

# **Terrafirma Risk Retention Group LLC**

## **Audited Financial Statements**

*Years ended December 31, 2019 and 2018  
with Report of Independent Auditors*

Terrafirma Risk Retention Group LLC

Audited Financial Statements

Years ended December 31, 2019 and 2018

Contents

Report of Independent Auditors.....1 - 2

Audited Financial Statements

Balance Sheets ..... 3

Statements of Operations and Comprehensive Income.....4

Statements of Changes in Total Equity..... 5

Statements of Cash Flows.....6

Notes to the Financial Statements.....7 - 16

## 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 sheets as of December 31, 2019 and 2018 and the related statements of operations and comprehensive income, changes in total equity, and cash flows for the years 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) modified for certain exceptions to GAAP including those prescribed or permitted by the State of Vermont Department of Financial Regulation (the Department). Management is also responsible for 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 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 discussed in Note A, the Company's financial statements do not include certain required disclosures about short-duration insurance contracts. Disclosure of this information is required by GAAP. The Company received permission from the Department to exclude the disclosures. Also, as discussed in Notes A and E to the audited financial statements, the Company included non-member contributions as capital contributions in total equity. Such inclusion in total equity is permitted by the Department, but is not in accordance with GAAP.

***Qualified Opinion***

In our opinion, except for the effects of the matters 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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in conformity with GAAP.

***Other Matter***

Management has omitted certain disclosures about short-duration insurance contracts that GAAP requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

A handwritten signature in cursive script that reads "Johnson Lambert LLP". The signature is written in black ink and is positioned above the printed address and date.

Burlington, Vermont  
February 27, 2020

Firm registration: 092-0000267

# Terrafirma Risk Retention Group LLC

## Balance Sheets

	At December 31,	
	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 758,734	\$ 715,007
Fixed-maturity securities, at fair value	5,762,934	5,656,814
Common stock, at fair value	2,238,760	1,123,452
Accrued investment income	34,427	32,282
Deferred policy acquisition costs	6,697	7,446
Prepaid expenses	2,571	2,571
Other assets	60,569	2,422
 Total Assets	 \$ 8,864,692	 \$ 7,539,994
 <b>Liabilities and Total Equity</b>		
<b>Liabilities</b>		
Losses and loss adjustment expenses	\$ 2,497,595	\$ 2,197,417
Claims payable	3,073	9,613
Unearned premiums	266,602	247,298
Advance premiums	42,644	28,749
Accounts payable and accrued expenses	115,304	136,565
 Total Liabilities	 2,925,218	 2,619,642
 <b>Total Equity</b>		
Capital contributions	4,197,500	4,197,500
Member contributions	60,100	58,400
Accumulated other comprehensive income (loss)	84,590	(39,396)
Accumulated earnings	1,597,284	703,848
 Total Equity	 5,939,474	 4,920,352
 Total Liabilities and Equity	 \$ 8,864,692	 \$ 7,539,994

*See accompanying notes to the financial statements.*

## Terrafirma Risk Retention Group LLC

### Statements of Operations and Comprehensive Income

	Year ended December 31,	
	2019	2018
<b>Revenues</b>		
Premiums earned	\$ 1,606,938	\$ 1,505,901
Net investment income	173,920	123,674
Net gains recognized on investments	366,848	16,742
Registration fee income	11,400	4,525
Total Revenues	2,159,106	1,650,842
<b>Expenses</b>		
Losses and loss adjustment expenses	754,381	946,773
Policy acquisition expenses	42,665	47,229
General and administrative expenses	477,174	444,662
Total Expenses	1,274,220	1,438,664
Net Income	884,886	212,178
<b>Other Comprehensive Income (Loss)</b>		
Net unrealized holding gains (losses) during the period	132,434	(130,072)
Less: reclassification adjustment for realized gains included in net investment income	102	(16,742)
Other Comprehensive Income (Loss)	132,536	(146,814)
Comprehensive Income	\$ 1,017,422	\$ 65,364

*See accompanying notes to the financial statements.*

# Terrafirma Risk Retention Group LLC

## Statements of Changes in Total Equity

For the years ended December 31, 2019 and 2018

	<u>Capital Contributions</u>	<u>Member Contributions</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Accumulated Earnings</u>	<u>Total Equity</u>
Balance at January 1, 2018	\$ 4,197,500	\$ 57,600	\$ 107,418	\$ 491,670	\$ 4,854,188
Capital contributions from members	-	800	-	-	800
Other comprehensive loss	-	-	(146,814)	-	(146,814)
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>212,178</u>	<u>212,178</u>
Balance at December 31, 2018	4,197,500	58,400	(39,396)	703,848	4,920,352
Capital contributions from members	-	1,700	-	-	1,700
Impact of adoption of ASU 2016-01 (Refer to Note A)	-	-	(8,550)	8,550	-
Other comprehensive income	-	-	132,536	-	132,536
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>884,886</u>	<u>884,886</u>
Balance at December 31, 2019	<u>\$ 4,197,500</u>	<u>\$ 60,100</u>	<u>\$ 84,590</u>	<u>\$ 1,597,284</u>	<u>\$ 5,939,474</u>

See accompanying notes to the financial statements.

## Terrafirma Risk Retention Group LLC

### Statements of Cash Flows

	Year ended December 31,	
	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 884,886	\$ 212,178
Add (deduct) items not affecting cash:		
Amortization of bond premium or discount	(8,576)	(3,788)
Net realized losses on sales of fixed-maturity securities	102	38,080
Net gains recognized on equity securities	(366,950)	(54,822)
Changes in assets and liabilities:		
Accrued investment income	(2,145)	(3,005)
Deferred policy acquisition costs	749	(588)
Prepaid expenses	-	(1,828)
Other assets	(58,147)	(2,422)
Losses and loss adjustment expenses	300,178	589,446
Claims payable	(6,540)	(20,868)
Unearned premiums	19,304	23,991
Advance premiums	13,895	(11,134)
Accounts payable and accrued expenses	(21,261)	91,917
Net cash provided by operating activities	755,495	857,157
<b>Cash Flows from Investing Activities</b>		
Cost of fixed-maturity securities purchased	(2,522,507)	(3,148,025)
Proceeds from sales and maturities of fixed-maturity securities	2,557,671	2,910,144
Cost of equity securities purchased	(1,284,474)	(641,813)
Proceeds from sales of equity securities	535,842	497,009
Net cash used in investing activities	(713,468)	(382,685)
<b>Cash Flows from Financing Activities</b>		
Capital contributions from members	1,700	800
Net change in cash and cash equivalents	43,727	475,272
Cash and cash equivalents, beginning of year	715,007	239,735
Cash and cash equivalents, end of year	\$ 758,734	\$ 715,007

*See accompanying notes to the financial statements.*

# Terrafirma Risk Retention Group LLC

## Notes to the Financial Statements

Years ended December 31, 2019 and 2018

### **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 approximately 528 and 511 policyholders (the Members), located in 48 states and the District of Columbia as of December 31, 2019 and 2018. During 2019 and 2018, policyholders in seven states (California, Colorado, Maine, New York, North Carolina, Pennsylvania, and Washington) represented approximately 51% of gross written premiums. No policyholder accounted for more than 5% of gross premium during 2019 and 2018.

Members of Terrafirma are also policyholders and premium and losses relate solely to the exposures of these Members.

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.

## Terrafirma Risk Retention Group LLC

### Notes to the Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

##### *Basis of Reporting*

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board Accounting Standards Codification, except that the Company's financial statements exclude certain required disclosures about short-duration insurance contracts and include capital contributions from non-members in total equity, as more fully described in Note E. The Company received permission and approval from the Department for the GAAP departures.

##### *Adoption of New Accounting Standard*

Effective January 1, 2019, Terrafirma adopted Accounting Standards Update (ASU) 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The guidance requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income. Upon adoption of the guidance, Terrafirma recorded a cumulative effect adjustment to reclassify \$8,550 of unrealized gains related to investments in equity securities from accumulated other comprehensive income to accumulated earnings. Total equity did not change because of the adjustment. The treatment of Terrafirma's investments in fixed-maturity securities was not impacted by the adoption.

Effective January 1, 2019, the Company adopted ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. The guidance modified certain fair value disclosure requirements and had no impact on comprehensive income or equity.

##### *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 27, 2020, 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 or amounts not subject to FDIC insurance. Management monitors these balances and does not consider these balances to represent a significant credit risk to Terrafirma. At

## Terrafirma Risk Retention Group LLC

### Notes to the Financial Statements (Continued)

#### Note A - Organization and Significant Accounting Policies (Continued)

December 31, 2019 and 2018, cash and cash equivalents consisted of the following:

	<u>2019</u>	<u>2018</u>
TD Bank checking	\$ 238,572	\$ 402,750
TD Bank money market fund	<u>520,162</u>	<u>312,257</u>
Total cash and cash equivalents	<u>\$ 758,734</u>	<u>\$ 715,007</u>

#### *Investments*

Investments held by Terrafirma at December 31, 2019 and 2018 consisted of fixed-maturity securities and common stock. All investments are managed by TD Wealth Management Group. Fixed-maturity securities are classified as available-for-sale and are reported at their estimated fair values with related unrealized gains and losses reported as accumulated other comprehensive (loss) income in total equity. Upon adoption of ASU 2016-01 on January 1, 2019, equity securities are carried at fair value with changes in fair value recognized in net income. Prior to the adoption of ASU 2016-01, equity securities were recorded as available-for-sale and carried at fair value with related unrealized gains and losses reported as accumulated other comprehensive income in total equity.

#### *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.

## Terrafirma Risk Retention Group LLC

### Notes to the Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

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, 2019 and 2018, Terrafirma did not hold any Level 3 securities. These valuation techniques involve some level of management estimation and judgment.

#### *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. Premiums received prior to the contract and due date are reported as advance 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, 2019 and 2018.

#### *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 and Bornhuetter-Ferguson methods on both a paid and incurred basis. An estimate of ultimate losses and loss expenses is projected at each reporting date. The IBNR reserves are derived from the difference between the projected ultimate losses and loss expenses incurred and the sum of case-basis losses and loss expense reserves; and inception-to-date paid losses and loss expenses. 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.

## Terrafirma Risk Retention Group LLC

### Notes to the Financial Statements (Continued)

#### **Note A - Organization and Significant Accounting Policies (Continued)**

##### *Deferred Policy Acquisition Costs*

Premium taxes incurred have been deferred and amortized over the terms of the policies and agreements to which they relate. Due to the nature of Terrafirma's operations, no expenses have been incurred related to underwriting or acquisition of unsuccessful contracts.

##### *Registration Fee Income*

Land Trusts are charged a non-refundable registration fee when applying for membership in Terrafirma which 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.

#### **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 number of insured properties. Terrafirma also offers protection against certified acts of terrorism as defined under Terrorism Risk Insurance Program Reauthorization Act of 2015.

A reconciliation of premiums, on both a written and an earned basis for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Premiums written	\$ 1,626,242	\$ 1,529,892
Change in unearned premium	(19,304)	(23,991)
Premiums earned	\$ 1,606,938	\$ 1,505,901

The components of the liability for losses and loss adjustment expenses as of December 31, 2019 and 2018 are as follows:

	2019	2018
Case-basis reserves	\$ 961,256	\$ 740,372
IBNR reserves	1,536,339	1,457,045
Total	\$ 2,497,595	\$ 2,197,417

## Terrafirma Risk Retention Group LLC

### Notes to the Financial Statements (Continued)

#### **Note B - Insurance Activity (Continued)**

Losses and loss adjustment expense activity for the years ended December 31, 2019 and 2018 is as follows:

	2019	2018
Liability as of January 1,	\$ 2,197,417	\$ 1,607,971
Incurred related to:		
Current year	995,143	914,436
Development of prior years	(240,762)	32,337
Total incurred during the year	754,381	946,773
Net paid related to:		
Current year	(63,909)	(672)
Prior years	(390,294)	(356,655)
Total net paid during the year	(454,203)	(357,327)
Liability as of December 31,	\$ 2,497,595	\$ 2,197,417

During the year ended December 31, 2019 favorable development of prior years totaling \$240,762 related to the 2016 and 2018 policy periods. During the year ended December 31, 2018 unfavorable development of prior years totaling \$32,337 related to the 2015 and 2017 policy periods.

#### **Note C - Investments**

The amortized cost gross unrealized gains, gross unrealized losses, and estimated fair values of Terrafirma's fixed-maturity securities are as follows:

<u>At December 31, 2019</u>	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Fixed-maturity securities:				
Obligations of U.S. Treasury and Government agency securities	\$ 3,892,908	\$ 56,314	\$ (3,365)	\$ 3,945,857
Obligations of foreign Government securities	240,410	2,103	-	313,163
Corporate debt securities	1,476,977	26,939	-	1,503,916
Foreign corporate debt securities	68,050	2,598	-	70,648
	\$ 5,678,345	\$ 87,954	\$ (3,365)	\$ 5,762,934
Total fixed-maturity securities	\$ 5,678,345	\$ 87,954	\$ (3,365)	\$ 5,762,934

Terrafirma Risk Retention Group LLC

Notes to the Financial Statements (Continued)

**Note C - Investments (Continued)**

<u>At December 31, 2018</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
Fixed-maturity securities:				
Obligations of U.S. Treasury and Government agency securities	\$ 3,674,782	\$ 10,253	\$ (32,309)	\$ 3,652,726
Obligations of foreign Government securities	240,574	-	(4,462)	236,112
Corporate debt securities	1,353,249	1,191	(18,210)	1,336,230
Foreign corporate debt securities	<u>436,155</u>	<u>287</u>	<u>(4,696)</u>	<u>431,746</u>
Total fixed-maturity securities	<u>\$ 5,704,760</u>	<u>\$ 11,731</u>	<u>\$ (59,677)</u>	<u>\$ 5,656,814</u>
Common stock:				
Basic materials	\$ 38,233	\$ -	\$ (1,333)	\$ 36,900
Consumer goods	187,694	8,517	(31,532)	164,679
Financials	179,841	796	(16,645)	163,992
Healthcare	74,547	11,420	-	85,967
Industrial goods	150,869	16,741	(8,386)	159,224
Services	142,795	10,522	(18,699)	134,618
Technology	158,670	29,277	(8,466)	179,481
Utilities	<u>182,253</u>	<u>16,735</u>	<u>(397)</u>	<u>198,591</u>
Total common stock	<u>\$ 1,114,902</u>	<u>\$ 94,008</u>	<u>\$ (85,458)</u>	<u>\$ 1,123,452</u>

As of December 31, 2019, U.S. Treasury and Government agency securities with a fair value of \$471,198 and unrealized losses of \$2,636 were in a continuous loss position for greater than 12 months. The remaining \$729 of unrealized loss related to U.S. Treasury and Government agency securities with a fair value of \$94,288.

## Terraforma Risk Retention Group LLC

### Notes to the Financial Statements (Continued)

#### Note C - Investments (Continued)

The following table shows the estimated fair values and gross unrealized losses of Terraforma's fixed-maturity securities and the length of time the securities have been in a continuous unrealized loss position, as of December 31, 2018:

	Fewer than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
<u>At December 31, 2018</u>						
Fixed-maturity securities:						
Obligations of U.S.						
Treasury and						
Government agency						
securities	\$ 264,939	\$ (85)	\$ 2,720,487	\$ (32,224)	\$ 2,985,426	\$ (32,309)
Obligations of foreign						
Government securities						
	-	-	236,112	(4,462)	236,112	(4,462)
Corporate debt securities	220,102	(4,257)	823,546	(13,953)	1,043,648	(18,210)
Foreign corporate debt						
securities	<u>68,880</u>	<u>(1,189)</u>	<u>236,821</u>	<u>(3,507)</u>	<u>305,701</u>	<u>(4,696)</u>
Total fixed-maturity						
securities	<u>\$ 553,921</u>	<u>\$ (5,531)</u>	<u>\$ 4,016,966</u>	<u>\$ (54,146)</u>	<u>\$ 4,570,887</u>	<u>\$ (59,677)</u>
Common stock	<u>\$ 475,403</u>	<u>\$ (72,703)</u>	<u>\$ 14,210</u>	<u>\$ (12,754)</u>	<u>\$ 489,613</u>	<u>\$ (85,457)</u>

Amortized cost and estimated fair value of fixed-maturity securities at December 31, 2019 by contractual maturity, are as follows:

	Amortized Cost	Estimated Fair Value
Maturity:		
In 2021-2024	\$ 5,617,670	\$ 5,702,230
In 2025-2029	<u>60,675</u>	<u>60,704</u>
Total fixed-maturity securities	<u>\$ 5,678,345</u>	<u>\$ 5,762,934</u>

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.

## Terraforma Risk Retention Group LLC

### Notes to the Financial Statements (Continued)

#### **Note C - Investments (Continued)**

As of December 31, 2019 and 2018, Terraforma's investment in common stock was measured at level one and fixed-maturities were measured at level two within the fair value hierarchy.

Major categories of the Company's net investment income for the years ended December 31, 2019 and 2018 are summarized as follows:

	2019	2018
Investment Income:		
Interest / dividend income	\$ 198,209	\$ 147,195
Amortization on fixed-maturity securities	8,576	3,788
Investment expenses	(32,865)	(27,309)
Net investment income	\$ 173,920	\$ 123,674

The Company's net gains recognized on investments are summarized as follows:

	2019	2018
Equity securities:		
Realized gains	n/a	\$ 54,822
Net gains recognized on equity securities still held at the end of the reporting period	\$ 281,550	n/a
Net gains recognized on equity securities sold during the reporting period	85,400	n/a
Total gains recognized on equity securities during the period	366,950	54,822
Fixed-maturity securities:		
Gross realized gains	6,598	53,783
Gross realized losses	(6,700)	(91,863)
Net realized losses on fixed-maturity securities	(102)	(38,080)
Net gains recognized on investments	\$ 366,848	\$ 16,742

#### **Note D - Related Party Transactions and Significant Service Providers**

The Company is managed by ARMS. Fees incurred relating to these services amounted to \$231,450 and \$215,000 for the years ended December 31, 2019 and 2018, respectively, and are included in general and administrative expenses on the statements of operations and comprehensive income.

## Terrafirma Risk Retention Group LLC

### Notes to the Financial Statements (Continued)

#### **Note D - Related Party Transactions and Significant Service Providers (Continued)**

Marsh Management Services Inc. provides accounting and other services to the Company. Fees incurred relating to these services amounted to \$92,525 and \$89,600 for the years ended December 31, 2019 and 2018, 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. Total equity at December 31, 2019 and 2018 amounted to \$5,939,474 and \$4,920,352, 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 as a component of total equity. 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 2019 or 2018.

There are no differences, other than rounding, between net income and capital and surplus reported herein and the corresponding amounts reported in the 2019 and 2018 NAIC Annual Statements filed with the Department.