American Automobile Association of Northern California, Nevada & Utah

Consolidated Financial Statements
December 31, 2015 and 2014

AAA Northern California, Nevada & Utah
Index
December 31, 2015 and 2014

Independent Auditor's Report

Board of Directors of
AAA Northern California, Nevada & Utah

We have audited the accompanying consolidated financial statements of AAA Northern California, Nevada & Utah and its subsidiaries (the Club), which comprise the consolidated statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated 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 the consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Club's preparation and fair presentation of the consolidated 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 Club'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 consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AAA Northern California, Nevada & Utah and its subsidiaries at December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

San Francisco, California
May 6, 2016

AAA Northern California, Nevada & Utah
Consolidated Statements of Financial Position
December 31, 2015 and 2014

(in thousands)	**2015**	**2014**
Assets		
Current assets		
Cash and cash equivalents	$ 53,288	$ 35,349
Investments	447,147	441,972
Restricted cash and investments	16,743	49,876
Accounts receivable, net	42,322	40,834
Federal and state income tax recoverable, net	-	1,047
Prepaids and other current assets	12,215	15,311
Total current assets	571,715	584,389
Noncurrent assets		
Property, equipment and software, net	38,436	22,057
Other noncurrent assets	13,608	20,928
Total noncurrent assets	52,044	42,985
Total assets	$ 623,759	$ 627,374
Liabilities and Members' Equity		
Current liabilities		
Unearned membership revenue and enrollment fees	$ 148,778	$ 141,849
Unpaid losses and loss adjustment expenses	14,812	24,231
Accounts payable, accrued expenses and other liabilities	92,594	98,718
Federal and state income taxes payable, net	761	-
Total current liabilities	256,945	264,798
Noncurrent liabilities		
Unearned membership enrollment fees	10,707	12,085
Deferred income tax liability, net	3,862	12,426
Other noncurrent liabilities	7,337	5,904
Total noncurrent liabilities	21,906	30,415
Total liabilities	278,851	295,213
Commitments and contingencies (Note 11)		
Members' Equity		
Retained earnings	329,405	307,871
Accumulated other comprehensive income	15,503	24,290
Total members' equity	344,908	332,161
Total liabilities and members' equity	$ 623,759	$ 627,374

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Operations
Years Ended December 31, 2015 and 2014

(in thousands)	**2015**	**2014**
Revenue		
Membership dues	$ 290,902	$ 282,803
Insurance commissions	326,354	308,490
Travel services	26,026	25,808
Other membership income	20,251	22,151
Subtotal	663,533	639,252
Investment income, including realized gains and losses on investments	15,258	13,275
Reinsurance premiums earned	6,912	47,311
Total revenue	$ 685,703	$ 699,838
Expenses		
Sales and services	253,796	229,835
General and administrative expenses	230,661	249,905
Emergency road service	152,000	135,993
Association dues	5,406	5,210
Underwriting reinsurance expense	3,644	16,085
Loss and loss adjustment expense	232	27,535
Other	7,620	7,667
Total expenses	$ 653,359	$ 672,230
Income before federal and state income taxes	32,344	27,608
Provision for federal and state income taxes	10,810	8,581
Net income	$ 21,534	$ 19,027

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Changes in Members' Equity
December 31, 2015 and 2014

(in thousands)	Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Members' Equity
Balances at December 31, 2013	$ 288,844	$ 18,371	$ (47)	$ 307,168
Net income	19,027	-	-	19,027
Other comprehensive income:				
Unrealized gain or (loss)	-	6,973	-	6,973
Realized (gain) or loss	-	(1,054)	-	(1,054)
Discontinued operations	-	-	47	47
Balances at December 31, 2014	$ 307,871	$ 24,290	$ -	$ 332,161
Net income	21,534	-	-	21,534
Other comprehensive income:				
Unrealized gain or (loss)	-	(10,413)	-	(10,413)
Realized (gain) or loss	-	1,626	-	1,626
Balance at December 31, 2015	$ 329,405	$ 15,503	$ -	$ 344,908

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Cash Flow
Years Ended December 31, 2015 and 2014

(in thousands)	2015	2014
Cash flows from operating activities		
Net income	$ 21,534	$ 19,027
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Depreciation and amortization of property, equipment and software	8,372	8,116
Amortization of premium and discount on debt securities, net	2,412	2,813
Net loss on sale of property, equipment and software	628	2,717
Net (gain) / loss on sale of investments	1,627	(1,054)
Deferred income taxes	(8,564)	(217)
Changes in assets and liabilities		
Prepaids and other assets	10,418	(8,676)
Unearned membership revenue and enrollment fees	5,552	6,627
Accounts receivable, net	(1,488)	1,128
Federal and state income taxes payable	1,808	460
Accounts payable, accrued expenses and other liabilities	(7,806)	19,470
Unpaid losses and loss adjustment expenses	(9,420)	8,474
Net cash and cash equivalents provided by operating activities	25,073	58,885
Cash flows from investing activities		
Proceeds from investments	177,872	77,601
Purchases of investments	(164,805)	(128,130)
Capital expenditures	(20,165)	(4,270)
Change in restricted cash	2,066	(1,894)
Proceeds from sales of property and equipment	81	48
Proceeds from sale of discontinued operations	-	47
Net cash and cash equivalents used in investing activities	(4,951)	(56,598)
Cash flows from financing activities		
Principal payments on capital lease obligations	(2,183)	(3,374)
Net cash and cash equivalents used in financing activities	(2,183)	(3,374)
Net change in cash and cash equivalents	17,939	(1,087)
Cash		
Beginning	35,349	36,436
End	$ 53,288	$ 35,349
Supplemental cash flow data		
Cash paid during the period for:		
Income taxes	$ 11,852	$ 8,339
Non-cash activities:		
Additions to property and equipment included in accounts payable, accrued expenses and other liabilities	6,002	600
Property and equipment acquired under capital leases	2,674	477

1. Nature of Operations

The American Automobile Association of Northern California, Nevada & Utah (the Club) is a not-for-profit mutual benefit C corporation, which operates as an automobile club. The Club is an American Automobile Association, Inc. (AAA) organization member serving territories of Northern California, Nevada and Utah. Services provided to AAA members include emergency road service and a variety of other member related products and services associated with home, vehicle and travel activities.

The Club has the following wholly owned subsidiaries:

a. Pacific Lighthouse RE LLC (Pacific Lighthouse), a Utah-domiciled insurance company, which insures the Club for workers' compensation, errors and omissions, directors and officers, commercial, automobile, property and general coverage. In addition, Pacific Lighthouse acts as a reinsurer which writes products for certain member-related insurance products including travel cancellation, trip interruption, property and casualty and life.

b. Auto Partners Inc. (AUTO), a California corporation, provides towing and roadside assistance services to AAA members and to non-members in markets not serviced by the Club, including corporate accounts, commercial businesses and municipalities.

c. Auto Partners Motor Club Inc. (APMC), a California corporation, is licensed as a motor club in the state of California. APMC fulfills the Club's emergency roadside service obligations under roadside assistance programs with AAA for non-members and provides roadside assistance services for commercial businesses.

d. CSAA Life Insurance Agency of California (LIFE), a California corporation, is licensed to produce life and annuity business in California and Nevada. There was no activity in this subsidiary for 2015 and 2014.

e. AAA NCNU Car Care Plus Inc. (CCP), a California corporation, provides auto repair services to AAA members and to non-members.

2. Summary of Significant Accounting Policies

Basis of Presentation
The accompanying consolidated financial statements include the accounts of the Club and its wholly owned subsidiaries and have been prepared in accordance with generally accepted accounting principles. All intercompany transactions have been eliminated.

Use of Estimates and Assumptions
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 materially from those estimates.

New Accounting Pronouncements
In May 2015, the FASB issued ASU No. 2015–07, “Fair Value Measurement (Topic 820) — Disclosures for Investments in Certain Entities That Calculate Net Asset Value (NAV) per share, or its equivalent.” ASU No. 2015–07 requires that investments for which the fair value is measured at NAV using the practical expedient (investments in funds measured at NAV) under “Fair Value Measurements and Disclosures” (Topic 820) be excluded from the fair value hierarchy. ASU No. 2015–07 is effective for annual reporting periods beginning after December 15, 2015. The Club early adopted ASU No. 2015–07 and the adoption did not affect the results of operations or cash flows. In accordance with ASU No. 2015-07, previously reported amounts have been reclassified to conform to the current year presentation. See Note 5 for the disclosures required by ASU No. 2015-07.

In November 2015, the FASB issued ASU 2015-17, “Balance Sheet Classification of Deferred Taxes”, which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in the statement of financial position. The Club early adopted ASU 2015-17 effective December 31, 2015. Adoption of this ASU resulted in a classification of net current deferred tax liability to the net non-current deferred tax liability in our statement of financial position. Previously reported amounts of $11,174 have been reclassified to conform to the current year presentation.

Reclassification
The prior year statement of financial position includes a reclassification of $47,740 from investments to restricted cash and investments to conform to the current year presentation. The prior year statement of operations reflects a reclassification of $14,938 from general and administration expenses to sales and services to conform to the current year presentation. These reclassifications have no effect on total assets and liabilities, members’ equity, net income and cash flows.

Revenue Recognition
Membership
Membership dues are recognized as income on a pro rata basis over the membership period beginning with the later of the effective date of membership or receipt of payment. Membership dues received prior to the effective date of membership are recorded as an advance payment and included in unearned membership revenue. Enrollment fees and member acquisition costs are deferred and recognized as income and expense, respectively on a pro-rata basis over the average life of a membership. Effective January 1, 2015, there was a change in the estimate of the average life of a membership from 12 to 8 years. The impact from the change in accounting estimate was not material to the statement of operations in 2015.

Insurance Commissions
Insurance commissions represent revenue received from insurance companies, primarily from the CSAA Insurance Group (IG), for insurance products sold to members. Insurance commissions are based on a percentage of premiums.

Travel Services
Travel revenue mostly represents commissions from travel service providers and fees from members. Revenue from these services is recognized when fully paid.

Other Membership Income

Other membership income includes revenue received from sales of print advertisements in the Club's VIA magazine and is recognized when published. In addition, other membership income represents revenue from sales of automobile batteries, auto repair services and emergency road services, which are recognized when services are provided. Other membership income also represents commissions from preferred AAA partners and is recognized when services are provided.

Insurance Premiums Earned

Insurance premiums written and assumed by Pacific Lighthouse are earned on a pro rata basis over the life of the underlying policies. The unearned premiums of $422 and $38 at December 31, 2015 and 2014, respectively is included in accounts payable, accrued expenses and other liabilities.

Underwriting Reinsurance Expense

Underwriting reinsurance expense is the amount paid to insurers as defined in the reinsurance agreements. Payments are based on the production of new business and the maintenance of existing policies.

Income Taxes

The Club accounts for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax laws and rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Club utilizes a recognition threshold and measurement standard for the financial statement recognition and measurement of an income tax position taken or expected to be taken in a tax return. This recognition threshold has been applied to all tax positions of the Club as of December 31, 2015 and 2014. Only tax positions that met the more-likely-than-not recognition threshold on December 31, 2015 and 2014 are recognized.

Interest expense and penalties associated with unrecognized tax benefits are classified as income tax expense in the statements of operations, when applicable. See Note 10 for a tabular reconciliation of the total amount of unrecognized tax benefits for the year.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks, demand deposits, money market funds and highly liquid investments with original maturities of three months or less. The carrying amount approximates fair value due to the short maturity of these instruments.

Restricted Cash and Investments
During 2002 and 2014 Pacific Lighthouse set up Regulation 114 Trusts for the benefit of certain ceding insurance companies that place business with Pacific Lighthouse. The assets in the trust accounts are maintained at all times separate and distinct from all other assets and are available for sale at the discretion of the trustee. The amounts held in the trust accounts are based on the level of reserves deemed necessary by the trusts and the Club was in compliance with the required reserves at December 31, 2015 and 2014. The total value of assets held in these trusts, included in restricted cash and investments on the balance sheet, at December 31, 2015 and 2014 was $16,743 and $49,876, respectively.

Investments
Equity and debt securities and other investments are categorized as available for sale. The estimated fair value of equity and debt securities is based on quoted market values as provided by independent pricing services and reviewed by management. These pricing services may apply matrix pricing for the same or similar debt securities where no price is observable. Unrealized gains and losses, net of income taxes, are included as a component of members' equity until realized. Declines in the fair value of equity securities deemed to be other than temporary are included in investment income as a realized loss. No such losses were recorded in 2015 and 2014. Subsequent recoveries in fair value are reflected as increases in unrealized gains and included as a component of members' equity. Declines in the fair value of debt securities deemed to be other than temporary are included in investment income as a realized loss if the Club intends to sell the security or determines it is more likely than not that it will be required to sell the security before recovery of the amortized cost basis. For debt securities that are considered to have an other than temporary impairment and that the Club does not intend to sell and will not be required to sell the security prior to recovery of its amortized cost basis, the Club separates the amount of the impairment into the amount that is credit related and the amount due to all other factors. The component of the loss that is credit related is recognized in investment income as a realized loss and equates to the difference between the security's amortized cost basis and the present value of its expected future cash flows. The remaining difference between the security's fair value and the present value of its expected future cash flows is due to factors that are not credit related and is recognized as a loss in other comprehensive income.

Realized gains and losses on the sales of investments are included in income based on a specific identification basis. Changes to net unrealized gains or losses on securities sold are also identified on a specific identification basis and recorded as reclassification adjustments to other comprehensive income.

The Club's investment policy limits concentration of credit risk by diversifying its investment portfolio. Since the portfolio is diversified and issuers of securities are dispersed throughout many industries and geographies, management believes the concentration of credit risk is limited.

Fair Value Measurements
The Club records investment securities available for sale at fair value on a periodic basis. 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.

The Club categorizes its financial assets and liabilities into the following fair value hierarchy:

Level 1 Financial assets and liabilities with values based on unadjusted quoted prices for identical assets or liabilities in an active market. Level 1 includes active exchange-traded equity securities, regulated investment companies and US treasury securities.

Level 2 Financial assets and liabilities with values based on quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability. Level 2 includes certain unlisted domestic equities, convertible securities, municipal bonds, US corporate bonds and international corporate bonds.

Level 3 Financial assets and liabilities with values based on prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and are based on the best available information, some of which is internally developed.

When determining the fair value measurements for financial assets carried at fair value on a recurring basis, the Club considers the principal or most advantageous market in which it would execute a transaction and considers assumptions that market participants would use when pricing the asset or liability. Whenever possible, active and observable markets are used to price identical assets. When identical assets are not traded in active markets, market observable data for similar assets is used. Nevertheless, certain assets are not actively traded in observable markets and alternative valuation techniques are used to derive fair value measurements.

Allowance for Uncollectible Accounts Receivable

The Club maintains an allowance for uncollectible accounts receivable of $103 and $62 in 2015 and 2014 for estimated losses that may result from the failure or inability of customers to make required payments.

Property, Equipment, and Software

Property, equipment, and software are stated at historical cost. Property and equipment is depreciated on a straight line method over the estimated useful life, which for furniture and equipment is three to eight years. Amortization of leasehold improvements is based on the shorter of the term of the underlying lease or the estimated useful life. Upon retirement or disposition of fixed assets, any gain or loss is included in net income. There were certain assets written off during the year ended December 31, 2015 and 2014 (Note 6).

External costs which are directly associated with the development of internal-use software are capitalized. Once the software is ready for its intended use, these costs are amortized over the estimated useful life of the software (three to five years) on a straight-line basis.

The Club reviews long-lived assets for impairment whenever events or changes in circumstances indicate that carrying values may not be recoverable. If such assets are deemed to be impaired, the impairment to be recognized is measured by the carrying amount of the asset exceeding the fair value. Assets to be disposed are reported at the lower of the carrying amount or fair value less costs to sell.

Unpaid Losses and Loss Adjustment Expenses
The liabilities for unpaid losses and loss adjustment expenses of Pacific Lighthouse are based on the actuarially estimated ultimate cost of settling claims, using past experience adjusted for current trends and any other factors which, in management's judgment, would modify this experience. Changes in estimates of losses resulting from the continuous review process and differences between estimates and payments for claims are included in operations of the period in which the estimates are changed.

3. Related Parties

The Club has the following related party agreements:

The Club is an organizational motor club member within AAA and maintains a license for the use of the AAA brand. AAA is a not-for-profit, tax-paying federation of motor clubs, each of which is independently managed and operated under the AAA brand in accordance with standards established by AAA's Board of Directors. In 2015 and 2014, the Club paid AAA $8,690 and $7,832 for the use of the AAA license and other fees and services.

AAA Club Partners, Inc. (ACP) is the sole corporate member of the Club. ACP is a not-for-profit mutual benefit corporation that is a holding company for certain member clubs within AAA. The Club paid member fees of $3,924 and $3,334 to ACP in 2015 and 2014, respectively.

4. Significant Agreements

The Club has the following significant agreements:

a. At January 1, 2011, the Club and the IG entered into a Producer Agreement, whereby the Club serves as a seller of insurance for the IG, and further collaborates with the IG in marketing the IG's insurance products. The amount received from the IG related to the above agreement for 2015 and 2014 was as follows:

	2015	2014
IG insurance commissions	$ 302,101	$ 284,686
Marketing support fees	11,271	10,828
	$ 313,372	$ 295,514

The balance sheet impact of the above agreement for the year ended December 31, 2015 and 2014 was as follows:

	2015	2014
Accounts receivable, net	$ 26,762	$ 25,190
Accounts payable (included in accounts payable, accrued expenses and other liabilities)	457	444

b. Effective January 1, 2014, Pacific Lighthouse and the IG entered into a one year reinsurance agreement, which was renewable annually, whereby Pacific Lighthouse reinsured 1.8% of the IG's premiums of property and casualty insurance underwritten. The reinsurance agreement with the IG was not renewed in 2015 resulting in the Club transferring $13,003 to the IG as a reimbursement for amounts initially received. The agreement resulted in $0 of earned premium revenue and $1,028 in loss and loss adjustment expense and underwriting in 2015. As of December 31, 2015, Pacific Lighthouse held $3,635 of loss reserves included in unpaid losses and loss adjustment expenses on the statements of financial position relating to this agreement.

c. Effective January 1, 2014, Pacific Lighthouse and AAA Life Insurance Company entered into a 5 year reinsurance agreement whereby Pacific Lighthouse would reinsure 25% of the premiums of life insurance underwritten. Effective January 1, 2015, Pacific Lighthouse and AAA Life Insurance Company entered into a recapture agreement which recaptured all of the business ceded under this agreement since inception and terminated the reinsurance agreement as of the same date. The agreement resulted in $0 of earned premiums revenue and $868 in loss and loss adjustment expense and underwriting commissions expense in 2015.

5. Investments

The following tables present information with respect to all investments including restricted investments of $16,673 and $47,740 in 2015 and 2014:

	Fair Value Measurements at December 31, 2015 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Government bonds	$ 33,035	$ -	$ -	$ 33,035
Tax exempt municipal bonds	-	71,700	-	71,700
Corporate bonds	-	73,615	-	73,615
Foreign bonds	-	15,904	-	15,904
Asset-backed securities	-	10,331	-	10,331
Mortgage-backed securities	-	54,264	-	54,264
Total debt securities	33,035	225,814	-	258,849
Equity securities	192,215	-	-	192,215
Investments subject to fair value	225,250	225,814	-	451,064
Investments measured at net asset value				12,756
Total investments	$ 225,250	$ 225,814	$ -	$ 463,820

	Fair Value Measurements at December 31, 2014 Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
U.S. Government bonds	$ 73,738	$ -	$ -	$ 73,738
Tax exempt municipal bonds	-	78,350	-	78,350
Corporate bonds	-	99,034	-	99,034
Foreign bonds	-	22,574	-	22,574
Asset-backed securities	-	12,376	-	12,376
Mortgage-backed securities	-	71,842	-	71,842
Total debt securities	73,738	284,176	-	357,914
Equity securities	105,929	-	-	105,929
Investments subject to fair value	179,667	284,176	-	463,843
Investments measured at net asset value				25,869
Total investments	$ 179,667	$ 284,176	$ -	$ 489,712

The cost or amortized cost and estimated fair value of debt and equity securities were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2015				
U.S. Government bonds	$ 31,786	$ 1,291	$ (42)	$ 33,035
Tax exempt municipal bonds	68,355	3,359	(14)	71,700
Corporate bonds	72,209	1,872	(466)	73,615
Foreign bonds	15,610	436	(142)	15,904
Asset-backed securities	10,353	-	(22)	10,331
Mortgage-backed securities	53,171	1,183	(90)	54,264
Total debt securities	251,484	8,141	(776)	258,849
Equity securities	174,526	23,881	(6,192)	192,215
	$ 426,010	$ 32,022	$ (6,968)	$ 451,064

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2014				
U.S. Government bonds	$ 71,851	$ 1,928	$ (41)	$ 73,738
Tax exempt municipal bonds	74,976	3,396	(22)	78,350
Corporate bonds	95,790	3,526	(282)	99,034
Foreign bonds	21,731	889	(46)	22,574
Asset-backed securities	12,376	11	(11)	12,376
Mortgage-backed securities	69,784	2,086	(28)	71,842
Total debt securities	346,508	11,836	(430)	357,914
Equity securities	80,331	25,773	(175)	105,929
	$ 426,839	$ 37,609	$ (605)	$ 463,843

The activities related to equity and debt securities were as follows:

	2015	2014
Proceeds from sales of debt securities	$ 137,914	$ 68,711
Proceeds from maturities of debt securities	4,435	8,875
Gross gains realized on sales of debt securities	1,523	1,221
Gross losses realized on sales of debt securities	(356)	(182)
Proceeds from sales of equity securities	21,064	15
Gross gains realized on sales of equity securities	1,982	15
Gross losses realized on sales of equity securities	(779)	-

The gross unrealized losses and estimated fair values on investments aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position were as follows:

	12 Months or Greater		Less Than 12 Months	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
December 31, 2015				
U.S. Government bonds	$ (2)	$ 157	(40)	$ 8,183
Tax exempt municipal bonds	-	-	(14)	2,712
Corporate bonds	(6)	284	(460)	23,197
Foreign bonds	-	-	(142)	6,314
Asset-backed securities	-	-	(22)	9,441
Mortgage-backed securities	(17)	744	(73)	10,737
Total debt securities	(25)	1,185	(751)	60,584
Equity securities	(136)	996	(6,056)	77,055
	$ (161)	$ 2,181	$ (6,807)	$ 137,639

	12 Months or Greater		Less Than 12 Months	
	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value
December 31, 2014				
U.S. Government bonds	$ (9)	$ 540	(32)	$ 23,042
Tax exempt municipal bonds	(19)	1,325	(3)	252
Corporate bonds	(122)	7,377	(160)	14,531
Foreign bonds	(9)	255	(37)	3,264
Asset-backed securities	-	-	(11)	7,929
Mortgage-backed securities	(28)	2,359	-	1,470
Total debt securities	(187)	11,856	(243)	50,488
Equity securities	(66)	724	(109)	3,293
	$ (253)	$ 12,580	$ (352)	$ 53,781

The estimated fair value of investments with unrealized losses less than 12 months was not properly disclosed in 2014. The disclosure has been corrected and the effect was considered not material to the prior year financial statements.

The Club evaluates investments where the fair value is less than its carrying value to determine whether the decline in value is other-than-temporary. When evaluating whether the impairment is other-than-temporary, the Club takes into consideration whether or not it will receive all of the investment's contractual cash flows based on factors that include, but are not limited to, the length of time and extent that the investment's fair value has been less than its amortized cost and the Club's ability and intent to hold the investment for a sufficient amount of time to recover the unrealized losses. On review of each individual investment in an unrealized loss position, management concluded that none of the investments with unrealized losses at December 31, 2015 or 2014 had experienced an other-than-temporary impairment.

As of December 31, 2015 and 2014 there were 90 and 195 securities in unrealized loss positions, respectively.

The cost or amortized cost and estimated fair value of debt securities at December 31, 2015, by contractual maturity, were as follows:

	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$ 9,228	$ 9,243
Due after one year through five years	81,398	83,655
Due after five years through ten years	73,069	75,565
Due after ten years	24,265	25,791
	187,960	194,254
Mortgage and asset-backed securities	63,524	64,595
	$ 251,484	$ 258,849

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations.

The following fair value NAV table lists terms by investment type for the Club's interest in private investments that are reported using NAV as of December 31, 2015:

Investment type	Amount	Remaining unfunded commitment	Redemption Terms	Remaining Life
Floating rate high income fund	5,527	-	Monthly	Not applicable
Corporate bond fund	5,229	-	Weekly	Not applicable
Real estate	2,000	2,000	Illiquid	7 years
	$ 12,756	$ 2,000		

6. Property, Equipment and Software

Property, equipment and software at December 31, 2015 and 2014 consists of the following:

	2015	2014
Furniture and equipment	$ 49,666	$ 59,280
Leasehold improvements	35,920	32,723
Capitalized leases	7,868	7,678
Software	3,636	3,322
	97,090	103,003
Accumulated depreciation	(58,654)	(80,946)
	$ 38,436	$ 22,057

Depreciation and amortization expenses are as follows:

	2015	2014
Furniture and equipment	$ 2,555	$ 2,123
Leasehold improvements	2,883	2,242
Capitalized leases	2,291	3,372
Software	643	379
	$ 8,372	$ 8,116

In 2015 and 2014, the Club reduced the gross book value of property, equipment and software that was substantially depreciated and no longer in service. Gross book value was reduced by $31,480 and $17,646 resulting in a net realized loss of $628 and $2,717, in 2015 and 2014, respectively.

7. Debt

The Club's three year term $100,000 line of credit with Bank of America expired on December 31, 2015 and was not renewed. The related debt outstanding at December 31, 2014 was $0.

8. Unpaid Losses and Loss Adjustment Expense

The reserve for unpaid claims and claims expenses and related reinsurers' shares is an estimate subject to variability, which could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts or significant changes in the severity or frequency of claims from historical trends. The actuarial estimates are principally based on the Club's historical experience and analysis of the underlying claims. Methods of estimation have been used which the Club believes produce reasonable results given current information.

Activity for unpaid losses and loss adjustment expenses for the years ended December 31, 2015 and 2014 comprises:

	2015	2014
Balance - Beginning of year	$ 24,231	$ 15,757
Claims incurred relating to		
Current year	5,931	34,202
Prior years	(5,731)	(3,021)
Total incurred	200	31,181
Claims paid relating to		
Current year	(3,293)	(18,566)
Prior years	(6,326)	(4,141)
Total paid	(9,619)	(22,707)
Balance - End of year	$ 14,812	$ 24,231

As of December 31, 2015 and 2014, the reserve for unpaid losses and loss adjustment expense included reported claims of $6,512 and $8,948 and incurred but not reported claims of $8,300 and $15,283, respectively.

As a result of updates in the actuarial loss estimates and favorable development of claims, incurred losses and loss adjustment expenses with respect to prior years decreased by $5,731 and $3,021 for the years ended December 31, 2015 and 2014, respectively.

9. Reinsurance Premiums Earned

Reinsurance premiums earned and assumed for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	Written	Earned	Written	Earned
Reinsurance premiums	$ 7,296	$ 6,912	$ 47,167	$ 47,311

10. Income Taxes

The Club's consolidated income before income taxes was $32,344 and $27,608 for the years ended December 31, 2015 and 2014, respectively. The Club recorded income tax expense of $10,810 and $8,581 for the years ended December 31, 2015 and 2014.

The provision for income taxes consists of the following:

	2015	2014
Current tax provision		
Federal	$ 13,003	$ 8,462
State	657	337
	13,660	8,799
Deferred tax (benefit) expense	(2,850)	(218)
Total provision for income taxes	$ 10,810	$ 8,581

The provision for income taxes is different from that which would be computed by applying the statutory federal income tax rate to income before taxes as follows:

	2015	2014
Tax at federal statutory rate	35.0 %	35.0 %
Tax-exempt investments income	(2.1)	(2.6)
State, net of federal benefit	1.1	0.8
Settlements and releases from statute expirations, net	-	(0.8)
True up	0.2	0.3
Dividend received deduction	(1.0)	(0.6)
Valuation allowance	-	(0.3)
Other	0.2	(0.7)
	33.4 %	31.1 %

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and tax liabilities at December 31, 2015 and 2014 are presented below:

	2015	2014
Deferred tax assets		
Accrued expense	$ 9,213	$ 7,311
Deferred income	5,022	4,703
Investment adjustments	1,728	1,728
Loss reserve discounting	455	689
State taxes net of federal tax benefit	867	1,125
Other	31	3
	17,316	15,559
Deferred tax liabilities		
Deferred membership expenses	5,118	5,856
Unrealized appreciation of investments	10,825	16,969
Depreciation	2,568	1,825
Printing supplies expensed for tax	314	423
Prepaid assets	2,229	2,807
State deferred taxes net of federal tax benefit	124	105
	21,178	27,985
Net deferred tax liability	$ (3,862)	$ (12,426)

The Club maintains no unrecognized tax benefits as of December 31, 2015 that if recognized, would impact the Club's annual effective tax rate. The Club accrues interest and penalties related to unrecognized tax benefits in the provision for incomes. As of December 31, 2015, accruals for the payment of interest and penalties totaled $0.

The Club files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. It is subject to U.S. federal income tax examinations for the tax returns filed for the tax years ended 2012 through 2014 and state and local tax examination for the tax returns filed for the years ended 2011 through 2014. The Club completed the examination by the Utah State Tax Commission in 2015 with minimal assessment.

11. Commitments and Contingencies

The Club’s facilities are leased under long-term commitments. Some of the leases are non-cancelable and others have renewal options for periods up to five years. The Club’s total rental expense for leases was $16,657 and $15,081 in 2015 and 2014, respectively. In addition, the Club leases certain equipment from various third parties. When equipment lease terms are more than 75 percent of the equipment useful life, the leases are classified as capital leases.

The Club's future minimum rental payments required under operating and capital leases that have initial or remaining non-cancelable lease terms and the significant future commitments under non-cancelable contracts in excess of one year as of December 31, 2015 are as follows:

Years Ending December 31,		
2016	$	25,888
2017		22,294
2018		13,696
2019		7,633
2020		5,087
Thereafter		15,698
Total	$	90,296

The Club is party to various claims and lawsuits arising in the normal course of business. There is one matter which a former service provider has asserted putative class claims against the Club for certain rendered services on behalf of itself and other service providers. It is the opinion of management, after consultation with legal counsel, that the disposition of these matters is not expected to have a material adverse effect on the financial position or results of operations of the Club.

12. Discontinued Operations

On September 30, 2014, the Club and Lighthouse Risk and Solutions, Inc (LRIS) entered into an agreement whereby the Club surrendered its 255 outstanding shares and 51% ownership in LRIS and realized a gain of $209 included in investment income, including realized gains and losses on investments in the statements of operations.

13. Subsequent Events

Subsequent events have been evaluated through May 6, 2016, the date the consolidated financial statements were available to be issued.

The merger between the Club and AAA MountainWest, Inc. (MTW) was effective January 1, 2016. As of December 31, 2015 and during the year ended 2015, MTW had total assets of $19,115, net assets of $9,706, revenue of $16,841, and net income of $288. The Club has committed to fund MTW, subject to meeting certain milestones and requirements, up to a total of $3,000 in 2016 and 2017 for new member acquisition and marketing efforts in MTW's markets.

The Club has entered into several arrangements, which are intended to further the Club's long term strategy of increasing member value. The total expected initial investment is $7,600 and may require the Club to invest up to an additional $10,900 over the next several years.

The Club has entered into a merger agreement with AAA Arizona, Inc. (Arizona). The merger agreement is subject to regulatory approval. As of December 31, 2015 and during the year ended 2015, Arizona had total assets of $114,403, net assets of $58,844, revenue of $110,024, and net income of $208.