Another observation from the PGA data publication is that food and beverage revenues have increased considerably (58.9%); whereas, golf revenues have declined 13.6%. This would indicate that food and beverage, weddings, banquets, and corporate outings are playing a larger role in the operations and revenues of a golf course property.

The actual income and expense data for the subject property has been restated and listed on the following page. The Income Statements provided by management are located in the addendum. It is as follows:

INCOME AND EXPENSE ANALYSIS
MISSISSIPPI NATIONAL GOLF LINKS

	2004		2005		2006		2007		2008		2009	
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
GE SALES	[redacted]											
		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
IES	[redacted]											

	2004		2005		2006		2007		2008		2009	
NSES	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUNT	%
SOLD	[redacted]											
GE												
F GOODS SOLD												
ATED	[redacted]											
GE												
N & FINANCE												
LL & RELATED												
PENSES	[redacted]											
GE												
BHOUSE												
N												
ES												
OCATED EXPENSES												
TING EXPENSES	[redacted]											
NCOME	[redacted]											

enses - Golf Shop & Golf Course are combined for 2007-2009
ng fee,depre., rent not incl.

SALES\Compiled GC Financials.xls

Total revenues were the highest in 2009 since 2006. The best year for the subject was 2004 [redacted]. In 2005 revenues decreased and in 2006 hit its lowest. In 2007 revenues began to increase and have stayed relatively flat since then.

Cost of goods sold also decreased in 2007-2009 from higher number in 2004-2006. Part of this relates to the amount sold. For instance, merchandise sales in 2004 totaled [redacted] The cost of merchandise was [redacted] In 2009, merchandise sales were [redacted] and the cost of goods was [redacted]. Although the revenues of merchandise are lower in 2009, the percentage of profit is higher.

The Net Operating Income of the subject property has improved over the past three years. In years 2004-2006, the property saw substantial losses. It is noted that during this period of time, the golf course industry was in a downward spiral. In 2007, revenues began to increase as did Net Operating Income. In 2009, the Net Operating Income is [redacted] which represents 12.5% of total revenues.

A review of the financial statements indicates that the facility is operating fairly lean. The difficulty is that revenues, especially golf, should be higher.

Expenses:

The total operating expenses for the subject property, adjusted for items such as depreciation and mortgage interest, have decreased in the past three years compared to 2004-2006. The past three years range from [redacted] to [redacted]

The National Golf Foundation (NGF) publishes "Operating and Financial Performances Profiles of 18 Hole Facilities in the U.S." This data is published for courses that have greens fees ranging between $30 and $59 and with an operating season of less than 10 months. According to NGF data, a typical golf course would have expenses of approximately 80%. Many golf courses are in the 82% to 85% range. The lowest would be 77%. I have projected the following revenue and expenses:

Total Revenues:	[redacted]
Less: Expenses:	[redacted]
Net Operating Income:	[redacted]

The above expenses include a reserve for replacement.

Overall Capitalization Rate:

The final step of the Income Capitalization Approach is capitalizing the net income into a final value estimate. The Overall Rate and Band of Investment Method have been used herein.

In determining the Overall Rate, I have considered the Overall Rates of various types of properties. Generally, smaller multi-family dwellings require a rate of 7% to 9%. Larger multi-family complexes, commercial, and office properties generally require a rate of 8% to 10%. Higher risk properties, such as, special purpose, require rates of 9% to 13%.

In my opinion, an Overall Rate for the subject should reflect the risk attributed to the property as a golf course. Therefore, an Overall Rate at the higher end of the range would be appropriate.

This Overall Rate was confirmed by utilizing the Mortgage-Equity Akerson Analysis Format. This approach analyzes the mortgage and equity requirements of the investment. This is shown as follows:

CAPITALIZATION : MORTGAGE-EQUITY AKERSON FORMAT						
M = MORTGAGE RATIO					=	0.75
E = EQUITY RATIO					=	0.25
I = MORTGAGE INTEREST RATE					=	8.00%
T = MORTGAGE TERM					=	25
Y = YIELD RATE					=	12.00%
N = # PAYMENTS PER PERIOD					=	12
K = MORTGAGE CONSTANT					=	0.092618
HP = HOLDING PERIOD					=	10
APP = % APPR OVER HP					=	0%
SFF = SINKING FUND Fx					=	0.056984
% PD = % MTG PD OFF OVER HP					=	0.192867
	0.75	M x	0.092618	K	=	0.069463
	0.25	E x	0.120000	Y	=	0.030000
WEIGHTED RATE					=	0.099463

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The above analysis indicates a capitalization rate by the built up method of 9.9%.

Another method of obtaining an Overall Capitalization Rate is by deriving it from actual sales. In this analysis, the Net Operating Income is needed, along with the sale price. The Capitalization Rate can then be calculated.

The Hudson Golf Course sold in 2010. The purchase price was $3,611,000. The Net Income was $434,700. Therefore,

Net Operating Income	÷	Gross Income	=	Overall Rate
$434,700	÷	$3,611,000	=	12%

The above methods of determining an Overall Capitalization Rate indicate a range of 9% to 12%. NGF data indicates 11%; whereas, one sale indicates 12%. The Band of Investment method indicates 9.9%. Eleven percent has been utilized in this analysis.

$[redacted] ÷ 0.11 = $[redacted]
Round to:..$[redacted]

CORRELATION OF VALUE OPINIONS:

Valuation by Cost Approach $3,550,000
Valuation by Market Data Approach..$3,200,000
Valuation by Income Capitalization Approach $1,600,000

Discussion:

The Cost Approach represents the cost new of the improvements less depreciation. A golf course has a variety of items requiring a number of estimates. Marshall Valuation Service is utilized to estimate the cost of the clubhouse and other buildings. It was also utilized in estimating the cost new of the golf course itself. In addition, cost data of other golf courses is utilized.

Physical depreciation is based on the effective age/economic life ratio method. Depreciation is somewhat subjective and difficult to measure. Economic obsolescence is based on issues outside the property.

The Cost Approach is considerably higher than the other approaches. The Cost Approach is based on cost new, less depreciation. The land value is also added to the depreciated value of the improvements. The other approaches incorporate the property's income and expenses in the analysis. This approach should be given less consideration.

The subject property suffers from low revenues. As a result, the Market Data Approach and Income Capitalization Approach suggest a considerably lower market value. The Market Data Approach utilizes six golf course sales. In addition to these were several other courses which, although considered, were not included in the analysis. Several units of measure are utilized, including the following:

Total Revenue Multiplier
Golf Revenue Multiplier
Price per Green
Price per Point
Price per Round

These valuation methods provide a wide range in value. The reason for this is that the Total Revenue Multiplier and Golf Revenue Multiplier focus on income; whereas, the Price per Green and the Price per Point focus on the physical golf course. The Price per Round value is affected by the number of rounds, thus, income. More weight should be given to the revenue multipliers.

The Income Capitalization Approach is a snapshot in time. Historical data and projections are analyzed. Six years of income and expenses were reviewed. Also considered is information published by National Golf Foundation (NGF), the PGA publication, and Golf Finance and Investment Survey, published by PriceWaterhouseCoopers.

It is noted that this approach indicates the lowest value estimated at $1,600,000. This approach does not anticipate any revenue increases. It also considers not only the income but also the expenses of the facility. This approach is given more consideration in the final value estimate.

The Cost Approach should be given the least amount of consideration in this appraisal. A prospective buyer would consider sales of other golf courses and also the income the facilities generate. Therefore, a range in value should now be between $1,600,000 and $3,200,000. This is the range indicated by the Market Data Approach and the Income Capitalization Approach. Of these approaches, the Income Capitalization Approach would be given more weight than the Sales Comparison Approach.

The most applicable methods of valuation in the Market Data Approach were based on the income that the property generated. The higher the income, the higher the value. This methodology, however, does not consider the expenses for operating the facility. The expense ratio for the subject property is fairly high. This is caused by lower revenues versus higher expenses. The Income Capitalization Approach does consider both income and expenses. A prospective purchaser would also consider this approach.

FINAL OPINION OF VALUE:

In my opinion, the Fee Simple Market Value of the subject property, operated as a golf course, as of October 8, 2010, is $2,000,000.

LEASED FEE VALUE OF PROPERTY:

The golf course land and improvements are under a long-term lease agreement. The land and most improvements are owned by the City of Red Wing and leased to Mississippi National Golf Links, Inc.

Terms of the current lease agreement are as follows:

LEASE TERMS	
Lessor:	City of Red Wing
Lessee:	Mississippi National Golf Links, Inc.
Date of Original Lease:	December 6, 1985 Modified: May 4, 1990 Modified: March 31, 1998 Current: May 13, 2009
Term:	30 years
Amended Expiration Date:	May 12, 2038
Annual Rent:	$1.00 plus Capital Improvements payment

Comments: The rent is based on dollar amount of the Capital Expenditures by the City at 4% per year. See Amendment #2 in the addendum. The lease was based on an original Taxable Golf Course Revenue Bond issued in 1998. According to income and expense statements provided by the owner, the current rental rate is $127,960, down from $158,489 the previous year.

Lessor Responsibilities: Maintenance on sewer mains up to the building foundation, roof, water/sewer system within the clubhouse, exterior maintenance on the clubhouse and storage buildings, snow removal, paved roads and parking lot, well replacement, and structure portions of the improvements.

Lessee Responsibilities: Lessee agrees to provide the following improvements to the Leased Premises. Said improvements shall be the sole financial responsibility of the Lessee:

A. Lessee shall provide all equipment necessary to maintain the golf course grounds, including fairways, tees, greens, and the rough. The equipment provided by Lessee shall consist of, but not be limited to, mowers, tree planters, tractors, small tools, vehicles and all other equipment necessary to maintain a 36-hole golf course.

B. Lessee shall provide all personal property, fixtures and inventories necessary for the operation and maintenance of the clubhouse including a pro shop, bar, kitchen, and restaurant/dining area, except as otherwise specifically set forth herein as the responsibility of Lessor.

C. Lessee shall provide all supporting equipment such as ball washer, riding carts, pull carts, and golf rental equipment, sufficient for the operation of a 36-hole golf course.

D. Lessee shall maintain the water well and irrigation system in its entirety. <u>Lessee shall replace the irrigation system, if necessary, but shall not be obligated to replace</u> the water well.

E. Cost of maintaining the grass system on the Golf Course from the date this agreement is executed and on the New Nine Holes from and after April 1, 2000.

F. Lessee shall operate the golf course and all of this facilities as a public golf course, serving all members of the public without discrimination, except as to the rates set forth in Section X.

G. Lessee shall be responsible to provide all employees necessary for the operation of the entire facility.

H. Lessee shall be responsible for all interior maintenance and upkeep of all improvements, fixtures and personal property located on the Leased Premises, unless otherwise specifically provided herein.

I. Lessee shall be responsible for maintenance of other facilities and activities connected with the operation of the golf course unless specifically set forth in this agreement as being the responsibility of Lessor.

J. Real Estate Taxes

K. Utilities

L. Insurance

The total annual rent for the subject property is $127,960.

The current lease agreement is set for a 30 year term, expiring in May of 2038. The current lease term has 28 years remaining. Therefore, no vacancy factor is considered in this analysis.

Effective Gross Income is estimated at [redacted]

The Lessor is responsible for some expenses as noted on the Lease Term summary outlined above. In my opinion, an annual Reserve for Replacement of the items that are the responsibility of the Lessor is appropriate. For purposes of this appraisal, a reserve of 5% of Effective Gross Income is considered reasonable. This is equivalent to an annual Lessor expense of [redacted] ([redacted] x 5%). All other operating expenses are the obligation of the Lessee.

Net Operating Income is estimated at [redacted]

The next step is to capitalize the net income estimate utilizing an overall capitalization rate. Under the Leased Fee Analysis, the owner's (Lessor's) position is less risky than when analyzing the property based on a Fee Simple Analysis. This is due to the fact that the Lessor does not have the additional responsibility (risk) of operating the business. Therefore, it is reasonable to conclude that an overall capitalization rate for the Leased Fee Analysis should be less than the overall capitalization rate of 11.00% utilized in the Fee Simple Analysis. This is difficult to measure; however, in my opinion, an overall capitalization rate for the Leased Fee position of the Lessor of 10.0% is considered reasonable.

Therefore, the Leased Fee Value of the subject property is calculated as follows:

Net Operating Income	÷	Capitalization Rate	=	Value
$[redacted]	÷	[redacted]%	=	$[redacted]
Round to				$[redacted]

The Leased Fee Value of the subject property is estimated at $1,215,000.

LEASEHOLD INTEREST VALUE:

The purpose of this appraisal is to estimate the Leasehold Interest value of the subject property, with allocation for personal property and business value. In my opinion, the best way to estimate the Leasehold Interest Value was to first estimate the Fee Simple Market Value and then to deduct the Leased Fee Value. By definition, the remaining value is the Leasehold Interest.

Therefore, the value of the Leasehold Interest is summarized as follows:

Fee Simple Value	$2,000,000
Less: Leased Fee Value	$1,215,000
Value of Leasehold Interest	$ 785,000

The value of the Leasehold Interest for the subject property is estimated at $785,000 and allocated as follows:

Value contribution of furniture, fixtures & equipment	$465,000
Value of Going Concern (Business)	$320,000
Value of Leasehold Interest	$785,000

ASSUMPTIONS AND LIMITING CONDITIONS

1. *The "Scope of Work", as agreed upon by the client and appraiser, is the work the appraiser performed to develop the assignment results. Please refer to the "Scope of Work" section of this report.*

2. *This is a Summary Appraisal Report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal Report. As such, it might not include full discussions of the data, reasoning, and analyses that were used in the appraisal process to develop the appraiser's opinion of value. Supporting documentation concerning the data, reasoning, and analyses is retained in the appraiser's file. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report.*

3. *No responsibility is assumed for legal description, legal or title considerations. Title to the property is assumed to be good and marketable unless otherwise stated in this report.*

4. *The property is appraised free and clear of any or all liens and encumbrances unless otherwise stated in this report.*

5. *Responsible ownership and competent property management are assumed unless otherwise stated in this report.*

6. *The information furnished by others is believed to be reliable. However, no warranty is given for its accuracy.*

7. *All engineering is assumed to be correct. Any plot plans and illustrative material in this report are included only to assist the reader in visualizing the property.*

8. *It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. No responsibility is assumed for such conditions or for arranging for engineering studies that may be required to discover them.*

9. *It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless otherwise stated in this report.*

10. *It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in this appraisal report.*

11. *It is assumed that all required licenses, certificates of occupancy or other legislative or administrative authority from any local, state, or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimates contained in this report are based.*

12. *Any sketch in this report may show approximate dimensions and is included to assist the reader in visualizing the property. Maps and exhibits found in this report are provided for reader reference purposes only. No guarantee as to accuracy is expressed or implied unless otherwise stated in this report. No survey has been made for the purpose of this report.*

13. *It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless otherwise stated in this report.*

14. *The appraiser is not qualified to detect hazardous waste and/or toxic materials. Any comment by the appraiser that might suggest the possibility of the presence of such substances should not be taken as confirmation of the presence of hazardous waste and/or toxic materials. Such determination would require investigation by a qualified expert in the field of environmental assessment. The presence of substances such as asbestos, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The appraiser's value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value unless otherwise stated in this report. No responsibility is assumed for any environmental conditions, or for any expertise or engineering knowledge required to discover them. The appraiser's descriptions and resulting comments are the result of the routine observations made during the appraisal process.*

15. *Unless otherwise stated in this report, the subject property is appraised without a specific compliance survey having been conducted to determine if the property is or is not in conformance with the requirements of the Americans with Disabilities Act. The presence of architectural and communications barriers that are structural in nature that would restrict access by disabled individuals may adversely affect the property's value, marketability, or utility.*

16. *Any proposed improvements are assumed to be completed in a good workmanlike manner in accordance with the submitted plans and specifications.*

17. *The distribution, if any, of the total valuation in this report between land and improvements applies only under the stated program of utilization. The separate allocations for land and buildings must not be used in conjunction with any other appraisal and are invalid if so used.*

18. *Possession of this report, or a copy thereof, does not carry with it the right of publication in whole or in part. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the appraiser.*

19. *Neither all nor any part of the contents of this report (especially any conclusions as to value, the identity of the appraiser, or the firm with which the appraiser is connected) shall be disseminated to the public through advertising, public relations, news sales, or other media without prior written consent and approval of the appraiser.*

20. *The valuation of the property (i.e., Cost Approach, Sales Comparison Approach and Income Capitalization Approach) is used in the appraisal to value only this property for the intended client. The appraised value, any parts of the appraisal, or valuation process must not be used for any other purpose or reason.*

21. *The client agrees that the appraisal firm doe not by performing the services rendered, assume, abridge, abrogate, or undertake to discharge any duty of client to any other entity.*

ASSUMPTIONS AND LIMITING CONDITIONS (Continued)

22. *Any use of the appraisal report, by the client, is conditioned upon payment of all fees in accordance with the agreed terms.*

23. *J. C. Norby & Associates and/or the appraisers are not qualified to render expert opinions regarding structural issues, water damage, environmental assessments (such as mold), engineering/mechanical issues, ADA and/or building code compliance, land planning, architectural experts or soil conditions. If requested, J. C. Norby & Associates will recommend qualified experts in theses fields to assist the client and/or the appraisal process.*

24. *This appraisal report has been written for the intended use of the client listed in this appraisal. Possession of this report, or a copy thereof, does not carry with it the right of publication (either in whole or in part), nor may it be used for any purpose other than the one stated in the Letter of Transmittal and the Purpose of the Appraisal, without the express, <u>written</u> consent of the appraiser and client. Authorized copies of this report will be signed by the appraiser(s). Unsigned copies should be considered incomplete. All unauthorized or incomplete copies of this report should also be considered <u>confidential</u>, and as such, must be returned, in their entirety, to J. C. Norby & Associates.*

CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. *The statements of fact contained in this report are true and correct.*

2. *The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.*

3. *I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.*

4. *I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.*

5. *My engagement in this assignment was not contingent upon developing or reporting predetermined results.*

6. *My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.*

7. *My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*

8. *I have made a personal inspection of the property that is the subject of this report.*

9. *No one provided significant real property appraisal assistance to the person signing this certification.*

10. *The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute.*

11. *The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.*

12. *As of the date of this report, I have completed the requirements of the continuing education program of the Appraisal Institute.*

13. *I have the appropriate knowledge of the specific market and relevant experience appraising properties similar in size and complexity to the property under consideration to complete this assignment with competence.*

James C Norby

Appraiser's Signature
James C. Norby, MAI, SRA
Minnesota State Certification #4003268

QUALIFICATIONS OF
JAMES C. NORBY, MAI, SRA

Specialization in Real Estate Valuation & Consultation
Wisconsin Certified General #125

PRESIDENT - J.C. NORBY & ASSOCIATES, INC.

Member - Appraisal Institute (MAI & SRA)
Member - International Right-of-Way Association
Realtor Member - Eau Claire-Chippewa Board of Realtors and National Association of Realtors
Chairman - American Institute of Real Estate Appraisers - Subchapter - 1987 & 1988
Ethics and Counseling Regional Panel Member - Appraisal Institute
Professional Standards Regional Panel Member - Appraisal Institute
Appraisal Institute - Subchapter Task Force - 1997
Appraisal Institute - State Board Member 1999 - 2002
Appointed - Eau Claire County Condemnation Commissioner - 2001 to present
Has lectured on appraisal practices at University of Wisconsin-Eau Claire, District One Technical College, International Right-of-Way Association, Wisconsin Assessors Association, and various organizations.

Has Appraised For:

BANKS, SAVINGS & LOAN AND CREDIT UNIONS

First National Bank, Hudson
US Bank - Eau Claire & Milwaukee
Wells Fargo Bank, Eau Claire, Minneapolis
London Square Bank, Eau Claire
Royal Credit Union, Eau Claire
First Tennessee Bank, Memphis, TN
Citizens Community Federal
State Bank of Fall Creek
First Bank & Trust, Menomonie
Charter Bank, Eau Claire
First Federal Capital Bank

Landmark Bank, Hudson
State Bank of Medford, Medford
American Bank, Wisconsin
Wisconsin Business Bank
Anchor Savings Bank
First National Bank
Valley Bank, Menomonie
Superior Home Mortgage, Eau Claire
M&I Bank
Telco Credit Union
Citizens State Bank

First Fifth Bank
Associated Bank
Bremer Bank
Superior Bank, Wisconsin
Peoples Bank of Wisconsin
Peoples State Bank
Bank of Augusta
Bank of Alma
Bank of New England
S & C Bank, Eau Claire

GOVERNMENTAL BODIES

Resolution Trust Corporation
Department of Natural Resources
Dept. of Veterans Affairs, State of Wisconsin
Small Business Administration
University of Wisconsin System
Wisconsin Housing Finance Authority
Wisconsin Department of Transportation
Wisconsin Business Development Finance Corp.
Department of Justice (DOJ)

City of Eau Claire
City of Rice Lake
City of Menomonie
City of River Falls
City of Altoona
City of Chippewa Falls
City of Hudson
Department of Transportation (DOT)

Chippewa County
St. Croix County
Barron County
Pierce County
Eau Claire County
Dunn County
Bureau of the Census
FNMA

MAJOR CORPORATIONS

Equitable Relocation Management Corporation
Chicago & Northwestern Transportation Company
AVCO Financial Services
Homequity Relocation Company
Prudential Relocation Company
Wisconsin Telephone Company
Prudential Insurance Company
Transamerica Corporation
Employee Transfer Corporation

Imperial Clevite Company
Ayres & Associates
YMCA of Chicago
I.T.T. Financial Services
Wisconsin Gas Company
Sunmark Industries
Grace Lutheran Foundation
Flambeau Mining Company
Evans Financial Corporation

Miles Homes
Executrans, Inc.
Land O'Lakes
Texaco, Inc.
Uniroyal
Cray Research
ConAgra Corporation
Ramada Inn
Excel Energy

Prepared Feasibility Studies for various types of properties
Testified as an Expert Witness in Federal, State and County Courts
Published Real Estate studies
Interviewed on Real Estate matters
Have reviewed appraisals for Wisconsin Department of Regulation and Licensing
The MAI & SRA designations of the Appraisal Institute are awarded to individuals only after meeting extensive educational requirements, numerous examinations, experience ratings and appraisal reviews by peers.