Financial Statements with Report of Independent Certified Public Accountants

Terrafirma Risk Retention Group LLC

December 31, 2012

Contents

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Report of Independent Certified Public Accountants

To the Members Committee
Terrafirma Risk Retention Group LLC

We have audited the accompanying financial statements of Terrafirma Risk Retention Group LLC (a Vermont Company), which comprise the balance sheet as of December 31, 2012, and the related statements of operations and comprehensive income (loss), changes in total equity, and cash flows for the year then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Qualified Opinion

As described more fully in Note 2, the Company prepared these financial statements using accounting practices prescribed or permitted by the Vermont Department of Financial Regulation. Such accounting practices are equivalent to accounting principles generally accepted in the United States of America. However, the Vermont Department of Financial Regulation permits the Company to account for contributions from non-members as capital contributions and not as contributions revenue, as would be required by accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Terrafirma Risk Retention Group LLC as of December 31, 2012, and the results of its operations, changes in its total equity and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton LLP

Glastonbury, Connecticut
May 31, 2013

TERRAFIRMA RISK RETENTION GROUP LLC

Balance Sheet

December 31, 2012

ASSETS		
Cash and cash equivalents	$	1,003,978
Investments, available for sale, at fair value		3,209,703
Accrued interest receivable		22,411
Prepaid expenses		768
Property, plant and equipment, net		75,066
Total assets	$	4,311,926
LIABILITIES AND TOTAL EQUITY		
Liabilities		
Accounts payable and accrued expenses	$	16,885
Premiums received in advance		9,146
Total liabilities		26,031
Total Equity		
Capital contributions		4,197,500
Member contributions		48,000
Accumulated other comprehensive income		320
Accumulated earnings		40,075
Total equity		4,285,895
Total liabilities and total equity	$	4,311,926

The accompanying notes are an integral part of these financial statements.

TERRAFIRMA RISK RETENTION GROUP LLC
Statement of Operations and Comprehensive Income (Loss)
Year Ended December 31, 2012

REVENUES		
Registration fees	$	10,325
EXPENSES		
General and administrative expenses		118,099
Investment loss, net		1,844
Total expenses		119,943
Net loss		(109,618)
OTHER COMPREHENSIVE INCOME		
Unrealized holding gain on available for sale securities		320
Comprehensive loss	$	(109,298)

The accompanying notes are an integral part of these financial statements.

TERRAFIRMA RISK RETENTION GROUP LLC
Statement of Changes in Total Equity
For the year ended December 31, 2012

	Capital Contributions	Member Contributions	Accumulated Earnings	Accumulated Other Comprehensive Income	Total
Balance as of January 1, 2012	$ -	$ 46,300	$ 149,693	$ -	$ 195,993
Capital contributions	4,197,500	-	-	-	4,197,500
Member contributions	-	1,700	-	-	1,700
Net loss	-	-	(109,618)	-	(109,618)
Unrealized gain on available for sale securities	-	-	-	320	320
Balance as of December 31, 2012	**$ 4,197,500**	**$ 48,000**	**$ 40,075**	**$ 320**	**$ 4,285,895**

The accompanying notes are an integral part of these financial statements.

TERRAFIRMA RISK RETENTION GROUP LLC
Statement of Cash Flows
Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$	(109,618)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation of property, plant and equipment		8,340
Investment gains and losses		24,438
Changes in assets and liabilities:		
Accrued interest receivable		(22,411)
Prepaid expenses		(768)
Accounts payable and accrued expenses		15,769
Premiums received in advance		9,146
Net cash used in operations		(75,104)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of available for sale securities		(4,247,329)
Proceeds from sales of available for sale securities		1,013,508
Purchase of property, plant and equipment		(83,406)
Net cash used in investing activities		(3,317,227)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital contributions		4,197,500
Proceeds from member contributions		1,700
Net cash provided by financing activities		4,199,200
Net increase in cash and cash equivalents		806,869
CASH AND CASH EQUIVALENTS, beginning of year		197,109
CASH AND CASH EQUIVALENTS, end of year	$	1,003,978

The accompanying notes are an integral part of these financial statements.

NOTE 1 - NATURE OF OPERATIONS

Terrafirma Risk Retention Group LLC ("the Company") is a manager-managed, tax-exempt risk retention group organized as a limited liability company under the laws of the State of Vermont. The Company was organized in 2011 and licensed in 2012 and is qualified by the Internal Revenue Service as a charitable risk pool pursuant to the Internal Revenue Code Section 501(n). The Company was formed by The Land Trust Alliance, Inc. ("the Alliance") to pool and insure the risks of its members to help land trusts defend their conserved lands from legal challenge and to provide information to its members with respect to loss control and risk management. The Alliance is a not-for-profit corporation organized under the laws of the Commonwealth of Massachusetts. The Alliance was formed in 1982 to advance the mission of land trusts.

The Company was formed to provide conservation defense liability insurance for land trusts' obligations to defend and enforce conservation easements and fee-owned land. The policy covers litigation expense arising out of violations, challenges, encroachments or other efforts to affect conservation rights held by insured member land trusts, and for other liabilities incurred by land trusts in connection with their duties to monitor and protect conservation easements and fee-owned land. The Company's liability insurance policies commenced as of March 1, 2013.

The Company is managed by Alliance Risk Management Services LLC ("ARMS"), a wholly-owned subsidiary of the Land Trust Alliance, Inc. The Company is solely responsible for meeting its obligations to its insured members and others and the Land Trust Alliance, Inc., ARMS or any member of the Company is not liable for the claims, debts or other liabilities of the Company.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company that materially affect financial reporting are summarized below.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with practices prescribed or permitted by Vermont Captive regulations of the Vermont Department of Financial Regulation ("the Department"). Such accounting practices are equivalent to accounting principles generally accepted in the United States of America ("GAAP"). However, the Department permits the Company to account for contributions from non-members as described further in Note 2 as capital contributions and not as contributions revenue, as would be required by GAAP.

USE OF ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. As of December 31, 2012 the Company had cash equivalents of $918,747, comprised of a money market fund.

INVESTMENTS

The Company's investments in fixed income securities are measured and reported at fair value. The Company's investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and such changes could materially affect the amounts reported in the financial statements.

FAIR VALUE MEASUREMENTS

The Company measures its investments at fair value in accordance with FASB ASC 820, "Fair Value Measurements and Disclosures". Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. FASB ASC 820 establishes a hierarchy of valuation techniques used to determine the fair value of assets and liabilities based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (also referred to as observable inputs). Authoritative accounting guidance requires that the valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The following summarizes the fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 – Inputs, other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices of identical or similar assets or liabilities in markets that are not active;
- Inputs other than quoted prices that are observable for the asset or liability and;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 – Inputs that are unobservable for the asset or liability.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement.

The Company has classified its investments in accordance with ASC 820, as disclosed in Note 4.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment represents costs incurred to create and launch the Company's website. The asset is being depreciated on a straight-line basis over its estimated useful life of five years. Website maintenance is charged to expense as incurred.

PREMIUMS AND PREMIUMS RECEIVED IN ADVANCE

Premiums are earned over the terms of the related insurance policies. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro-rata methods. Premiums received in advance represent amounts received prior to the Company issuing a written policy. The Company's member policies will commence effective March 1, 2013; therefore, no revenues from premiums have been recognized through December 31, 2012.

CONTRIBUTIONS

Contributions from non-members include contributions, grants, gifts and awards pledged or received by the Company. Under GAAP, the Company would report contributions as revenue when received or pledged by the donor. The Department has approved a permitted practice for the Company to account for contributions from non-members as capital contributions and not as contributions revenue, as would be required by GAAP.

All members of the Company are required to make an initial capital contribution of $100. No member has a right to have its membership interest redeemed or its capital contribution returned in accordance with terms of the operating agreements. Each member of the Company has equal voting rights.

REGISTRATION FEES

Registration fees represent non-refundable fees charged to land trusts applying to become members of the Company. Amounts are recognized as revenues when earned.

INVESTMENT INCOME

Investment income and gains and losses are recognized when earned.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

ASSUMED LOSS AND LOSS ADJUSTMENT EXPENSES

Unpaid losses and loss adjustment expenses include an amount determined from individual case estimates and loss reports and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on assumptions and estimates and while management believes the amount is adequate, the ultimate liability may be in excess of or less than the amount provided. The methods for making such estimates and for establishing the resulting liabilities are continually reviewed and any adjustments are reflected in the period determined.

The Company's member policies are effective beginning March 1, 2013; therefore, there is no reserve for losses as of December 31, 2012.

INCOME AND PREMIUM TAX STATUS

The Company is a qualified charitable risk pool under section 501(n) of the Internal Revenue Code. As such, it is exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been made in the accompanying financial statements. The Company is subject to premium taxes imposed by the State of Vermont. No premium taxes were recognized for the year ended December 31, 2012 as the Company utilized the tax credit available to first time filers.

The Company accounts for uncertain tax positions in accordance with the provisions of FASB ASC 740, "Income Taxes", which provide a framework for how companies should recognize, measure, present and disclose uncertain tax positions in their financial statements. Under FASB ASC 740, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the tax authorities. The tax benefits recognized in the financial statements from such position are measured based in the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The Company has no uncertain tax positions that qualify for recognition or disclosure in the financial statements.

It is the Company's policy to include interest and penalties related to unrecognized tax benefits as a component of general and administrative expenses. As of December 31, 2012, the Company did not record any penalties or interest related to unrecognized tax benefits. Tax years from 2011 and forward are open and subject to examination.

ADVERTISING

The Company expenses production costs for advertising the first time the advertising takes place. Advertising expense for the year ended December 31, 2012 was $6,400.

NOTE 3 - CUSTODIAL CREDIT RISK

Custodial credit risk is the risk that in the event of a bank failure, the Company will not be able to recover its cash deposits or investments held. The Company maintains its cash, cash equivalents and investments in highly rated financial institutions, which are periodically reviewed by management for financial stability. Accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. The Company's accounts may exceed FDIC depository insurance limits from time to time. However, the Company has not experienced any losses in such accounts and management believes that its cash and cash equivalents and investments are not exposed to significant credit risk.

NOTE 4 - INVESTMENTS

Details on carrying value, fair value and amortized cost of investments in fixed income securities as of December 31, 2012 were as follows:

	Carrying Value	Fair Value	Amortized Cost
U.S. government and government agency securities	$ 1,830,885	$ 1,830,885	$ 1,829,178
Corporate bonds	1,378,818	1,378,818	1,380,205
	$ 3,209,703	$ 3,209,703	$ 3,209,383

Details on unrealized gains and losses of the Company's fixed income securities as of December 31, 2012 were are follows:

	Unrealized Gains	Unrealized Losses
U.S. government and government agency securities	$ 1,730	$ (24)
Corporate bonds	557	(1,943)
	$ 2,287	$ (1,967)

NOTE 4 - INVESTMENTS *(Continued)*

The following table sets forth, as of December 31, 2012, fixed income securities that have been in a continuous loss position for less than twelve months and those that have been in a continuous unrealized loss position for twelve months or longer for which other-than-temporary impairments have not been recognized.

	Less Than 12 Months		Greater Than 12 Months	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. government and government agency securities	$ (24)	$ 112,806	$ -	$ -
Corporate bonds	(1,943)	1,089,263	-	-
	$ (1,967)	$ 1,202,069	$ -	$ -

The following table sets forth the carrying value, fair value and amortized cost of fixed income securities as of December 31, 2012 by contractual or expected maturity. Actual maturities will differ from contractual or estimated maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Carrying Value	Fair Value	Amortized Cost
One year or less	$ 261,329	$ 261,329	$ 261,010
One to five years	2,948,374	2,948,374	2,948,373
	$ 3,209,703	$ 3,209,703	$ 3,209,383

NOTE 4 - INVESTMENTS *(Continued)*

The components of net realized investment gains (losses) were as follows for the year ended December 31, 2012:

	2012	
	Realized Gains	Realized Losses
U.S. government and government agency securities	$ 267	$ (985)
Corporate bonds	254	(1,266)
	$ 521	$ (2,251)

Investments in money market funds and fixed income securities in accordance with FASB ASC 820 fair value hierarchy as of December 31, 2012 were as follows:

	Level 1	Level 2	Level 3	Total
Money market funds	$ 918,747	$ -	$ -	$ 918,747
U.S. government and government agency securities	-	1,830,885	-	1,830,885
Corporate bonds	-	1,378,818	-	1,378,818
	$ 918,747	$ 3,209,703	$ -	$ 4,128,450

The Company uses quoted values and other data provided by a nationally recognized independent pricing service as inputs into its process for determining fair value of its investments. The pricing service obtains market quotations and actual transaction prices for securities that have quoted prices in active markets. For securities that do not trade on a daily basis, the pricing service prepares estimates of fair value measurements based upon its proprietary pricing applications which include available relevant market information, benchmark curves, benchmarking of like securities, sector groupings and matrix pricing.

Fixed income securities generally do not trade on a daily basis. The fair value estimates of fixed maturity investments are based on observable market information rather than market quotes. Accordingly, the estimates of fair value for such fixed maturity investments as provided by the pricing service are included in Level 2 of the fair value hierarchy.

NOTE 4 - INVESTMENTS *(Continued)*

The Company's policy is to record transfers between fair value levels as of the date of the transfer. The Company did not transfer securities between levels for the year ended December 31, 2012.

Net investment income (loss) is comprised of the following for the year ended December 31, 2012:

		2012
Interest income	$	28,070
Investment losses, net		(24,438)
Investment management fees		(5,476)
	$	(1,844)

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is summarized as follows as of December 31, 2012:

		2012
Software development	$	83,406
Less: accumulated depreciation		8,340
	$	75,066

Depreciation expense was $8,340 for the year ended December 31, 3012.

NOTE 6 - SERVICE CONTRACTS AND RELATED PARTY TRANSACTIONS

The Company has entered into a contract with Marsh Management Services, Inc., to provide certain management and administrative services. Fees incurred related to the agreement included in general and administrative expenses were $44,750 for the year ended December 31, 2012.

ARMS serves as manager of the Company as detailed in its operating agreement. As manager, ARMS is entitled to compensation for its services, as well as reimbursement for costs and expenses incurred in providing management services. ARMS fees and expense reimbursements for the year ended December 31, 2012 were waived. ARMS is a wholly-owned subsidiary of the Alliance.

NOTE 7 - TOTAL EQUITY

The Company is required by the Department to maintain capital and surplus at a minimum of $1,000,000 in cash, money market funds, and certificates of deposit and treasury bills with maturities of one year or less. The Company's ability to pay distributions is restricted and subject to regulatory approval. As of December 31, 2012, the Company's reported capital was in excess of the minimum regulatory requirement.

The Company has a members committee, divided into classes based on eight regions of the United States, elected by its members for staggered three-year terms. A ninth member will be appointed by other members of the committee and must be a resident of Vermont.

NOTE 8 - RECONCILIATION OF THE AUDITED FINANCIAL STATEMENTS TO THE ANNUAL STATEMENT AND NAIC STATUTORY ACCOUNTING PRACTICES

A reconciliation of the Company's financial statement amounts between GAAP, the 2012 annual statement and NAIC statutory accounting practices as of and for the year ended December 31, 2012 is as follows:

	Total Equity	Net Income (Loss)
Amounts per audited financial statements	$ 4,285,895	$ (109,618)
Adjustments:		
Reclassification of contributions from non-members	-	45,000
Amounts per annual statement	4,285,895	(64,618)
State prescribed practices that increase/decrease amounts per annual statement:		
Change in property, plant and equipment	(75,066)	-
Change in depreciation expense	-	8,340
Change in prepaid expenses	(768)	768
State permitted practices that increase/decrease amounts per annual statement:		
Contributions from non-members	-	4,152,500
Amount per NAIC statutory accounting practices	$ 4,210,061	$ 4,096,990

NOTE 9 - SUBSEQUENT EVENTS

Subsequent events were evaluated through May 31, 2013, which is the date the financial statements were available to be issued.

The Company's policy coverage for conservation defense liability is effective March 1, 2013.