JOHNSON LAMBERT LLP

Terrafirma Risk Retention Group LLC

Audited Financial Statements

Years ended December 31, 2014 and 2013
with Report of Independent Auditors

Terrafirma Risk Retention Group LLC

Audited Financial Statements

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Contents

JOHNSON LAMBERT LLP

Report of Independent Auditors

Members Committee
Terrafirma Risk Retention Group LLC

We have audited the accompanying financial statements of Terrafirma Risk Retention Group LLC (the Company), which comprise the balance sheet as of December 31, 2014 and the related statements of operations and comprehensive income, 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 (GAAP); 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 entity'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 entity's internal control over financial reporting. 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.

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

Basis for Qualified Opinion

As more fully discussed in Notes A and E to the audited financial statements, the Company included non-member contributions as capital contributions in equity. Such inclusion in equity is permitted by the State of Vermont Department of Financial Regulation (the Department), but is not in accordance with GAAP.

Qualified Opinion

In our opinion, except for the effects of the matter discussed 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, 2014, and the results of its operations and its cash flows for the year then ended in conformity with GAAP.

Other Matters

The financial statements of the Company as of and for the year ended December 31, 2013 were audited by other auditors whose report, dated March 3, 2014, expressed a qualified opinion on those financial statements due the inclusion of non-member contributions as capital contributions in equity, as previously discussed in the Basis for Qualified Opinion paragraph noted above.

Johnson Lambert LLP

Burlington, Vermont
February 17, 2015

Vermont firm registration: 092-0000267

Terrafirma Risk Retention Group LLC

Balance Sheets

	At December 31, 2014	At December 31, 2013
Assets		
Cash and cash equivalents	$ 1,985,943	$ 1,298,536
Fixed maturity securities, at fair value	3,247,133	3,551,130
Mutual funds, at fair value	229,436	-
Accrued investment income	16,902	24,469
Deferred policy acquisition costs	5,818	5,532
Capitalized software costs, net of accumulated depreciation	41,703	58,384
Prepaid expenses	955	778
Total Assets	$ 5,527,890	$ 4,938,829
Liabilities and Total Equity		
Liabilities		
Losses and loss adjustment expenses	$ 701,558	$ 332,726
Unearned premiums	179,572	166,652
Advance premiums	9,268	7,832
Accounts payable and accrued expenses	48,357	51,725
Total Liabilities	938,755	558,935
Total Equity		
Capital contributions	4,197,500	4,197,500
Member contributions	51,200	50,400
Accumulated other comprehensive loss	(4,418)	(10,460)
Accumulated earnings	344,853	142,454
Total Equity	4,589,135	4,379,894
Total Liabilities and Equity	$ 5,527,890	$ 4,938,829

See accompanying notes to the financial statements.

Terrafirma Risk Retention Group LLC

Statements of Operations and Comprehensive Income

	Year ended December 31, 2014	Year ended December 31, 2013
Revenues		
Premiums earned	$ 1,097,992	$ 864,047
Net investment income	16,747	3,905
Registration fee income	3,900	12,425
Total Revenues	1,118,639	880,377
Expenses		
Losses and loss adjustment expenses	490,027	336,978
Policy acquisition expenses	37,505	28,691
General and administrative expenses	388,708	412,329
Total Expenses	916,240	777,998
Net Income	202,399	102,379
Other Comprehensive Income (Loss)		
Net unrealized holding gains (losses) during the period	10,586	(10,635)
Less: reclassification adjustment for realized gains included in net income	(4,544)	(145)
Other Comprehensive Income (Loss)	6,042	(10,780)
Comprehensive Income	$ 208,441	$ 91,599

See accompanying notes to the financial statements.

Terrafirma Risk Retention Group LLC

Statements of Changes in Total Equity

For the years ended December 31, 2014 and 2013

	Capital Contributions	Member Contributions	Accumulated Other Comprehensive Loss	Accumulated Earnings	Total Equity
Balance at January 1, 2013	$ 4,197,500	$ 48,000	$ 320	$ 40,075	$ 4,285,895
Capital contributions from members	-	2,400	-	-	2,400
Other comprehensive loss	-	-	(10,780)	-	(10,780)
Net income	-	-	-	102,379	102,379
Balance at December 31, 2013	4,197,500	50,400	(10,460)	142,454	4,379,894
Capital contributions from members	-	800	-	-	800
Other comprehensive income	-	-	6,042	-	6,042
Net income	-	-	-	202,399	202,399
Balance at December 31, 2014	$ 4,197,500	$ 51,200	$ (4,418)	$ 344,853	$ 4,589,135

See accompanying notes to the financial statements.

Terrafirma Risk Retention Group LLC

Statements of Cash Flows

	Year ended December 31, 2014	2013
Cash Flows from Operating Activities		
Net income	$ 202,399	$ 102,379
Add (deduct) items not effecting cash		
Amortization of bond premium or discount	49,440	60,903
Net realized gain on investments	(4,544)	(145)
Depreciation of capitalized software costs	16,682	16,682
Changes in assets and liabilities:		
Accrued investment income	7,567	(2,058)
Deferred policy acquisition costs	(286)	(5,532)
Prepaid expenses	(177)	(10)
Losses and loss adjustment expenses	368,832	332,726
Unearned premiums	12,920	166,652
Advance premiums	1,436	(1,314)
Accounts payable and accrued expenses	(3,368)	34,840
Net cash provided by operating activities	650,901	705,123
Cash flows from Investing Activities		
Cost of investments purchased	(1,242,878)	(1,360,773)
Proceeds from sales of investments	1,278,584	947,808
Net cash provided by (used in) investing activities	35,706	(412,965)
Cash Flows from Financing Activities		
Capital contributions from members	800	2,400
Net cash provided by financing activities	800	2,400
Net change in cash and cash equivalents	687,407	294,558
Cash and cash equivalents, beginning of year	1,298,536	1,003,978
Cash and cash equivalents, end of year	$ 1,985,943	$ 1,298,536

See accompanying notes to the financial statements.

Note A - Organization and Significant Accounting Policies

Organization

Terrafirma Risk Retention Group LLC (Terrafirma or the Company), a manager-managed limited liability company, was issued a Certificate of Authority by the Vermont Department of Financial Regulation (the Department) permitting it to transact business as a risk retention group on July 11, 2012. Terrafirma operates as a Risk Retention Group under the Federal Liability Risk Retention Act of 1986. The Company was formed by The Land Trust Alliance, Inc. (Land Trust Alliance) to pool and insure the risks of its Members to help land trusts defend their conserved lands from legal challenges and to provide information to its Members with respect to loss control and risk management. Land Trust Alliance is a not-for-profit corporation organized under the laws of the Commonwealth of Massachusetts. Land Trust Alliance was formed in 1982 to advance the mission of land trusts.

Terrafirma began writing business in March 2013 and has over 450 and 420 policyholders (the Members), located in 47 states as of December 31, 2014 and 2013, respectively. During 2014 and 2013, policyholders in seven states (California, Colorado, Maine, New York, North Carolina, Pennsylvania, and Washington) represented approximately 54% and 55% of gross written premiums, respectively. No policyholder accounted for more than 5% of gross premium during 2014 and 2013.

Terrafirma has no employees and is managed by Alliance Risk Management Services LLC (ARMS or the Manager), a wholly-owned subsidiary of Land Trust Alliance. ARMS has authority to take all actions on behalf of the Company that the Manager deems necessary or appropriate for the continuation and conduct of Terrafirma, and responsibilities include claims handling and policy issuance. Terrafirma is solely responsible for meeting its obligations to its Members and others. Land Trust Alliance, ARMS, or any member are not liable for the claims, debts, or other liabilities of the Company.

Accounting, financial reporting, regulatory compliance, records retention, and related services are provided by Marsh Management Services Inc., pursuant to a management agreement.

Basis of Reporting

The accompanying combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as promulgated by the Financial Accounting Standards Board Accounting Standards Codification (ASC or the guidance), except for the inclusion of capital contributions from non-members in total equity, as more fully described in Note E.

Note A - Organization and Significant Accounting Policies (Continued)

Use of Estimates
Preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Company has evaluated subsequent events for disclosure and recognition through February 17, 2015, the date which these financial statements were available to be issued and all events have been reflected within these financial statements.

Cash and Cash Equivalents
For purposes of the statement of cash flows, Terrafirma considers all highly-liquid debt instruments purchased with maturities of three months or less to be cash equivalents. Cash and cash equivalents include amounts on deposit with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits. Management monitors these balances and does not consider these balances to represent a significant credit risk to Terrafirma. At December 31, 2014 and 2013, cash and cash equivalents consisted of the following:

	2014	2013
TD Bank checking	$ 712,638	$ 130,148
TD Bank money market fund	1,273,305	1,168,388
Total Cash and Cash Equivalents	$ 1,985,943	$ 1,298,536

Investments
Terrafirma invested in fixed maturity securities as of December 31, 2014 and 2013, consisting of corporate debt securities and U.S. Treasury and Government agency securities. As of December 31, 2014, Terrafirma also invested in a fixed income mutual fund. All investments are managed by TD Wealth Management Group. Investments are classified as available-for-sale and are reported at their estimated fair values. Related unrealized gains and losses are reported as accumulated other comprehensive loss in equity. Realized gains and losses on the sale of investments are recorded using the specific identification method.

Note A - Organization and Significant Accounting Policies (Continued)

Fair Value of Investments
Terrafirma's estimates of fair value for financial assets are based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect Terrafirma's significant market assumptions.

The three levels of the hierarchy are as follows:

> Level 1 – Inputs to the valuation methodology are quoted prices for identical assets traded in active markets.
>
> Level 2 – Inputs to the valuation methodology include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, inputs other than quoted prices that are observable for the asset and market-corroborated inputs.
>
> Level 3 – Valuations based on models where significant inputs are not observable. The unobservable inputs reflect Terrafirma's own assumptions about the inputs that market participants would use.

Fair values are based on quoted market prices when available (Level 1). Terrafirma receives quoted market prices from a custodian who relies primarily on third party, nationally recognized pricing services. When market prices are not available, a pricing service may determine an estimate of fair value, mainly for the fixed maturity securities. The fair value is generally estimated using current market inputs for similar financial instruments with comparable terms and credit quality, commonly referred to as matrix pricing (Level 2). As of December 31, 2014 and 2013, Terrafirma did not hold any Level 3 securities. These valuation techniques involve some level of management estimation and judgment. The Company recognizes transfers between levels in the hierarchy at the end of the reporting period. No transfers were made during 2014 and 2013.

Other-Than-Temporary Impairment
An investment is considered impaired when the fair value of the investment is less than its cost or amortized cost. When an investment is impaired, the Company must make a determination as to whether the impairment is other-than-temporary.

Note A - Organization and Significant Accounting Policies (Continued)

Factors considered in identifying other-than-temporary-impairment (OTTI) include: (1) for debt securities, whether the Company intends to sell the investment or whether it is more likely than not that the Company will be required to sell the security prior to an anticipated recovery in value; (2) for equity securities, the Company's ability and intent to retain the investment for a period of time sufficient to allow for an anticipated recovery in value; (3) the likelihood of the recoverability of principal and interest for debt securities (i.e., whether there is a credit loss) or cost for equity securities; (4) the length of time and extent to which the fair value has been less than amortized cost for debt securities or cost for equity securities; and (5) the financial condition, near-term and long-term prospects for the issuer, including the relevant industry conditions and trends, and implications of rating agency actions and offering prices. No investments were considered to be other-than-temporarily impaired as of December 31, 2014 and 2013.

Premiums
Premiums written are earned ratably over the terms of the policies to which they relate. Premiums written relating to the unexpired portion of policies in force at the balance sheet date are recorded as unearned premiums.

The Company recognizes a premium deficiency when there is a probable loss on an insurance contract. Premium deficiencies are recognized if the sum of expected losses and loss adjustment expense, unamortized deferred acquisition costs and maintenance costs exceed unearned premiums and anticipated investment income. No premium deficiency reserves were recorded as of December 31, 2014 and 2013.

Liability for Losses and Loss Adjustment Expenses
The liability for unpaid losses and loss adjustment expenses reported in the financial statements includes case basis reserves and supplemental amounts for incurred but not reported (IBNR) losses calculated based upon loss projections utilizing actuarial studies of industry data. Methods utilized by the consulting actuary include the loss development method and the Bornhuetter-Ferguson method. Management believes that its aggregate liability for unpaid losses and loss adjustment expenses at year end represents its best estimate of the amount necessary to cover the ultimate cost of losses, based upon the available data and an actuarial analysis prepared by a consulting actuary. However, because of uncertainty related to the limited population of insured risks, limited historical data, economic conditions, judicial decisions, legislation and other matters, it is not presently possible to determine whether actual loss experience will conform to the assumptions used in estimating the liability. As a result, the actual liability may be significantly in excess or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary such adjustments are reflected in current operations.

Note A - Organization and Significant Accounting Policies (Continued)

Policy Acquisition Expenses
Policy acquisition expenses include premium taxes for states in which premium is written. Such expenses incurred in the production of new or renewal business are deferred and amortized over the terms of the policies to which they relate. Unamortized portions of policy acquisition costs are recorded as deferred policy acquisition costs on the balance sheets.

Capitalized Software Costs
Capitalized software costs include expenses incurred to design and develop the Company's website, and are carried at cost net of accumulated depreciation. As of December 31, 2014 and 2013, accumulated depreciation totaled $41,703 and $25,021, respectively. Depreciation is determined on a straight line basis over the estimated useful life of this asset, which was determined to be five years. Annual depreciation expense totaled $16,682 at December 31, 2014 and 2013, and is included as a component of general and administrative expenses on the statements of operations and comprehensive income.

Registration Fee Income
Land Trusts are charged a non-refundable registration fee when applying for membership in Terrafirma and is recognized when received.

Federal Income Taxes
Terrafirma is a qualified charitable risk pool under section 501(n) of the Internal Revenue Code. As such, the Company has received exemption from federal income tax under section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income taxes has been recorded in the accompanying financial statements. Terrafirma has not taken any uncertain tax positions that would jeopardize its federal income tax exemption status.

Reclassification
Certain prior year balances have been reclassified to conform with the basis of presentation used as of December 31, 2014.

Note B - Insurance Activity

Effective March 1, 2013, Terrafirma began providing conservation defense liability insurance directly to its Members, with per occurrence limits of $500,000 and aggregate limits ranging from $500,000 to $1,000,000, depending on the size of the easement. Terrafirma also offers protection against certified acts of terrorism as defined under Terrorism Risk Retention Insurance Act of 2002 (TRIA).

Note B - Insurance Activity (Continued)

A reconciliation of premiums, on both a written and an earned basis is as follows:

	2014	2013
Premiums Written	$ 1,110,912	$ 1,030,699
Change in Unearned Premium	(12,920)	(166,652)
Premiums Earned	$ 1,097,992	$ 864,047

The components of the liability for losses and loss adjustment expenses are as follows:

	2014	2013
Case-basis reserves	$ 234,879	$ 138,000
IBNR reserves	466,679	194,726
Total	$ 701,558	$ 332,726

Losses and loss adjustment expense activity is as follows:

	2014	2013
Liability as of January 1,	$ 332,726	$ -
Incurred related to:		
Current year	403,905	336,978
Development of prior years	86,122	-
Total incurred during the year	490,027	336,978
Net paid related to:		
Current year	-	(4,252)
Prior years	(121,195)	-
Total net paid during the year	(121,195)	(4,252)
Liability as of December 31,	$ 701,558	$ 332,726

Terrafirma is a new program in its second underwriting year, as such, losses continue to develop on prior policy years.

Terrafirma Risk Retention Group LLC

Notes to Financial Statements (Continued)

Note C - Investments

The amortized cost or cost, gross unrealized gains, gross unrealized losses, and estimated fair values of investments are as follows:

At December 31, 2014	Amortized Cost or Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed maturity securities				
Obligations of U.S. Treasury and Government agency securities	$ 2,176,398	$ 2,293	$ (4,665)	$ 2,174,026
Corporate debt securities	1,073,496	1,051	(1,440)	1,073,107
Total fixed maturity securities	3,249,894	3,344	(6,105)	3,247,133
Fixed income mutual fund	231,093	-	(1,657)	229,436
Totals	$ 3,480,987	$ 3,344	$ (7,762)	$ 3,476,569

At December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Obligations of U.S. Treasury and Government agency securities	$ 2,004,999	$ 1,786	$ (12,019)	$ 1,994,766
Corporate debt securities	1,556,591	10,281	(10,508)	1,556,364
Total fixed maturity securities	$ 3,561,590	$ 12,067	$ (22,527)	$ 3,551,130

During 2014 and 2013, no unrealized losses were deemed other-than-temporary. As of December 31, 2014, securities with unrealized losses of $3,150, with a fair value of $1,037,937, were in an unrealized loss position less than twelve months; securities with unrealized losses of $4,612, with a fair value $1,046,162, were in an unrealized loss position greater than twelve months.

Note C - Investments (Continued)

As of December 31, 2013, securities with unrealized losses of $16,902, with a fair value of $701,406, were in an unrealized loss position less than twelve months; securities with unrealized losses of $5,625, with a fair value $1,227,793, were in an unrealized loss position greater than twelve months.

Cost and estimated fair value of fixed maturity securities at December 31, 2014 by contractual maturity, are as follows:

	Amortized Cost	Estimated Fair Value
Maturity:		
In 2015	$ 70,598	$ 70,686
In 2016-2019	3,179,296	3,176,447
Total fixed maturity securities	$ 3,249,894	$ 3,247,133

The actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Gross realized gains for 2014 and 2013 were $4,544 and $624, respectively. Gross realized losses for 2014 and 2013 were $0 and $479, respectively.

As of December 31, 2014, Terrafirma's investment in the fixed income mutual fund was measured as a level one and the fixed maturity securities were measured as a level two on the fair value hierarchy. As of December 31, 2013, Terrafirma's investment in fixed maturity securities was measured as a level 2 on the fair value hierarchy.

Major categories of the Company's net investment income are summarized as follows:

	2014	2013
Interest income	$ 80,601	$ 83,100
Amortization	(49,440)	(60,903)
Realized gains	4,544	145
Investment management fees	(18,958)	(18,437)
Net Investment Income	$ 16,747	$ 3,905

Note D - Related Party Transactions and Significant Service Provided

The Company is managed by ARMS. Fees incurred relating to these services amounted to $159,167 and $171,000 for the years ended December 31, 2014 and 2013, respectively, and are included in general and administrative expenses on the statements of operations and comprehensive income.

Marsh Management Services Inc. provides accounting and other services to the Company. Fees incurred relating to these services amounted to $82,000 and $85,750 for the years ended December 31, 2014 and 2013, respectively, and are included in general and administrative expenses on the statements of operations and comprehensive income.

Note E - Capital and Surplus

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

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 has equal voting rights.

In accordance with laws of the State of Vermont, for the purpose of submitting its financial statements to the State for regulatory purposes, Terrafirma is required to use GAAP with the exception of variances prescribed by Vermont laws and regulations or permitted by the Department. Pursuant to laws of the State of Vermont, Terrafirma is required to maintain minimum unimpaired capital and surplus (equity) of $1,000,000. Equity at December 31, 2014 and 2013 amounted to $4,589,135 and $4,379,894, respectively.

During 2012, the Company received contributions of $4,197,500 in the form of grants, gifts or awards from non-members. Terrafirma received permission from the Department to include non-member contributions as capital contributions. However, such inclusion in equity is not in accordance with GAAP, which would require non-member contributions to be recorded as contribution revenue.

The payment of dividends is subject to statutory restrictions imposed by Vermont Insurance Law. No dividends were declared or paid during 2014 or 2013.

Note E - Capital and Surplus (Continued)

There are no differences, other than rounding, between net income and capital and surplus reported herein and the corresponding amounts reported in the 2014 NAIC Annual Statement filed with the Department.

There are no differences between net income and capital and surplus reported herein and the corresponding amounts reported in the 2013 NAIC Annual Statement filed with the Department.