

SECURITY NATIONAL FINANCIAL CORP
Form 10-Q
November 13, 2015

UNITED STATES SECURITIES
AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2015, or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____

Commission file number: 000-09341

SECURITY NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

UTAH 87-0345941
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5300 South 360 West, Suite 250, Salt Lake City, Utah 84123
(Address of principal executive offices) (Zip Code)

(801) 264-1060
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting
company [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
[] No[X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class A Common Stock, \$2.00 par value</u>	<u>12,481,039</u>
Title of Class	Number of Shares Outstanding as of November 13, 2015

<u>Class C Common Stock, \$2.00 par value</u>	<u>1,507,465</u>
Title of Class	Number of Shares Outstanding as of November 13, 2015

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2015

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

Part I - Financial Information

Item 1. Financial Statements.

	September 30 2015	December 31 2014
Assets		
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 133,357,324	\$ 135,018,347
Equity securities, available for sale, at estimated fair value	7,208,726	6,752,750
Mortgage loans on real estate and construction loans, held for investment net of allowances for loan losses of \$1,856,694 and \$2,003,055 for 2015 and 2014	111,683,254	120,050,072
Real estate held for investment, net of accumulated depreciation of \$11,819,249 and \$10,875,419 for 2015 and 2014	112,661,696	111,411,351
Policy and other loans, net of allowances for doubtful accounts of \$888,807 and \$693,413 for 2015 and 2014	34,461,555	34,125,428
Short-term investments	19,980,369	27,059,495
Accrued investment income	2,496,538	2,483,253
Total investments	421,849,462	436,900,696
Cash and cash equivalents	71,895,929	30,855,320
Mortgage loans sold to investors	102,235,979	67,534,400
Receivables, net	17,332,863	14,544,093
Restricted assets	10,330,518	9,347,797
Cemetery perpetual care trust investments	2,776,516	2,645,423
Receivable from reinsurers	13,454,542	12,036,263
Cemetery land and improvements	10,819,136	10,848,085
Deferred policy and pre-need contract acquisition costs	56,978,862	50,307,503
Mortgage servicing rights, net	11,574,339	7,834,747
Property and equipment, net	10,256,086	11,307,714
Value of business acquired	9,041,840	8,547,627
Goodwill	2,765,570	2,765,570
Other	8,084,196	5,594,324
Total Assets	\$ 749,395,838	\$ 671,069,562

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)
(Unaudited)

	September 30 2015	December 31 2014
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$ 514,497,225	\$ 476,727,465
Unearned premium reserve	4,794,176	4,961,937
Bank and other loans payable	39,535,964	29,020,378
Deferred pre-need cemetery and mortuary contract revenues	12,919,510	13,242,143
Cemetery perpetual care obligation	3,466,190	3,406,718
Accounts payable	3,788,303	1,789,387
Other liabilities and accrued expenses	36,583,403	24,408,666
Income taxes	24,505,505	20,421,767
Total liabilities	640,090,276	573,978,461
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 12,481,039 shares in 2015 and 12,459,240 shares in 2014	24,962,078	24,918,480
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$2.00 par value; 2,000,000 shares authorized; issued 1,507,465 shares in 2015 and 1,394,069 shares in 2014	3,014,930	2,788,138
Additional paid-in capital	26,720,371	25,931,119
Accumulated other comprehensive income, net of taxes	1,851,881	1,438,566
Retained earnings	54,705,809	44,101,252
Treasury stock at cost - 884,375 Class A shares in 2015 and 986,264 Class A shares in 2014	(1,949,507)	(2,086,454)
Total stockholders' equity	109,305,562	97,091,101
Total Liabilities and Stockholders' Equity	\$ 749,395,838	\$ 671,069,562

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Revenues:				
Insurance premiums and other considerations	\$ 14,563,582	\$ 13,804,510	\$ 42,331,991	\$ 40,268,943
Net investment income	8,432,414	8,191,962	24,845,931	20,541,749
Net mortuary and cemetery sales	2,811,329	2,490,280	8,701,417	8,768,224
Realized gains on investments and other assets	1,352,778	429,910	2,273,618	968,755
Other than temporary impairments on investments	(56,290)	(383,776)	(167,497)	(443,776)
Mortgage fee income	46,923,321	36,235,813	133,475,149	93,546,650
Other	1,467,552	957,093	4,124,324	2,540,253
Total revenues	75,494,686	61,725,792	215,584,933	166,190,798
Benefits and expenses:				
Death benefits	7,584,209	6,641,923	23,628,492	20,400,042
Surrenders and other policy benefits	715,209	707,539	1,888,606	1,850,302
Increase in future policy benefits	4,620,413	5,278,079	12,840,591	14,492,604
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,338,084	1,854,041	3,683,437	4,750,976
Selling, general and administrative expenses:				
Commissions	21,263,606	17,134,597	63,037,164	43,880,642
Personnel	15,768,614	13,141,100	45,333,563	36,497,666
Advertising	1,503,476	1,135,913	4,428,192	3,409,971
Rent and rent related	1,979,767	1,625,624	5,794,633	4,425,105
Depreciation on property and equipment	553,048	574,323	1,663,172	1,605,871
Provision for loan losses and loss reserve	1,754,781	1,063,451	4,673,991	2,006,876
Costs related to funding mortgage loans	2,352,611	1,932,627	6,947,976	5,141,946
Other	6,606,960	5,886,301	19,674,568	16,339,983
Interest expense	1,191,627	954,610	3,551,242	2,238,722
Cost of goods and services sold-mortuaries and cemeteries	467,881	418,524	1,414,570	1,419,868
Total benefits and expenses	67,700,286	58,348,652	198,560,197	158,460,574
Earnings before income taxes	7,794,400	3,377,140	17,024,736	7,730,224
Income tax expense	(2,904,615)	(1,239,318)	(6,418,969)	(2,829,491)
Net earnings	\$ 4,889,785	\$ 2,137,822	\$ 10,605,767	\$ 4,900,733
Net earnings per Class A Equivalent common share (1)	\$ 0.37	\$ 0.17	\$ 0.81	\$ 0.39
Net earnings per Class A Equivalent common share-assuming dilution (1)	\$ 0.35	\$ 0.17	\$ 0.78	\$ 0.38
Weighted-average Class A equivalent common share outstanding (1)	13,146,617	12,455,314	13,023,962	12,487,646

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Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	13,775,102	12,924,765	13,598,186	12,931,350
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(1) Net earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

See accompanying notes to condensed consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Net earnings	\$4,889,785	\$2,137,822	\$10,605,767	\$4,900,733
Other comprehensive income (loss):				
Net unrealized gains (losses) on derivative instruments	(859,581)	(429,209)	1,427,072	333,725
Net unrealized gains (losses) on available for sale securities	(619,641)	(235,888)	(1,013,757)	(75,822)
Other comprehensive income (loss)	(1,479,222)	(665,097)	413,315	257,903
Comprehensive income	\$3,410,563	\$1,472,725	\$11,019,082	\$5,158,636

See accompanying notes to condensed consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2013	\$23,614,574	\$2,660,382	\$23,215,875	\$1,218,396	\$39,666,587	\$(2,624,625)	\$87,751,189
Net earnings	-	-	-	-	4,900,733	-	4,900,733
Other comprehensive income	-	-	-	257,903	-	-	257,903
Grant of stock options	-	-	237,398	-	-	-	237,398
Reverse stock split true up	-	30	-	-	(30)	-	-
Exercise of stock options	80,936	-	(22,864)	-	-	-	58,072
Sale of treasury stock	-	-	240,501	-	-	395,994	636,495
Dividends	3,446	(1)	4,910	-	(8,355)	-	-
Conversion Class C to Class A	2,772	(2,771)	(2)	-	-	-	(1)
Balance at September 30, 2014	\$23,701,728	\$2,657,640	\$23,675,818	\$1,476,299	\$44,558,935	\$(2,228,631)	\$93,841,789
Balance at December 31, 2014	\$24,918,480	\$2,788,138	\$25,931,119	\$1,438,566	\$44,101,252	\$(2,086,454)	\$97,091,101
Net earnings	-	-	-	-	10,605,767	-	10,605,767
Other comprehensive income	-	-	-	413,315	-	-	413,315
Grant of stock options	-	-	299,986	-	-	-	299,986
Exercise of stock options	41,862	228,046	(1,208)	-	-	(244,009)	24,691
Sale of treasury stock	-	-	489,746	-	-	380,956	870,702
Dividends	480	2	728	-	(1,210)	-	-

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Conversion Class C to Class A	1,256	(1,256)	-	-	-	-	-
Balance at September 30, 2015	\$24,962,078	\$3,014,930	\$26,720,371	\$1,851,881	\$54,705,809	\$(1,949,507)	\$109,305,562

See accompanying notes to condensed consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30	
	2015	2014
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$(3,677,377)	\$36,391,145
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(8,866,792)	(1,089,843)
Calls and maturities - fixed maturity securities	10,500,608	8,930,341
Securities available for sale:		
Purchase - equity securities	(3,457,180)	(4,859,850)
Sales - equity securities	1,823,404	2,679,292
Purchase of short-term investments	(31,768,007)	(15,166,706)
Sales of short-term investments	38,731,918	2,278,147
Purchases of restricted assets	(1,027,533)	(2,818,985)
Changes in assets for perpetual care trusts	(217,025)	(173,172)
Amount received for perpetual care trusts	59,472	97,207
Mortgage, policy, and other loans made	(272,667,236)	(212,307,189)
Payments received for mortgage, policy and other loans	278,315,445	177,332,341
Purchase of property and equipment	(2,286,053)	(1,093,783)
Sale of property and equipment	2,899,322	-
Purchase of real estate	(11,652,845)	(10,484,664)
Sale of real estate	11,194,483	3,491,378
Cash received from reinsurance	24,020,215	13,553,864
Cash paid for purchase of subsidiaries, net of cash acquired	-	(3,000,000)
Net cash provided by (used in) investing activities	35,602,196	(42,631,622)
Cash flows from financing activities:		
Annuity contract receipts	7,793,428	7,735,783
Annuity contract withdrawals	(9,249,285)	(11,079,789)
Proceeds from stock options exercised	24,691	58,072
Repayment of bank loans on notes and contracts	(1,583,942)	(1,772,665)
Proceeds from borrowing on bank loans	12,130,898	5,646,518
Net cash provided by financing activities	9,115,790	587,919
Net change in cash and cash equivalents	41,040,609	(5,652,558)
Cash and cash equivalents at beginning of period	30,855,320	38,203,164
Cash and cash equivalents at end of period	\$71,895,929	\$32,550,606
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	\$2,659,985	\$886,576

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10 Q and Articles 8 and 10 of Regulation S X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2014, included in the Company's Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015.

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 amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate and construction loans held for investment, those used in determining loan loss reserve, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

2) Recent Accounting Pronouncements

Accounting Standards Update ("ASU") No. 2014-11: "Transfers and Servicing - Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures (Topic 860)" – Issued in June 2014, ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The new authoritative guidance is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. This new guidance has not and will not have a significant impact on the Company's results of operations or financial position.

ASU No. 2014-09: "Revenue from Contracts with Customers (Topic 606)" - Issued in May 2014, ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts are excluded from the scope of this new guidance. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is in the process of evaluating the potential impact of this standard, which is not expected to be material to the Company's results of operations or financial position.

The Company has reviewed other recent accounting pronouncements and has determined that they will not significantly impact the Company's results of operations or financial position.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of September 30, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>September 30, 2015</u>				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S.				
Government agencies	\$1,860,138	\$340,699	\$-	\$2,200,837
Obligations of states and political subdivisions	1,808,183	220,697	(2,624)	2,026,256
Corporate securities including public utilities	126,024,969	11,952,326	(3,505,213)	134,472,082
Mortgage-backed securities	3,052,011	241,761	(6,855)	3,286,917
Redeemable preferred stock	612,023	27,529	-	639,552
Total fixed maturity securities held to maturity	\$133,357,324	\$12,783,012	\$(3,514,692)	\$142,625,644

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>September 30, 2015</u>				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$9,012,605	\$ 88,504	\$(1,892,383)	\$7,208,726
Total equity securities available for sale at estimated fair value	\$9,012,605	\$ 88,504	\$(1,892,383)	\$7,208,726
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$48,076,245			
Residential construction	28,862,660			
Commercial	36,601,043			
Less: Allowance for loan losses	(1,856,694)			
Total mortgage loans on real estate and construction loans held for investment	\$111,683,254			
Real estate held for investment - net of depreciation	\$112,661,696			
Policy and other loans at amortized cost:				
Policy loans	\$7,038,768			
Other loans	28,311,594			
Less: Allowance for doubtful accounts	(888,807)			
Total policy and other loans at amortized cost	\$34,461,555			
Short-term investments at amortized cost	\$19,980,369			

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2014 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2014:</u>				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S.				
Government agencies	\$1,873,146	\$345,715	\$-	\$2,218,861
Obligations of states and political subdivisions	1,736,489	221,893	(5,278)	1,953,104
Corporate securities including public utilities	126,533,483	15,841,536	(980,357)	141,394,662
Mortgage-backed securities	4,263,206	305,381	(11,894)	4,556,693
Redeemable preferred stock	612,023	22,032	-	634,055
Total fixed maturity securities held to maturity	\$135,018,347	\$16,736,557	\$(997,529)	\$150,757,375

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2014:</u>				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$7,179,010	\$393,873	\$(820,133)	\$6,752,750
Total securities available for sale carried at estimated fair value	\$7,179,010	\$393,873	\$(820,133)	\$6,752,750

Mortgage loans on real estate and construction loans held for
investment at amortized cost:

Residential	\$53,592,433
Residential construction	33,071,938
Commercial	35,388,756
Less: Allowance for loan losses	(2,003,055)

Total mortgage loans on real estate and construction loans
held for investment

\$120,050,072

Real estate held for investment - net of depreciation

\$111,411,351

Policy and other loans at amortized cost:

Policy loans	\$7,011,012
Other loans	27,807,829
Less: Allowance for doubtful accounts	(693,413)
Total policy and other loans at amortized cost	\$34,125,428
Short-term investments at amortized cost	\$27,059,495

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturity securities, which are carried at amortized cost, at September 30, 2015 and December 31, 2014. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
<u>At September 30, 2015</u>					
Obligations of states and political subdivisions	\$-	0	\$2,624	1	\$2,624
Corporate securities including public utilities	2,798,201	74	707,012	12	3,505,213
Mortgage-backed securities	6,855	2	-	0	6,855
Total unrealized losses	\$2,805,056	76	\$709,636	13	\$3,514,692
Fair Value	\$23,917,114		\$2,327,984		\$26,245,098
<u>At December 31, 2014</u>					
Obligations of states and political subdivisions	\$-	0	\$5,278	1	\$5,278
Corporate securities including public utilities	548,310	21	432,047	11	980,357
Mortgage-backed securities	3,966	1	7,928	1	11,894
Total unrealized losses	\$552,276	22	\$445,253	13	\$997,529
Fair Value	\$7,081,352		\$2,777,587		\$9,858,939

As of September 30, 2015, the average market value of the related fixed maturities was 88.2% of amortized cost and the average market value was 90.8% of amortized cost as of December 31, 2014. During the three months ended September 30, 2015 and 2014 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of \$30,000 and \$30,000, respectively, and for the nine months ended September 30, 2015 and 2014 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of \$90,000 and \$90,000, respectively.

On a quarterly basis, the Company reviews its fixed maturity investment securities related to corporate securities and other public utilities, consisting of bonds and preferred stocks that are in a loss position. The review involves an analysis of the securities in relation to historical values, and projected earnings and revenue growth rates. Based on the analysis, a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at September 30, 2015 and December 31, 2014. The unrealized losses were primarily the result of decreases in fair value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available-for-sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
<u>At September 30, 2015</u>					
Industrial, miscellaneous and all other	\$973,583	273	\$918,800	66	\$1,892,383
Total unrealized losses	\$973,583	273	\$918,800	66	\$1,892,383
Fair Value	\$4,723,167		\$802,547		\$5,525,714
<u>At December 31, 2014</u>					
Industrial, miscellaneous and all other	\$327,389	138	\$492,744	27	\$820,133
Total unrealized losses	\$327,389	138	\$492,744	27	\$820,133
Fair Value	\$2,162,425		\$676,706		\$2,839,131

As of September 30, 2015, the average market value of the equity securities available for sale was 74.5% of the original investment and the average market value was 77.6% of the original investment as of December 31, 2014. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During the three months ended September 30, 2015 and 2014, an other than temporary decline in the fair value resulted in the recognition of an impairment loss on equity securities of \$26,290 and \$-0-, respectively, and for the nine months ended September 30, 2015 and 2014, an other than temporary decline in the fair value resulted in the recognition of an impairment loss on equity securities of \$77,497 and \$-0-, respectively.

On a quarterly basis, the Company reviews its investment in industrial, miscellaneous and all other equity securities that are in a loss position. The review involves an analysis of the securities in relation to historical values, price earnings ratios, projected earnings and revenue growth rates. Based on the analysis a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized.

The fair values of fixed maturity securities are based on quoted market prices, when available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments. The fair values for equity securities are based on

quoted market prices.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at September 30, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2015	\$749,780	\$753,840
Due in 2016 through 2019	30,426,998	33,178,552
Due in 2020 through 2024	28,926,814	30,445,969
Due after 2024	69,589,698	74,320,814
Mortgage-backed securities	3,052,011	3,286,917
Redeemable preferred stock	612,023	639,552
Total held to maturity	\$133,357,324	\$142,625,644

The amortized cost and estimated fair value of available for sale securities at September 30, 2015, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equities are valued using the specific identification method.

	Cost	Estimated Fair Value
Available for Sale:		
Common stock	\$9,012,605	\$7,208,726
Total available for sale	\$9,012,605	\$7,208,726

The Company's realized gains and losses, other than temporary impairments from investments and other assets, are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
Fixed maturity securities held to maturity:				
Gross realized gains	\$15,279	\$211,403	\$374,337	\$258,951
Gross realized losses	(22,796)	(66,459)	(82,166)	(68,742)
Other than temporary impairments	(30,000)	(30,000)	(90,000)	(90,000)
Securities available for sale:				
Gross realized gains	35,009	77,386	165,018	214,303
Gross realized losses	(2,521)	(27,651)	(3,536)	(38,918)
Other than temporary impairments	(26,290)	-	(77,497)	-
Other assets:				

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Gross realized gains	1,731,939	352,151	2,187,271	720,082
Gross realized losses	(404,132)	(116,920)	(367,306)	(116,921)
Other than temporary impairments	-	(353,776)	-	(353,776)
Total	\$1,296,488	\$46,134	\$2,106,121	\$524,979

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)

The net carrying amount of held to maturity securities sold was \$2,543,312 and \$1,599,184 for the nine months ended September 30, 2015 and 2014, respectively. The net realized gain related to these sales was \$330,373 and \$18,051 for the nine months ended September 30, 2015 and 2014, respectively.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available for sale securities) at September 30, 2015, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2015	2014	2015	2014
Fixed maturity securities	\$2,014,014	\$2,036,407	\$6,139,698	\$6,212,852
Equity securities	61,238	73,110	175,954	163,109
Mortgage loans on real estate	1,754,852	2,216,711	5,396,016	5,605,882
Real estate	2,320,242	2,125,374	6,674,594	6,416,939
Policy loans	219,916	195,138	597,101	574,393
Short-term investments, principally gains on sale of mortgage loans and other	4,777,404	3,831,378	13,741,796	8,512,479
Gross investment income	11,147,666	10,478,118	32,725,159	27,485,654
Investment expenses	(2,715,252)	(2,286,156)	(7,879,228)	(6,943,905)
Net investment income	\$8,432,414	\$8,191,962	\$24,845,931	\$20,541,749

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of \$119,963 and \$96,370 for the three months ended September 30, 2015 and 2014, respectively, and \$306,449 and \$268,729 for the nine months ended September 30, 2015 and 2014, respectively.

Net investment income on real estate consists primarily of rental revenue.

Investment expenses consist primarily of depreciation, property taxes, operating expenses of real estate and an estimated portion of administrative expenses relating to investment activities.

Securities on deposit for regulatory authorities as required by law amounted to \$9,065,847 at September 30, 2015 and \$8,886,001 at December 31, 2014. The restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0% to 10.5%, maturity dates range from nine months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At September 30, 2015, the Company had 44%, 17%, 12%, 9%, and 5% of its mortgage loans from borrowers located in the states of Utah, California, Texas, Florida, and Oregon, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$1,856,694 and \$2,003,055 at September 30, 2015 and December 31, 2014, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)

The following is a summary of the allowance for loan losses as a contra-asset account for the periods presented:

Allowance for Credit Losses and Recorded Investment in Mortgage Loans

	Commercial	Residential	Residential Construction	Total
September 30, 2015				
Allowance for credit losses:				
Beginning balance - January 1, 2015	\$ 187,129	\$ 1,715,812	\$ 100,114	\$ 2,003,055
Charge-offs	-	-	-	-
Provision	-	(146,361)	-	(146,361)
Ending balance -September 30, 2015	\$ 187,129	\$ 1,569,451	\$ 100,114	\$ 1,856,694
Ending balance: individually evaluated for impairment	\$-	\$ 198,818	\$-	\$ 198,818
Ending balance: collectively evaluated for impairment	\$ 187,129	\$ 1,370,634	\$ 100,114	\$ 1,657,877
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$-	\$-
Mortgage loans:				
Ending balance	\$ 36,601,043	\$ 48,076,245	\$ 28,862,660	\$ 113,539,948
Ending balance: individually evaluated for impairment	\$-	\$ 2,989,318	\$-	\$ 2,989,318
Ending balance: collectively evaluated for impairment	\$ 36,601,043	\$ 45,086,928	\$ 28,862,660	\$ 110,550,631
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$-	\$-
December 31, 2014				
Allowance for credit losses:				
Beginning balance - January 1, 2014	\$ 187,129	\$ 1,364,847	\$ 100,114	\$ 1,652,090
Charge-offs	-	(38,444)	-	(38,444)
Provision	-	389,409	-	389,409
Ending balance - December 31, 2014	\$ 187,129	\$ 1,715,812	\$ 100,114	\$ 2,003,055
Ending balance: individually evaluated for impairment	\$-	\$ 153,446	\$-	\$ 153,446
Ending balance: collectively evaluated for impairment	\$ 187,129	\$ 1,562,366	\$ 100,114	\$ 1,849,609
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$-	\$-
Mortgage loans:				

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Ending balance	\$35,388,756	\$53,592,433	\$33,071,938	\$122,053,127
Ending balance: individually evaluated for impairment	\$-	\$1,556,182	\$414,499	\$1,970,681
Ending balance: collectively evaluated for impairment	\$35,388,756	\$52,036,251	\$32,657,439	\$120,082,446
Ending balance: loans acquired with deteriorated credit quality	\$-	\$-	\$-	\$-

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)

The following is a summary of the aging of mortgage loans for the periods presented:

Analysis of Past Due Mortgage Loans

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (1)	In Foreclosure (1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses	Net Mortgage Loans
September 30, 2015									
Commercial	\$-	\$-	\$-	\$-	\$-	\$36,601,043	\$36,601,043	\$(187,129)	\$36,413,914
Residential	1,183,084	960,999	2,207,683	2,989,318	7,341,084	40,735,161	48,076,245	(1,569,451)	46,506,794
Residential Construction	-	-	64,895	-	64,895	28,797,765	28,862,660	(100,114)	28,762,546
	\$1,183,084	\$960,999	\$2,272,578	\$2,989,318	\$7,405,979	\$106,133,969	\$113,539,948	\$(1,856,694)	\$111,683,254
September 30, 2014									
Commercial	\$-	\$-	\$-	\$-	\$-	\$35,388,756	\$35,388,756	\$(187,129)	\$35,201,627
Residential	1,631,142	1,174,516	5,464,901	1,556,182	9,826,741	43,765,692	53,592,433	(1,715,812)	51,876,621
Residential Construction	-	-	64,895	414,499	479,394	32,592,544	33,071,938	(100,114)	32,971,824
	\$1,631,142	\$1,174,516	\$5,529,796	\$1,970,681	\$10,306,135	\$111,746,992	\$122,053,127	\$(2,003,055)	\$120,050,072

Interest income is not recognized on loans past due greater than 90 days or in foreclosure.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)Impaired Mortgage Loans

Impaired mortgage loans include loans with a related specific valuation allowance or loans whose carrying amount has been reduced to the expected collectible amount because the impairment has been considered other than temporary. The recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, for each reporting period and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

Impaired Loans

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2015					
With no related allowance recorded:					
Commercial	\$-	\$-	\$-	\$-	\$ -
Residential	-	-	-	-	-
Residential construction	-	-	-	-	-
With an allowance recorded:					
Commercial	\$-	\$-	\$-	\$-	\$ -
Residential	2,989,318	2,989,318	198,818	2,989,318	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$-	\$-	\$-	\$-	\$ -
Residential	2,989,318	2,989,318	198,818	2,989,318	-
Residential construction	-	-	-	-	-
December 31, 2014					
With no related allowance recorded:					
Commercial	\$-	\$-	\$-	\$-	\$ -
Residential	-	-	-	-	-
Residential construction	414,499	414,499	-	414,499	-
With an allowance recorded:					
Commercial	\$-	\$-	\$-	\$-	\$ -
Residential	1,556,182	1,556,182	153,446	1,556,182	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$-	\$-	\$-	\$-	\$ -
Residential	1,556,182	1,556,182	153,446	1,556,182	-
Residential construction	414,499	414,499	-	414,499	-

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3). Investments (Continued)Credit Risk Profile Based on Performance Status

The Company's mortgage loan portfolio is monitored based on performance of the loans. Monitoring a mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment. The Company defines non-performing mortgage loans as loans 90 days past due or on non-accrual status.

The Company's performing and non-performing mortgage loans were as follows:

Mortgage Loan Credit Exposure

Credit Risk Profile Based on Payment Activity

	Commercial		Residential		Residential Construction		Total	
	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Performing	\$36,601,043	\$35,388,756	\$42,879,244	\$46,571,350	\$28,797,765	\$32,592,544	\$108,278,052	\$114,552,650
Nonperforming	-	-	5,197,001	7,021,083	64,895	479,394	5,261,896	7,500,477
Total	\$36,601,043	\$35,388,756	\$48,076,245	\$53,592,433	\$28,862,660	\$33,071,938	\$113,539,948	\$122,053,127

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the Company's policy to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals \$571,000 and \$535,000 as of September 30, 2015 and December 31, 2014, respectively.

The following is a summary of mortgage loans on a nonaccrual status for the periods presented.

	Mortgage Loans on Nonaccrual Status	
	As of September 30 2015	As of December 31 2014
Residential	\$5,197,001	\$7,021,083
Residential construction	64,895	479,394
Total	\$5,261,896	\$7,500,477

Loan Loss Reserve

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors.

The loan loss reserve analysis involves mortgage loans that have been sold to third party investors where the Company has received a demand from the investor. There are generally three types of demands: make whole, repurchase, or indemnification. These types of demands are more particularly described as follows:

Make whole demand – A make whole demand occurs when an investor forecloses on a property and then sells the property. The make whole amount is calculated as the difference between the original unpaid principal balance, accrued interest and fees, less the sale proceeds.

Repurchase demand – A repurchase demand usually occurs when there is a significant payment default, error in underwriting or detected loan fraud.

Indemnification demand – On certain loans the Company has negotiated a set fee that is to be paid in lieu of repurchase. The fee varies by investor and by loan product type.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

3) Investments (Continued)

When a repurchase demand is received from a third party investor, the relevant data is reviewed and captured so that an estimated future loss can be calculated. The key factors that are used in the estimated loss calculation are as follows: (i) lien position, (ii) payment status, (iii) claim type, (iv) unpaid principal balance, (v) interest rate, and (vi) validity of the demand. Other data is captured and is useful for management purposes; the actual estimated loss is generally based on these key factors. The Company conducts its own review upon the receipt of a repurchase demand. In many instances, the Company is able to resolve the issues relating to the repurchase demand by the third party investor without having to make any payments to the investor.

The following is a summary of the loan loss reserve that is included in other liabilities and accrued expenses:

	As of September 30 2015	As of December 31 2014
Balance, beginning of period	\$1,718,150	\$5,506,532
Provisions for losses	4,673,991	3,053,403
Charge-offs	(640,990)	(6,841,785)
Balance, end of period	\$5,751,151	\$1,718,150

The Company believes the loan loss reserve represents probable loan losses incurred as of the balance sheet date. Actual loan loss experience could change, in the near-term, from the established reserve based upon claims that could be asserted by third party investors. SecurityNational Mortgage believes there is potential to resolve any alleged claims by third party investors on acceptable terms. If SecurityNational Mortgage is unable to resolve such claims on acceptable terms, legal action may ensue. In the event of legal action by any third party investor, SecurityNational Mortgage believes it has significant defenses to any such action and intends to vigorously defend itself against such action.

4) Stock-Based Compensation

The Company has four fixed option plans (the "2003 Plan", the "2006 Director Plan", the "2013 Plan" and the "2014 Director Plan"). Compensation expense for options issued of \$88,510 and \$108,872 has been recognized for these plans for the three months ended September 30, 2015 and 2014, respectively, and \$299,986 and \$237,398 for the nine months ended September 30, 2015 and 2014, respectively. As of September 30, 2015, the total unrecognized compensation expense related to the options issued in December 2014 was \$61,645, which is expected to be recognized over the vesting period of one year. At the Annual Meeting of Stockholders of the Company, held on July 1, 2015, the Company's stockholders approved an amendment to the Company's "2013 Plan" to authorize an additional 450,000 shares of Class A common stock to be available for issuance under the plan, of which up to 200,000 shares of Class A common shares may be issued as up to 200,000 shares of Class C common stock.

The Company generally estimates the expected life of the options based upon the contractual term of the options adjusted for actual experience. Future volatility is estimated based upon the a weighted historical volatility of the Company's Class A common stock and three peer company stocks over a period equal to the estimated life of the options. Common stock issued upon exercise of stock options are generally new share issuances rather than from treasury shares.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

4) Stock Based Compensation (Continued)

A summary of the status of the Company's stock incentive plans as of September 30, 2015, and the changes during the nine months ended September 30, 2015, are presented below:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares	Weighted Average Exercise Price
Outstanding at December 31, 2014	512,795	\$ 3.20	691,591	\$ 2.00
Granted	-		-	
Exercised	(23,820)	1.85	(114,023)	2.14
Cancelled	(8,846)	2.31	-	
Outstanding at September 30, 2015	480,129	\$ 3.28	577,568	\$ 2.62
As of September 30, 2015:				
Options exercisable	447,571	\$ 3.17	550,693	\$ 2.51
As of September 30, 2015:				
Available options for future grant	561,649		155,000	
Weighted average contractual term of options outstanding at September 30, 2015	7.15 years		2.43 years	
Weighted average contractual term of options exercisable at September 30, 2015	7.00 years		2.35 years	
Aggregated intrinsic value of options outstanding at September 30, 2015 (1)	\$1,646,768		\$2,363,921	
Aggregated intrinsic value of options exercisable at September 30, 2015 (1)	\$1,583,605		\$2,312,190	

(1) The Company used a stock price of \$6.71 as of September 30, 2015 to derive intrinsic value.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 (Unaudited)

4) Stock Based Compensation (Continued)

A summary of the status of the Company's stock incentive plans as of September 30, 2014, and the changes during the nine months ended September 30, 2014, are presented below:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares	Weighted Average Exercise Price
Outstanding at December 31, 2013	405,133	\$ 2.41	508,656	\$ 2.00
Granted	52,000	4.29	50,000	4.72
Exercised	(40,468)	1.66	-	
Cancelled	(8,201)	2.29	-	
Outstanding at September 30, 2014	408,464	\$ 2.75	558,656	\$ 2.25

As of September 30, 2014: