

## FORM 1023 and SCHEDULE D ATTACHMENT

ISLA Affiliated Building Company

EIN: 90-1019537

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### Part IV

**Purpose:** The sole purpose of ISLA Affiliated Building Company (“**ISLA ABC**”) is to support International Spanish Language Academy (the “**School**”). The School is a Minnesota public charter school and is recognized as exempt from United States federal income taxation pursuant to Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, as an educational organization described in Section 509(a)(1) of the Code.

The School is the sole member of ISLA ABC. As such, the School has the ability to appoint or replace ISLA ABC board members. Applicable Minnesota law prohibits ISLA ABC from having a board comprised solely of members of the board of the school, but the ISLA ABC board may include other individuals who are closely affiliated with the School, such as School officers, parents, teachers, etc.

The sole function of ISLA ABC is to purchase and own a school facility for lease to the School. Minnesota law does not authorize charter schools to own real estate, but charter schools are authorized to lease facilities. The schools receive funding known as “building lease aid” to pay for the rental of school facilities. Accordingly, ISLA ABC has been formed to own a school building and to lease it to the School. This organizational structure has been used by many other Minnesota public charter schools.

ISLA ABC is still in the process of seeking funding to enable it to acquire the facility. It is anticipated that a bond issuer in the Minneapolis/St. Paul Twin Cities metro area, possibly the City of Eden Prairie, will issue general revenue bonds for the benefit of ISLA ABC to provide the funding to purchase the facility.

Building lease aid for Minnesota charter schools is funded on a per pupil basis. Because of this, bond underwriters will support a revenue bond issuance for public charter schools with established, stable enrollment. The building lease aid received by the School and paid to ISLA ABC under the terms of the lease will be sufficient to fund the debt service on the bonds. The bond financing and the lease are still in the process of being finalized. The lease will provide that all costs of maintenance and upkeep of the facility will be the responsibility of the School. It is anticipated that the revenue bond financing will require ISLA ABC to fund and maintain capital replacement reserves and perhaps other reserves.

Once the transaction is in place, 100% of net income of ISLA ABC will be used in support of the School. ISLA ABC’s board members will be unpaid volunteers

**Supporting Organization.** ISLA ABC has been organized as a supporting organization to the School and is requesting recognition as a “type III” supporting organization as set forth in Section 509(a)(3) of the Code. A type III supporting organization must meet the following requirements: (1) it must be organized, and at all times thereafter be operated, exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more specified public charities; (2) it must be operated in connection with one or more such charities; and (3) it

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cannot be controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more such charities.

The first requirement for supporting organization status is met through Articles III and IV of the Articles of Incorporation. Article III provides that the School is the sole Member of ISLA ABC. As such, the School has the exclusive ability to appoint ISLA ABC board members.

The activities of ISLA ABC will be conducted solely for the benefit of the School. Securing and providing a school facility is an essential function of the School. ISLA ABC will be performing that function.

The last requirement for supporting organization status, that ISLA ABC not be controlled by one or more disqualified persons other than foundation managers and other than one or more supported charities, is met because ISLA ABC's Board of Directors is independent and none of the Board members are disqualified persons other than as foundation managers.

### **Part V; Line 3a**

1. Jill Prohofsy, President.  
Magistrate, 4<sup>th</sup> & 10<sup>th</sup> Judicial Districts

Jill is a former officer of the ISLA PTO Board, former member of the ISLA Board of Directors, and former member of the ISLA Board Governance Committee. She has 20 years of legal experience and has served on numerous boards. Jill has experience with charter school compliance, open meeting law, data practices, and nonprofit law.

2. Kathryn Madson, Secretary.  
Independent/Associate General Counsel

Kathy has over 15 years of legal experience, with expertise in software, risk management, compliance, international law, and mergers and acquisitions. She has experience with contracts and corporate procedures. Kathy is a community member volunteer.

3. Andy Babula, Treasurer.  
Senior Director, Real Estate Services Portfolio Planning

Andy has over 10 years experience managing analytic teams to drive real estate and general strategic planning. He specializes in management consulting and his 6 Sigma experience combined with MBA education provide a solid foundation for logical, fact-based decisions. Andy was an active participant in the ISLA Board Facility Committee which located the current facility and oversaw the remodel to transform a former office building into a school.

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### **Part V; Line 4**

The organization has no paid employees or officers. ISLA ABC does not anticipate paying compensation in the future.

### **Part V; Line 5a**

A conflict of interest policy has been adopted as part of ISLA ABC's Bylaws. Please see attached.

### **Part VI; Line 1b**

As discussed in Part IV of this attachment, ISLA ABC is formed exclusively to support the School by holding title to a school facility for lease to the School. ISLA ABC will not provide goods or services to any other organization or individual. Please see the Narrative Description of ISLA ABC's activities as set forth in this Attachment, Part IV, above, for further information.

### **Part VIII; Line 4a**

There is no fundraising plan in place, although a fundraising program may be initiated in the future. If fundraising is undertaken, it will be conducted by volunteers and will comply with all applicable rules.

### **Part VIII; Line 4d**

Please see the response to Part VIII; Line 4a. If fundraising is undertaken, it will occur primarily in the state of Minnesota.

### **Part VIII; Line 7a**

ISLA ABC does not yet own any property or a facility for the school. Once property is purchased, the need for any development or remodeling will be assessed based on enrollment needs of the School, and any necessary work that cannot be done by volunteers will be contracted out to independent contractors. Those contractors will not have any business or family relationships with ISLA ABC's officers or directors.

### **Part VIII; Line 15**

ISLA ABC has a "close connection" with the School, as a supporting organization of the School and because the two organizations will operate in a coordinated manner with respect to the school facility. For further information about the relationship between ISLA ABC and the School, please see the Narrative Description of ISLA ABC's activities as set forth in this Attachment, Part IV, above.

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### **Part IX; Subpart A; Statement of Revenues and Expenses**

Since ISLA ABC is a start-up organization, all information and numbers on the Statement of Revenues and Expenses are projections only. Projections are provided for the first fiscal year, which is a short year from date of incorporation through June 30, 2014, and for each of the next two full fiscal years. The projections show revenue in excess of expenses in an amount that is anticipated to be required to fund and maintain capital replacement reserves for future, unknown capital improvements to the school facility.

### **Part IX; Subpart A; Line 9; Columns (b), (c) and (d)**

This is the projected amount of the rent that will be paid by the School to ISLA ABC under the terms of the lease. For additional information regarding building lease aid, please see the Narrative Description of ISLA ABC's activities as set forth in this Attachment, Part IV, above.

### **Part IX; Subpart B; Balance Sheet**

Since ISLA ABC is a start-up organization, there is no information to report on the Balance Sheet at this time.

### **Schedule D, Section II, Line 4c**

Although ISLA ABC is a newly formed organization without a history or documentation of a working relationship with the supported organization, the officers and directors of ISLA ABC will maintain a close and continuous working relationship with the officers and directors of the School at all times. As discussed above, ISLA ABC will provide a school facility for lease to the School, which will require a close and continuous working relationship between the officers and directors of both organizations to purchase, and or construct, and run a school facility that meets the needs of both organizations.

Also, as noted in Section IV, above, two provisions of the Articles of Incorporation require the officers and directors of ISLA ABC to maintain the required close and continuous working relationship with the officers and directors of the School, and in fact enable the School to name or replace ISLA ABC board members.

### **Schedule D, Section II, Line 4d**

By reason of the close and continuous working relationship between the officers and directors of ISLA ABC and the School, the School will have a significant voice in the investment policies, in the making and timing of grants, and in otherwise directing the use of ISLA ABC's income or assets. Moreover, the purpose for the formation of ISLA ABC is for it to be responsive to the needs of the School, and the School is the sole member of ISLA ABC. Further

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explanation of this relationship and the purposes of ISLA ABC are set forth in the responses to Part IV and Schedule D, Section II, Line 4c, supra.

**Schedule D, Section II, Line 4e**

ISLA ABC did not previously have any activities of any sort. Therefore, ISLA ABC did not have a need to make the School aware of ISLA ABC's supporting activities. ISLA ABC is an outgrowth of the School's desire to own a school facility. The officers and directors of the School have taken the actions to create ISLA ABC and to cause ISLA ABC to be incorporated and formed. Both organizations have been actively working together to locate appropriate facilities for the school.

**Schedule D, Section II, Line 5**

ISLA ABC will conduct activities such as facility ownership, management and payment of mortgage that would otherwise be carried out by the supported organization by providing a facility for the School programming. The provision of a school facility is an essential function of the School and ISLA ABC will be performing that function.