C.1 Facilities Acquisition

A. Description of Facility Necessary to Implement Program

Pathways In Education-AZ ("PIE-AZ") intends to contract with Pathways Management Group ("PMG") for its facilities search and selection, tenant improvements, and management. PMG, which has opened and managed multiple school sites, has extensive experience in providing facilities management and in locating and building-out school facilities tailored to diverse city requirements. PMG will conduct all search, selection, acquisition, configuration and maintenance activities for PIE-AZ. The facility will have a maximum capacity of no more than 300 occupants at one time, but due to students' varying schedules throughout the day, PIE-AZ's program will never fully utilize the maximum capacity of the facility at any time.

PMG typically uses stand-alone spaces that don't work for traditional school models. For example, student centers are typically configured into three classrooms, one administrative office, a computer lab, open student work space, conference space, student meeting space, kitchen area, science lab, and appropriate restroom space for staff and students. The total square footage of facilities space required to implement the educational model ranges between 7,000 and 9,000 square feet of space. However, PMG often seeks out larger spaces to accommodate more than one science lab.

PMG will lease a facility to accommodate our unique educational model. PIE-AZ will be located within the Central East Phoenix communities with high numbers of the target student population. We will ensure that the facility is in an accessible location so that students will be able to walk or easily use public transportation options to attend their classes. PIE-AZ is committed to meeting the unique individual needs of students, and as part of the development of a student's Individualized Learning Plan ("ILP"), the teacher will discuss the student's transportation options. PIE-AZ will comply with all legal obligations relative to student transportation.

B. Available Facilities

PMG has identified four potential sites available for lease that are within the 85016 and 85019 zip codes which will accommodate PIE-AZ's target population. Sites that are similar to the type of site PMG usually secures are described in detail below. A layout of space is included as Exhibit C.1.1.

I. Option One- 4221 N. 16th Street Phoenix, Arizona, 85016

4221 N 16th Street, Phoenix, Arizona, is a retail building. The property is 8,000 square feet and prior use was an education facility. The property is located near major bus routes, with a retail shopping center nearby that has ample parking. The price per square foot for the property is $1.00 modified gross, and it is zoned for C2 and is available for a 5 year lease term. With this property's available square footage the build out could accommodate a total of 3-4 small group instruction rooms, one of which could serve as a science lab, a large open space to accommodate general education teachers and students, 1 conference room, 1 teacher office, student and faculty restrooms, and a kitchen.

II. Option Two – 3049-3131 E. Indian School Road. Phoenix, Arizona 85016

3049-3131 E. Indian School Road, Phoenix, Arizona, is a retail building. The property has 6,800-9,000 square feet available with 67 free surface parking spaces available. The price per square foot for this property is $1.00 per square foot per month with $0.50 NNN and it is zoned C2 and available for a 5 year term. With this property's available square footage the build out will accommodate a total of 4-5 small group instruction rooms, one of which can be a science lab, a large open meeting space for meetings between general education students and teachers, 1 conference room and 2 teacher offices and 1 kitchen.

III. OPTION THREE- 2434 -2446 E. THOMAS ROAD, PHOENIX, ARIZONA, 85016

2434-2446 E. Thomas Road, Phoenix, Arizona, is a retail building. The property has 6,142 square feet available. The price per square foot for this property is $0.47 NNN per month. With this property's available square footage the build out will accommodate a total of 3-4 small group instruction rooms, one of which can be a science lab, a large open meeting space for meetings between general education students and teachers, 2 teacher offices, 1 storage room, and 1 kitchen.

C. Timeframe for Securing a Facility

To streamline the process of developing locations that support the educational mission of PIE-AZ, PMG utilizes the following phased procedure:

August 2015

Search sites and find potential locations through agents or internal multiple listing services. Research each property to include ample parking, to ensure that public transportation is readily available, and confirm that potential locations will meet compliance requirements.

October 2015

Tour potential locations with school leadership. Determine final configuration costs or proposed space.

January 2016

Receive/create draft lease, and negotiate lease as needed. Recommend sites to Pathways board for approval.

February-March 2016

Finalize lease and sign. Once approved, meet with contractors and architects. Obtain permits and certificates and insurance. Start build out process.

April 2016

Manage and supervise construction details and timeframe. Secure furnishings. Configure Information Technology requirements.

June 2016

Arrange for final inspections.

July 2016

School opens.

Within the above schedule, PIE-AZ, through PMG, will ensure that locating and building-out the site will include all proper compliance (including the requisite reports) with the Americans With Disabilities Act, ensure adequate security systems, ensure that all buildings are in compliance with all applicable building codes, address any rehabilitation work or other issues identified by the architect, and most importantly, ensure that the site is equipped and structured to support the educational program.

PIE-AZ will ensure that no school board member or employee will have an ownership interest in the school facility or any interest in for profit lease or financing arrangement. PMG will allow a school board member to be affiliated with a not for profit entity that leases space to the school so long as such conflict of interest is disclosed and the board member recuses himself or herself from voting on matters related to the facility. If there is a conflict of interest regarding a facility agreement, the school will

obtain a fair market valuation of the facility lease or price from an independent appraiser familiar with the real estate market.

D. Costs Associated with Securing a Facility

Based on comparable site listings, PMG anticipates that the lease for the facility will be $9 per square foot. The cost for the build out of the facility is estimated to be approximately $50/square foot. The total building and improvement costs are estimated at $245,000 per site during startup, $455,000 in year one, and $350,000 in year two. These costs may be modified due to the site conditions and negotiations made with the landlord in reference to the items listed below:

1. HVAC is in good working condition (i.e. landlord provides a warranty)
2. The roof has no leaks (landlord provides warranty)
3. Fire sprinklers and alarms are in good working condition if required
4. ADA access is present complies with IDEA and other applicable code

PIE-AZ will be responsible for the monthly costs related to the facility, including monthly lease and maintenance expenses, utilities, and insurance. A breakdown of these costs is listed below:

- Janitorial services – approximately 10% total rent
- Rent - $21,000 during startup (April – July), $57,750 in year one, $126,000 in year two (for two sites), and $189,000 in year three (for three sites). The monthly rent is based on a property that is 7,000 square feet at $0.75 per month and reflects pricing of the target area.
- Fees/permits - $583 during startup (July), $6,417 in year one for one site, $10,500 in year two (for the second site), and $15,750 in year three (for the third site)
- Property/casualty insurance - $2, 083 during startup (July), $22, 917 in year one for one site, $37,500 in year two sites, and $56,250 in year three for three sites
- Liability insurance - $250 during startup (July), $2,750 in year one for one site, $4,500 in year two for two sites, and $6,750 in year three for three sites
- Utilities (electric, gas, water, waste)- $7,350 during startup (April- July), $20,213 in year one for one site, $44,100 in year two for two sites, and $66,150 in year three for three sites
- Phone/communications/internet connectivity – $2,000 during startup (April- July) approximately $5,500 in year one, increasing by $6,000 per year in years two and three

Exhibit C.1.1 provides a layout of space for a typical PMG facility. Below is a visual example of the environment and facilities needs of the PIE-AZ learning center.

E. Financial Arrangements for Securing a Facility

Pathways Management Group is willing to extend a maximum line of credit pursuant to a secured promissory note and security agreement to PIE-AZ in the amount of $1,500,000 to be used as start-up capital in the initial years of PIE-AZ's operations. A verifiable proof of funds document has been included with this application as evidence that PMG has committed to the line of credit for startup costs, which are included in the startup budget. PMG will loan any and all monies to PIE-AZ at the most current long term applicable federal rate as determined by the Internal Revenue Service.

PIE-AZ will sublease from PMG, and so will assume financial responsibility and costs associated with facility build out starting in the start-up period. The terms of the lease will be based on square footage.

F. Facilities costs

All costs associated with securing a facility are included in the startup budget and three year operational budget and are described in the assumptions.