
LEGAL UPDATE

Legal Services Division



Ground Floor, State Capitol Building

Des Moines, Iowa 50319

515.281.3566

IOWA SUPREME COURT DECISION — GIFT RESTRICTIONS AND THE UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

Purpose. Legal updates are prepared by the nonpartisan Legal Services Division of the Legislative Services Agency. A legal update is intended to provide legislators, legislative staff, and other persons interested in legislative matters with summaries of recent meetings, court decisions, Attorney General Opinions, regulatory actions, federal actions, and other occurrences of a legal nature that may be pertinent to the General Assembly's consideration of a topic. Although an update may identify issues for consideration by the General Assembly, it should not be interpreted as advocating any particular course of action.

In re Application of Coe College for Interpretation of Purported Gift Restriction
Filed November 8, 2019
No. 19-0155
www.iowacourts.gov/courtcases/7947/embed/SupremeCourtOpinion

Facts and Procedural Background. In 1932, Eugene Eppley commissioned Grant Wood to paint a mural in the Hotel Montrose in Cedar Rapids, Iowa. In 1957, Eppley caused the mural to be taken down and separated into panels. Eppley then loaned the panels to Coe College.

Ownership of the panels was transferred from Eppley in his individual capacity to the Eppley Foundation. In 1976, the Eppley Foundation terminated the loan arrangement with Coe College. That same year, the Eppley Foundation donated the panels to Coe College. The accompanying gift letter stated, in part, that the board of directors of the Eppley Foundation “approved that the Grant Wood paintings be given to the Coe College and that this would be their permanent home, hanging on the walls of Stewart Memorial Library.”

In 1977, the Nebraska Secretary of State dissolved the Eppley Foundation. From 1976 until 2016, Coe College accounted for the panels as unrestricted assets. In 2016, Coe College’s auditors reclassified the panels as permanently restricted assets. As a result of this reclassification and the value of the panels, the value of Coe College’s endowment fund decreased.

On February 5, 2018, Coe College filed a petition seeking an interpretation that the Eppley Foundation’s gift of the panels was unrestricted. If necessary, Coe College also sought to lift any restrictions accompanying the gift. Because the Eppley Foundation no longer existed, Coe College arranged for the Iowa Attorney General to be served with the petition. The Attorney General participated in the district court proceedings, pursuant to Iowa Code sections 540A.106 (restrictions related to the Uniform Prudent Management of Institutional Funds Act) and 633A.5108 (Attorney General authority), and resisted Coe College’s petition.

On January 2, 2019, the district court ruled that “the Eppley Foundation’s intent expressed in the February 16, 1976 Gift Letter transferring the Paintings to Coe College was to place a permanent restriction on alienation of the Paintings.” The district court further found that “the permanent restriction on alienation [did] not merit application of Iowa Code section 540A.106 or the doctrine of *cy pres*, under Iowa Code section 633A.5102, releasing Coe from said restriction.” Coe College appealed the district court’s ruling to the Iowa Supreme Court (Court).

Issue. Whether the restriction contained in the gift letter should be modified or removed pursuant to Iowa Code section 540A.106 or 633A.5102.

Holding. The Court affirmed the district court's ruling. Neither Iowa Code section 540A.106 nor 633A.5102 requires the restriction to be modified or removed.

Analysis. In 2008, the General Assembly enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), codified at Iowa Code chapter 540A. Pursuant to Iowa Code section 540A.106, a restriction contained in a gift instrument may be modified: (1) if the donor consents to the modification; (2) if the restriction has become impracticable or will defeat or impair the accomplishment of the purposes of the institutional fund; or (3) if the restriction renders the purposes of the institutional fund unlawful, impracticable, or impossible to fulfill.

The Court first noted that because the Nebraska Secretary of State dissolved the Eppley Foundation, the donor could not consent to a modification in this case. The Court then examined the definition of "institutional fund" to determine if the other modification provisions provided in Iowa Code section 540A.106 were available. The Court cited the definition of "institutional fund" contained in the UPMIFA, along with other legal sources cited by the Attorney General and Coe College. Ultimately, the Court did not decide whether the panels constituted an institutional fund. Instead, the Court focused on the portions of Iowa Code section 540A.106 relating to whether the restriction contained in the gift letter had become impracticable or impossible or would defeat the accomplishment of the purposes of the institutional fund. These standards are similar to the common law doctrine of *cy pres* codified in Iowa Code section 633A.5102. Citing Black's Law Dictionary, the Court noted the doctrine refers to "[t]he equitable doctrine under which a court reforms a written instrument with a gift to charity as closely to the donor's intention as possible, so that the gift does not fail." The Court then analyzed Court precedent relating to the *cy pres* doctrine in order to inform its approach to Iowa Code section 540A.106.

Citing *Kolb v. City of Storm Lake*, 736 N.W.2d 546, 555 (Iowa 2007), the Court noted that "[s]ection 633A.5102 has not changed the basic tripartite test." Unless the language of the trust directs otherwise, the Court requires the following to trigger application of the *cy pres* doctrine: "(1) a charitable trust; (2) a specific trust purpose that is illegal, impractical, or impossible; and (3) a general charitable intention by the donor."

The Court analyzed whether the gift letter disallowed application of the *cy pres* doctrine. The Court found there was no language in the gift letter that indicated the gift of the panels should fail if the display of the panels were to become impracticable, unlawful, or impossible. Citing *Kolb*, the Court further analyzed whether the Eppley Foundation "anticipated the possible failure of the trust and [if it] has made alternative disposition of [its] property to meet that contingency." If it did, the application of the *cy pres* doctrine would not be appropriate. The Court found that the gift letter did not indicate the Eppley Foundation anticipated such an event. The Court also found that the gift letter did not provide for an alternative disposition of the panels.

The Court then analyzed the three *Kolb* elements. With regard to the requirement that there be a charitable trust, the Court stated "[b]ecause we have construed the gift letter to impose restrictions on Coe College's ownership rights in the paintings, the letter may be deemed to establish a charitable trust even though it contains no magic trust language." With regard to whether there was a specific trust purpose that was illegal, impractical, or impossible, the Court noted there was no claim of illegality. The Court went on to find the specific trust purpose was neither impractical nor impossible. The Court noted "Coe College has not indicated that it presently wants to sell or even relocate any of the paintings." Accordingly, this case could not satisfy the three *Kolb* elements, and thus could not trigger application of the *cy pres* doctrine.

The Court noted that Coe College's endowment decreased \$5.4 million as a result of the reclassification of the panels. However, the Court found that Coe College "has not offered proof of actual financial difficulties resulting therefrom." Actual financial difficulties may, according to the Court, "present a different case."

Because the Court found the *cy pres* doctrine did not apply, the Court held that portions of Iowa Code section 540A.106 relating to whether the restriction contained in the gift letter has become impracticable or impossible, or would defeat the accomplishment of the purposes of the institutional fund, had not been triggered. Accordingly, the Court refused to modify the restriction contained in the gift letter.

LSA Staff Contact: James Arnett, 515.281.3745 or j.d.arnett@legis.iowa.gov

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