

TO:

SOUTH KOOCHICHING-RAINY RIVER ISD #363
PO BOX 465 HWY 1
NORTHOME, MN 56661

**MARKET VALUE APPRAISAL
OF:**

FORMER INDUS SCHOOL
8560 HIGHWAY 11 SE
BAUDETTE, MN 56623

PREPARED BY:

F.I. SALTER REAL ESTATE, INC.
APPRAISAL DEPARTMENT
ANN M. HEIMBACH, MAI
800B WEST RAILROAD STREET
DULUTH, MN 55802

EFFECTIVE DATE OF THE APPRAISAL:
DATE OF THE REPORT:

July 18, 2023
July 27, 2023

**F.I. Salter Real Estate
Valuation Services**

TABLE OF CONTENTS

Title Page.....	i
Table of Contents.....	ii-iii
Letter of Transmittal.....	iv

INTRODUCTION - SUMMARY OF CONCLUSIONS

Certification.....	1-2
Summary of Salient Facts and Conclusions	3

PROPERTY IDENTIFICATION - DESCRIPTIVE DATA

Property Identification and Overview	3
Use and Intended Users of the Appraisal	3
Purpose of the Appraisal.....	4
Definition of Market Value	4
Property Rights Appraised	4
Legal Description.....	5
Scope of the Appraisal Assignment	5
History of Ownership	5
Tax and Assessment Data	6
GIS Map.....	6
Zoning.....	7
Marketing Period	7
Market Area Data and Analysis.....	8
Area Map.....	9
Site Description	10-11
Flood Zone Map	11
Description of Improvements.....	12-13
Subject Photographs.....	14-20

Table of Contents, continued

HIGHEST AND BEST USE ANALYSIS

Highest and Best Use Analysis 21-22
The Appraisal Process 23

COST APPROACH 24-30

DIRECT SALES COMPARISON APPROACH 31-39

RECONCILIATION AND FINAL VALUE ESTIMATE 40

ADDENDUM

Qualifications of the Appraiser 42-44
Contingent and Limiting Conditions 45
Americans with Disabilities Act, A.D.A. 45
Environmental Disclaimer 46
Service Agreement 47

July 27, 2023

Mr. Jeremy Tammi
ISD #363
P.O. Box 465, Hwy 1
Northome, MN 56661

RE: Market Value Appraisal of the Former Indus School, 8560 Highway 11 SE, Baudette, MN

To Whom It May Concern:

As you requested, I have conducted the required investigation, gathered the necessary data, and made certain analyses that have enabled me to form an opinion as to the market value of the fee simple interest in the above captioned property.

Based on the investigation and analyses undertaken, I have formed the opinion that as of July 18, 2023, and subject to the contingent and limiting conditions set forth in this report; the subject has a probable market value, of:

ONE HUNDRED SIXTY THOUSAND AND NO/100THS DOLLARS
\$160,000

The above value conclusion assumes that a conditional use permit would be granted allowing alternate use of the property. If that assumption is found to be false, the value conclusions would be affected. The marketing time is estimated to be twelve months. The value conclusions of this appraisal report are not based on a required minimum valuation, nor a specified valuation amount and the report conforms to the prevailing standards outlined in the Uniform Standards for Professional Appraisal Practice (USPAP).

Respectfully submitted,



Ann M. Heimbach, MAI
Certified General Real Property Appraiser
MN License #20129249

F.I. Salter Real Estate
Valuation Services

CERTIFICATION

The undersigned does hereby certify, except as otherwise noted in this appraisal report that:

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, 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 the 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 personally viewed the subject property.
9. No one provided significant real property appraisal assistance to the person signing this certification.
10. The Appraiser has the knowledge and competency to appraise this property type and has not provided any services for this property in the past three years.
11. Neither the Appraiser, nor the firm have been sued by a regulatory agency or financial institution for fraud or negligence involving an appraisal report.

Certification, continued

12. 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 & Standards of Professional Appraisal Practice of the Appraisal Institute, which include the Uniform Standards of Professional Appraisal Practice.
13. The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.
14. As of the date of this report, Ann Heimbach, MAI has completed the continuing education program for Designated Members of the Appraisal Institute.

July 27, 2023

Date



Ann M. Heimbach, MAI
Certified General Real Property Appraiser
MN License #20129249

SUMMARY OF SALIENT FACTS AND CONCLUSIONS

Property Identification:	Former Indus School 8560 Highway 11 SE Baudette, MN
Report Format:	Appraisal
Site Description:	49.21 acres
Improvement Description:	73,000 +/- square foot school building, storage buildings
Hypothetical Conditions:	None
Extraordinary Assumptions:	Assumes that a conditional use permit would be granted for alternate use

Market Value Estimates:

Method	Indicated Value
Cost Approach	\$ 480,000
Sales Comparison Approach	\$ 160,000

PROPERTY IDENTIFICATION AND OVERVIEW

The subject of this report is the Indus School which was recently closed and is in rural Koochiching County along Highway 11 between International Falls and Baudette. The school was constructed in 1979 and has approximately 73,000 square feet. Also on site are a bus garage, a storage building covering a hockey arena, and several smaller storage buildings. The school is currently served by a wastewater treatment plant which will need to be decommissioned and replaced with an alternate sewage treatment system at a cost estimated to range from \$350,000 to \$400,000. The site is 49.21 acres with direct access from the highway.

USE AND INTENDED USERS OF THE APPRAISAL

The appraisal is intended to be used by the client, ISD #363, to assist in estimating market value for internal planning and decision-making purposes.

PURPOSE OF THE APPRAISAL

The purpose of this appraisal is to estimate the market value of the fee simple interest in the above referenced property.

DEFINITION OF MARKET VALUE

As referred to herein, "Market Value" is defined as: The most probable price which a property should bring in a competitive and open market under all condition's requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated.
- Both parties are well informed or well advised, and each, acting in what they consider their best interest.
- A reasonable time is allowed for exposure in the open market.
- Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

PROPERTY RIGHTS APPRAISED

The property rights appraised are the fee simple interest, unencumbered by any indebtedness and subject to zoning regulations, easements, and restrictions of record. This appraisal is for surface rights only and does not consider any mineral reservations, which may be included with the property.

LEGAL DESCRIPTION

Gov't Lot 4, Gov't Lot 3 Less East 311 feet lying south of State Highway, Section 31, Township 160, Range 25

And

North 174.24 feet of West 500 feet of Gov't Lot 3, Section 6, Township 159, Range 25

SCOPE OF THE APPRAISAL ASSIGNMENT

The Scope of the Appraisal encompasses the necessary research and analysis to prepare a report in accordance with the intended use, the Standards of Professional Practice of the Appraisal Institute, the Uniform Standards of Professional Practice of the Appraisal Foundation, and the Real Estate Appraisal Standards for the State of Minnesota Licensing Law.

Ann Heimbach viewed the subject property and surrounding area on July 18, 2023, accompanied a former district employee. Additional information on the subject was obtained from Koochiching County records.

This appraisal uses the Cost and Sales Comparison Approaches to value. The Income Approach is not used as properties such as the subject are not typically rented for income producing purposes.

The comparable sales were researched through public records and online databases. Cost data is via Marshall and Swift.

HISTORY OF OWNERSHIP

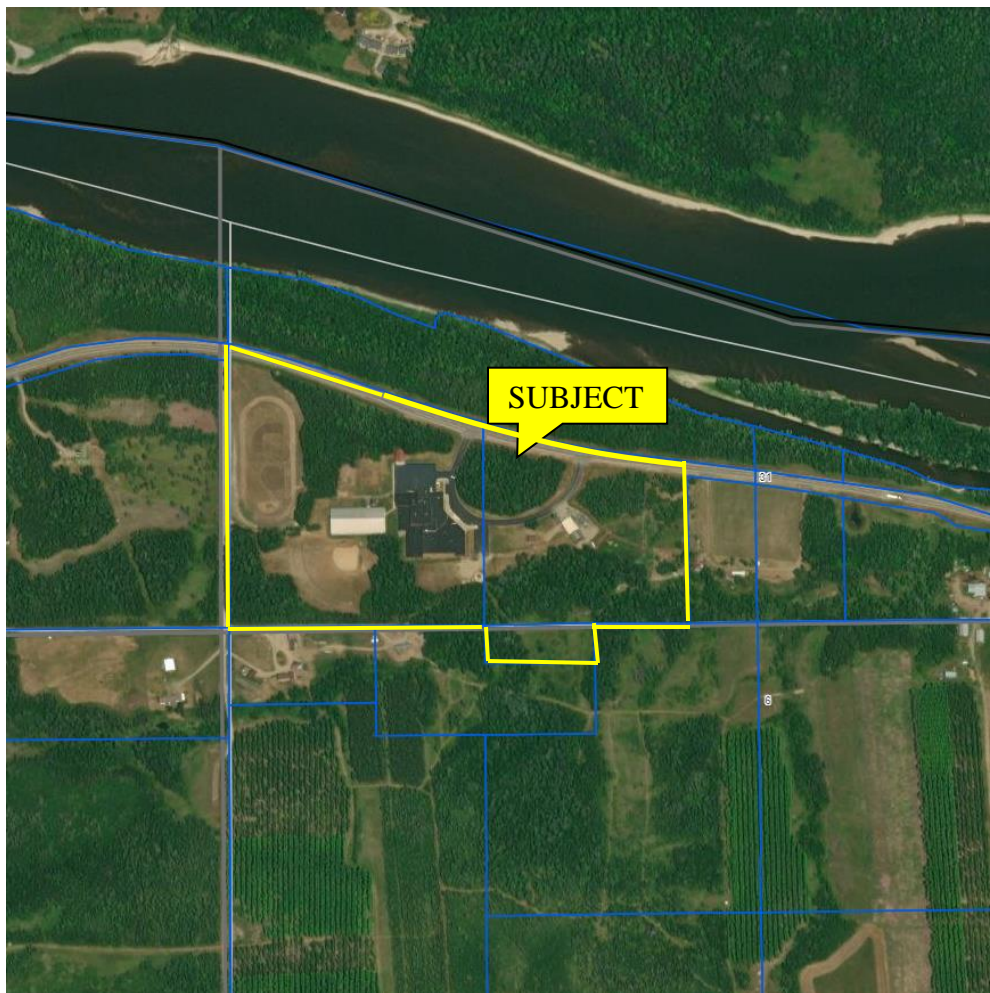
The subject property has been owned by South Koochiching-Rainy River School District #363 for more than 20 years. It is not currently offered for sale, and I am not aware of any pending contracts.

TAX AND ASSESSMENT DATA

The subject is assessed as follows for tax purposes for taxes payable in 2023 and is exempt from taxation due to its ownership.

Parcel Code	Land EMV	Building EMV	Total EMV	Taxes
50-071-00400	\$78,000	\$8,301,000	\$8,379,000	0
50-071-00300	\$74,700	-	\$74,700	0
50-006-00310	\$5,500	-	\$5,500	0
Total	\$158,200	\$8,301,000	\$8,459,200	0

GIS MAP



ZONING

The subject property is in an R-1, Residential Zoning District. Permitted uses include single family homes. Other uses would require a conditional use permit. The minimum lot size is 5 acres, with required frontage of 150 feet, and setbacks of 25 feet.

MARKETING PERIOD

Marketing period may be defined as:

A normal market period is the amount of time necessary to expose a property to the open market in order to achieve a sale. Implicit in this definition are the following conditions:

- 1) The property will be actively exposed in and aggressively marketed to potential purchasers through market channels commonly used by sellers of similar types of properties.
- 2) The property will be offered at a price reflecting the most probable markup over market value used by sellers of similar properties.
- 3) A sale will be consummated under the terms and conditions of the definition of market value stated in this report.

The subject property is a school and storage buildings located on a 49.21 acre site in rural Koochiching County. The school building was constructed in 1979 and has been well maintained since that time. The property is rurally located in the county with minimal surrounding population and cannot feasibly operate as a school due to declining enrollment and a staffing shortage. The rural location is a limiting factor on the reuse potential of the school building.

The subject property would appeal to a limited market segment due to its location and layout and will need to be priced accordingly. The marketing time is estimated to be twelve to twenty-four months.

Exposure time is the estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal. This is a retroactive estimate based upon an analysis of past events assuming a competitive and open market. In the case of the subject property, the exposure time is considered equivalent to the marketing time of twelve to twenty-four months.

MARKET AREA DATA

The subject is in rural Koochiching County in far northern Minnesota near the Canadian border. Baudette is 35 miles west in Lake of the Woods County and International Falls is 33 miles east.

Transportation:

Highway 11 runs generally east to west through the area following the shoreline of Rainy River. Development along the highway includes mainly residential uses with scattered commercial and industrial uses outside of communities.

Population:

Koochiching County had a population of approximately 12,062 in 2020 and 13,311 in the 2010 census. Continued population decline is projected in the county.

Major Industries:

The county's economic base is a diverse mix of government, retail, industrial and tourist-oriented businesses that provide a sound economic base.

Development:

International Falls is the largest city in the county and has seen some growth with two newer lodging properties and a proposed new medical clinic.

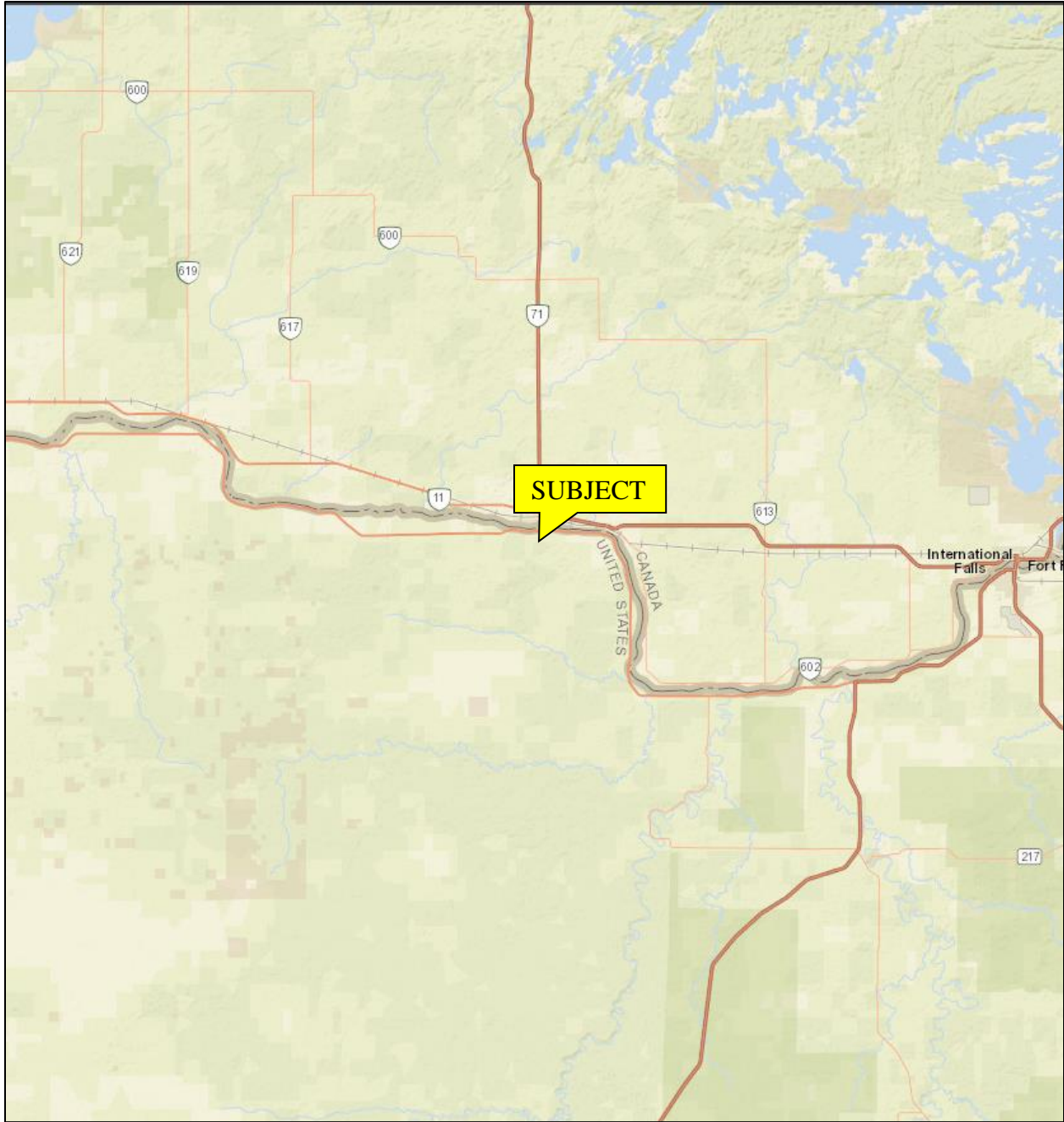
Utilities:

The subject area has public electricity available. The remaining utilities are private.

Summary:

Rural Koochiching County is sparsely developed and has a declining population, however the subject is situated along a State Highway with convenient access from both International Falls and Baudette.

AREA MAP



SITE DESCRIPTION

The subject site is situated along the south side of Highway 11. The following are a summary of data pertaining to the site.

Size and Dimensions:

The subject site is irregular in shape and contains approximately 49.21 acres. There is approximately 2,150 feet of frontage along Highway 11.

Topography:

The site is generally level and contains areas of woods as well as areas of lawn.

Access/Egress:

The site is accessible from Highway 11 via two access points. Access and egress is adequate for a variety of uses.

Parking:

Parking is available in the onsite parking lot.

Utilities:

Public electricity is available to the subject site. There is a well and a wastewater treatment plant which is required to be decommissioned and a new septic or holding tank would be necessary for another use. The estimate provided the school district for decommissioning the wastewater treatment plant and building a new system to serve the school building ranges from \$350,000 to \$400,000.

Tanks:

There is an underground storage tank for fuel oil for the building heating system and two above ground tanks near the bus garage.

Encroachments/Easements/Restrictions:

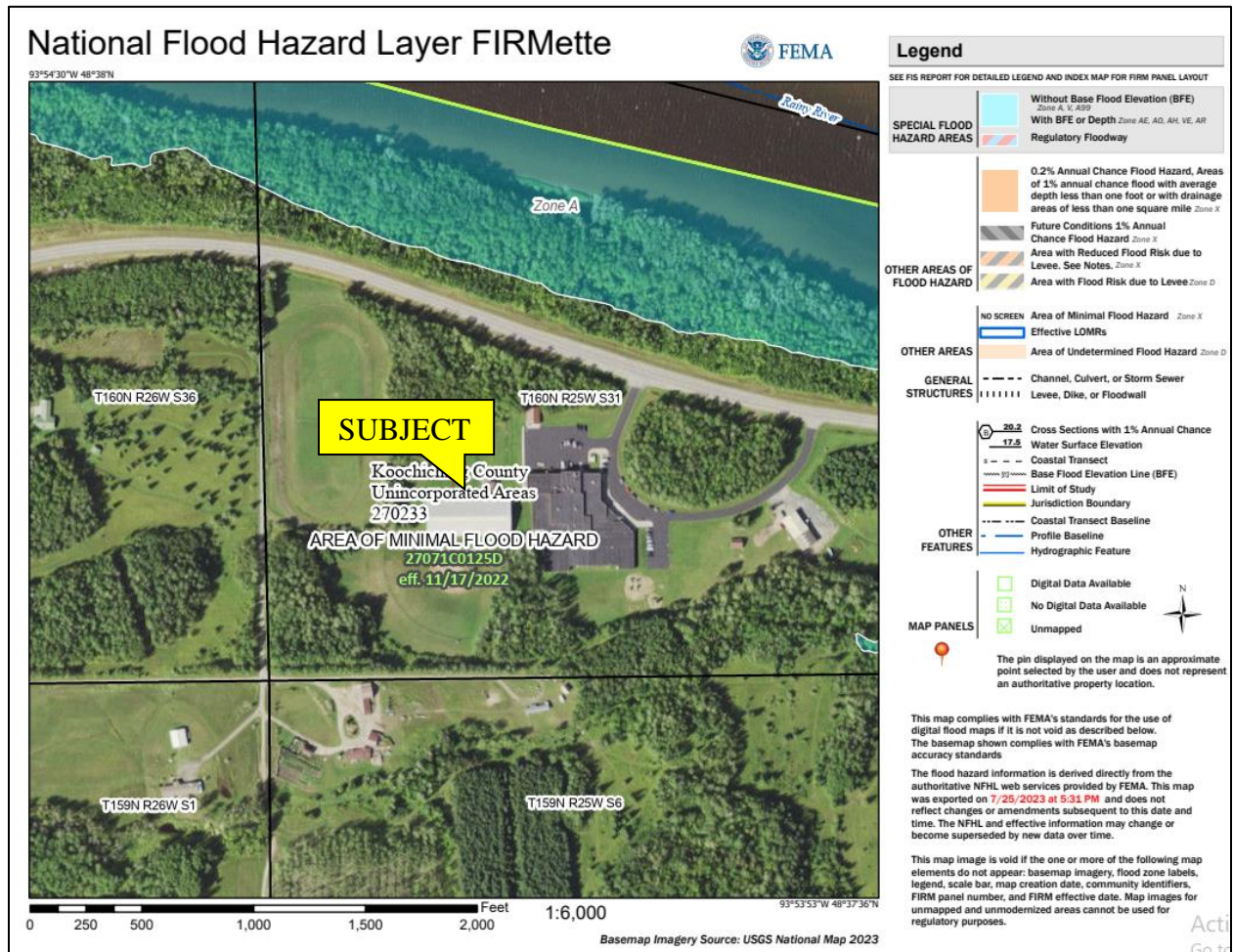
I am not aware of any encroachments, easements, or restrictions.

Site Description, continued:

General Flood Plain District:

National Flood Insurance Program, FIRM "Flood Insurance Rate Map" for Koochiching County, Community -Panel Number 270710 0125 D, revised November 17, 2022, indicates the following flood zone for the subject. Zone: "C." This zone is characterized by "areas of minimal flooding."

FLOOD ZONE MAP



DESCRIPTION OF IMPROVEMENTS

The site is improved with a school building and four storage buildings. The school was constructed in 1979 with some of the storage buildings added later.

Square Footage:

The school building is approximately 73,000 square feet and is mostly one level with some of the mechanical components on the upper level. The storage buildings are 1,728, 579, 26,800, and 5,184 square feet.

Exterior Building Components:

The exterior walls of the school are concrete block which is covered with brick. The facility has a slab foundation with footings below the frost line. The roof is rubber and was replaced in 2022. The storage buildings are steel or wood frame with metal or wood siding and metal roofs.

Mechanical Components:

The school building is heated with an oil boiler and an off-peak electric boiler. There is an air handling system and rooftop units which provide air conditioning to select areas. There is a water storage tank supplied by the well for drinking water and a water softener system. The sprinkler system covers the mechanical areas. The electrical system is 480-volt 600 amp.

The storage buildings have electricity; however they are mostly unheated.

Interior Finishes and Layout:

The interior layout of the school building is typical of a K-12 school with a variety of common rooms, classrooms, gym, cafeteria, and restrooms. The single level design increases its functionality for alternate uses.

The interior finishes have been well maintained and potentially could be functional for alternate uses.

Description of Improvements, continued

Comments on Physical/Functional Factors:

The school building has been well maintained and would be functional for school use, if not located in an area with minimal population. Converting schools to alternate uses requires varying levels of renovation depending on the use.

ADA Compliance:

The subject is one level and is fully accessible throughout.

Effective Age:

The effective age is the age indicated by the condition and utility of a structure and will therefore, reflect the physical condition and functional layout and design. It does not reflect economic obsolescence. The subject building was constructed in 1979 and has been well maintained but not extensively updated. The overall effective age is estimated at 35 years.

Life Expectancy:

The Marshall & Swift cost estimating service lists the "Life Expectancy Guidelines" for a variety of properties. For buildings of this quality level, they project a life expectancy of 50 years.

Remaining Economic Life:

An effective age of 35 years and a projected life expectancy of 50 years, results in a remaining economic life of 15 years.

SUBJECT PHOTOGRAPHS



EXTERIOR ELEVATION



EXTERIOR ELEVATION

SUBJECT PHOTOGRAPHS



INTERIOR VIEW



INTERIOR VIEW

SUBJECT PHOTOGRAPHS



INTERIOR VIEW



INTERIOR VIEW

SUBJECT PHOTOGRAPHS



INTERIOR VIEW



ROOF

SUBJECT PHOTOGRAPHS



INTERIOR VIEW



INTERIOR VIEW

SUBJECT PHOTOGRAPHS



BUS GARAGE



UNDERGROUND FUEL TANK AND STORAGE BLDG

SUBJECT PHOTOGRAPHS



STORAGE BLDG/RINK ENCLOSURE



BALLFIELD

HIGHEST AND BEST USE ANALYSIS

Highest and Best Use is described as:

“That reasonable and probable legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the Highest and Best Use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability.”

To reasonably determine the Highest and Best Use of the subject site, the following have been considered:

1. **Physically Possible Use. What uses of the site are physically possible?**

The overall size and shape of the subject site are conducive for the development of a variety of residential or other uses. Physical considerations would not restrict development of the site for its Highest and Best Use.

1a. **“As though Vacant.” What is the likely use of the site if vacant?**

Considering the surrounding development, which is primarily residential, if the site was vacant and available for development it would most likely be improved with a residential home.

1b. **“As Though Improved.” What is the Highest and Best Use of the improvements as improved?**

The subject property was constructed as a school and storage buildings, has been well maintained, and likely could be functional for an alternate use. The highest and best use as improved is for conversion of the subject to an alternate use appropriate for the rural location.

Highest and Best Use Analysis, continued:

2. **Legal permissible use. What uses are permitted by zoning and deed restrictions?**

The subject site is zoned for residential development. Other uses would likely require a conditional use permit. The property is rural and it is likely that there are at least some alternate uses which would be allowed.

3. **Financially feasible use. Will the subject produce a net return to the owner of the property, and can it support the debt load?**

Alternate uses of the subject may be financially feasible within the value conclusions of this report.

4. **Maximally productive. Among the feasible uses, which will produce the highest net return or the highest present worth?**

The maximally productive use of the subject as improved is for conversion to another use.

Conclusion:

The Highest and Best Use as improved is for conversion to another use.

THE APPRAISAL PROCESS

The Appraisal Process is a procedure followed in the preparation of this report. It is a method of arriving at an estimate of value by employing an orderly program for the accumulation, analysis and observation of data. The appraisers begin with a preliminary study of the problem involved and define the basis on which the appraisal is made. Next, the data called for in the preliminary study is collected, classified and analyzed. Finally, an interpretation of the data in the three approaches is made and the result correlated into the final value estimate.

These three basic approaches to value are the Direct Sales Comparison Approach, The Gross Rent Multiplier Analysis (if a residential property) or the Income Approach (if an investment property), and the Cost Approach. These three approaches provide market data from three different sources when all three approaches are applicable.

The Direct Sales Comparison Approach has as its premise a comparison of the subject property with others of similar design, utility and use that have sold in the recent past. To indicate a value for the property, adjustments are made to the comparable sales for differences with the subject.

The Income Approach, as used for investment properties, has as its premise, the estimation of the amount of net income, which when capitalized in a manner that is commensurate with the risk and life expectancy of the improvements, will indicate the present value of the income stream.

The Cost Approach has as its premise, the valuation of the site by comparison with other sites in the area that have sold in the recent past, adjusting for differences to indicate a site value estimate. To this site is added the estimated cost to replace the improvements with an improvement of like utility, less any loss of value (depreciation) that might have transpired or taken place.

Normally, these three approaches will each indicate a different value. After all the factors in each of the approaches have been carefully weighed, the indication of value derived from each of the approaches is correlated to arrive at a final value estimate.

In the final section of the method of estimating the value defined by this report, the appraisal process relies on the approach to value, which seems to apply most logically to the type and condition of property being appraised. The approach to value, which most nearly represents the thinking and actions of buyers and sellers in the market, for this type of property, is inherent to the process.

COST APPROACH

The Cost Approach Analysis involves estimating the cost of the property, as of the appraisal date, and deducting any accrued depreciation that has occurred.

The process typically involves:

- A. Estimating the site value by Direct Sales Comparison.
- B. Estimating the Replacement Cost or Reproduction Cost of the improvements. These costs may include both Direct Costs and Indirect Costs.
- C. Estimating Depreciation which is broken down into five major headings or types as follows:
 - 1. Physical Deterioration
 - a. Curable
 - b. Incurable
 - 2. Functional Obsolescence
 - a. Curable
 - b. Incurable
 - 3. Economic Obsolescence
- D. Deducting the depreciation from the cost to find the Depreciated Value of improvements.
- E. Adding the land value to the value of the improvements to find the Indicated Market Value.

Site Valuation:

The subject site has 49.21 acres and is in a rural residential area.

Located on the following pages are land sales that will be used to establish the market value for the subject parcel.

Cost Approach, continued:

Following is a summary of the sales.

LAND SALES SUMMARY						
Sale #	Location	Sale Price	Sale Date	Acres	\$ Acre	
1	County Rd 149	\$ 35,000	21-Jan	40	\$ 875	
2	Town Rd 112	\$ 80,000	22-Sep	80	\$ 1,000	
3	Hwy 11	\$ 44,000	22-Oct	40	\$ 1,100	
4	Town Rd 119	\$ 29,000	20-Jun	40	\$ 725	

The sales are recent enough that no adjustment for changes in market conditions is required within this market segment. All are in the immediate area, with Sale 3 fronting Highway 11.

The sales data indicates a range of value, from \$725 to \$1,100 per acre. The value of the subject site is estimated to be \$1,100 per acre, and the total site area is 49.2 acres. The total site value equates to \$54,000, rounded.

Cost Approach, continued

Valuation of the Improvements:

The existing improvements consist of a school building, storage buildings, and site improvements.

To establish the approximate replacement cost of the improvements the Marshall & Swift National Cost Estimating Service will be used. The Marshall & Swift cost data is based upon years of valuation experience, thousands of appraisals, and continual analysis of the cost of new buildings.

The following terminology will be helpful to those readers not familiar with their service or standard appraisal terminology.

“Replacement Costs - The replacement cost of a building is the total cost of construction required to replace the subject building with a substitute of like utility. These costs include labor, materials, supervision, contractor’s profit and overhead, architects plans and specifications, sales taxes and insurance.”

“Reproduction Costs - The reproduction cost of a building is the total cost of construction required to replace the subject building with an exact replica.”

On the following page is a cost analysis that will reflect a replacement cost versus a reproduction cost. However, the building materials and functional design will be replicated as closely as possible.

Cost Approach, continued

7/21/2023		Summary Report		Page: 1
Estimate Number	:	-531		
Estimate ID	:	INDUS SCHOOL		
Property Address	:	8560 HIGHWAY 11 SE		
Property City	:	BAUDETTE		
State/Province	:	MN		
ZIP/Postal Code	:	56623		
Section 1				
Occupancy				
		<u>Class</u>	<u>Height</u>	<u>Rank</u>
100% Alternative School		Masonry bearing walls	10.00	2.0
Total Area	:	73,000		
Number of Stories (Section)	:	1.00		
Shape	:	2.00		
Components				
		<u>Units/%</u>	<u>Other</u>	
Exterior Walls:				
Brick with Block Back-up		100%		
HVAC (Heating):				
Hot Water		100%		
Section 2				
Occupancy				
		<u>Class</u>	<u>Height</u>	<u>Rank</u>
100% Storage Garage		Wood or steel framed exterior walls	12.00	1.0
Total Area	:	34,288		
Number of Stories (Section)	:	1.00		
Shape	:	2.00		
Components				
		<u>Units/%</u>	<u>Other</u>	
HVAC (Heating):				
No HVAC				
Cost as of	07/2023			
		<u>Units/%</u>	<u>Cost</u>	<u>Total</u>
Basic Structure				
Base Cost		107,288	102.16	10,960,114
Exterior Walls		107,288	22.52	2,416,622
Heating & Cooling		73,000	25.96	1,895,080
Basic Structure Cost		107,288	142.34	15,271,816

Cost Approach, continued:

The replacement cost does not include indirect or soft costs or entrepreneurial profit.

Soft/Indirect Costs:

Soft/Indirect Costs are described as: "That cost in the development of a property which would not be included in a general contract for construction or for land acquisition, including:

1. Fees (architectural, engineering, consulting, or legal)
2. Financing costs
3. Insurance and taxes during construction
4. Interest on land cost during construction and on construction loans.
5. Owner's overhead during construction
6. Title changes, surveys, or feasibility studies
7. Loss of reasonable return on investment until anticipated occupancy is developed.

The architect's fees are included in the above cost estimate. Soft costs for this type of project often range from 5% to as high as 10%. Soft costs of 5% are estimated to be reasonable for the subject.

Entrepreneurial Profit:

The Appraisal of Real Estate - Thirteenth Edition - states "because the entrepreneur provides the inspiration, drive, and coordination necessary to the overall project, the cost approach should include an appropriate entrepreneurial profit or incentive." However, a profit should only be added if it is customary for the type of property appraised and the income generated by the property can support the inclusion of a profit. Profit is not typical for a property of this type.

Cost Approach, continued:

Depreciation:

The following definitions and terminology have been taken from the title, The Appraisal of Real Estate, 13th Edition, published by The Appraisal Institute:

“Depreciation - is the loss in value due to any cause. It is the difference between the value of a structural improvement or piece of equipment and its reproduction or replacement cost as of the date of valuation.” Depreciation is comprised of three primary types. They are physical, functional, and external obsolescence.

“Physical depreciation is loss in value due to physical deterioration.” The subject is not new and does suffer from some physical depreciation.

“Functional obsolescence is loss in value due to lack of utility or desirability of part or all the property inherent to the improvement or equipment. Thus, a new structure or piece of equipment may suffer depreciation when built.” The subject will need to be repurposed for another use and does suffer from functional obsolescence which is estimated at 15% in addition to that already included in the physical depreciation calculations.

“External obsolescence is loss in value due to causes outside the property and independent of it and not included in the Marshall & Swift depreciation tables.” External Obsolescence is composed of locational and economic depreciation. The subject property is rurally located and the location limits the potential uses. External obsolescence is estimated at 10%.

Cost Approach, continued:

Effective Age: “The effective age of a property is its age as compared with other properties performing like functions. It is the actual age, less the age that has been taken off by face-lifting, structural reconstruction, removal of functional inadequacies, modernization of equipment, etc. It is an age which reflects a true remaining life for the property, considering the typical life expectancy of building or equipment of its class and its usage.” The effective age of the subject is estimated at 35 years. The total economic life is 50 years, and the depreciation is 70%, using the age/life method.

Cost to Cure: Wastewater Treatment Plant Decommissioning and replacement septic-\$350,000 to \$400,000, average of \$375,000.

The depreciation calculation and valuation follow.

Cost Summary		
Replacement Cost		\$ 15,271,816
Add: Soft Costs	5%	\$ 763,591
Profit	0%	\$ -
Sub Total		\$ 16,035,407
Physical Depreciation	70%	\$ 11,224,785
Functional Obsolescence	15%	\$ 2,405,311
External Obsolesence	10%	\$ 1,603,541
Cost to Cure		\$ 375,000
Depreciated Cost		\$ 426,770
Land Value		\$ 54,000
Total		\$ 480,770
Rounded		\$ 480,000

DIRECT SALES COMPARISON APPROACH

The Direct Sales Comparison Approach relies basically upon the principle of substitution and consists of the comparison of similar properties that have recently sold and are within the same market area. This comparison consists of adjustments being made between the subject and the comparable sales, using certain common denominators or units of comparison and considering such factors as location, date of sale, terms of sale and physical characteristics. The subject is the standard, and the adjustments are made to the sale price of the comparable properties to arrive at an indication of value for the subject. This approach is applicable to both vacant land and all other types of properties.

The subject property is a school with 73,000 square feet and multiple storage buildings with a combined size of 34,288 square feet situated on a 49.21 acre site in rural Koochiching County. The buildings are one level, well maintained, and could be functional for alternate uses. The rural location is a limiting factor for feasible alternate uses.

There have been several sales of schools for alternate uses in Minnesota in recent years which are summarized on the following pages.

Direct Sales Comparison Approach, continued

Comparable Improved Sale 1:

Address: 110 W Redwing Street, Duluth, MN
Parcel Code: 010-4670-00930 & 010-0620-00830
Sale Date: June 2017
Sale Price: \$500,000
Buyer: Many Rivers Montessori
Seller: The Hills Youth and Family Services
Terms: Cash
Lot Size: 4.5 acres
Improvements: 31,845 square feet
Year Built: 1913
Price Per S/F: \$16
Sale Verified With: Public Records/Buyer
Comments: Former elementary school converted to alternative school then sold for Montessori school use.



**F.I. Salter Real Estate
Valuation Services**

Direct Sales Comparison Approach, continued

Comparable Improved Sale 2:

Address:	8955 Deer School Road NW, Bemidji, MN
Parcel Code:	26.00107.01
Sale Date:	March 2018
Sale Price:	\$600,000
Buyer:	Deer Lake Properties LLC
Seller:	ISD 31
Terms:	Cash
Lot Size:	24 acres
Improvements:	27,500 square feet
Year Built:	1970
Price Per S/F:	\$22
Sale Verified With:	Public records/assessor
Comments:	Closed elementary school purchased for charter school use.



Direct Sales Comparison Approach, continued

Comparable Improved Sale 3:

Address:	4628 Pitt Street, Duluth, MN
Parcel Code:	010-3030-00540
Sale Date:	September 2020
Sale Price:	\$125,000
Buyer:	500 1 st St SE LLC
Seller:	Faribault Property Holdings, LLC
Terms:	Cash
Lot Size:	2.5 acres
Improvements:	37,173 square feet former elementary school
Year Built:	1912
Price Per S/F:	\$3
Sale Verified With:	Buyer/Public records
Comments:	Former school purchased for childcare center use.



Direct Sales Comparison Approach, continued

Comparable Improved Sale 4:

Address: 2900 East Beltline, Hibbing, MN
Parcel Code: 140-0214-00011
Sale Date: November 2011
Sale Price: \$600,000
Buyer: Rich Lees
Seller: State of Minnesota
Terms: Cash
Lot Size: 6.77 acres
Improvements: 82,000 square foot former technical school
Year Built: 1965
Price Per S/F: \$7
Sale Verified With: Assessor/Appraisers files
Comments: Former technical college purchased for conversion to office and shop.



Direct Sales Comparison Approach, continued

Comparable Improved Sale 5:

Address: 200 Wanless Street, McKinley, MN
Parcel Code: 115-0040-00298
Sale Date: October 2020
Sale Price: \$85,000
Buyer: Service Dogs, LLC
Seller: City of Buhl
Terms: Cash
Lot Size: 13.02 acres
Improvements: 99,379 square foot former school
Year Built: 1908/1920
Price Per S/F: \$0.85
Sale Verified With: Assessor/Public records
Comments: Multi-story former school then youth facility. Offered for sale for \$199,900 then sold for service dog training facility.



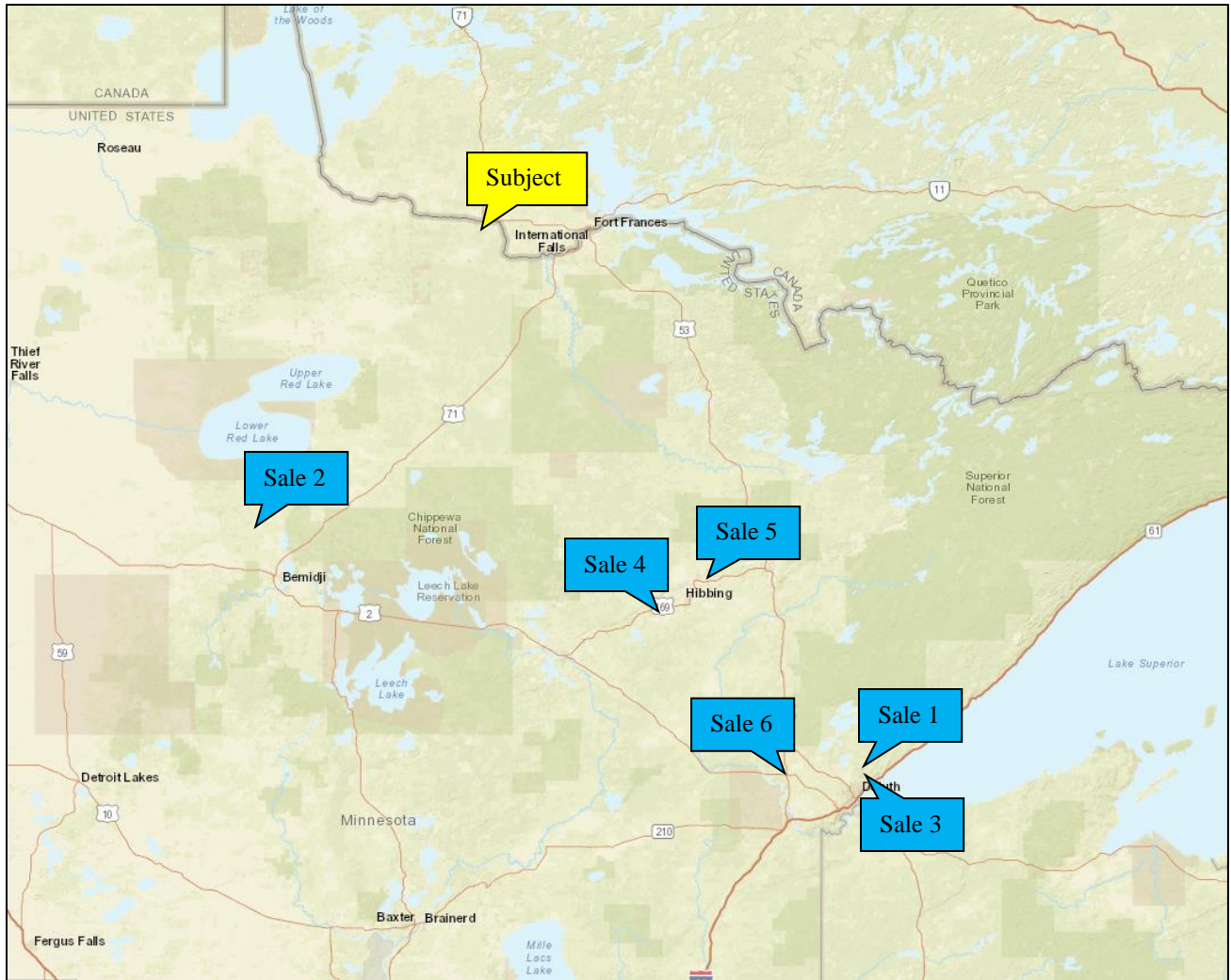
Direct Sales Comparison Approach, continued

Comparable Improved Sale 6:

Address: 7427 Seville Road, Saginaw, MN
Parcel Code: 400-0010-06090
Sale Date: May 2012
Sale Price: \$50,000
Buyer: Pru Properties, LLC
Seller: St. Louis County School District
Terms: Cash
Lot Size: 35 acres
Improvements: 70,971 square foot former school
Year Built: 1974
Price Per S/F: \$0.70
Sale Verified With: Assessor/Public records
Comments: Former school located approximately 15 miles outside Duluth. Marketed for 189 days at a list price of \$125,000. Resold in 2014 after repurposing for \$355,000.



SALES LOCATION MAP



Direct Sales Comparison Approach, continued

COMPARABLE SALES SUMMARY						
#	\$ S/F	Sale Date	Location	S/F	Design	Year Built
1	\$16	17-Jun	Duluth	31,845	Two level	1913
2	\$22	18-Mar	Rural Bemidji	27,500	One level	1970
3	\$3	20-Sep	Duluth	37,173	Three level	1912
4	\$7	11-Nov	Hibbing	82,000	One level	1965
5	\$0.85	20-Oct	McKinley	99,379	Three level	1908
6	\$0.70	12-May	Saginaw	70,971	One level	1974

Summary and Discussion of Sales Data:

The sales are all former schools which have sold over the past 12 years. All are in Northern Minnesota thus are generally similar in location considering the potential uses.

The sales are generally similar to the subject in school size, however the subject has several outbuildings included. Sales 2, 4, and 6 are most similar to the subject in design and in age.

The most similar sales range from \$.70 to \$22 per square foot. Sale 6 was later resold for \$5 per square foot after repurposing for storage uses. Sale 2 was purchased for charter school use thus the price was not discounted to reflect conversion costs. Considering the sales data and factors present in the subject including the rural location, age, and design, the value is estimated to be in the range of \$5 to \$7 per square foot, stabilized at \$5 per square foot.

The value calculation is as follows:

Value Calculation	
S/F	107,288
Value Per S/F	\$ 5
Indicated Value	\$ 536,440

The above value conclusion does not reflect the cost of decommissioning the wastewater treatment plant and replacing it with a septic system which is estimated to range from \$350,000 to \$400,000. This must be deducted from the value conclusion since none of the sales were subject to this type of expense. The midpoint of the range, or \$375,000 will be used in the valuation, and the as-is value is estimated to be \$160,000 (\$535,000 - \$375,000).

RECONCILIATION AND FINAL VALUE ESTIMATE

Final reconciliation is the application of the process of evaluating alternative conclusions and selecting from the indications of value derived from each of the approaches utilized in the appraisal problem to arrive at a final estimate of value. Appraisers weigh the relative significance, applicability, and defensibility of the indication of value derived from each approach and place the most weight and reliance on the one, which, in their professional judgment best approximates the value of the property.

Method	Indicated Value
Cost Approach	\$ 480,000
Sales Comparison Approach	\$ 160,000

Comments on Cost Approach:

The Cost Approach includes the land value which is calculated based on comparison with sales in the same area. It also includes the replacement cost of the building as well as depreciation calculations. This approach is reliable for the land value and for replacement cost estimates, however the building suffers from depreciation and obsolescence and the subjective estimates result in a less credible value conclusion from this approach.

Comments on Direct Sales Comparison Approach:

The subject property is a closed school in a rural location and this approach includes a variety of sales of former school buildings. This approach is reliable in the valuation and provides the most credible value estimate of the property.

The Sales Comparison Approach is given the most weight in the final value conclusion, and the value is estimated to be as follows:

**ONE HUNDRED SIXTY THOUSAND AND NO/100THS DOLLARS
\$160,000**

Respectfully submitted,



Ann M. Heimbach, MAI
Certified General Real Property Appraiser
MN License #20129249

**F.I. Salter Real Estate
Valuation Services**

ADDENDUM

**F.I. Salter Real Estate
Valuation Services**

QUALIFICATIONS OF THE APPRAISER

Ann M. Heimbach, MAI is an appraiser with the F. I. Salter, Inc., a 130+ year old real estate firm, whose specialties include real estate brokerage, property management, syndications, investments, professional appraising, and consulting.

Professional Experience:

October 1998 to Present-Commercial and residential appraiser with F.I. Salter Company. Appraisal of numerous commercial property types including office buildings, warehouses, mixed use properties, industrial facilities, convenience stores, restaurants, hotels and motels, vacant land, and apartment buildings. Also experienced in residential valuation for mortgage lending and individual property owners as well as litigation matters.

May 1993 to October 1998-Appraiser with City of Duluth. Appraisal of residential properties along with some commercial properties and vacant land.

State Licensing:

- Certified General Real Property Appraisal Licenses
MN ID #20129249
WI ID #1267-10

Education:

- BA Degree from the University of Wisconsin in Accounting

Has attended and successfully completed the following courses offered by the Appraisal Institute along with numerous seminars:

- Basic Valuation Procedures
- Principles of Valuation
- Advanced Income Capitalization
- Highest and Best Use and Market Analysis
- Advanced Sales and Cost Approaches
- The Standards of Professional Practice
- Report Writing and Valuation Analysis
- Advanced Applications
- Litigation Appraising-Specialized Topics and Applications
- Condemnation Appraising-Advanced Topics and Applications

**F.I. Salter Real Estate
Valuation Services**

- **Qualifications of the Appraiser, continued**
- The Yellow Book Course-Appraisal Institute

Professional/Civic Affiliations:

- MAI Designated Member of Appraisal Institute

Clients:

- Wells Fargo Bank
- US Bank
- Bremer Bank
- M & I Bank
- Numerous local financial institutions
- Fryberger Buchanan law firm
- Hanft Fride Law firm
- Corporate and Private Property Owners
- Non-Profit Agencies
- MN Department of Natural Resources
- University of Minnesota Duluth
- WI Department of Natural Resources

Experience:

- Retail, Commercial and Mixed Use Buildings
- Apartment Buildings and other Multi-family dwellings
- Office buildings
- Convenience Stores
- Restaurants
- Medical Clinics
- Industrial and Waterfront properties
- Hotels and Motels and Resorts
- Residential land developments
- Waterfront properties
- Vacant forestland
- Commercial land
- Residential Properties

STATE OF MINNESOTA



ANN MARGARET HEIMBACH
800B WEST RAILROAD ST
DULUTH, MN 55802

Department of Commerce

The Undersigned COMMISSIONER OF COMMERCE for the State of Minnesota hereby certifies that
ANN MARGARET HEIMBACH

800B WEST RAILROAD ST
DULUTH, MN 55802

has complied with the laws of the State of Minnesota and is hereby licensed to transact the business of

Resident Appraiser : Certified General

License Number: 20129249

unless this authority is suspended, revoked, or otherwise legally terminated. This license shall be in effect until August 31, 2024.

IN TESTIMONY WHEREOF, I have hereunto set my hand this August 24, 2022.

A handwritten signature in cursive script that reads "Grace Arnold".

COMMISSIONER OF COMMERCE

Minnesota Department of Commerce

Licensing Division

85 7th Place East, Suite 500

St. Paul, MN 55101-3165

Telephone: (651) 539-1599

Email: licensing.commerce@state.mn.us

Website: commerce.state.mn.us

Notes:

- **Individual Licensees Only - Continuing Education:** 15 hours is required in the first renewal period, which includes a 7 hour USPAP course. 30 hours is required for each subsequent renewal period, which includes a 7 hour USPAP course.
- **Appraisers:** You must hold a licensed Residential, Certified Residential, or Certified General qualification in order to perform appraisals for federally-related transactions. **Trainees do not qualify.** For further details, please visit our website at commerce.state.mn.us.

**F.I. Salter Real Estate
Valuation Services**

CONTINGENT AND LIMITING CONDITIONS

I assume no responsibility for matters legal in nature, nor do I render any opinion as to the title, which is assumed to be marketable. The property is appraised as though under responsible ownership.

Any sketch in this report is included to assist the reader in visualizing the property, and I assume no responsibility for its accuracy. I have made no survey of the property.

I am not required to give testimony or appear in court because of having made this appraisal with reference to the property in question, unless arrangements have been previously made.

The distribution of the total valuation in this report between land and improvements applies only under the existing program of utilization. The separate valuations for land and building must not be used in conjunction with any other appraisal and are invalid if so used.

I assume that there are no hidden or unapparent conditions of the property, subsoil or structures which would render it more or less valuable. I assume no responsibility for such conditions or for engineering which might be required to discover such factors. Information, estimates and opinions furnished me and contained in this report were obtained from sources considered reliable and believed to be true and correct. However, no responsibility for accuracy can be assumed by me.

Neither all or any part of the contents of this report, or copy thereof, shall be used for purposes by anyone but the client without the previous consent of the appraiser and/or client, nor shall it be conveyed by any, including the clients to the public through advertising, public relations, news, or other media, without the written consent and approval of the author, particularly as to the valuation conclusions, the identity of the appraiser or a firm which he/she is connected, or any initialed designations conferred upon the appraiser.

AMERICANS WITH DISABILITIES ACT – ADA

The Americans with Disabilities Act "ADA" became effective January 26, 1992. I have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since I have no direct evidence relating to this issue, I did not consider possible non-compliance with the requirements of ADA in estimating the value of the property.

**F.I. Salter Real Estate
Valuation Services**

ENVIRONMENTAL DISCLAIMER

The value estimate in this report assumes that the property is not negatively affected by the existence of hazardous substances or detrimental environmental conditions. The appraiser is not an expert in the identification of hazardous substance or detrimental environmental conditions. Unless otherwise indicated in this report the appraiser's routine inspection of and inquiries about the subject property did not develop any information that indicated any hazardous substances or detrimental environmental conditions which would affect the property negatively. It is possible that tests and inspections made by a qualified hazardous substance and environmental expert would reveal the existence of hazardous materials and environmental conditions on or around the property that would negatively affect its value. Thus, no responsibility is assumed for any such conditions, for any expertise or engineering knowledge required to discover them.



800B West Railroad Street Duluth, MN 55802
(218) 722-5556 www.fisalter.com

June 26, 2023

Mr. Jeremy Tammi
Superintendent ISD #363

Via Email Only

Re: Appraisal of Indus School with related buildings and land, 8560 Hwy 11,
Baudette, MN

I would be pleased to prepare an appraisal of the market value of the above-mentioned property. The appraisal is intended to be used by the school district to estimate market value for a possible future sale of the property. The report on this property will be completed by August 11, 2023 and the fee will be \$5,000, payable upon completion.

Thank you. Please sign and return via email if you agree with the terms and would like to proceed.

Respectfully submitted,

Ann M. Heimbach, MAI
Certified General Real Property Appraiser
MN License #20129249

I agree with the terms outlined above:

Jeremy Tammi, Superintendent
ISD #363

7/13/23
Date