Terrafirma Risk Retention Group LLC

2021 Audit
Required Communications
February 16, 2022

Members Committee

We have audited the financial statements of Terrafirma Risk Retention Group LLC (the Company) as of and for the year ended December 31, 2021 and have issued our report thereon dated February 16, 2022.

We are pleased to present this report related to our audit. This report summarizes matters required by professional standards to be communicated to you in your oversight responsibility for the Company's financial reporting process. This report is intended solely for the information and use of the Members Committee and management and is not intended and should not be used by anyone other than those specified parties.

We appreciate the cooperation and courtesies extended to us by the Company's personnel. Please do not hesitate to contact us if you would like clarification on these or any other matters. We appreciate the opportunity to continue to be of service to the Company.

Burlington, Vermont
Required Communications

The auditor is responsible for forming and expressing an opinion about whether the financial statements, that have been prepared by management with the oversight of those charged with governance, are presented fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America (GAAP), except that the Company’s financial statements exclude certain required disclosures about short-duration insurance contracts and also include non-member capital contributions in total equity. Exclusion of the required disclosures and inclusion of the non-member capital contribution in total equity are permitted by the Vermont Department of Financial Regulation, but are not in accordance with GAAP. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

The auditor is also responsible for communicating significant matters related to the financial statement audit that are, in the auditor’s professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Auditing standards generally accepted in the United States of America (GAAS) do not require the auditor to design procedures for the purpose of identifying other matters to communicate with those charged with governance.

In accordance with our professional standards we would like to share the following:

Independence

We have complied with all relevant ethical requirements regarding independence.

Significant Accounting Policies and Their Application

Management is responsible for the selection and use of appropriate accounting policies. As is the case with most organizations, the Company has available alternative accounting principles from which to choose. The significant accounting policies followed by the Company are described in the Notes to the financial statements.

The accounting policies selected and applied by the Company are appropriate under the circumstances and are consistent with those used by other similar organizations, except for the GAAP departures previously described.

No new accounting policies were adopted.

We noted no transactions entered into by the Company during the year for which there is lack of authoritative guidance or consensus.

We noted no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Significant Risks Identified

A significant risk is a risk of material misstatement that in the auditor’s professional judgment requires special audit consideration. We have identified the following significant risks:

- **Revenue recognition** – Presumed significant risk under GAAS
- **Management override of controls** - Presumed significant risk under GAAS
- **Loss reserves** – Sensitive accounting estimate, see below
Management’s Judgments and Sensitive Accounting Estimates

The financial statements contain the following sensitive estimates:

Loss reserves
The estimate of the loss reserves on unpaid losses is based on management’s best estimate, using the findings of an independent consulting actuary based primarily on the historical data of the Company, supplemented with industry data. In establishing the liability, the Company utilizes the findings of an independent consulting actuary. Significant judgment is required by the actuary in estimating reserves, and it is management’s responsibility to review the actuarial work performed and record reserves at its best estimate.

In order to evaluate the actuarially determined estimates, we relied on the work of an independent consulting actuary engaged by the Company in accordance with Statement on Auditing Standards AU-C 500, Using Audit Evidence. We evaluated the key factors and assumptions used to develop the loss reserves and determined that it is reasonable in relation to the basic financial statements taken as a whole.

As of December 31, 2021 and 2020, management recorded its best estimate of reserves at the actuary’s central estimates.

Financial Statement Disclosures

The financial statement disclosures are neutral, consistent and clear.

Related Party Relationships and Transactions

An objective of the audit is to obtain an understanding of such matters sufficient to be able to recognize fraud risk factors that are relevant to the identification and assessment of the risks of material misstatement due to fraud and conclude whether the financial statements, insofar as they are affected by those relationships and transactions, achieve fair presentation.

Another objective of the audit is to obtain sufficient appropriate audit evidence about whether related party relationships and transactions have been appropriately identified, accounted for and disclosed in the financial statements. Notes of the financial statements includes the disclosure of significant related party transactions.

Significant Unusual Transactions

We are required to communicate significant unusual transactions identified during our audit. Significant unusual transactions are defined as significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual due to their timing, size, or nature.

We did not identify any significant unusual transactions.

Audit Adjustments and Uncorrected Misstatements

No audit adjustments were recorded.

We are not aware of any uncorrected misstatements other than misstatements that are clearly trivial.
Matters that Affect the Form and Content of the Auditor’s Report

We are required to communicate any circumstances that affect the form and content of our auditor's report:

Modification of the Auditor’s Report

We have made the following modification to our auditor’s report:

- Our auditor’s report was qualified due to the omission of certain required disclosures about short-duration insurance contracts from the financial statements and the inclusion of non-member capital contributions in total equity. In our opinion, disclosure of this information is required by GAAP and GAAP would require non-member contributions to be recorded as contribution revenue.
- We included a paragraph in our auditor’s report indicating that management omitted certain required supplementary information about short-duration contracts that GAAP requires be presented to supplement the basic financial statements. Our opinion was not modified with respect to this matter.

Observations About the Audit Process

Management Representations
We have requested certain representations from management that are included in the management representation letter, which is included as an exhibit to this document.

Disagreements with Management, Including Matters Discussed and Resolved
We are required to report any disagreements with management, whether or not satisfactorily resolved, about matters that individually or in the aggregate could be significant to the Company’s financial statements or the auditor’s report.

There were no disagreements with management.

Significant Difficulties Performing the Audit
No significant difficulties were encountered in performing the audit.

Significant Issues Discussed or Subject to Correspondence with Management
The following significant issues were discussed or subject to correspondence with management:

- We inquired with management regarding the impact of COVID-19 on the Company, and they believe that the impact is reflected in the financial statements.

Management’s Consultations with Other Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters. We are not aware of any consultations with other accountants regarding accounting or auditing matters.
Technical Resources

We are committed to leveraging our professional and industry leadership experience to provide regular communications regarding changes to accounting principles, industry-specific developments, and the related financial reporting impacts relevant to your organization so that Management may make timely, informed decisions.

**Webinars:** We are also extremely excited about the educational webinar series we offer to our clients. Each webinar session is designed to address a particular “hot topic” facing our clients. The sessions are intended to be interactive and all participants are eligible to receive Continuing Professional Education credits. [JohnsonLambert.com/Webinars/](http://JohnsonLambert.com/Webinars/)

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**Insights:** In addition we also send important e-alerts, newsletters, and blogs about insurance-focused topics. [JohnsonLambert.com/Insights/](http://JohnsonLambert.com/Insights/)

**Annual Report:** Johnson Lambert is excited to share our inaugural Annual Report. We hope you enjoy reading more about the projects and initiatives put forth to support our people, our clients, and the industries we serve: [JohnsonLambert.com/AnnualReport](http://JohnsonLambert.com/AnnualReport)

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This representation letter is provided in connection with your audits of the financial statements of Terrafirma Risk Retention Group LLC (the Company or Terrafirma), which comprise the balance sheets as of December 31, 2021 and 2020, 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, for the purpose of expressing an opinion on whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States (U.S. GAAP) except that the Company’s financial statements exclude certain required disclosures about short-duration insurance contracts and also include non-member capital contributions in total equity.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information such that, in the light of surrounding circumstances, there is substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

We confirm, to the best of our knowledge and belief, as of the date of this letter, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves, the following representations:

**Financial Statements**

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement dated October 20, 2021, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, except that the Company’s financial statements exclude certain required disclosures about short-duration insurance contracts and also include non-member capital contributions in total equity.

2. We acknowledge our responsibility 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.

3. We acknowledge our responsibility to ensure that the Company’s operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts in the Company’s financial statements.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.

5. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of U.S. GAAP.

7. All events subsequent to the date of the financial statements and through the date of this letter, and for which U.S. GAAP requires adjustment or disclosure have been adjusted or disclosed.

8. You did not bring to our attention any audit differences during the audit.

9. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with U.S. GAAP.

10. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, line of credit, or similar arrangements have been properly disclosed.

11. The Company has satisfactory title to all owned assets. We understand that it is our responsibility to report any liens, encumbrances and/or pledged assets in the Company’s financial statements. As of and for the years December 31, 2021 and 2020 we are not aware of any liens, encumbrances or pledged assets. Further, we would be aware of, or have inquired of individuals that would be aware and confirm that the members, affiliates and other related parties have not entered into any loans or other agreements whereby the assets of the Company have been pledged.

12. Receivables recorded in the financial statements represent valid claims against debtors for subrogation to be recovered arising on or before the balance sheet dates and have been appropriately reduced to their estimated net realizable values. We believe that all receivables due are collectible and fairly stated in the financial statements.

13. There are no side agreements (oral and/or written) pertaining to the policies of insurance issued by the Company.

14. In regard to the fact that your firm assisted us by drafting the financial statements, including appropriate disclosures required by U.S. GAAP, we have:
   a. Made all management decisions and performed all management functions.
   b. Designated an individual, Leslie Ratley-Beach, who possesses suitable skill, knowledge or experience to oversee the services.
   c. Evaluated the adequacy and results of the draft preparation by reviewing and accepting the financial statements as complete and accurate.
   d. Accepted responsibility for the financial statements.
15. In regard to the fact that your firm's tax department provided certain tax services to us, we have:
   a. Made all management decisions and performed all management functions;
   b. Established and maintained appropriate internal controls;
   c. Designated a competent employee, Leslie Ratley-Beach, to evaluate and accept responsibility for the results of the tax services performed by your firm's tax department.

Information Provided

16. We have provided you with:
   a. Access to all information, of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters;
   b. Additional information that you have requested from us for the purpose of the audit; and
   c. Unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.

17. All transactions have been recorded in the accounting records and are reflected in the financial statements.

18. We have disclosed to you the results of our risk assessment as to how and where the financial statements may be materially misstated as a result of fraud.

19. We have no knowledge of any fraud or suspected fraud that affects the Company and involves:
   a. Management;
   b. Employees who have significant roles in internal control; or
   c. Others when the fraud could have a material effect on the financial statements.

20. We have no knowledge of any allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, service providers, analysts, regulators or others.

21. We have disclosed to you all known instances of non-compliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.

22. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting that could have a material effect on the financial statements.

23. We are not aware of any pending or threatened litigation and claims against Terrafirma whose effects should be considered when preparing the financial statements.
24. We have disclosed to you the identity of all the Company’s related parties and the nature of all the related party relationships and transactions of which we are aware.

Other Items

25. We represent that we have examined and continue to examine our investment portfolio, and the methodology and sources used to establish security pricing both at our custodian and at our investment manager. Additionally, we have not uncovered any information that would lead us to question, in a material sense, the accuracy of prices assigned to our securities or the classification of these securities in accordance with FASB ASC 820, *Fair Value Measurements* (ASC 820) as of December 31, 2021 and 2020. The methods and significant assumptions used to determine fair values of financial instruments result in a measure of fair value appropriate for financial statement measurement and disclosure purposes. This categorization of the Company’s investments into the hierarchical levels as defined by ASC 820 is based on the lowest level of significant input to the securities valuation.

26. We have examined cash balances in excess of amounts insured or not insured by the Federal Deposit Insurance Company and believe that Terrafirma is not exposed to any significant credit risk for these excess amounts.

27. We agree with the findings of specialists in evaluating the liability for losses and loss adjustment expenses and have adequately considered the qualifications of the specialist in determining the amounts and disclosures used in the financial statements and underlying accounting records. We did not give or cause any instructions to be given to specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialist. Data provided to the specialist used in projecting the ultimate unpaid claims and claims adjustment expense is complete and accurate and is reconciled to the underlying accounting records. The liability for losses and loss adjustment expenses recorded by the Company as of December 31, 2021 and 2020 represents management’s best estimate of the amount ultimately necessary to settle outstanding claims based upon consideration of the actuary’s analysis and knowledge of the Company’s open claims and operations.

28. We have not been notified by any service provider of any fraud, non-compliance with laws and regulations or uncorrected misstatements relevant to the Company.

29. We have not consulted legal counsel concerning pending or threatened litigation or claims, except in the normal course of our claims activity.

30. We are not aware of any unrecorded additional pending subrogation recoveries that would be known, probable and/or estimable at year-end or through the date of this letter that has not been communicated to you.
31. We confirm your understanding that management of the Company, in consultation with other services providers, has determined that Terrafirma qualifies as a tax-exempt entity for Federal tax purposes.

32. We have analyzed Terrafirma’s tax positions including the tax-exempt status accordance with U.S. GAAP guidance on Accounting for Uncertainty in Income Taxes (FASB ASC 740-10). We are not aware of any uncertain tax positions relative to the Company or other tax positions that could jeopardize the Company’s tax-exempt status.

33. We have no reason to believe that there is substantial doubt regarding the Company’s ability to operate as a going concern. We have considered the indicators of adverse conditions and events included in ASU 2014-15 and do not believe any such indicators are present relative to the Company as of year-end or through the date of this letter.

34. We have provided you information concerning related party transactions and amounts receivable or payable from related parties, including support for any assertion that a transaction with a related party was conducted on terms equivalent to those prevailing in an arms-length transaction. The transaction below represents a complete list of related parties with whom the Company has direct transactions:
   a. Members of Terrafirma are policyholders. Premium and losses relate solely to the exposures of these Members.
   b. Alliance Risk Management Services, LLC (ARMS) provides certain management services to the Company as disclosed in the Notes to the audited financial statements.
   c. Marsh Management Services Inc. provides accounting and other services to the Company as disclosed in the Notes to the audited financial statements.

35. We have evaluated the impact to our operations and financial position of COVID-19 through the date of this letter. There are no known material impacts to our financial position, including impairment of assets, loss contingencies, or negative impacts on operations that have not previously been disclosed. The financial statements adequately disclose the risks and uncertainties as a result of COVID-19.

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Leslie Ratley-Beach, Vice President and Secretary
Alliance Risk Management Services, LLC as Manager

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Marcy Waterfall
Marsh Management Services Inc. as the Captive Managers