American Automobile Association of Northern California, Nevada & Utah (AAA NCNU)

Consolidated Financial Statements
December 31, 2014 and 2013

AAA Northern California, Nevada & Utah
Index
December 31, 2014 and 2013

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 Company), which comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, 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 Company'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 Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2014 and 2013, 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
April 10, 2015

AAA Northern California, Nevada & Utah
Consolidated Statements of Financial Position
December 31, 2014 and 2013

(in thousands)	**2014**	**2013**
Assets		
Current assets		
Cash and cash equivalents	$ 35,349	$ 36,436
Restricted cash	2,136	242
Investments available for sale	489,712	431,199
Accounts receivable, net	40,834	41,962
Federal and state income tax recoverable, net	1,047	1,508
Prepaids and other current assets	15,311	9,635
Total current assets	584,389	520,982
Noncurrent assets		
Property, equipment and software, net	22,057	30,187
Other noncurrent assets	20,928	17,555
Total noncurrent assets	42,985	47,742
Total assets	$ 627,374	$ 568,724
Liabilities and Members' Equity		
Current liabilities		
Unearned membership revenue and enrollment fees	$ 141,849	$ 134,602
Unpaid losses and loss adjustment expenses	24,231	15,757
Accounts payable, accrued expenses and other liabilities	98,718	80,362
Deferred income tax liability current, net	11,174	5,234
Total current liabilities	275,972	235,955
Noncurrent liabilities		
Unearned membership enrollment fees	12,085	12,705
Deferred income tax liability noncurrent	1,252	3,586
Other noncurrent liabilities	5,904	9,310
Total noncurrent liabilities	19,241	25,601
Total liabilities	295,213	261,556
Commitments and contingencies (Note 11)		
Members' equity	307,871	288,844
Accumulated other comprehensive income	24,290	18,371
Total AAA NCNU members' equity	332,161	307,215
Mandatory redeemable noncontrolling interest (Note 12)	-	(47)
Total members' equity	332,161	307,168
Total liabilities and members' equity	$ 627,374	$ 568,724

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, 2014 and 2013

(in thousands)	2014	2013
Revenues		
Membership dues	$ 282,803	$ 284,187
Insurance commissions	308,490	300,287
Travel services	25,808	23,255
Other membership income	22,151	19,574
Investment income, including realized gains and losses on investments	13,275	11,172
Insurance premiums earned	47,311	6,087
	699,838	644,562
Expenses		
Emergency road service	135,993	123,439
Sales and services	214,897	203,494
Underwriting commissions expense	16,085	301
Loss and loss adjustment expense	27,535	1,808
General and administrative expenses	264,843	257,863
Association dues	5,210	5,068
Transition costs expense (Note 3)	-	13,292
Other	7,667	6,378
	672,230	611,643
Income before federal and state income taxes	27,608	32,919
Provision for federal and state income taxes	8,581	9,048
Net income	19,027	23,871
Add: Net loss attributable to the mandatory redeemable noncontrolling interest	-	723
Net Income attributable to AAA NCNU	$ 19,027	$ 24,594

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2014 and 2013

(in thousands)	Unrealized Gains and Losses on Available-for Sale Securities
Balances at December 31, 2012	18,337
Other comprehensive income before reclassification	640
Amounts reclassified from accumulated other comprehensive income	(606)
Balances at December 31, 2013	18,371
Other comprehensive income before reclassification	6,973
Amounts reclassified from accumulated other comprehensive income	(1,054)
Balances at December 31, 2014	$ 24,290

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Changes in Members' Equity
Years Ended December 31, 2014 and 2013

(in thousands)	Members' Equity	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total
Balances at December 31, 2012	$ 264,250	$ 18,337	$ 676	$ 283,263
Net income	24,594	-	(723)	23,871
Other comprehensive income	-	34	-	34
Balances at December 31, 2013	288,844	18,371	(47)	307,168
Net income	19,027	-	-	19,027
Other comprehensive income	-	5,919	-	5,919
Discontinued Operations			47	47
Balances at December 31, 2014	$ 307,871	$ 24,290	$ -	$ 332,161

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

AAA Northern California, Nevada & Utah
Consolidated Statements of Cash Flows
Years Ended December 31, 2014 and 2013

(in thousands)	2014	2013
Cash flows from operating activities		
Net income	$ 19,027	$ 23,871
Adjustments to reconcile net income to cash and cash equivalents provided by operating activities		
Depreciation and amortization of property, equipment and software	8,116	7,484
Amortization of premium and discount on debt securities, net	2,813	3,336
Net gain on sale of investments	(1,054)	(606)
Net loss on sale of property, equipment and other assets	2,717	884
Deferred income taxes	(217)	(750)
Changes in assets and liabilities		
Accounts receivable, net	1,128	(2,904)
Prepaids and other assets	(8,676)	(1,660)
Unearned membership revenue and enrollment fees	6,627	(2,423)
Unpaid losses and loss adjustment expenses	8,474	(2,804)
Accounts payable, accrued expenses and other liabilities	19,470	2,394
Federal and state income taxes payable	460	(1,479)
Net cash and cash equivalents provided by operating activities	58,885	25,343
Cash flows from investing activities		
Proceeds from investments	77,601	112,995
Proceeds from sale of discontinued operations	47	-
Change in restricted cash	(1,894)	38
Purchases of investments	(128,130)	(126,660)
Proceeds from sales of property and equipment	48	15
Capital expenditures	(4,270)	(8,308)
Net cash and cash equivalents used in investing activities	(56,598)	(21,920)
Cash flows from financing activities		
Principal payments on capital lease obligations	(3,374)	(2,743)
Net cash and cash equivalents used in financing activities	(3,374)	(2,743)
Net change in cash and cash equivalents	(1,087)	680
Cash		
Beginning of year	36,436	35,756
End of year	$ 35,349	$ 36,436
Supplemental cash flow data		
Cash paid during the period for:		
Income taxes paid	$ 8,339	$ 11,615
Non-cash operating and financing activities:		
Additions in accounts payable, accrued expenses and other liabilities	600	1,873
Property and equipment acquired under capital leases	477	4,127

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

(in thousands)

1. Nature of Operations

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

The Club has the following wholly owned subsidiaries:

a. Pacific Lighthouse Reinsurance, Ltd. (Pacific Lighthouse) was discontinued as an exempted company incorporated under the laws of the Islands of Bermuda on September 6, 2013 and re-domiciled to the State of Utah. In addition, Pacific Lighthouse was reorganized under the new name Pacific Lighthouse Re LLC (Pacific Lighthouse), a Utah-domiciled insurance company, which insures the Club for traditional business risks including workers compensation, errors and omissions, directors and officer's coverage, as well as commercial automobile, property and general coverage. In addition, Pacific Lighthouse acts as a reinsurer which writes products for certain Club member-related insurance products including, travel cancellation, trip interruption, property and casualty, and life insurance.

b. Auto Partners Inc. (AUTO), a California corporation, provides a full line of towing and roadside assistance services to AAA members and to nonmember customers 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 nonmember customers and provides a full line of roadside assistance services for commercial businesses.

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

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

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.

(in thousands)

Revenue Recognition

Membership

Membership dues are recognized as income on a pro rata basis over the 12 month membership period. Membership enrollment fees are recognized as income on a pro rata basis over the life of a membership, which is estimated to be 12 years. Membership dues and enrollment fees are recorded on the later of the effective date of membership or receipt. Membership dues and enrollment fees received prior to the effective date of membership are recorded as an advance payment received and included in unearned membership revenue and enrollment fees.

Insurance Commissions

Insurance commissions represent revenue received from insurance companies, primarily from the CSAA Insurance Group ("IG") (formally, AAA Northern California, Nevada & Utah Insurance Exchange) and its subsidiaries, for insurance services provided to members. Insurance commissions are based on a percentage of premiums written and are earned as those premiums are written.

Travel Services

Revenue from travel services provided to members 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 represents revenue received from sales of print ads in the Club's VIA magazine and is recognized with the publishing of the magazine containing the advertisement. 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. Lastly, other membership income also represents commissions from preferred AAA partners and is recognized when services are provided to members.

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 liability for unearned premiums is included in accounts payable, accrued expenses, and other liabilities which totaled $38 and $182 at December 31, 2014 and 2013, respectively.

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 Held on Deposit or as Collateral

During 2002, 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 total value of assets held in these trusts, included in investments on the balance sheet, at December 31, 2014 and 2013 was $49,876 and $16,079, respectively.

Investments

Equity securities and bonds are categorized as available for sale. The estimated fair value of these securities is based on quoted market values as provided by independent pricing services and

(in thousands)

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. 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 bonds 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 bonds 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.

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. Level 3 includes private investments in limited partnerships.

(in thousands)

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 to derive fair value measurements are used.

Property, Equipment, and Software

Property and equipment 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.

Internal and 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. There were certain assets written off during the year ended December 31, 2014 (Note 6).

Allowance for Doubtful Accounts

The Club maintains an allowance for doubtful accounts for estimated losses that result from the failure or inability of customers to make required payments. When determining the allowance, the Club considers the probability of recoverability of accounts receivable based on past experience, taking into account current collection trends as well as general economic factors. Credit risks are assessed based on historical write-offs, net of recoveries, as well as an analysis of the aged accounts receivable balances with allowances generally increasing as the receivable ages. The analysis of receivables is performed quarterly, and the allowances are adjusted accordingly.

Unpaid Losses and Loss Adjustment Expenses

The liabilities for unpaid losses and loss adjustment expenses of Pacific Lighthouse are based on the 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.

Deferred Acquisition Costs

The Company incurs costs in connection with acquiring new and renewal reinsurance and insurance business. Some of these costs, which consist primarily of commissions, are deferred as they are directly related to the successful acquisition of such business. Deferred acquisition costs are amortized in proportion to premiums earned. The Club defers expenses relating to the acquisition of new members over a period of 12 years, the estimated life of a membership.

(in thousands)

Underwriting Commissions Expense
Underwriting commissions expense are the costs that are defined in the reinsurance agreements that are related to the production of new business and the maintenance of existing reinsured policies. Underwriting commissions expense is accounted for on a basis consistent with that used in accounting for the underlying reinsured contracts and the terms of the reinsurance agreements.

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, 2014 and 2013. Only tax positions that met the more-likely-than-not recognition threshold on December 31, 2014 and 2013 are recognized.

Interest expense and penalties associated with unrecognized tax benefits is 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.

Reclassification
Certain amounts from the prior year statements of financial position and statements of operations have been reclassified to conform to the current year presentation. The Club netted federal and state income tax payable with federal and state income tax recoverable on the statements of financial position and reclassified certain expenses within the various expense categories on the statements of operations. These reclassifications had no effect on members' equity or net income and had no material effect on total assets and liabilities.

3. In Related Parties

The Club has the following agreements with related parties:

a. The Club issued a corporate membership to AAA Club Partners, Inc. (ACP). ACP is a not-for-profit mutual benefit corporation and is the second largest holding company in the AAA federation. As a holding company, ACP provides opportunities and insights as a network of interlocked clubs and gives each of the participating clubs a bigger, stronger voice in the AAA federation. ACP works hand-in-hand with its partner clubs on tactics and best practice sharing to improve priorities such as membership growth and roadside service quality, and lead innovation initiatives. ACP creates value for partner clubs and its insurance partner, the CSAA Insurance Group, by delivering strategic innovation, facilitating collaboration, influencing the AAA federation strategy and supporting partner priorities. AAA member clubs who have elected to become affiliated with ACP will issue a corporate membership in such

(in thousands)

member clubs to ACP. In exchange for these corporate memberships, ACP will grant an ACP participation interest to such member clubs.

b. In both 2014 and 2013 the access fee for and on behalf of the IG was collected and remitted to ACP by the Club.

The income statement impact of the above-detailed agreements for the years ended December 31, 2014 and 2013 was as follows:

		2014		2013
Access fee remitted to ACP (Included in General and administrative expenses)	$	3,334	$	2,888

In 2013, the Club paid contractual amounts to ACP and other AAA member clubs in the amount of $13,292 in relation to transition cost incurred by moving to a new call center. This expense has been included in Transition costs in the statement of operations.

4. Significant Agreements

The Club has the following significant agreements:

a. At January 1, 2011 the Club and the IG and its subsidiaries entered into an economic relationship, reflected in a perpetual Producer Agreement, Marketing Channel Agreement and a number of other agreements. The Club is one of the primary sellers of insurance for the IG and partners with the IG in producing business, but is not considered a related party.

The income statement impact of the above agreements for the year ended December 31, 2014 and 2013 was as follows:

		2014		2013
Insurance commissions	$	284,686	$	276,911
Marketing support fees		10,828		10,178
	$	295,514	$	287,089
IG supporting expenses	$	3,326	$	12,373

The balance sheet impact of the above agreements for the year ended December 31, 2014 and 2013 was as follows:

		2014		2013
Accounts receivable, net	$	25,190	$	31,156
Accounts payable (included in accounts payable, accrued expenses and other liabilities)		444		1,530

(in thousands)

b. Effective January 1, 2014, Pacific Lighthouse and the IG entered into a one year reinsurance agreement, which is renewable annually, whereby Pacific Lighthouse would reinsure 1.8% of the IG's premiums of property and casualty insurance underwritten. The agreement resulted in $39,630 of earned premiums revenue in 2014 and $39,083 in loss and loss adjustment expense and underwriting commissions. As of December 31, 2014, Pacific Lighthouse held $9,189 of loss reserves included in unpaid losses and loss adjustment expenses on the statements of financial position relating to this agreement. Effective January 1, 2015, Pacific Lighthouse did not renew the reinsurance agreement with the IG which resulted in the Club transferring $13,003 back to the IG in 2015. This liability has been included in accounts payable, accrued expenses and other liabilities on the statements of financial position and is comprised of the net of $20,004 in unearned premiums and $7,001 of deferred acquisition costs payable to the IG.

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. The agreement resulted in $1,786 of earned premiums revenue in 2014 and $2,654 in loss and loss adjustment expense and underwriting commissions expense included in the statements of operations. As of December 31, 2014, Pacific Lighthouse held $20 of unearned premiums included in accounts payable, accrued expenses and other liabilities and $4,233 of loss reserves included in unpaid losses and loss adjustment expenses on the statements of financial position relating to this agreement. Pacific Lighthouse also held $3,730 of deferred acquisition costs and $20 of receivables in accounts receivable on the statements of financial position as of December 31, 2014 relating to this agreement.

5. Investments

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

	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 bonds	346,508	11,836	(430)	357,914
Equity securities	80,331	25,773	(175)	105,929
	$ 426,839	$ 37,609	$ (605)	$ 463,843

(in thousands)

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013				
U.S. Government bonds	$ 34,991	$ 374	$ (375)	$ 34,990
Tax exempt municipal bonds	86,397	1,758	(716)	87,439
Corporate bonds	89,183	1,930	(1,290)	89,823
Foreign bonds	17,948	458	(221)	18,185
Asset-backed securities	11,419	24	(42)	11,401
Mortgage-backed securities	60,690	945	(629)	61,006
Total bonds	300,628	5,489	(3,273)	302,844
Equity securities	77,718	24,777	(88)	102,407
	$ 378,346	$ 30,266	$ (3,361)	$ 405,251

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

	2014	2013
Proceeds from sales of bonds	$ 68,711	$ 89,423
Proceeds from maturities of bonds	8,875	1,615
Gross gains realized on sales of bonds	1,221	545
Gross losses realized on sales of bonds	(182)	(1,647)
Proceeds from sales of equity securities	15	21,957
Gross gains realized on sales of equity securities	15	1,445
Gross losses realized on sales of equity stock securities	-	-

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:

(in thousands)

	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)	$ 73,198
Tax exempt municipal bonds	(19)	1,325	(3)	77,025
Corporate bonds	(122)	7,377	(160)	91,657
Foreign bonds	(9)	255	(37)	22,319
Asset-backed securities	-	-	(11)	12,376
Mortgage-backed securities	(28)	2,359	-	69,483
Total bonds	(187)	11,856	(243)	346,058
Equity securities	(66)	724	(109)	105,205
	$ (253)	$ 12,580	$ (352)	$ 451,263

	12 Months or Greater		Less Than 12 Months	
	Unrealized Losses	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**
December 31, 2013				
U.S. Government bonds	$ -	$ -	$ (375)	$ 15,540
Tax exempt municipal bonds	(111)	2,538	(605)	19,159
Corporate bonds	(51)	1,060	(1,239)	41,316
Foreign bonds	-	-	(221)	8,351
Asset-backed securities	-	-	(42)	9,715
Mortgage-backed securities	(7)	47	(622)	30,230
Total bonds	(169)	3,645	(3,104)	124,311
Equity securities	-	-	(88)	11,697
	$ (169)	$ 3,645	$ (3,192)	$ 136,008

An investment is deemed impaired if the fair value of the investment is less than its carrying value. After the investment is deemed impaired, the Club evaluates 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, 2014 or 2013 had experienced an other-than-temporary impairment.

As of December 31, 2014 and 2013 there were 90 and 195 securities in unrealized loss positions, respectively.

(in thousands)

The cost or amortized cost and estimated fair value of bonds at December 31, 2014, by contractual maturity, were as follows:

	Cost or Amortized Cost	Estimated Fair Value
Due in one year or less	$ 17,973	$ 18,027
Due after one year through five years	134,896	137,309
Due after five years through ten years	87,849	91,511
Due after ten years	23,630	26,849
	264,348	273,696
Mortgage and asset-backed securities	82,160	84,218
	$ 346,508	$ 357,914

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

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.

The Club also invests a limited amount in alternative investments including high yield limited partnerships, inflation-protected bond funds, bank loan funds and private equity funds. These alternative investments are categorized as available for sale and included in other current assets. These investments are carried at estimated fair value as of December 31, 2014 and 2013 and the fund fair values are based on audited financial statements. Because alternative investments are not readily marketable, the estimated value is subject to uncertainty and may differ from the value that would have been used had a ready market for the investment existed. Such differences could be material to the investment.

The cost and estimated fair value of the alternative investments were as follows:

		Gross Unrealized		
	Cost	Gains	Losses	Estimated Fair Value
December 31, 2014				
Alternative investments	$ 22,806	$ 3,063	$ -	$ 25,869
December 31, 2013				
Alternative investments	$ 22,528	$ 3,420	$ -	$ 25,948

(in thousands)

The following tables present information with respect to financial assets carried at fair value in the consolidated balance sheets:

	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 bonds	73,738	284,176	-	357,914
Equity securities	105,929	-	-	105,929
Alternative investments	-	-	25,869	25,869
	$ 179,667	$ 284,176	$ 25,869	$ 489,712

	Fair Value Measurements at December 31, 2013 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	$ 34,990	$ -	$ -	$ 34,990
Tax exempt municipal bonds	-	87,439	-	87,439
Corporate bonds	-	89,823	-	89,823
Foreign bonds	-	18,185	-	18,185
Asset-backed securities	-	11,401	-	11,401
Mortgage-backed securities	-	61,006	-	61,006
Total bonds	34,990	267,854	-	302,844
Equity securities	102,407	-	-	102,407
Alternative investments	-	-	25,948	25,948
	$ 137,397	$ 267,854	$ 25,948	$ 431,199

(in thousands)

The following tables present activity related to financial assets categorized in Level 3 of the valuation hierarchy:

Fair Value Measurements Using Significant Unobservable Inputs
Year Ended December 31, 2014

	Fair Value at January 1, 2014	Total Realized and Unrealized Gains (Losses) Recorded in Income	Total Realized and Unrealized Gains (Losses) Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at December 31, 2014
Alternative investments	$ 25,948	$ -	$ (357)	$ 278	$ -	$ 25,869

Fair Value Measurements Using Significant Unobservable Inputs
Year Ended December 31, 2013

	Fair Value at January 1, 2013	Total Realized and Unrealized Gains (Losses) Recorded in Income	Total Realized and Unrealized Gains (Losses) Recorded in Other Comprehensive Income	Purchases, Issuances and Settlements, Net	Transfers Into and/or Out of Level 3	Fair Value at December 31, 2013
Alternative investments	$ 18,228	$ 263	$ 457	$ 7,000	$ -	$ 25,948

(in thousands)

6. Property, Equipment and Software

Property, equipment and software at December 31, 2014 and 2013 consists of the following:

	2014	2013
Furniture and equipment	$ 59,280	$ 70,658
Capitalized leases	7,678	10,441
Software	3,322	4,298
Buildings and leasehold improvements	32,723	32,127
	103,003	117,524
Accumulated depreciation and amortization	(80,946)	(87,337)
	$ 22,057	$ 30,187

Depreciation and amortization expenses are as follows:

	2014	2013
Software	$ 379	$ 528
Buildings and leasehold improvements	2,242	1,858
Capitalized leases	3,372	2,743
Furniture and equipment	2,123	2,355
	$ 8,116	$ 7,484

During the current year, the Club wrote off assets resulting in a realized loss of $2,717 in 2014.

7. Debt

The Club entered into a three year term line of credit with Bank of America totaling $100,000, which expires December 31, 2015. The related debt outstanding at the close of business on December 31, 2014 and 2013 was $0, respectively. Under the terms of the line of credit, the Company is required to maintain a specified consolidated asset coverage ratio and consolidated leverage ratio, as those terms are defined. As of December 31, 2014, the Club was compliant with the covenants of the agreement.

(in thousands)

8. Provision for Unpaid Claims and Claims Expenses

The provision for unpaid claims and claims expenses and related reinsurers' shares is an estimate subject to variability, and the variability, as with any insurance company, 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 estimates are principally based on the Company's historical experience. Methods of estimation have been used which the Company believes produce reasonable results given current information.

Activity for unpaid claims and claims expenses for the years ended December 31, 2014 and 2013 comprises:

	2014	2013
Balance - Beginning of year	$ 15,757	$ 18,561
Claims incurred relating to		
Current year	34,202	4,498
Prior years	(3,021)	(2,486)
Total incurred	31,181	2,012
Claims paid relating to		
Current year	(18,566)	(2,018)
Prior years	(4,141)	(2,798)
Total paid	(22,707)	(4,816)
Balance - End of year	$ 24,231	$ 15,757

For the years ended December 31, 2014 and 2013 the year-end balances comprise provisions for reported claims of $8,948 and $4,414 and provisions for claims incurred but not reported of $15,283 and $11,343, respectively.

As a result of updates in the actuarial loss estimates and favorable development of claims, incurred losses and loss adjustment expenses in respect of prior years decreased by $3,021 and $2,486 for the years ended December 31, 2014 and 2013, respectively.

9. Premium Earned

Pacific Lighthouse's insurance premiums and reinsurance premiums assumed for the year ended December 31, 2014 and 2013 are as follows:

(in thousands)

	2014		2013	
	Written	**Earned**	**Written**	**Earned**
Direct premiums	$ 342	$ 342	$ 16	$ 16
Assumed premiums	47,167	47,311	6,108	6,087
Total premiums	$ 47,509	$ 47,653	$ 6,124	$ 6,103

The direct premiums are eliminated during the consolidation process as this is an intercompany transaction.

10. Income Taxes

The Club's consolidated income before provision for income taxes is $27,608 and $32,919 for the years ended December 31, 2014 and 2013, respectively. The Club recorded income tax expense of $8,581 and $9,048 for the years ended December 31, 2014 and 2013.

The provision for income taxes consists of the following:

	2014	2013
Current tax provision		
Federal	$ 8,462	$ 9,492
State	337	306
	8,799	9,798
Deferred tax (benefit) expense	(218)	(750)
Total provision for income taxes	$ 8,581	$ 9,048

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:

	2014	2013
Tax at federal statutory rate	35.0	35.0 %
Tax-exempt investments income	(2.6)	(2.2)
State tax rate	0.8	0.3
Settlements and releases from statute expirations, net	(0.8)	(6.0)
True up	0.3	(1.2)
Dividend Received Deduction	(0.6)	(0.7)
Valuation Allowance	(0.3)	1.8
Other	(0.7)	0.5
	31.1 %	27.5 %

(in thousands)

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and tax liabilities at December 31, 2014 and 2013 are presented below:

	2014	2013
Deferred tax assets		
Accrued expense	$ 7,311	$ 6,962
Deferred income	4,703	4,445
NOL and other credit carryforward	-	800
Investment adjustments	1,728	1,773
Loss reserve discounting	689	673
State taxes net of federal tax benefit	1,125	888
Other	3	18
	15,559	15,559
Deferred tax liabilities		
Deferred membership expenses	5,856	5,363
Unrealized appreciation of investments	16,969	13,048
Depreciation	1,825	2,973
Valuation Allowance	-	726
Printing supplies expensed for tax	423	402
Prepaid assets	2,807	1,728
State deferred taxes net of federal tax benefit	105	139
	27,985	24,379
Net deferred tax liability	$ (12,426)	$ (8,820)

The following is a reconciliation of the total amount of unrecognized tax benefits for the year:

Balance at January 1, 2014	$ 217
Increase related to current year tax positions	-
Lapse in statute of limitations	(217)
Balance at December 31, 2014	$ -

The Club maintains no unrecognized tax benefits as of December 31, 2014 that if recognized, would impact the Company's annual effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits in the provision for incomes. As of December 31, 2014, 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 2011 through 2013 and state and local tax examination for the tax returns filed for the years ended 2010 through 2013. The Company is currently under examination by the Utah State Tax Commission.

(in thousands)

11. Commitments and Contingencies

Certain district offices are leased by the Club under long-term commitments. Some of the leases are noncancelable and others have renewal options for periods up to five years. The Club's total rental expense for leases was $15,081 and $15,006 in 2014 and 2013, respectively. In addition, the Club leases certain equipment from various third parties. The equipment lease terms are more than 75 percent of the equipment useful life, therefore, 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 noncancelable lease terms in excess of one year as of December 31, 2014 are as follows:

Years Ending December 31,		
2015	$	17,498
2016		13,301
2017		11,249
2018		7,129
2019		4,167
Thereafter		9,108
Total minimum rental payments required	$	62,452

The Club is party to various claims and lawsuits arising in the normal course of business. There is one matter which a service provider has asserted punitive class claims against the Club for certain rendered services on behalf of itself and others. 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 entered into an agreement whereby the Club surrendered its 255 outstanding shares and 51% ownership in Lighthouse Risk 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 April 10, 2015, the date the consolidated financial statements were available to be issued.

Effective January 1, 2015, Pacific Lighthouse did not renew the reinsurance agreement with the IG as previously discussed in Note 4.