,200,000
<b>Total Proceeds Transfers</b>	<b>73,945,854</b>	<b>68,707,915</b>	<b>69,142,176</b>	<b>69,738,349</b>
<b>Total Expenses and Proceeds</b>	<b>314,211,452</b>	<b>310,010,000</b>	<b>313,210,000</b>	<b>313,210,000</b>

## Lottery Operations - Budget Detail

	FY 2014 ACTUAL	FY 2015 BOARD APPROVED FINAL BUDGET	FY 2016 BOARD APPROVED BUDGET	FY 2017 BOARD APPROVED BUDGET
Administrative payroll*	9,461,004	10,145,328	10,145,328	10,145,328
Travel	400,279	495,000	495,000	495,000
Supplies	88,328	125,000	125,000	125,000
Printing	20,435	16,000	20,000	20,000
Postage	6,993	6,500	7,000	7,000
Communications	178,880	160,000	180,000	180,000
Rentals	307,286	310,000	310,000	310,000
Utilities	120,101	128,000	84,000	84,000
Professional fees	123,287	260,000	260,000	260,000
Outside services and repair	256,838	449,500	246,000	246,000
Data processing	89,573	60,000	90,000	90,000
Equipment	220,684	300,000	320,000	320,000
Reimbursement to state agencies	424,834	495,000	495,000	495,000
Depreciation	287,356	423,030	400,000	400,000
Other expenses	87,898	105,000	87,000	87,000
<b>Total operating expenses</b>	<b>\$ 12,073,776</b>	<b>\$ 13,478,358</b>	<b>\$ 13,264,328</b>	<b>\$ 13,264,328</b>

\* 2016 and 2017 Proposed Budget for "Administrative Payroll" does not include salary and benefit cost increase projections by DOM

## Hot Lotto Jackpot Timeline

**Dec. 23, 2010:** A \$10 Hot Lot Lotto ticket is purchased at a Des Moines convenience store with two plays for five consecutive drawings.

**Dec. 29, 2010:** One of the plays on that ticket matches all six numbers selected in that night's Hot Lotto drawing to win the multi-million-dollar jackpot on the line (\$16.5 million annuity, \$10.8 million cash option).

**Throughout 2011:** The Iowa Lottery issues reminders that the winning ticket is still unclaimed and the deadline to claim the prize is 4 p.m. Dec. 29, 2011.

**Dec. 29, 2011:** The winning ticket is presented at lottery headquarters in Des Moines with less than two hours to go before the prize would have expired. No member of Hexam Investments Trust, the entity claiming the prize, is present. The two lawyers from the Davis Brown law firm in Des Moines who presented the ticket said they didn't have the details sought by the lottery about who purchased the ticket, where it had been for the past year, and who the prize winner(s) were. The lottery continued to seek information.

**Jan. 17, 2012:** Crawford Shaw, the trustee who signed the winning ticket on behalf of the trust, meets with lottery officials. He states that he misspelled the name of the trust and that it actually is Hexham Investments Trust. While some documents relating to the trust are presented, they do not provide the details sought by the lottery. Shaw said he is not the prize winner and did not purchase the winning ticket. He also stated he did not know the information sought by the lottery, but that the trust is based in the country of Belize.

**Jan. 23, 2012:** To try to bring closure to a situation that has lingered for 13 months, the Iowa Lottery sets a deadline of 3 p.m. Jan. 27, 2012, for the requested information to be provided or the jackpot claim would be denied.

**Jan. 25, 2012:** The trust makes an offer to the lottery, stating that if the lottery will pay the prize, the entire prize winnings will be given to charity. However, the necessary information sought by the lottery is still not provided.

**Jan. 26, 2012:** The lottery denies the request and continues to seek the information it has requested. At 6:05 p.m., the lottery receives confirmation that the jackpot claim has been withdrawn. At 7 p.m., the lottery holds a news conference to announce that development. Immediately following the news conference, the Iowa Attorney General's Office and Iowa Division of Criminal Investigation (DCI) issue a joint statement announcing that they have begun an investigation into the matter.

**Oct. 9, 2014:** The DCI releases surveillance-camera video of the man making the Hot Lotto ticket purchase in December 2010. The DCI also stated that its investigative information had led agents to pursue additional leads in the Houston, Texas, area.

**Jan. 15, 2015:** The DCI and Attorney General's Office announce that charges have been filed in the case. Eddie Tipton of Norwalk, Iowa, was arrested and charged with two counts of fraud. Tipton was an employee of the Multi-State Lottery Association (MUSL), an Urbandale-based lottery vendor organization that handles the day-to-day functions in multi-state lottery games on behalf of its member lotteries.

**March 21, 2015:** The DCI and the Iowa Attorney General's Office announce additional charges in the case. Robert Rhodes II of Sugar Land, Texas, was arrested March 20 and charged with two counts of fraud. The criminal complaint detailed that Tipton previously worked for Rhodes' Houston-based company.

**April 13, 2015:** Trial for Eddie Tipton is scheduled to begin in Polk County District Court, but a continuance is granted until July 13, 2015.



**FOR IMMEDIATE RELEASE**

**CONTACT**

All inquiries should be directed to:  
Megan Jorgensen, Marketing Director  
Davis Brown Law Firm  
215 10<sup>th</sup> St., Ste. 1300  
Des Moines, IA 50309  
(515) 288-2500

January 26, 2012

Effective January 26, 2012, attorneys for Hexham Investments Trust have announced the withdrawal of the claim for the "Hot Lotto" Ticket submitted to the Iowa Lottery Authority on December 29, 2011. Crawford Shaw, a licensed attorney in the state of New York, is the Trustee of the Trust.

As a condition of the payment of the claim, the Iowa Lottery requested that the identity of the purchaser of the Ticket be disclosed; however, the purchaser has elected to remain anonymous. The identity of the purchaser has not been disclosed to Shaw.

On January 25, 2012, the Trust submitted an offer to the Iowa Lottery authorizing all of the proceeds of the prize, after taxes, be paid to Iowa charities and other charities selected by the Trust and approved by the Iowa Lottery. That offer was declined by Iowa Lottery officials today, advising that payment of the claim would not be made to any party until the identity of each person who purchased and possessed the Ticket was disclosed.

In order that the claim be resolved without further controversy, Shaw, as Trustee on behalf of the Trust, has withdrawn the claim and has agreed to take no further action.

##



Iowa Department of Public Safety  
Larry L. Noble, Commissioner  
215 East 7th Street  
Des Moines, Iowa 50319



For immediate release:  
Thursday, January 26, 2012  
Des Moines, Iowa

## Statement on the Investigation Regarding the Multimillion-Dollar Winning Lottery Ticket

Des Moines, IOWA --- The Iowa Lottery Authority recently requested the Iowa Division of Criminal Investigation and the Iowa Attorney General to investigate the circumstances surrounding the purchase and presentation of the multimillion-dollar winning lottery ticket purchased in December of 2010.

The DCI and Attorney General will continue their investigation in order to ensure the integrity of the Lottery and to determine whether those involved complied with state law.

Neither agency will comment further on the ongoing investigation.

###

To enroll in the DPS E-mail Notification system simply log on to  
<https://dpsemailnotify.iowa.gov> and follow the instructions to enroll as a new user.

For Immediate Release  
Thursday, Jan. 26, 2012

More Information:  
Mary Neubauer  
Office: 515-725-7906  
Mobile: 515-238-7292  
[mneubauer@ialottery.com](mailto:mneubauer@ialottery.com)

## **CLAIM FOR HOT LOTTO JACKPOT WITHDRAWN, LOTTERY ISSUES STATEMENT**

DES MOINES, Iowa – Iowa Lottery officials met Thursday evening with local counsel from the Davis Brown Law Firm representing Hexham Investments Trust. Following that meeting, Iowa Lottery CEO Terry Rich released the following statement:

“This has been and continues to be the strangest situation that we can recall in the 26-year history of our lottery.

We were excited when the Hot Lotto jackpot-winning ticket was presented in December and we were hopeful that we’d soon be paying out the big prize to the lucky winner. That has not happened. And in fact, late this afternoon, the jackpot claim from Hexham Investments Trust of Bedford, N.Y., was withdrawn. We received confirmation of the claim withdrawal shortly after 6 p.m. today from the Davis Brown Law Firm here in Des Moines.

As you likely know, the winning ticket for the Hot Lotto jackpot won in December 2010 in Des Moines was turned in here at the lottery with less than two hours to go before the prize would have expired. The winning ticket was signed by a trustee on behalf of Hexham Investments Trust, but no member of the trust was present when the ticket was brought to the lottery by two lawyers on Dec. 29.

That day, and since that time, we have been requesting basic information so we could confirm that the winning ticket was legally purchased, legally possessed and legally presented. This standard information is routinely requested of jackpot winners here in Iowa as part of our security processes to comply with both Iowa law and our lottery’s game rules. Those details usually are received within minutes at the time a winning ticket is presented, not in weeks or months. It has been 13 months since the purchase of this ticket and the drawing in which it won the jackpot.

Those specifics in this instance were not shared with us when the ticket was brought to the lottery, and have still not been shared with us nearly a month later. We established 3 p.m. CST tomorrow as the deadline for that information to be provided so we could bring closure to the situation and move forward.

On Monday, we had informed the trust’s local counsel at the Davis Brown Law Firm in Des Moines of today’s deadline and specified in a letter the information we were

requesting. Throughout this week, we remained in contact with lawyers at Davis Brown about our request. We received a letter from the law firm on Wednesday, specifying that if jackpot were to be paid to the trust, all of the winnings would be donated to charity. However, the specifics we sought were not provided.

The Lottery sent a reply to Davis Brown on Thursday, declining to pay the prize because of our concerns about the legality of the purchase, possession, and presentation of this ticket. A copy of that correspondence has been provided today.

During conversations with the lottery, Mr. Shaw specified that he is not the beneficiary of Hexham Investments Trust, only its lawyer and trustee. He also specified that he is not the person who purchased the winning ticket in Des Moines, and stated that the recipient of Hexham Investments Trust was a corporation in the country of Belize. He stated that he ultimately did not know the identity of the winner(s).

Through this process, we have tried our best to remain open and transparent, while protecting the integrity of the Iowa Lottery and its games.”

###



Iowa Department of Public Safety  
215 East 7th Street  
Des Moines, Iowa 50319  
[www.dps.state.ia.us](http://www.dps.state.ia.us)



For immediate release:  
October 9, 2014

## Iowa DCI Releases Surveillance Video, Asks for Public's Help

Des Moines, IOWA – The Iowa Department of Public Safety's Division of Criminal Investigation (DCI) has released surveillance video of the person that purchased a multi-million dollar lottery ticket in December 2010.

The DCI is asking for the public's help in identifying the person in the video who purchased the lottery ticket on December 23, 2010, at the Quick Trip on East 14th Street, directly south of I-80, in Des Moines.

[Hot Lotto Lottery Ticket Surveillance Video – For Posting on ALL Media Sites](#)

[Tip Sheet \(Attached to Surveillance Video, also\)](#)

[Transcription for Video](#)

[Hot Lotto Ticket Surveillance Video MPG File \(For on-air purposes only\)](#)

[Hot Lotto Ticket Surveillance Video WMV File \(For on-air purposes only\)](#)

The Iowa DCI began its investigation in late 2011 after the Iowa Lottery received phone calls from a person claiming to be the original purchaser of the lottery ticket. This claim was taken more seriously than others because the individual provided the fifteen-digit security number printed on the lottery ticket. This person did not, however, match the video surveillance evidence and subsequently admitted he was not the original ticket purchaser. He later said he was representing another party that wished to remain anonymous and wanted to file a claim of ownership with the Lottery.

In late December 2011, the Iowa based Davis Brown Law Firm presented the winning lottery ticket to the Iowa Lottery. The ownership claim was signed by Trustee Crawford Shaw, on behalf of Hexam Investments, a trust based in Belize.

In January of 2012, Crawford Shaw met with Iowa Lottery officials and stated he was unable to identify the owner of the lottery ticket and claimed he did not know the owner of the ticket. In late January 2012, Davis Brown withdrew the claim of ownership on behalf of Shaw.

Investigative information has been developed leading DCI Investigators to pursue additional leads in the Houston, Texas area. DCI Investigators continue to actively investigate this case and pursue leads as they develop, however the public's assistance is requested in identifying the individual who purchased the ticket in December 2010. DCI Agents would like to identify and speak with the purchaser of the ticket to further the investigation. At this time, there is no indication that the ticket owner committed a crime. Anyone with information is urged to watch the surveillance video released and provide information through the tip sheet.

It is important to note that the deadline has passed to redeem the ticket for any prize.

Any further questions or to get access to unedited 1080p HD Video of the news conference, please contact Alex Murphy, DCI Spokesman, (515) 725-6189 or (515) 443-3014.

**###**

**To enroll in the DPS E-mail Notification system simply log on to <https://dpsemailnotify.iowa.gov> and follow the instructions to enroll as a new user.**

For Immediate Release  
Thursday, Oct. 9, 2014

More Information:  
Mary Neubauer  
Office: 515-725-7906  
Mobile: 515-238-7292  
[mneubauer@ialottery.com](mailto:mneubauer@ialottery.com)

## **Iowa Lottery Statement Regarding Release Of Surveillance Video Showing Purchase Of Jackpot-Winning Hot Lotto<sup>®</sup> Ticket In 2010**

**DES MOINES, Iowa – Iowa Lottery CEO Terry Rich issued the following statement Thursday regarding the release of surveillance-camera video showing the purchase of the jackpot-winning Hot Lotto ticket in December 2010:**

“The Iowa Lottery remains fully supportive of the efforts by the Iowa Division of Criminal Investigation in this case. We continue to provide as much information and assistance as we can as we partner with them in this investigation.

After Hexham Investments Trust, an entity with ties to the country of Belize, withdrew its claim to this jackpot back in January 2012, the money from the jackpot was returned to the lotteries in the Hot Lotto game in proportion to the percentage of sales from each state. You’ll likely remember that the Iowa Lottery gave away its share of that money in the “Mystery Millionaire” promotion that concluded with a huge prize give-away at the 2012 Iowa State Fair. It was incredibly fun to see the prize money ultimately wind up with players right here in Iowa. That truly is how the process is supposed to work.

This has been – and continues to be – one of the biggest lottery mysteries in the country, likely even the world. It’s certainly the strangest situation we can recall in our lottery’s 29-year history. We know from the hundreds of contacts we’ve received since this jackpot-winning ticket was purchased back in December 2010 that there is intense interest in this situation. We believe this is the largest lottery jackpot ever claimed and then withdrawn.

You’ll likely remember that the winning ticket in this case was presented to the lottery with less than two hours to go before the prize-claim period would have expired in December 2011. But we never were provided with the basic information necessary to confirm that the winning ticket was legally purchased, legally possessed and legally presented.

It appears that a person or a group of people may have attempted to commit fraud against the lottery and the state of Iowa. And while there was \$16.5 million involved in this particular jackpot, the prizes in some of our other games obviously have been many times that amount. We continue to ensure that we have systems in place to protect the lottery and its resources against fraud attempts. We remain ever cognizant of our duty to protect the integrity of the Iowa Lottery and its games.”

###



Iowa Department of Public Safety  
215 East 7th Street  
Des Moines, Iowa 50319  
[www.dps.state.ia.us](http://www.dps.state.ia.us)



For immediate release:  
January 15, 2015

## Iowa DCI Makes Arrest in Hot Lotto Ticket Investigation

Des Moines, IOWA – The Iowa Department of Public Safety's (DPS) Division of Criminal Investigation (DCI), along with the Iowa Attorney General's Office have filed charges and have made an arrest in the Hot Lotto Ticket Investigation.

Eddie Raymond Tipton, 51, of Norwalk, Iowa, has been charged with two counts of Fraud Iowa Code 99G.36(1) and Iowa Code 99G.36(2), which are Class D Felonies.

DCI Agents arrested Mr. Tipton this afternoon. He is currently being held in the Polk County Jail on \$10,000 cash-only bond.

This investigation is on-going by the Iowa Division of Criminal Investigation and the Iowa Attorney General's Office with cooperation from the Iowa Lottery.

[Video of Press Conference Part 1](#)

[Video of Press Conference Part 2](#)

[Complaint & Affidavit](#)

[Iowa Lottery Statement](#)

Any further questions can be directed to Alex Murphy, DCI Spokesman, Commissioner's Office, Iowa Department of Public Safety at (515) 443-3014.

*It should be noted that a criminal charge is merely an accusation and all suspects are considered innocent until proven guilty.*



To enroll in the DPS E-mail Notification system simply log on to <https://dpsemailnotify.iowa.gov> and follow the instructions to enroll as a new user.

IN THE IOWA DISTRICT COURT FOR POLK COUNTY

<p>STATE OF IOWA, <i>Plaintiff,</i></p> <p>v.</p> <p>EDWARD TIPTON, <i>Defendant.</i></p>	<p>AGENCY CASE NO.: _____</p> <p>AGENCY: ATTY. GEN.</p> <p>COUNTY ATTORNEY COMPLAINT REVIEW</p>
---	---

COMES NOW the undersigned Assistant Attorney General Robert Sand and states as follows:

I have read and reviewed the attached complaint and affidavit. I:

- Approve** the charges of Fraud in violation of Iowa Code Section(s): 99G.36(1), 99G.26(2).
- A **No Contact Order** with the victim(s) of this crime is requested.

With regard to a bond amount, the State requests that:

- Bond be set according to the standard bond schedule.
- Bond be set in the amount of \_\_\_\_\_.
- Cash Only.
- Cash or Surety.
- 10% to the Court.
- The defendant be released on the defendant's own recognizance (O/R).

Based on the information currently available to me, I offer this additional information to the court / clerk:

- Other: \_\_\_\_\_
- The defendant currently has other pending charges.
- The defendant has a relevant criminal history.
- This crime occurred in violation of a No Contact Order.
- The defendant is currently on probation.

WHEREFORE the State respectfully requests the Court find probable cause and allow the case to proceed under the circumstances set out above.

Respectfully submitted,  
TOM J. MILLER by:  
/s/   
Robert H. Sand  
Assistant Atty General ATT0010489  
Attorney General's Office  
1305 E. Walnut, Des Moines, IA  
(515) 281-5536  
[rob.sand@iowa.gov](mailto:rob.sand@iowa.gov)

**Polk County Complaint & Affidavit**

**STATE OF IOWA, COUNTY Polk  
OF**

STATE OF IOWA

Before (Judge, Magistrate) \_\_\_\_\_

Vs.

Criminal Case No. \_\_\_\_\_

**Eddie Raymond Tipton**

**COMPLAINT**

Defendant

**2201 Coolidge St, Norwalk, IA, 50211**

Address

**March 15, 1963**

Birthdate

The defendant is accused of the crime of **Fraud, §99G. 36(1) (Class D Felony); Fraud,**

(Name the Offense and code or Ordinance section)

**§99G. 36(2) (Class D Felony);**

in that he from December \_\_\_\_\_

**23, 2010**

**Through January 17**

**2012**

at the

**City of Des Moines**

(Here locate the City, or Township where the offense occurred)

in **Polk** County, did **attempt to influence the winning of**

**a prize through the use of fraud or deception in violation of Iowa Code 99G.36(2); AND, with the intent to**

**defraud, attempted to falsely utter, pass, or redeem a lottery ticket, in violation of Iowa Code 99G.36(1)**

(State the acts or omissions constituting the offense)

I certify under penalty of perjury and pursuant to the laws of the State of Iowa that the proceeding is true and correct. \*

**January 14, 2015**

Date

X



Complainant's signature

**STATE OF IOWA,**

**COUNTY OF Polk**

, ss:

I the undersigned, being first duly sworn and under oath, state that the following facts known to me or told to me by other reliable persons form the basis for my belief that **Eddie Raymond Tipton**

the defendant committed the crime charged.

On December 23, 2010 a winning Hot Lotto ticket was purchased at the Quick Trip on E14th and Interstate 80 in Des Moines, Iowa. This purchase was captured and recorded with video and audio surveillance. On November 9 and 10, 2011, the Iowa Lottery was contacted by Philip Johnston of Canada claiming to be the winner of the lottery ticket. Johnston was able to provide the 15 digit security number printed on the winning ticket as verification of his claim. The lottery noticed discrepancies between Johnston's statements and known facts, including the descriptions of the purchaser's clothing, and did not immediately pay his claim. On December 6, 2011, Johnston contacted the lottery and advised he was not the owner of the ticket and stated he was representing an anonymous party. On December 29, 2011, Crawford Shaw of New York acting as a trustee of Hexham Investments presented a claim and the winning lottery ticket to the Iowa Lottery. In the Grantor Trust Agreement submitted by Shaw, for Hexham Investments, Shaw is listed as the Trustee and Johnston is listed as the Trustor/President of Hexham Investments Ltd. On January 17, 2012, Crawford Shaw traveled to Iowa and met with officials from the Iowa Lottery to provide documentation that might help reach an agreement for the release of the winnings. The Lottery could still not determine the validity of the purchase of the ticket without the identity of the purchaser, and continued to refuse to pay the claim. On January 26, Shaw withdrew the claim of ownership to the lottery ticket. Law enforcement made unproductive attempts to interview Johnston and Shaw to learn the identity of their client and other details. They also attempted to enhance the video footage of the purchaser's face, without success. Additional leads and other interviews were also unproductive.

On August 21, 2013, Johnston agreed to be interviewed in Quebec City, Canada about his knowledge of the lottery ticket. Johnston advised he was first contacted on October 17, 2011 by Robert Sonfield and Robert Rhodes of Houston, Texas, requesting Johnston's assistance with claiming the lottery ticket. Johnston has a prior professional relationship with Sonfield and Rhodes. Johnston provided copies of his day planner and phone records to verify his statement. He was told by Sonfield that Sonfield, an attorney, represented a client who had a legitimate claim to the lottery but wanted to remain anonymous.

In April 2014, Shaw also confirmed he has a professional relationship with Sonfield for over thirty years. Shaw confirmed Sonfield originally contacted him about the lottery ticket and provided the ticket to him via Fed Ex. Shaw and Johnston, at the direction of Sonfield and Robert Rhodes, organized and completed the paperwork necessary to attempt the claim of the 16.5 million dollar Hot Lotto ticket.

In June 2014, Iowa law enforcement traveled to Houston in an attempt to interview Sonfield and Rhodes about their knowledge of the ticket and its purchaser. Sonfield and Rhodes did not make themselves available. On October 9, 2014, the video and audio recording of the purchase of the winning ticket was publicly released with a request for information regarding the identity of the purchaser. On October 13, 2014, an out-of-state employee of the Multi-State Lottery Association (MUSL), which runs the Hot Lotto, provided a tip that the individual in the video is the defendant, Eddie Tipton. The defendant is the Director of Security for MUSL and lives in Iowa. As an employee of a vendor to the Iowa Lottery, who also has access to confidential information which may compromise the integrity of the lottery, the defendant is prohibited by the Iowa Code from purchasing lottery tickets or winning the lottery.

On November 7, 2014, DCI Special Agent interviewed the defendant. The defendant admitted that he is not allowed to buy lottery tickets nor can he win the lottery. He stated that he did not buy the ticket and that he "wasn't even in town in that time period" that the ticket was purchased. He said he was in Houston, Texas, where he grew up, seeing "all family." However, cell phone records indicate the defendant was in the Des Moines area on the date the ticket was purchased. A Division of Criminal Investigation photographer analyzed the video of the purchase to highlight the vehicle the purchaser used to leave the store, a silver crossover-style vehicle. Records from Enterprise/Alamo vehicle rental business show that on December 22, 2010, the defendant rented a silver 2007 Ford Edge, a crossover-style vehicle. He returned it on January 3, 2011. During his interview, the defendant was specifically asked twice for other contacts in Houston other than his family. The defendant did not mention Robert Rhodes. However, cell phone records indicate frequent lengthy calls between the defendant and Rhodes, including on the day the defendant purchased the ticket. In addition, the defendant and Robert Rhodes attended the University of Houston and from 1996 to 2003, the defendant served as Chief Operations Officer for Systems Evolution, Rhodes's Houston-based company. On LinkedIn, Rhodes endorsed the defendant as "very focused on the bottom line" and stated "I would work with Eddie again in a second!"

On December 10, 2014, DCI Special Agents interviewed a former co-worker of the defendant's, who stated he had seen the publicly released video and believes the defendant is the purchaser. DCI Special Agents interviewed additional individuals on December 3, 2014 and after who say the publicly released video sounds like the Defendant's voice and mannerisms. DCI Special Agents interviewed a friend of the defendant who provided records of an analysis he personally performed of the the publicly released video of the purchase. He isolated the sound of the purchaser's voice to analyze the audio, and made measurements at the store to analyze the video. He did this with the intent of proving the purchaser was *not* the Defendant. Based on his analysis and his knowledge of the defendant, he concluded the defendant is the purchaser.

I certify under penalty of perjury and pursuant to the laws of the State of Iowa that the preceding is true and correct. \*

January 14, 2015

Date

X

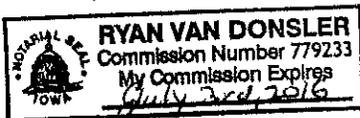
*SIA [Signature]*  
Complainant's signature

Subscribed and sworn to before me by *SIA [Signature]* at Des Moines, Iowa, this 14<sup>th</sup> day of

January, 2015.

*[Signature]*

Notary



For Immediate Release  
Thursday, Jan. 15, 2015

More Information:  
Mary Neubauer  
office: 515-725-7906  
mobile: 515-238-7292  
[mneubauer@ialottery.com](mailto:mneubauer@ialottery.com)

## **CHARGES FILED IN HOT LOTTO<sup>®</sup> JACKPOT INVESTIGATION, LOTTERY ISSUES STATEMENT**

**CLIVE, Iowa – Iowa Lottery CEO Terry Rich released the following statement Thursday following an announcement by the Iowa Division of Criminal Investigation that charges have been filed in the case of the Hot Lotto jackpot won in December 2010 in Des Moines:**

“We’re disappointed to learn that someone who has worked as a vendor in the lottery industry has been charged in this case. At the same time, we’re gratified that the thorough procedures and protocols we’ve developed to protect the security and integrity of our games worked to prevent the payment of a disputed prize.

This truly is one of the strangest situations in the history of lotteries. We believe this is the largest lottery jackpot ever to be claimed, only to have that claim later withdrawn.

The charges in this case focus on possible fraud attempts as the prize was being claimed. We have strong security procedures in place to protect and ensure the integrity of our games. And we absolutely believe this case indicates that those processes worked to protect lottery players, lottery games and lottery prizes.

It was the right thing for our lottery to refuse to pay this jackpot prize unless or until basic security questions about it could be answered – and they never were. There will always be people who try to beat the system. We have and will continue to update our security procedures as we identify vulnerabilities to protect against them.”

### **ADDITIONAL HISTORY AND BACKGROUND**

In December 2010, a man bought a Hot Lotto ticket at a convenience store on Des Moines’ north side. That ticket went on to win the multi-million-dollar jackpot on the line in the Hot Lotto drawing on Dec. 29 of that year. For nearly a year, the prize went unclaimed.

Then, with less than two hours to go before the prize would have expired on Dec. 29, 2011, the winning ticket was presented by lawyers on behalf of a New York investment trust that had been established to benefit a corporation in the country of Belize. Neither the two lawyers who presented the ticket nor anyone associated with Hexham Investments Trust of Bedford, N.Y., would provide the basic details necessary to verify that the ticket had been legally purchased, legally possessed and legally presented. Those involved said they could not identify the jackpot winner or the man who purchased the winning ticket.

That standard information is routinely requested from jackpot winners in Iowa as part of the lottery's security processes to comply with both state law and lottery game rules. Such details are usually received within minutes at the time a winning ticket is presented.

On Jan. 26, 2012, Crawford Shaw, a New York attorney who identified himself as the trustee of Hexham Investments Trust, withdrew the claim to the jackpot. The Iowa Lottery requested that the Iowa Attorney General's Office and the Iowa Division of Criminal Investigation open a criminal investigation into the matter.

The money from the jackpot, which totaled nearly \$10.8 million in cash, was returned to the lotteries in the Hot Lotto game in proportion to the sales from each jurisdiction. The Iowa Lottery received about \$1.4 million back and gave the money away in a special summer promotion called "Mystery Millionaire" in 2012.

### **WHAT IS HOT LOTTO?**

Hot Lotto got its start in April 2002 and has jackpots that start at \$1 million. Today, the game is offered in Iowa, 13 other states and the District of Columbia. In May 2013 the game's jackpot became an all-cash prize paid in a lump-sum amount with all state and federal withholding taxes paid for the winner. Players in Hot Lotto choose five balls from a pool of 47 and another number, called the Hot Ball<sup>®</sup>, from a separate pool of 19. Plays cost \$1, and Hot Lotto drawings are held on Wednesdays and Saturdays.

### **WHAT IS MUSL AND HOW IS IT ASSOCIATED WITH THE IOWA LOTTERY?**

The Multi-State Lottery Association (MUSL) is a lottery vendor organization based in Urbandale, Iowa. It was established in 1987 to handle the day-to-day functions in multi-state games on behalf of many U.S. lotteries, including the Iowa Lottery. MUSL is officially defined as a government-benefit, non-profit association entirely owned and operated by its 37 member lotteries. MUSL is overseen by its board of directors, which is made up of the directors of all its member lotteries.

As a vendor organization, MUSL administers seven lottery games, including Hot Lotto. Among other responsibilities, MUSL carries out lottery game drawings and hosts the websites of many U.S. lotteries. MUSL has 13 staff members, and Eddie Tipton has worked there since 2003, currently serving as its director of information security. Under Iowa law, a person working in that area is among those barred from playing the lottery or claiming a lottery prize because they have access to confidential information about lottery games.

###



Iowa Department of Public Safety  
215 East 7th Street  
Des Moines, Iowa 50319  
[www.dps.state.ia.us](http://www.dps.state.ia.us)



For immediate release:  
March 21, 2015

## Additional Arrest Made in Hot Lotto Ticket Investigation

Des Moines, IOWA – The Iowa Department of Public Safety's (DPS) Division of Criminal Investigation (DCI), along with the Iowa Attorney General's Office have filed additional charges in the Hot Lotto Ticket Investigation.

Robert Clark Rhodes II, 46, of Sugar Land, Texas, has been charged with two counts of Fraud, Iowa Code 99G.36(1) and Iowa Code 99G.36(2), which are Class D Felonies.

Iowa authorities received assistance from Texas Lottery Enforcement officials in the arrest of Rhodes in Texas last night, March 20, 2015. He is currently being held in the Fort Bend County Jail on a \$500,000 cash-only bond and is awaiting extradition proceedings to bring him back to Iowa.

This investigation is on-going by the Iowa Division of Criminal Investigation and the Iowa Attorney General's Office with cooperation from the Iowa Lottery.

### [COMPLAINT & AFFIDAVIT](#)

No further information will be released at this time.

***Note: A criminal charge is merely an accusation and a defendant is presumed innocent until proven guilty.***



To enroll in the DPS E-mail Notification system simply log on to <https://dpsemailnotify.iowa.gov> and follow the instructions to enroll as a new user.

IN THE IOWA DISTRICT COURT FOR POLK COUNTY

STATE OF IOWA, <i>Plaintiff,</i> v. <b>ROBERT CLARK RHODES II.</b> <i>Defendant.</i>	AGENCY CASE NO.: _____ AGENCY: ATTY. GEN.  <b>COUNTY ATTORNEY COMPLAINT REVIEW</b>
--	---

COMES NOW the undersigned Assistant Attorney General Robert Sand and states as follows:

I have read and reviewed the attached complaint and affidavit. I:

- Approve* the charges of Fraud in violation of Iowa Code Section(s): 99G.36(1), 99G.26(2).
- A *No Contact Order* with the victim(s) of this crime is requested.

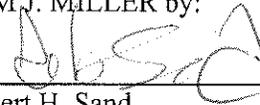
With regard to a bond amount, the State requests that:

- Bond be set according to the standard bond schedule.
- Bond be set in the amount of \$500,000 + surrender of passport.
- Cash Only.
- Cash or Surety.
- 10% to the Court.
- The defendant be released on the defendant's own recognizance (O/R).

Based on the information currently available to me, I offer this additional information to the court / clerk:

- Other: Defendant believed to be flight risk due to receiving avoidance of law enforcement in this matter
- The defendant currently has other pending charges.
- The defendant has a relevant criminal history.
- This crime occurred in violation of a No Contact Order.
- The defendant is currently on probation.

WHEREFORE the State respectfully requests the Court find probable cause and allow the case to proceed under the circumstances set out above.

Respectfully submitted,  
 TOM J. MILLER by:  
 /s/   
 Robert H. Sand  
 Assistant Atty General ATT0010489  
 Attorney General's Office  
 1305 E. Walnut, Des Moines, IA  
 (515) 281-5536  
 rob.sand@iowa.gov

Polk County Complaint & Affidavit

STATE OF IOWA, COUNTY Polk  
OF

STATE OF IOWA

Before (Judge, Magistrate) \_\_\_\_\_

Vs.

Criminal Case No. \_\_\_\_\_

Robert Clark Rhodes II  
Defendant

COMPLAINT

615 Longview Drive Sugar Land, TX 77478 Address June 1, 1968 Birthdate

The defendant is accused of the crime of Forgery, Iowa Code 99G.36(1), a Class D Felony; and Fraud,  
(Name the Offense and code or Ordinance section)

Iowa Code 99G.36(2), a Class D Felony For, from 12/23/10 - 1/17/12

at Des Moines, Iowa (Here locate the City, or Township where the offense occurred)

in Polk County, did intentionally conspire with others to attempt to influence the winning of a prize through the use of coercion, fraud, or deception in violation of Iowa Code 99G.36(2); AND, with the intent to defraud, attempted to falsely utter, pass, or redeem a lottery ticket, in violation of Iowa Code 99G.36(1).  
(State the acts or omissions constituting the offense)

I certify under penalty of perjury and pursuant to the laws of the State of Iowa that the proceeding is true and correct. \*

March 12, 2015  
Date

X S/A [Signature]  
Complainant's signature

STATE OF IOWA,  
COUNTY OF Polk, ss:

I the undersigned, being first duly sworn and under oath, state that the following facts known to me or told to me by other reliable persons form the basis for my belief that Robert Clark Rhodes II

Samantha Kane Tibbitts  
SAMANTHA R. KANE-TIBBITTS  
Commission Number 711733  
My Commission Expires 7-21-16

the defendant committed the crime charged.

On December 23, 2010 a winning Hot Lotto ticket was purchased at the Quick Trip on E14th and Interstate 80 in Des Moines, Iowa. This purchase was captured and recorded with video and audio surveillance. On November 9 and 10, 2011, the Iowa Lottery was contacted by Phillip Johnston of Canada claiming to be the winner of the lottery ticket. Johnston was able to provide the 15 digit security number printed on the winning ticket as verification of his claim. The lottery noticed discrepancies between Johnston's statements and known facts, including the descriptions of the purchaser's clothing, and did not immediately pay his claim. On December 6, 2011, Johnston contacted the lottery and advised he was not the owner of the ticket and stated he was representing an anonymous party. On December 29, 2011, Crawford Shaw of New York acting as a trustee of Hexham Investments presented a claim and the winning lottery ticket to the Iowa Lottery. In the Grantor Trust Agreement submitted by Shaw, for Hexham Investments, Shaw is listed as the Trustee and Johnston is listed as the Trustor/President of Hexham Investments Ltd. On January 17, 2012, Crawford Shaw traveled to Iowa and met with officials from the Iowa Lottery to provide documentation that might help reach an agreement for the release of the winnings. The Lottery could still not determine the validity of the purchase of the ticket without the identity of the purchaser, and continued to refuse to pay the claim. On January 26, Shaw withdrew the claim of ownership to the lottery ticket. Law enforcement made unproductive attempts to interview Johnston and Shaw to learn the identity of their client and other details. They also attempted to enhance the video footage of the purchaser's face, without success.

On August 21, 2013, Johnston agreed to be interviewed in Quebec City, Canada about his knowledge of the lottery ticket.

Johnston advised he was first contacted on October 17, 2011 by Robert Sonfield and Robert Rhodes, who at all relevant times have been residents of Houston, Texas, requesting Johnston's assistance with claiming the lottery ticket. Johnston has a prior professional relationship with Sonfield and Rhodes. Johnston provided copies of his day planner and phone records to verify his statement. He was told by Sonfield that Sonfield, an attorney, represented a client who had a legitimate claim to the lottery but wanted to remain anonymous.

In April 2014, Shaw also confirmed he has a professional relationship with Sonfield for over thirty years. Shaw confirmed Sonfield originally contacted him about the lottery ticket and provided the ticket to him via Fed Ex. Shaw and Johnston, at the direction of Sonfield and Robert Rhodes, organized and completed the paperwork necessary to attempt the claim of the 16.5 million dollar Hot Lotto ticket.

In June 2014, Iowa law enforcement traveled to Houston in an attempt to interview Sonfield and Rhodes about their knowledge of the ticket and its purchaser. Sonfield and Rhodes did not make themselves available. Numerous repeated telephone messages for Rhodes have gone unanswered. On October 9, 2014, the video and audio recording of the purchase of the winning ticket was publicly released with a request for information regarding the identity of the purchaser. On October 13, 2014, an out-of-state employee of the Multi-State Lottery Association (MUSL), which runs the Hot Lotto, provided a tip that the individual in the video is the defendant, Eddie Tipton. The defendant is the Director of Security for MUSL and lives in Iowa. As an employee of a vendor to the Iowa Lottery, who also has access to confidential information which may compromise the integrity of the lottery, the defendant is prohibited by the Iowa Code from purchasing lottery tickets or winning the lottery.

On November 7, 2014, DCI Special Agent interviewed Tipton. He admitted that he is not allowed to buy lottery tickets nor can he win the lottery. He stated that he did not buy the ticket and that he "wasn't even in town in that time period" that the ticket was purchased. He said he was in Houston, Texas, where he grew up, seeing "all family." However, cell phone records indicate he was in the Des Moines area on the date the ticket was purchased. A Division of Criminal Investigation photographer analyzed the video of the purchase to highlight the vehicle the purchaser used to leave the store, a silver crossover-style vehicle. Records from Enterprise/Ajamo vehicle rental business show that on December 22, 2010, Tipton rented a silver 2007 Ford Edge, a crossover-style vehicle. He returned it on January 3, 2011. During his interview, Tipton was specifically asked twice for other contacts in Houston other than his family. Tipton did not mention Robert Rhodes. However, cell phone records indicate frequent lengthy calls between Tipton and Rhodes, sometimes over an hour in length, including on the day Tipton purchased the ticket. In addition, from 1996 to 2003, Tipton served as Chief Operations Officer for Systems Evolution, Rhodes's Houston-based company. On LinkedIn, Rhodes endorsed Tipton as "very focused on the bottom line" and stated "I would work with Eddie again in a second!"

I certify under penalty of perjury and pursuant to the laws of the State of Iowa that the preceding is true and correct. \*

March 12, 2015

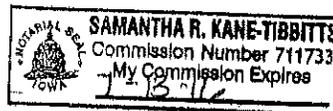
Date

X SIA Don Smith

Complainant's signature

Subscribed and sworn to before me by Don Smith at 1309, Iowa, this 12 day of March, 2015.

Samantha Kane Tibbitts Notary



For Immediate Release  
Saturday, March 21, 2015

More Information:  
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## **LOTTERY ISSUES STATEMENT ABOUT SECOND ARREST IN HOT LOTTO<sup>®</sup> JACKPOT INVESTIGATION**

**CLIVE, Iowa – Iowa Lottery CEO Terry Rich released the following statement Saturday following an announcement by the Iowa Division of Criminal Investigation that a second arrest has been made in the case of the Hot Lotto jackpot won in December 2010 in Des Moines:**

“We’re gratified to see continued developments in this investigation and to know that law enforcement’s thorough review is getting us closer to answers in one of the strangest situations in the history of lotteries.

Court records in this case indicate a connection between the Texas man arrested Friday night and the Iowa man charged in this case back in January.

It was the right thing for our lottery to refuse to pay this jackpot prize unless or until basic security questions about it could be answered – and they never were. There will always be people who try to beat the system. We have and will continue to update our security procedures as we identify vulnerabilities to protect against them.”

### **ADDITIONAL HISTORY AND BACKGROUND**

In December 2010, a man bought a Hot Lotto ticket at a convenience store on Des Moines’ north side. That ticket went on to win the multi-million-dollar jackpot on the line in the Hot Lotto drawing on Dec. 29 of that year. For nearly a year, the prize went unclaimed.

Then, with less than two hours to go before the prize would have expired on Dec. 29, 2011, the winning ticket was presented by lawyers on behalf of a New York investment trust that had been established to benefit a corporation in the country of Belize. Neither the two lawyers who presented the ticket nor anyone associated with Hexham Investments Trust of Bedford, N.Y., would provide the basic details necessary to verify that the ticket had been legally purchased, legally possessed and legally presented. Those involved said they could not identify the jackpot winner or the man who purchased the winning ticket.

That standard information is routinely requested from jackpot winners in Iowa as part of the lottery’s security processes to comply with both state law and lottery game rules. Such details are usually received within minutes of the time a winning ticket is presented.

On Jan. 26, 2012, Crawford Shaw, a New York attorney who identified himself as the trustee of Hexham Investments Trust, withdrew the claim to the jackpot. The Iowa Lottery requested that the Iowa Attorney General's Office and the Iowa Division of Criminal Investigation open a criminal investigation into the matter.

The money from the jackpot, which totaled nearly \$10.8 million in cash, was returned to the lotteries in the Hot Lotto game in proportion to the sales from each jurisdiction. The Iowa Lottery received about \$1.4 million back and gave the money away in a special summer promotion called "Mystery Millionaire" in 2012.

### **WHAT IS HOT LOTTO?**

Hot Lotto got its start in April 2002 and has jackpots that start at \$1 million. Today, the game is offered in Iowa, 13 other states and the District of Columbia. In May 2013 the game's jackpot became an all-cash prize paid in a lump-sum amount with all state and federal withholding taxes paid for the winner. Players in Hot Lotto choose five balls from a pool of 47 and another number, called the Hot Ball<sup>®</sup>, from a separate pool of 19. Plays cost \$1, and Hot Lotto drawings are held on Wednesdays and Saturdays.

###

For Immediate Release  
Monday, April 13, 2015

More Information:  
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## **LOTTERY ISSUES STATEMENT FOLLOWING CONTINUATION IN HOT LOTTO<sup>®</sup> TRIAL**

**CLIVE, Iowa – Iowa Lottery CEO Terry Rich released the following statement Monday following announcement that the Polk County District Court trial involving the Hot Lotto case has been rescheduled for July:**

“We need to respect the trial process and allow the court to do its work, so we are not in a position to discuss the facts that are going to be litigated in this case. We don’t want to do anything that could prejudice the outcome of the trial. But I can tell you that there are extensive security procedures involved in lottery drawings, and this case demonstrates why we have to continually sharpen our skills and oversight.

There will always be someone trying to beat the system. The lottery industry has and will continue to update its security procedures as we identify vulnerabilities to protect against them. We’ve introduced additional layers of security and even more separation of duties at our lottery because of what we’ve learned in this case, and that’s ultimately been a positive outcome. We also urged that the Multi-State Lottery Association (MUSL), the vendor organization for which Eddie Tipton worked, put additional security procedures in place and that has occurred, with more underway.

The equipment and software used in the Hot Lotto drawings has been replaced since the time that Eddie Tipton was employed at MUSL. The new equipment and software has been tested and certified by an independent gaming laboratory and forensically examined for malicious software, with no concerns identified. The security cameras, other physical security restrictions and procedures at MUSL also have been replaced and updated.

I have confidence that the games we offer today are fair. Our lottery has strong layers of security in place to protect lottery players, lottery games and lottery prizes. Those procedures enabled us to seek information about the winning ticket in this case and not pay the prize until basic questions could be answered – and they never were.

We’ve repeatedly said that this is an ongoing investigation, and we have more information about this case today than we did in the past. We have worked side-by-side with law enforcement throughout this investigation and are eager for the outcome of the trial.”

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