

SECURITY NATIONAL FINANCIAL CORP  
Form 10-Q  
May 15, 2015

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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 March 31, 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  
(State or other jurisdiction of incorporation or  
organization)

87-0345941  
(I.R.S. Employer Identification No.)

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

84123  
(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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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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.

Class A Common Stock, \$2.00 par value	12,460,012
Title of Class	Number of Shares Outstanding as of May 15, 2015

Class C Common Stock, \$2.00 par value	1,507,561
Title of Class	Number of Shares Outstanding as of May 15, 2015

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q

QUARTER ENDED MARCH 31, 2015

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

Part I - Financial Information

Item 1. Financial Statements.

	March 31 2015	December 31 2014
Assets		
<b>Investments:</b>		
Fixed maturity securities, held to maturity, at amortized cost	\$ 133,271,030	\$ 135,018,347
Equity securities, available for sale, at estimated fair value	6,383,502	6,752,750
Mortgage loans on real estate and construction loans, held for investment net of allowances for loan losses of \$1,902,396 and \$2,003,055 for 2015 and 2014	125,894,443	120,050,072
Real estate held for investment, net of accumulated depreciation of \$11,367,721 and \$10,875,419 for 2015 and 2014	113,025,790	111,411,351
Policy and other loans, net of allowances for doubtful accounts of \$813,223 and \$693,413 for 2015 and 2014	39,184,250	34,125,428
Short-term investments	20,620,236	27,059,495
Accrued investment income	2,677,827	2,483,253
Total investments	441,057,078	436,900,696
Cash and cash equivalents	40,744,607	30,855,320
Mortgage loans sold to investors	75,008,520	67,534,400
Receivables, net	18,234,132	14,544,093
Restricted assets	9,825,819	9,347,797
Cemetery perpetual care trust investments	2,682,193	2,645,423
Receivable from reinsurers	12,125,018	12,036,263
Cemetery land and improvements	10,834,072	10,848,085
Deferred policy and pre-need contract acquisition costs	51,844,676	50,307,503
Mortgage servicing rights, net	8,562,488	7,834,747
Property and equipment, net	11,116,818	11,307,714
Value of business acquired	8,362,827	8,547,627
Goodwill	2,765,570	2,765,570
Other	8,614,373	5,594,324
<b>Total Assets</b>	<b>\$ 701,778,191</b>	<b>\$ 671,069,562</b>

See accompanying notes to condensed consolidated financial statements.

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

	March 31 2015	December 31 2014
Liabilities and Stockholders' Equity		
<b>Liabilities</b>		
Future life, annuity, and other benefits	\$495,457,718	\$476,727,465
Unearned premium reserve	4,895,716	4,961,937
Bank and other loans payable	29,437,989	29,020,378
Deferred pre-need cemetery and mortuary contract revenues	13,129,651	13,242,143
Cemetery perpetual care obligation	3,421,452	3,406,718
Accounts payable	5,086,123	1,789,387
Other liabilities and accrued expenses	27,381,095	24,408,666
Income taxes	22,395,997	20,421,767
Total liabilities	601,205,741	573,978,461
<b>Stockholders' Equity</b>		
<b>Common Stock:</b>		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 12,460,012 shares in 2015 and 12,459,240 shares in 2014	24,920,024	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 1,507,561 shares in 2015 and 1,394,069 shares in 2014	3,015,122	2,788,138
Additional paid-in capital	26,167,974	25,931,119
Accumulated other comprehensive income, net of taxes	2,730,333	1,438,566
Retained earnings	45,963,745	44,101,252
Treasury stock at cost - 987,407 Class A shares in 2015 and 986,264 Class A shares in 2014	(2,224,748 )	(2,086,454 )
Total stockholders' equity	100,572,450	97,091,101
Total Liabilities and Stockholders' Equity	\$701,778,191	\$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 March	
	31	
	2015	2014
Revenues:		
Insurance premiums and other considerations	\$ 13,853,515	\$ 13,129,447
Net investment income	7,822,844	5,642,500
Net mortuary and cemetery sales	2,872,235	2,831,062
Realized gains on investments and other assets	420,064	198,993
Other than temporary impairments on investments	(55,896 )	(30,000 )
Mortgage fee income	37,821,800	22,537,538
Other	1,315,070	743,736
Total revenues	64,049,632	45,053,276
Benefits and expenses:		
Death benefits	7,927,872	6,675,493
Surrenders and other policy benefits	653,734	515,612
Increase in future policy benefits	4,179,812	4,367,443
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,167,499	1,403,642
Selling, general and administrative expenses:		
Commissions	18,566,047	10,560,881
Personnel	14,313,316	11,497,168
Advertising	1,416,290	772,013
Rent and rent related	1,885,076	1,343,443
Depreciation on property and equipment	562,737	497,202
Provision for loan losses and loss reserve	666,739	372,093
Costs related to funding mortgage loans	2,183,011	1,297,685
Other	6,085,503	4,596,451
Interest expense	985,346	497,864
Cost of goods and services sold-mortuaries and cemeteries	458,266	490,299
Total benefits and expenses	61,051,248	44,887,289
Earnings before income taxes	2,998,384	165,987
Income tax expense	(1,134,681 )	(27,139 )
Net earnings	\$ 1,863,703	\$ 138,848
Net earnings per Class A Equivalent common share (1)	\$0.14	\$0.01
Net earnings per Class A Equivalent common share-assuming dilution (1)	\$0.14	\$0.01
Weighted-average Class A equivalent common share outstanding (1)	12,934,816	12,400,954
	13,469,900	12,863,895

Weighted-average Class A equivalent common shares outstanding-assuming dilution

(1)

(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	
	March 31	
	2015	2014
Net earnings	\$1,863,703	\$138,848
Other comprehensive income:		
Net unrealized gains on derivative instruments	1,520,023	278,230
Net unrealized gains (losses) on available for sale securities	(228,256 )	37,905
Other comprehensive income	1,291,767	316,135
Comprehensive income	\$3,155,470	\$454,983

See accompanying notes to condensed consolidated financial statements.

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 (Loss)	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	-	-	-	-	138,848	-	138,848
Other comprehensive income	-	-	-	316,135	-	-	316,135
Grant of stock options	-	-	64,325	-	-	-	64,325
Exercise of stock options	69,910	-	(19,611 )	-	-	-	50,299
Sale of treasury stock	-	-	76,478	-	-	105,327	181,805
Stock Dividends	3,446	(1 )	4,910	-	(8,355 )	-	-
Conversion Class C to Class A	1,424	(1,423 )	(1 )	-	-	-	-
Balance at March 31, 2014	\$23,689,354	\$2,658,958	\$23,341,976	\$1,534,531	\$39,797,080	\$(2,519,298)	\$88,502,601
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	-	-	-	-	1,863,703	-	1,863,703
Other comprehensive income	-	-	-	1,291,767	-	-	1,291,767
Grant of stock options	-	-	85,545	-	-	-	85,545
Exercise of stock options	-	228,046	15,963	-	-	(244,009 )	-
Sale of treasury stock	-	-	134,619	-	-	105,715	240,334
Stock Dividends	480	2	728	-	(1,210 )	-	-

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Conversion								
Class C to								
Class A	1,064	(1,064 )	-	-	-	-	-	-
Balance at								
March 31, 2015	\$24,920,024	\$3,015,122	\$26,167,974	\$2,730,333	\$45,963,745	\$(2,224,748)	#####	

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March	
	2015	2014
Cash flows from operating activities:		
Net cash provided by operating activities	\$711,854	\$22,716,675
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(720,168 )	-
Calls and maturities - fixed maturity securities	2,423,142	1,482,142
Securities available for sale:		
Purchase - equity securities	(970,123 )	(2,078,830 )
Sales - equity securities	1,115,336	666,524
Purchase of short-term investments	(19,289,330)	(4,995,216 )
Sales of short-term investments	25,728,589	312,659
Sales (purchases) of restricted assets	(477,434 )	94,028
Changes in assets for perpetual care trusts	(77,547 )	(59,880 )
Amount received for perpetual care trusts	14,734	43,305
Mortgage, policy, and other loans made	(98,936,237)	(49,908,636)
Payments received for mortgage, policy and other loans	85,963,685	33,846,466
Purchase of property and equipment	(371,843 )	(275,002 )
Purchase of real estate	(1,695,631 )	(2,139,341 )
Sale of real estate	1,924,500	1,247,104
Cash received from reinsurance	15,113,391	7,304,993
Net cash provided by (used in) investing activities	9,745,064	(14,459,684)
Cash flows from financing activities:		
Annuity contract receipts	2,507,650	2,524,342
Annuity contract withdrawals	(3,496,843 )	(3,647,370 )
Proceeds from stock options exercised	-	50,299
Repayment of bank loans on notes and contracts	(607,286 )	(588,471 )
Proceeds from borrowing on bank loans	1,028,848	30,159
Net cash used in financing activities	(567,631 )	(1,631,041 )
Net change in cash and cash equivalents	9,889,287	6,625,950
Cash and cash equivalents at beginning of period	30,855,320	38,203,164
Cash and cash equivalents at end of period	\$40,744,607	\$44,829,114
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	\$2,389,330	\$-

See accompanying notes to condensed consolidated financial statements.



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 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 three months ended March 31, 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. Early adoption is prohibited. 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, 2016. 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.

ASU No. 2014-14: "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)" - In January 2014, ASU No. 2014-14 amended ASC Topic 310, "Receivables" to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and did not have a significant impact on 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  
March 31, 2015 (Unaudited)

## 3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of March 31, 2015 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2015				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 1,870,964	\$ 361,034	\$ -	\$ 2,231,998
Obligations of states and political subdivisions	1,984,709	247,576	(4,322 )	2,227,963
Corporate securities including public utilities	124,944,246	16,894,360	(830,091)	141,008,515
Mortgage-backed securities	3,859,088	311,980	(467 )	4,170,601
Redeemable preferred stock	612,023	35,937	-	647,960
Total fixed maturity securities held to maturity	\$ 133,271,030	\$ 17,850,887	\$ (834,880)	\$ 150,287,037



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 2015 (Unaudited)

## 3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2015				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 7,095,225	\$ 298,891	\$ (1,010,614)	\$ 6,383,502
Total equity securities available for sale at estimated fair value	\$ 7,095,225	\$ 298,891	\$ (1,010,614)	\$ 6,383,502
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 52,045,350			
Residential construction	29,684,359			
Commercial	46,067,130			
Less: Allowance for loan losses	(1,902,396 )			
Total mortgage loans on real estate and construction loans held for investment	\$ 125,894,443			
Real estate held for investment - net of depreciation	\$ 113,025,790			
Policy and other loans at amortized cost:				
Policy loans	\$ 7,187,804			
Other loans	32,809,669			
Less: Allowance for doubtful accounts	(813,223 )			
	\$ 39,184,250			

Total policy and other  
loans at amortized cost

Short-term investments at  
amortized cost           \$ 20,620,236

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
December 31, 2014:				
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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 2015 (Unaudited)

## 3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2014:				
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  
March 31, 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 March 31, 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
<b>At March 31 2015</b>					
Obligations of states and political subdivisions	\$-		\$4,322	1	\$4,322
Corporate securities including public utilities	566,310	23	263,781	10	830,091
Mortgage-backed securities	467	1	-		467
Total unrealized losses	\$566,777	24	\$268,103	11	\$834,880
Fair Value	\$9,346,785		\$2,522,624		\$11,869,409
<b>At December 31, 2014</b>					
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 March 31, 2015, the average market value of the related fixed maturities was 93.4% of amortized cost and the average market value was 90.8% of amortized cost as of December 31, 2014. During the three months ended March 31, 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 for each reporting period.

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  
March 31, 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 March 31, 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
At March 31, 2015					
Industrial, miscellaneous and all other	\$ 461,641	158	\$ 548,973	28	\$ 1,010,614
Total unrealized losses	\$ 461,641	158	\$ 548,973	28	\$ 1,010,614
Fair Value	\$ 2,444,324		\$ 609,689		\$ 3,054,013
At December 31, 2014					
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 March 31, 2015, the average market value of the equity securities available for sale was 75.1% 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 March 31, 2015 and 2014, an other than temporary decline in the fair value resulted in the recognition of an impairment loss on equity securities of \$25,896 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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## 3) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at March 31, 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	\$ 3,816,196	\$ 3,880,262
Due in 2016 through 2019	33,339,908	36,890,422
Due in 2020 through 2024	25,469,059	28,347,845
Due after 2024	66,174,756	76,349,947
Mortgage-backed securities	3,859,088	4,170,601
Redeemable preferred stock	612,023	647,960
Total held to maturity	\$ 133,271,030	\$ 150,287,037

The amortized cost and estimated fair value of available for sale securities at March 31, 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	\$ 7,095,225	\$ 6,383,502
Total available for sale	\$ 7,095,225	\$ 6,383,502

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

	Three Months Ended March 31	
	2015	2014
Fixed maturity securities held to maturity:		
Gross realized gains	\$ 85,997	\$ -
Gross realized losses	(9,776 )	-
Other than temporary impairments	(30,000 )	(30,000 )
Securities available for sale:		
Gross realized gains	87,720	53,253
Gross realized losses	(1,016 )	-
Other than temporary impairments	(25,896 )	-
Other assets:		



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Gross realized gains	257,139	145,740
Gross realized losses	-	-
Other than temporary impairments	-	-
Total	\$ 364,168	\$ 168,993

The net carrying amount of held to maturity securities sold was \$257,962 and \$-0- for the three months ended March 31, 2015 and 2014, respectively. The net realized gain related to these sales was \$8,962 and \$-0- for the three months ended March 31, 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 March 31, 2015, other than investments issued or guaranteed by the United States Government.

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## 3) Investments (Continued)

Major categories of net investment income are as follows:

	Three Months Ended March 31	
	2015	2014
Fixed maturity securities	\$ 1,980,696	\$ 2,109,121
Equity securities	59,418	39,247
Mortgage loans on real estate	1,850,626	1,552,110
Real estate	1,623,741	1,689,595
Policy and other loans	188,546	197,568
Short-term investments, principally gains on sale of mortgage loans and other	4,225,785	1,899,113
Gross investment income	9,928,812	7,486,754
Investment expenses	(2,105,968)	(1,844,254)
Net investment income	\$ 7,822,844	\$ 5,642,500

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of \$92,922 and \$94,745 for the three months ended March 31, 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 \$9,310,227 at March 31, 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 six 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 March 31, 2015, the Company had 39%, 19%, 13%, 8%, and 6% of its mortgage loans from borrowers located in the states of Utah, California, Texas, Florida, and Nevada, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$1,902,396 and \$2,003,055 at March 31, 2015 and December 31, 2014, respectively.



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## 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
March 31, 2015				
Allowance for credit losses:				
Beginning balance				
- January 1, 2015	\$ 187,129	\$ 1,715,812	\$ 100,114	\$ 2,003,055
Charge-offs	-	-	-	-
Provision	-	(100,659 )	-	(100,659 )
Ending balance				
-March 31, 2015	\$ 187,129	\$ 1,615,153	\$ 100,114	\$ 1,902,396
Ending balance: individually evaluated for impairment	\$ -	\$ 245,952	\$ -	\$ 245,952
Ending balance: collectively evaluated for impairment	\$ 187,129	\$ 1,369,201	\$ 100,114	\$ 1,656,444
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -
Mortgage loans:				
Ending balance	\$ 46,067,130	\$ 52,045,350	\$ 29,684,359	\$ 127,796,839
Ending balance: individually evaluated for impairment	\$ -	\$ 2,544,731	\$ -	\$ 2,544,731
Ending balance: collectively evaluated for impairment	\$ 46,067,130	\$ 49,500,619	\$ 29,684,359	\$ 125,252,108

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:				
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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## 3) Investments (Continued)

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

## Age 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
March 31, 2015								
Commercial	\$-	\$272,934	\$-	\$-	\$272,934	\$45,794,196	\$46,067,130	\$(187,129)
Residential	1,092,140	706,753	4,107,831	2,544,731	8,451,455	43,593,895	52,045,350	(1,615,153)
Residential Construction	-	25,049	64,895	-	89,944	29,594,415	29,684,359	(100,114)
<b>Total</b>	<b>\$1,092,140</b>	<b>\$1,004,736</b>	<b>\$4,172,726</b>	<b>\$2,544,731</b>	<b>\$8,814,333</b>	<b>\$118,982,506</b>	<b>\$127,796,839</b>	<b>\$(1,902,390)</b>
December 31, 2014								
Commercial	\$-	\$-	\$-	\$-	\$-	\$35,388,756	\$35,388,756	\$(187,129)
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)
Residential Construction	-	-	64,895	414,499	479,394	32,592,544	33,071,938	(100,114)
<b>Total</b>	<b>\$1,631,142</b>	<b>\$1,174,516</b>	<b>\$5,529,796</b>	<b>\$1,970,681</b>	<b>\$10,306,135</b>	<b>\$111,746,992</b>	<b>\$122,053,127</b>	<b>\$(2,003,055)</b>

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

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## 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
March 31, 2015					
With no related allowance recorded:					
Commercial	\$-	\$-	\$-	\$-	\$-
Residential	-	-	-	-	-
Residential construction	-	-	-	-	-
With an allowance recorded:					
Commercial	\$-	\$-	\$-	\$-	\$-
Residential	2,544,731	2,544,731	245,952	2,544,731	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$-	\$-	\$-	\$-	\$-
Residential	2,544,731	2,544,731	245,952	2,544,731	-
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	-

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## 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	
	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31, 2014	March 31, 2015	December 31,
Performing	\$46,067,130	\$35,388,756	\$45,392,788	\$46,571,350	\$29,619,464	\$32,592,544	\$121,079,382	\$114,5
Nonperforming	-	-	6,652,562	7,021,083	64,895	479,394	6,717,457	7,500
Total	\$46,067,130	\$35,388,756	\$52,045,350	\$53,592,433	\$29,684,359	\$33,071,938	\$127,796,839	\$122,0

## 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 \$534,000 and \$535,000 as of March 31, 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 March 31 2015	As of December 31 2014
Residential	\$ 6,652,562	\$ 7,021,083
Residential construction	64,895	479,394
Total	\$ 6,717,457	\$ 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.

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.

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## 3) Investments (Continued)

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

	As of March 31 2015	As of December 31 2014
Balance, beginning of period	\$ 1,718,150	\$ 5,506,532
Provisions for losses	666,739	3,053,403
Charge-offs	(173,106 )	(6,841,785)
Balance, end of period	\$ 2,211,783	\$ 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 \$85,545 and \$64,325 has been recognized for these plans for the three months ended March 31, 2015 and 2014, respectively. As of March 31, 2015, the total unrecognized compensation expense related to the options issued in December 2014 and July 2014 were \$235,086 and \$44,356, respectively, which are expected to be recognized over the vesting periods of one year.

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.

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## 4) Stock Based Compensation (Continued)

A summary of the status of the Company's stock incentive plans as of March 31, 2015, and the changes during the three months ended March 31, 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	-		(114,023 )	2.14
Cancelled	(8,846 )	2.31	-	
Outstanding at March 31, 2015	503,949	\$ 3.21	577,568	\$ 2.62
As of March 31, 2015:				
Options exercisable	379,946	\$ 2.75	471,943	\$ 2.15
As of March 31, 2015:				
Available options for future grant	266,649		-	
Weighted average contractual term of options outstanding at March 31, 2015				
	7.57 years		2.93 years	
Weighted average contractual term of options exercisable at March 31, 2015				
	6.91 years		2.30 years	
Aggregated intrinsic value of options outstanding at March 31, 2015 (1)				
	\$ 1,076,880		\$ 1,572,653	
Aggregated intrinsic value of options exercisable at March 31, 2015 (1)				
	\$ 988,022		\$ 1,506,415	

(1) The Company used a stock price of \$5.34 as of March 31, 2015 to derive intrinsic value.

The total intrinsic value (which is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date) of stock options exercised during the three months ended March 31, 2015 and

2014 was \$438,989 and \$-0-, respectively.

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## 5) Earnings Per Share

The basic and diluted earnings per share amounts were calculated as follows:

	Three Months Ended March 31	
	2015	2014
<b>Numerator:</b>		
Net earnings	\$ 1,863,703	\$ 138,848
<b>Denominator:</b>		
Basic weighted-average shares outstanding	12,934,816	12,400,954
<b>Effect of dilutive securities:</b>		
Employee stock options	535,084	462,941
Diluted weighted-average shares outstanding	13,469,900	12,863,895
Basic net earnings per share	\$ 0.14	\$ 0.01
Diluted net earnings per share	\$ 0.14	\$ 0.01

Net earnings per share amounts have been adjusted for the effect of annual stock dividends. For the three months ended March 31, 2015 and 2014, there were 4,632 and 615,472 of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive.

## 6) Business Segments

## Description of Products and Services by Segment

The Company has three reportable business segments: life insurance, cemetery and mortuary, and mortgage. The Company's life insurance segment consists of life insurance premiums and operating expenses from the sale of insurance products sold by the Company's independent agency force and net investment income derived from investing policyholder and segment surplus funds. The Company's cemetery and mortuary segment consists of revenues and operating expenses from the sale of at-need cemetery and mortuary merchandise and services at its mortuaries and cemeteries, pre-need sales of cemetery spaces after collection of 10% or more of the purchase price and the net investment income from investing segment surplus funds. The Company's mortgage segment consists of loan fee income and expenses from the originations of residential and commercial mortgage loans and interest earned and interest expenses from warehousing pre-sold loans before the funds are received from financial institutional investors.

## Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the Significant Accounting Principles of the form 10K for the year ended December 31, 2014. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

Factors Management Used to Identify the Enterprise's Reportable Segments

The Company's reportable segments are business units that offer different products and are managed separately due to the different products and the need to report to the various regulatory jurisdictions.



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## 6) Business Segments (Continued)

	Life Insurance	Cemetery/ Mortuary	Mortgage	Eliminations	Consolidated
For the Three Months Ended March 31, 2015					
Revenues from external customers	\$20,985,500	\$3,098,238	\$39,965,894	\$-	\$64,049,632
Intersegment revenues	2,818,867	311,998	88,487	(3,219,352 )	-
Segment profit before income taxes	1,403,851	409,175	1,185,358	-	2,998,384
Identifiable Assets	677,059,957	104,778,721	62,765,551	(142,826,038)	701,778,191
Goodwill	2,765,570	-	-	-	2,765,570
For the Three Months Ended March 31, 2014					
Revenues from external customers	\$18,472,816	\$3,040,568	\$23,539,892	\$-	\$45,053,276
Intersegment revenues	2,061,720	336,298	164,146	(2,562,164 )	-
Segment profit before income taxes	1,331,469	182,778	(1,348,260 )	-	165,987
Identifiable Assets	604,260,546	108,627,471	49,375,595	(135,523,285)	626,740,327
Goodwill	391,848	285,191	-	-	677,039

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7) Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. Fair value measurements are classified under the following hierarchy:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that we can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets; or
- c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect our estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The Company utilizes a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

The following methods and assumptions were used by the Company in estimating the fair value disclosures related to other significant financial instruments:

The items shown under Level 1 and Level 2 are valued as follows:

Securities Available for Sale and Held to Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 3 of the Notes to Condensed Consolidated Statements.

Restricted Assets: A portion of these assets include mutual funds and equity securities that have quoted market prices. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Cemetery Perpetual Care Trust Investments: A portion of these assets include equity securities that have quoted market prices. Also included are cash and cash equivalents. The carrying amounts reported in the accompanying

consolidated balance sheet for these financial instruments approximate their fair values.

Call and Put Options: The Company uses quoted market prices to value its call and put options.

The items shown under Level 3 are valued as follows:

**Policyholder Account Balances and Future Policy Benefits-Annuities:** Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 4% to 6.5%. The fair values for the Company's liabilities under investment-type insurance contracts (disclosed as policyholder account balances and future policy benefits – annuities) are estimated based on the contracts' cash surrender values.

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7) Fair Value of Financial Instruments (Continued)

The fair values for the Company's insurance contracts other than investment-type contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts.

**Interest Rate Lock Commitments:** The Company's mortgage banking activities enters into interest rate lock commitments with potential borrowers and forward commitments to sell loans to third-party investors. The Company also implements a hedging strategy for these transactions. A mortgage loan commitment binds the Company to lend funds to a qualified borrower at a specified interest rate and within a specified period of time, generally up to 30 days after inception of the mortgage loan commitment. Mortgage loan commitments are defined to be derivatives under generally accepted accounting principles and are recognized at fair value on the consolidated balance sheet with changes in their fair values recorded as part of other comprehensive income from mortgage banking operations.

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. Therefore, at the time of issuance, the estimated fair value is zero. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates derived from the Company's recent historical empirical data are used to estimate the quantity of mortgage loans that will fund within the terms of the commitments.

**Bank Loan Interest Rate Swaps:** Management considers the interest rate swap instruments to be an effective cash flow hedge against the variable interest rate on bank borrowings since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. The interest rate swaps are a derivative financial instruments carried at its fair value. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

**Mortgage Loans on Real Estate:** The fair values are estimated using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

**Real Estate Held for Investment:** The Company believes that in an orderly market, fair value will approximate the replacement cost of a home and the rental income provides a cash flow stream for investment analysis. The Company believes the highest and best use of the properties are as income producing assets since it is the Company's intent to hold the properties as rental properties, matching the income from the investment in rental properties with the funds required for future estimated policy claims. Accordingly, the fair value determination will be weighted more heavily toward the rental analysis.

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected the

present value of the net rental income over seven years. The Company used 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

In addition to this analysis performed by the Company, the Company depreciates Other Real Estate Held for Investment. This depreciation reduces the book value of these properties and lessens the exposure to the Company from further deterioration in real estate values.

**Mortgage Servicing Rights:** The Company initially recognizes MSR's at their estimated fair values derived from the net cash flows associated with the servicing contracts, where the Company assumes the obligation to service the loan in the sale transaction. The precise fair value of MSR's cannot be readily determined because MSR's are not actively traded in stand-alone markets. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect the Company's earnings.

The Company's subsequent accounting for MSR's is based on the class of MSR's. The Company has identified two classes of MSR's: MSR's backed by mortgage loans with initial term of 30 years and MSR's backed by mortgage loans with initial term of 15 years. The Company distinguishes between these classes of MSR's due to their differing sensitivities to change in value as the result of changes in market. After being initially recorded at fair value, MSR's backed by mortgage loans are accounted for using the amortization method. MSR amortization is determined by amortizing the balance straight-line over an estimated nine year life.

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## 7) Fair Value of Financial Instruments (Continued)

The Company periodically assesses MSR for impairment. Impairment occurs when the current fair value of the MSR falls below the asset's carrying value (carrying value is the amortized cost reduced by any related valuation allowance). If MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a valuation allowance.

Management periodically reviews the various loan strata to determine whether the value of the MSRs in a given stratum is impaired and likely to recover. When management deems recovery of the value to be unlikely in the foreseeable future, a write-down of the cost of the MSRs for that stratum to its estimated recoverable value is charged to the valuation allowance.

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at March 31, 2015.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Common stock	\$ 6,383,502	\$ 6,383,502	\$ -	\$ -
Total securities available for sale	\$ 6,383,502	\$ 6,383,502	\$ -	\$ -
Restricted assets of cemeteries and mortuaries				
Cemetery perpetual care trust investments	\$ 715,791	\$ 715,791	\$ -	\$ -
Derivatives - interest rate lock commitments	654,458	654,458	-	-
Total assets accounted for at fair value on a recurring basis	5,002,929	-	-	5,002,929
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	\$ 12,756,680	\$ 7,753,751	\$ -	\$ 5,002,929
	\$ (51,516,976 )	\$ -	\$ -	\$ (51,516,976 )

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Future policy benefits - annuities	(68,843,240 )	-	-	(68,843,240 )
Derivatives - bank loan interest rate swaps	(27,419 )	-	-	(27,419 )
- call options	(37,476 )	(37,476 )	-	-
- put options	(40,727 )	(40,727 )	-	-
- interest rate lock commitments	(585,187 )	-	-	(585,187 )
Total liabilities accounted for at fair value on a recurring basis	\$ (121,051,025)	\$ (78,203 )	\$ -	\$ (120,972,822)

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## 7) Fair Value of Financial Instruments (Continued)

Following is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs:

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2014	\$ (45,310,699)	\$ (65,540,985)	\$ 1,929,851	\$ (31,370)
Total gains (losses):				
Included in earnings	(6,206,277 )	(3,302,255 )	-	-
Included in other comprehensive income (loss)	-	-	2,487,891	3,951
Balance - March 31, 2015	\$ (51,516,976)	\$ (68,843,240)	\$ 4,417,742	\$ (27,419)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the condensed consolidated balance sheet at March 31, 2015.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage servicing rights	\$ 987,707	-	-	\$ 987,707
Mortgage loans on real estate	320,000	-	-	320,000
Total assets accounted for at fair value on a nonrecurring basis	\$ 1,307,707	\$ -	\$ -	\$ 1,307,707





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## 7) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at December 31, 2014.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Common stock	\$ 6,752,750	\$ 6,752,750	\$ -	\$ -
Total securities available for sale	\$ 6,752,750	\$ 6,752,750	\$ -	\$ -
Restricted assets of				
cemeteries and mortuaries	\$ 715,202	\$ 715,202	\$ -	\$ -
Cemetery perpetual care trust investments	695,235	695,235	-	-
Derivatives - interest rate lock commitments	2,111,529	-	-	2,111,529
Total assets accounted for at fair value on a recurring basis	\$ 10,274,716	\$ 8,163,187	\$ -	\$ 2,111,529
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	\$ (45,310,699 )	\$ -	\$ -	\$ (45,310,699 )
Future policy benefits - annuities	(65,540,985 )	-	-	(65,540,985 )
Derivatives - bank loan interest rate swaps	(31,370 )	-	-	(31,370 )
- call options	(116,036 )	(116,036 )	-	-
- put options	(11,867 )	(11,867 )	-	-
- interest rate lock commitment	(181,678 )	-	-	(181,678 )
Total liabilities accounted for at fair value on a recurring basis	\$ (111,192,635 )	\$ (127,903 )	\$ -	\$ (111,064,732 )

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Following is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs:

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2013	\$ (48,000,668)	\$ (65,052,928)	\$ 1,487,908	\$ (58,310 )
Total gains (losses):				
Included in earnings	2,689,969	(488,057 )	-	-
Included in other comprehensive income	-	-	441,943	26,940
Balance - December 31, 2014	\$ (45,310,699)	\$ (65,540,985)	\$ 1,929,851	\$ (31,370 )

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
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## 7) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the condensed consolidated balance sheet at December 31, 2014.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage servicing rights	\$ 3,741,381	-	-	\$ 3,741,381
Real estate held for investment	53,500	-	-	53,500
Total assets accounted for at fair value on a nonrecurring basis	\$ 3,794,881	\$ -	\$ -	\$ 3,794,881

## Fair Value of Financial Instruments Carried at Other Than Fair Value

ASC 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at March 31, 2015 and December 31, 2014. The estimated fair value amounts for March 31, 2015 and December 31, 2014 have been measured as of period-end, and have not been reevaluated or updated for purposes of these Condensed Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of March 31, 2015:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					

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Mortgage loans:					
Residential	\$50,430,197	\$-	\$-	\$53,693,961	\$53,693,961
Residential construction	29,584,245	-	-	29,584,245	29,584,245
Commercial	45,880,001	-	-	47,829,817	47,829,817
Mortgage loans, net	\$125,894,443	\$-	\$-	\$131,108,023	\$131,108,023
Policy loans	7,187,804	-	-	7,187,804	7,187,804
Other loans	31,996,446	-	-	31,996,446	31,996,446
Short-term investments	20,620,236	-	-	20,620,236	20,620,236
Liabilities					
Bank and other loans payable	\$(29,410,570)	\$-	\$-	\$(29,410,570)	\$(29,410,570)

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## 7) Fair Value of Financial Instruments (Continued)

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of December 31, 2014:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
<b>Assets</b>					
<b>Mortgage loans:</b>					
Residential	\$ 51,876,621	\$ -	\$ -	\$ 55,247,638	\$ 55,247,638
Residential construction	32,971,824	-	-	32,971,824	32,971,824
Commercial	35,201,627	-	-	36,829,266	36,829,266
Mortgage loans, net	\$ 120,050,072	\$ -	\$ -	\$ 125,048,728	\$ 125,048,728
Policy loans	7,011,012	-	-	7,011,012	7,011,012
Other loans	27,114,416	-	-	27,114,416	27,114,416
Short-term investments	27,059,495	-	-	27,059,495	27,059,495
<b>Liabilities</b>					
Bank and other loans payable	\$ (28,989,008 )	\$ -	\$ -	\$ (28,989,008 )	\$ (28,989,008 )

The methods, assumptions and significant valuation techniques and inputs used to estimate the fair value of financial instruments are summarized as follows:

**Mortgage Loans on Real Estate:** The estimated fair value of the Company's mortgage loans is determined using various methods. The Company's mortgage loans are grouped into three categories: Residential, Residential Construction and Commercial. When estimating the expected future cash flows, it is assumed that all loans will be held to maturity, and any loans that are non-performing are evaluated individually for impairment.

**Residential –** The estimated fair value of mortgage loans originated prior to 2013 is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates from single family mortgages. The estimated fair value of mortgage loans originated in 2013, 2014 and 2015 is determined from pricing of similar loans that were sold in 2013 and 2014.

**Residential Construction –** These loans are primarily short in maturity (4-6 months) accordingly, the estimated fair value is determined to be the net book value.

**Commercial –** The estimated fair value is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates for commercial mortgages.

Policy and Other Loans: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

Short-Term Investments: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

Bank and Other Loans Payable: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

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8) Allowance for Doubtful Accounts, Allowance for Loan Losses and Impaired Loans

The Company records an allowance and recognizes an expense for potential losses from mortgage loans, other loans and receivables in accordance with generally accepted accounting principles.

Receivables are the result of cemetery and mortuary operations, mortgage loan operations and life insurance operations. The allowance is based upon the Company's historical experience for collectively evaluated impairment. Other allowances are based upon receivables individually evaluated for impairment. Collectability of the cemetery and mortuary receivables is significantly influenced by current economic conditions. The critical issues that impact recovery of mortgage loan operations are interest rate risk, loan underwriting, new regulations and the overall economy.

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. See the schedules in Note 2 for additional information. In addition, when a mortgage loan is past due more than 90 days, the Company does not accrue any interest income. When a loan becomes delinquent, the Company proceeds to foreclose on the real estate and all expenses for foreclosure are expensed as incurred. Once foreclosed, an adjustment for the lower of cost or fair value is made, if necessary, and the amount is classified as other real estate owned held for investment or sale. The Company will rent the properties until it is deemed desirable to sell them.

The allowance for losses on mortgage loans held for investment could change based on changes in the value of the underlying collateral, the performance status of the loans, or the Company's actual collection experience. The actual losses could change, in the near term, from the established allowance, based upon the occurrence or non-occurrence of these events.

9) Derivative Commitments

The Company is exposed to price risk due to the potential impact of changes in interest rates on the values of mortgage loan commitments from the time a derivative loan commitment is made to an applicant to the time the loan that would result from the exercise of that loan commitment is funded. Managing price risk is complicated by the fact that the ultimate percentage of derivative loan commitments that will be exercised (i.e., the number of loan commitments that will be funded) fluctuates. The probability that a loan will not be funded within the terms of the commitment is driven by a number of factors, particularly the change, if any, in mortgage rates following the inception of the interest rate lock. However, many borrowers continue to exercise derivative loan commitments even when interest rates have fallen.

In general, the probability of funding increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicant's committed rate. The probability that a loan will not be funded within the terms of the mortgage loan commitment also is influenced by the source of the applications (retail, broker or correspondent channels), proximity to rate lock expiration, purpose for the



loan (purchase or refinance) product type and the application approval status. The Company has developed fallout estimates using historical data that take into account all of the variables, as well as renegotiations of rate and point commitments that tend to occur when mortgage rates fall. These fallout estimates are used to estimate the number of loans that the Company expects to be funded within the terms of the mortgage loan commitments and are updated periodically to reflect the most current data.

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. Therefore, at the time of issuance, the estimated fair value is zero. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates derived from the Company's recent historical empirical data are used to estimate the quantity of mortgage loans that will fund within the terms of the commitments.

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## 9) Derivative Commitments (Continued)

The Company utilizes forward loan sales commitments to economically hedge the price risk associated with its outstanding mortgage loan commitments. A forward loan sales commitment protects the Company from losses on sales of the loans arising from exercise of the loan commitments by securing the ultimate sales price and delivery date of the loans. Management expects these derivatives will experience changes in fair value opposite to changes in fair value of the derivative loan commitments, thereby reducing earnings volatility related to the recognition in earnings of changes in the values of the commitments.

The Company has adopted a strategy of selling “out of the money” call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company has adopted the selling of put options as a means of generating cash or purchasing equity securities at lower than current market prices. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the fair value of the option. The liability for call and put options is adjusted to fair value at each reporting date. The fair value of outstanding call and put options as of March 31, 2015 and December 31, 2014 was \$78,203 and \$127,903, respectively. In the event an option is exercised, the Company recognizes a gain on the sale of the equity security and a gain from the sale of the option. If the option expires unexercised, the Company recognizes a gain from the sale of the option.

The following table shows the fair value of derivatives as of March 31, 2015 and December 31, 2014.

	Fair Value of Derivative Instruments							
	Asset Derivatives				Liability Derivatives			
	March 31, 2015		December 31, 2014		March 31, 2015		December 31, 2014	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:								
Interest rate lock and forward sales commitments	other assets	\$5,002,929	other assets	\$2,111,529	Other liabilities	\$585,187	Other liabilities	\$181,678
Call options	--	--	--	--	Other liabilities	37,476	Other liabilities	116,036
Put options	--	--	--	--	Other liabilities	40,727	Other liabilities	11,867
Interest rate swaps	--	--	--	--	Bank loans payable	27,419	Bank loans payable	31,370
<b>Total</b>		<b>\$5,002,929</b>		<b>\$2,111,529</b>		<b>\$690,809</b>		<b>\$340,951</b>

The following table shows the gain (loss) on derivatives for the periods presented. There were no gains or losses reclassified from accumulated other comprehensive income (OCI) into income or gains or losses recognized in income on derivatives ineffective portion or any amounts excluded from effective testing.

	Net Amount Gain (Loss)	
	Recognized in OCI	
	Three Months Ended March 31	
Derivative - Cash Flow Hedging Relationships:	2015	2014
Interest Rate Lock Commitments	\$ 2,487,891	\$ 449,263
Interest Rate Swaps	3,951	6,852
Sub Total	2,491,842	456,115
Tax Effect	971,819	177,885
Total	\$ 1,520,023	\$ 278,230

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10) Reinsurance, Commitments and Contingencies

Reinsurance

Reinsurance Agreement with North America Life Insurance Company

On May 8, 2015, the Company, through its wholly owned subsidiary, Security National Life, signed a paid-up business offer under the coinsurance agreement effective December 1, 2010 to reinsure certain life insurance policies from North America Life Insurance Company (“North America Life”). Pursuant to the paid-up business offer, North America Life ceded and transferred to Security National Life all contractual obligations and risks under the coinsured policies. Security National Life paid a ceding commission to North America Life in the amount of \$281,908. As a result of the ceding commission, North America Life transferred \$8,900,282 of cash and \$9,182,190 in statutory reserves, or liabilities, to Security National Life.

Reinsurance Agreement with American Republic Insurance Company

On February 11, 2015, the Company, through its wholly owned subsidiary, Security National Life, signed a coinsurance agreement to reinsure certain life insurance policies from American Republic Insurance Company (“American Republic”). The policies were previously reinsured by North America Life under a coinsurance agreement between World Insurance Company (“World Insurance”) and North America Life entered into on July 22, 2009 which was commuted. World Insurance was subsequently purchased by and merged into American Republic. The current coinsurance agreement is between Security National Life and American Republic and became effective on January 1, 2015. As part of the coinsurance agreement, American Republic transferred all contractual obligations and risks to Security National Life and Security National Life took control of \$15,004,771 of assets in a trust account held by Texas Capital Bank as the trustee.

Reinsurance Agreement with LJA Insurance Company

On December 19, 2014, the Company, through its wholly owned subsidiary, Security National Life, entered into a Coinsurance Funds Withheld Reinsurance Agreement with LJA Insurance Company (“LJA Insurance”), a Republic of the Marshall Islands domiciled insurance company. This agreement was effective November 1, 2014. Under the terms of the funds withheld agreement, Security National Life ceded to LJA Insurance 100% of three blocks of deferred annuities in the amount of \$4,337,000 and retained the assets and recorded a funds held under coinsurance liability for the same amount. LJA Insurance agreed to pay Security National Life an initial ceding commission of \$60,000 and an asset management fee of \$16,000 per quarter to administer the policies. Security National Life will also receive a 90% experience refund for any profits from the business. Security National Life has the right to recapture the business by giving LJA Insurance 90 days written notice, or it may be terminated by mutual consent of both parties.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company’s reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended March 31, 2015 and 2014 were \$667,000 and \$372,000, respectively. The estimated

liability for indemnification losses is included in other liabilities and accrued expenses and, as of March 31, 2015 and December 31, 2014, the balances were \$2,212,000 and \$1,718,000, respectively.

#### Mortgage Loan Loss Demands

#### Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained borrower misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

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10) Reinsurance, Commitments and Contingencies (Continued)

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued \$2,212,000 as of March 31, 2015 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors. Furthermore, SecurityNational Mortgage believes there is potential to resolve the alleged claims by the 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.

JP Morgan Chase Indemnification Demand

The Company and its wholly owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, from JP Morgan Chase & Co. (“JP Morgan Chase”) on behalf of EMC Mortgage, LLC (“EMC Mortgage”), relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced a guaranty agreement, dated February 23, 2006, by the Company for the benefit of EMC Mortgage. The indemnification notice additionally stated that EMC Mortgage had been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery.

The lawsuit the Trust brought against EMC Mortgage contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust (including the 21 loans allegedly originated by SecurityNational Mortgage) contained breaches of representations and warranties with respect to the mortgage loans, as well as defaults and foreclosures in many of such loans. As a result of the alleged breaches of representations and warranties by EMC Mortgage, the complaint requests that EMC Mortgage be ordered to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans’ outstanding principal balance and all accrued but unpaid interest.

The indemnification notice from JP Morgan Chase further alleged that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit that the Trust brought against EMC based upon allegedly untrue statements of material fact related to information that was provided by SecurityNational Mortgage. To the extent the claims in the complaint relate to the 21 mortgage loans that SecurityNational Mortgage allegedly sold to EMC Mortgage, the Company believes it has significant defenses to such claims. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust brought against EMC Mortgage.

Mortgage Loan Loss Litigation

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers and Aurora Loan Services, reference is to Part II, Item 1. Legal Proceedings.

#### Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of March 31, 2015, the Company's commitments were \$40,835,000 for these loans of which \$29,684,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees from the borrowers and the interest rate is generally 2% to 6.75% over the bank prime rate (3.25% as of March 31, 2015). Maturities range between six and twelve months.

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## 10) Reinsurance, Commitments and Contingencies (Continued)

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which, if adversely determined, would have a material adverse effect on its financial condition or results of operations.

## 11) Mortgage Servicing Rights

The following is a summary of the MSR activity for the periods presented.

	As of March 31 2015	As of December 31 2014
Amortized cost:		
Balance before valuation allowance at beginning of year	\$ 7,834,747	\$ 4,844,101
MSRs proceeds from loan sales	987,707	3,741,381
Amortization	(259,966 )	(750,735 )
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance before valuation allowance at year end	\$ 8,562,488	\$ 7,834,747
Valuation allowance for impairment of MSRs:		
Balance at beginning of year	\$ -	\$ -
Additions	-	-
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance at end of period	\$ -	\$ -
Mortgage servicing rights, net	\$ 8,562,488	\$ 7,834,747
Estimated fair value of MSRs at end of period	\$ 8,926,200	\$ 8,485,570

The Company reports these MSRs pursuant to the accounting policy discussed in Note 7.



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 2015 (Unaudited)

## 12) Acquisitions

## Acquisition of American Funeral Financial

On June 4, 2014, the Company, through its wholly owned subsidiary, SNFC Subsidiary, LLC (“SNFC Subsidiary”), completed a purchase transaction with American Funeral Financial, LLC, a South Carolina limited liability company (“American Funeral Financial”) and Hypershop, LLC, a North Carolina limited liability company (“Hypershop”), the sole owner of all the limited liability company interests of American Funeral Financial, to purchase all of the outstanding limited liability company interests, or membership units, of American Funeral Financial. American Funeral Financial is engaged in the operation of a factoring business with the principal purpose of providing funding for funeral homes and mortuaries.

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming the acquisition of American Funeral Financial had occurred at the beginning of the three month periods ended March 31, 2015 and 2014. This pro forma information is supplemental and does not necessarily present the operations of the Company that would have occurred had the acquisition occurred on those dates and may not reflect the operations that will occur in the future:

	For the Three Months Ended March 31 (unaudited)	
	2015	2014
Total revenues	\$ 64,049,632	\$ 46,521,936
Net earnings	\$ 1,863,703	\$ 342,683
Net earnings per Class A equivalent common share	\$ 0.14	\$ 0.03
Net earnings per Class A equivalent common share assuming dilution	\$ 0.14	\$ 0.03

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Overview

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on relatively low interest rates by originating mortgage loans.

## Results of Operations

## Insurance Operations

The Company's insurance business includes funeral plans, interest sensitive life insurance, as well as other traditional life and accident insurance, and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning.

A funeral plan is a small face value life insurance policy that generally has face coverage of up to \$25,000. The Company believes that funeral plans represent a marketing niche that has less competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of the person's death. On a per thousand dollar cost of insurance basis, these policies can be more expensive to the policy holder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration to be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the condensed financial results of the insurance operations for the three months ended March 31, 2015 and 2014. See Note 6 to the Condensed Consolidated Financial Statements.

	Three months ended March 31		
	(in thousands of dollars)		
	2015	2014	% Increase (Decrease)
Revenues from external customers			
Insurance premiums	\$ 13,854	\$ 13,129	6 %
Net investment income	6,211	4,827	29 %
Income from loan originations	441	343	29 %
Other	480	174	176 %
Total	\$ 20,986	\$ 18,473	14 %
Intersegment revenue	\$ 2,819	\$ 2,062	37 %
Earnings before income taxes	\$ 1,404	\$ 1,331	5 %

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in the three months ended March 31, 2015 has increased due to an increase in net investment income, an increase in income from loan originations, and an increase in insurance premiums.

## Cemetery and Mortuary Operations

The Company sells mortuary services and products through its seven mortuaries in Salt Lake City, Utah. The Company also sells cemetery products and services through its five cemeteries in Salt Lake City, Utah and one

cemetery in San Diego County, California. Cemetery land sales and at-need product sales and services are recognized as revenue at the time of sale or when the services are performed. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed.

The following table shows the condensed financial results of the Cemetery and Mortuary operations for the three months ended March 31, 2015 and 2014. See Note 6 to the Condensed Consolidated Financial Statements.

	Three months ended March 31		% Increase	
	(in thousands of dollars)		(Decrease)	
	2015	2014		
Revenues from external customers				
Mortuary revenues	\$ 1,242	\$ 1,319	(6	%)
Cemetery revenues	1,754	1,635	7	%
Other	102	87	17	%
Total	\$ 3,098	\$ 3,041	2	%
Earnings before income taxes	\$ 409	\$ 183	123	%

Included in other revenue is rental income from residential and commercial properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income is offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates has recorded depreciation on these properties of \$222,000 and \$253,000 for the three months ended March 31, 2015 and 2014, respectively.

## Mortgage Operations

### Overview

The Company's wholly owned subsidiaries, SecurityNational Mortgage Company and Green Street Mortgage Services, Inc., are mortgage lenders incorporated under the laws of the State of Utah, and are approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage and Green Street obtain loans from their retail offices and independent brokers. Mortgage loans originated by the Company's mortgage subsidiaries are funded from internal cash flows, including loan purchase agreements from Security National Life, its wholly owned subsidiary, and unaffiliated financial institutions.

SecurityNational Mortgage and Green Street Mortgage receive fees from the borrowers and secondary fees from third party investors that purchase their loans. Loans originated by SecurityNational Mortgage and Green Street Mortgage are generally sold with mortgage servicing rights released to third party investors. Since the second quarter of 2012, however, SecurityNational Mortgage has sold but retained mortgage servicing rights on approximately 30% of its loan origination volume. The majority of these loans are serviced by an approved third party sub-servicer. In February 2015, Green Street Mortgage chose to cease its current mortgage operations on March 31, 2015.

For the three months ended March 31, 2015 and 2014, SecurityNational Mortgage originated and sold 3,275 loans (\$640,119,000 total volume) and 2,034 loans (\$370,192,000 total volume), respectively. For the three months ended March 31, 2015 and 2014, Green Street Mortgage originated and sold 78 loans (\$17,750,000 total volume) and two loans (476,000 total volume), respectively.

The following table shows the condensed financial results of the mortgage operations for the three months ended March 31, 2015 and 2014. See Note 6 to the Condensed Consolidated Financial Statements.

	Three months ended March 31			% Increase (Decrease)
	(in thousands of dollars)			
	2015	2014		
Revenues from external customers				
Income from loan originations	\$ 34,256	\$ 20,044	71	%
Secondary gains from investors	5,710	3,496	63	%
<b>Total</b>	<b>\$ 39,966</b>	<b>\$ 23,540</b>	<b>70</b>	<b>%</b>
Earnings (loss) before income taxes	\$ 1,185	\$ (1,348 )	188	%

The increase in earnings for the three months ended March 31, 2015 was due to higher secondary gains on mortgage loans sold to investors and an increase in refinance activity as a result of a decrease in government loan program requirements.

#### Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended March 31, 2015 and 2014 were \$667,000 and \$372,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of March 31, 2015 and December 31, 2014, the balances were \$2,212,000 and \$1,718,000, respectively.

#### Mortgage Loan Loss Demands

##### Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained borrower misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued \$2,212,000 as of March 31, 2015 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors. Furthermore, SecurityNational Mortgage believes there is potential to resolve the alleged claims by the 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.

JP Morgan Chase Indemnification Demand

The Company and its wholly owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, from JP Morgan Chase & Co. (“JP Morgan Chase”) on behalf of EMC Mortgage, LLC (“EMC Mortgage”), relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced a guaranty agreement, dated February 23, 2006, by the Company for the benefit of EMC Mortgage. The indemnification notice additionally stated that EMC Mortgage had been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery.

The lawsuit the Trust brought against EMC Mortgage contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust (including the 21 loans allegedly originated by SecurityNational Mortgage) contained breaches of representations and warranties with respect to the mortgage loans, as well as defaults and foreclosures in many of such loans. As a result of the alleged breaches of representations and warranties by EMC Mortgage, the complaint requests that EMC Mortgage be ordered to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans' outstanding principal balance and all accrued but unpaid interest.

The indemnification notice from JP Morgan Chase further alleged that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit that the Trust brought against EMC based upon allegedly untrue statements of material fact related to information that was provided by SecurityNational Mortgage. To the extent the claims in the complaint relate to the 21 mortgage loans that SecurityNational Mortgage allegedly sold to EMC Mortgage, the Company believes it has significant defenses to such claims. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust brought against EMC Mortgage.

#### Mortgage Loan Loss Litigation

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers and Aurora Loan Services, reference is to Part II, Item 1. Legal Proceedings.

#### Consolidation

##### Three Months Ended March 31, 2015 Compared to Three Months Ended March 31, 2014

Total revenues increased by \$18,996,000, or 42.2.1%, to \$64,049,000 for the three months ended March 31, 2015, from \$45,053,000 for the comparable period in 2014. Contributing to this increase in total revenues was a \$15,284,000 increase in mortgage fee income, a \$2,180,000 increase in net investment income, a \$724,000 increase in insurance premiums and other considerations, a \$571,000 increase in other revenues, a \$221,000 increase in realized gains on investments and other assets, and a \$41,000 increase in net mortuary and cemetery sales. This increase in total revenues was partially offset by a \$26,000 increase in other than temporary impairments on investments.

Insurance premiums and other considerations increased by \$724,000, or 5.5%, to \$13,853,000 for the three months ended March 31, 2015, from \$13,129,000 for the comparable period in 2014. This increase was primarily due to an increase in first year premiums as a result of increased insurance sales in the first quarter of 2015.

Net investment income increased by \$2,180,000, or 38.6%, to \$7,823,000 for the three months ended March 31, 2015, from \$5,643,000 for the comparable period in 2014. This increase was primarily attributable to a \$2,326,000 increase in short-term investment income, a \$299,000 increase in mortgage loan interest, and a \$20,000 increase in equity securities income during the first quarter of 2015. This increase was partially offset by a \$128,000 decrease in fixed maturity securities income, a \$262,000 increase in investment expenses, a \$66,000 decrease in rental income from real estate owned, and a \$9,000 decrease in policy loan income during the same period.

Net mortuary and cemetery sales increased by \$41,000, or 1.5%, to \$2,872,000 for the three months ended March 31, 2015, from \$2,831,000 for the comparable period in 2014. This increase was primarily due to an increase in at-need sales in the cemetery operations partially offset by a decrease in pre-need sales in the cemetery operations and a decrease in at-need sales in the mortuary operations during the first quarter of 2015.

Realized gains on investments and other assets increased by \$221,000, or 111.1%, to \$420,000 in realized gains for the three months ended March 31, 2015, from \$199,000 in realized gains for the comparable period in 2014. This increase in realized gains on investments and other assets was the result of an \$111,000 increase in realized gains on other assets, a \$76,000 increase in realized gains on fixed maturity securities, and a \$34,000 increase in realized gains on securities available for sale during the first quarter of 2015.

Mortgage fee income increased by \$15,284,000, or 67.8%, to \$37,822,000 for the three months ended March 31, 2015, from \$22,538,000 for the comparable period in 2014. This increase was primarily attributable to higher secondary gains from mortgage loans sold to investors and an increase in loans originated during the first quarter of 2015.



Other revenues increased by \$571,000, or 76.8%, to \$1,315,000 for the three months ended March 31, 2015, from \$744,000 for the comparable period in 2014. This increase was due to an increase in mortgage servicing fees during the first quarter of 2015.

Total benefits and expenses were \$61,051,000, or 95.3% of total revenues, for the three months ended March 31, 2015, as compared to \$44,887,000, or 99.6% of total revenues, for the comparable period in 2014.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$1,203,000 or 10.4%, to \$12,761,000 for the three months ended March 31, 2015, from \$11,558,000 for the comparable period in 2014. This increase was primarily the result of a \$1,252,000 increase in death benefits, a \$138,000 increase in future policy benefits offset by a \$187,000 decrease in surrender and other policy benefits during the first quarter 2015.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$236,000, or 16.8%, to \$1,167,000 for the three months ended March 31, 2015, from \$1,403,000 for the comparable period in 2014. This decrease was primarily due to improved persistency in the premium paying traditional life business during the first quarter 2015.

Selling, general and administrative expenses increased by \$14,742,000, or 47.7%, to \$45,679,000 for the three months ended March 31, 2015, from \$30,937,000 for the comparable period in 2014. This increase was primarily the result of an increase in mortgage loan originations by SecurityNational Mortgage during the first quarter of 2015. Commissions increased by \$8,005,000, personnel expenses increased by \$2,816,000, costs related to funding mortgage loans increased by \$885,000, other expenses increased by \$1,489,000, advertising increased by \$644,000, depreciation on property and equipment increased by \$542,000, provision for loan losses increased by \$295,000, and rent and rent related expenses increased by 66,000 and during the same period.

Interest expense increased by \$487,000, or 97.9%, to \$985,000 for the three months ended March 31, 2015, from \$498,000 for the comparable period in 2014. This increase was primarily due to an increase in outstanding balances on warehouse lines of credit used to fund mortgage loans during the first quarter of 2015.

Cost of goods and services sold by the cemeteries and mortuaries decreased by \$32,000, or 6.5%, to \$458,000 for the three months ended March 31, 2015, from \$490,000 for the comparable period in 2014. This decrease was primarily due to a decrease in mortuary sales during the first quarter of 2015.

Comprehensive income for the three months ended March 31, 2015 and 2014 amounted to gains of \$3,155,000 and \$455,000, respectively. This \$2,700,000 increase in comprehensive income was primarily the result of an \$1,725,000 increase in net income and a \$1,242,000 increase in derivatives related to mortgage loans during the first quarter of 2015, which were partially offset by a \$267,000 decrease in unrealized gains in securities available for sale during the same period.

#### Liquidity and Capital Resources

The Company's life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and dividends on invested assets, and from the proceeds from the maturity of held to maturity investments or sale of other investments. The mortgage subsidiaries realize cash flow from fees generated by originating and refinancing mortgage loans and interest earned on mortgages sold to investors. The Company considers these sources of cash flow to be adequate to fund future policyholder and cemetery and mortuary liabilities, which generally are long-term, and adequate to pay current policyholder claims, annuity payments, expenses on the issuance of new policies, the

maintenance of existing policies, debt service, and to meet current operating expenses.

During the three months ended March 31, 2015, the Company's operations provided cash of \$712,000. This was due primarily to a \$7,774,000 increase in the balance of mortgage loans sold to investors and a \$4,336,000 increase in future policy benefits. During the three months ended March 31, 2014, the Company's operations provided cash of \$22,717,000. This was due primarily to an \$18,142,000 decrease in the balance of mortgage loans sold to investors and a \$5,651,000 increase in future policy benefits.

The Company's liability for future life, annuity and other benefits is expected to be paid out over the long-term due to the Company's market niche of selling funeral plans. Funeral plans are small face value life insurance that will pay the costs and expenses incurred at the time of a person's death. A person generally will keep these policies in force and will not surrender them prior to a person's death. Because of the long-term nature of these liabilities, the Company is able to hold to maturity its bonds, real estate and mortgage loans, thus reducing the risk of liquidating these long-term investments as a result of any sudden changes in fair values.

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held to maturity in the portfolio to help in this timing. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products. The Company's investment philosophy is intended to provide a rate of return that will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and the warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$132,659,000 as of March 31, 2015 compared to \$134,406,000 as of December 31, 2014. This represents 30.3% and 30.9% of the total investments as of March 31, 2015 and December 31, 2014, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners (NAIC). Under this rating system, there are six categories used for rating bonds. At March 31, 2015, 8.64% (or \$11,457,000) and at December 31, 2014, 6.8% (or \$9,192,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which were considered non-investment grade.

The Company has classified its fixed income securities as held to maturity. Business conditions, however, may develop in the future that may indicate a need for a higher level of liquidity in the investment portfolio. In that event the Company believes it could sell short-term investment grade securities before liquidating higher yielding longer-term securities.

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At March 31, 2015 and December 31, 2014, the life insurance subsidiary was in compliance with the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank debt and notes payable was \$130,010,000 as of March 31, 2015, as compared to \$126,111,000 as of December 31, 2014. Stockholders' equity as a percent of total capitalization was 77.4% and 77.0% as of March 31, 2015 and December 31, 2014, respectively.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2014 was 7.0% as compared to a rate of 5.7% for 2013. The 2015 lapse rate to date has been approximately the same as 2014.

At March 31, 2015, \$37,051,000 of the Company's consolidated stockholders' equity represented the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to the Company, its parent company, without approval of state insurance regulatory authorities.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes since the Annual Report on Form 10-K filed for the year ended December 31, 2014.

### Item 4. Controls and Procedures.

#### Disclosure Controls and Procedures

As of March 31, 2015, the Company carried out an evaluation, under the supervision and with the participation of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure

controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission (SEC) reports the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The officers have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2015, and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented in conformity with United States Generally Accepted Accounting Principles (GAAP).

#### Changes in Internal Control over Financial Reporting

There have been no changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings.

Lehman Brothers - Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB ("Lehman Bank"). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC ("Aurora Loan Services"), purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain of the mortgage loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged issues with the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 55 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 55 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a \$250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of \$645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan, however, until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services each calendar month the difference between the reserve account balance and \$645,000, but in no event would SecurityNational Mortgage be required to make payments into the reserve account in excess of \$125,000 for any calendar month.

Since the time the reserve account was established, SecurityNational Mortgage paid a total of \$4,281,000 from the reserve account to indemnify Lehman Brothers Bank and Aurora Loan Services for alleged losses from 31 mortgage loans that were among 55 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. ("Lehman Holdings") claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of \$1,289,000 and \$-0-, respectively. Management cannot fully determine the total losses, however, because there could be potential claims for losses that have not yet been determined. As of December 31, 2014, the Company had not accrued for any losses under the Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement with Lehman Bank and Aurora Loan Services. The complaint alleges, among other claims, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned the mortgage loans that SecurityNational Mortgage sold so as to justify the amount of payments demanded from, and made by, SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately \$4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A subsidiary of Lehman Holdings owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement, to Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void except as to losses previously released and discharged, which is disputed by SecurityNational Mortgage.

Lehman Holdings' alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller's Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of \$5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services. Lehman Bank is a subsidiary of a company owned by Lehman Holdings, and Aurora Loan Services is a subsidiary of Lehman Bank.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage. Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage's motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage's September 4, 2012 motion. The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage's motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court's earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. The motion and cross motion were taken under advisement. SecurityNational Mortgage's motion in the Lehman Holdings case was heard on April 22, 2014 before Judge Ted Stewart of the United States District Court for the District of Utah, and is under advisement.

On May 6, 2014, Judge Nuffer issued his summary of facts, conclusions of law and order granting SecurityNational Mortgage's motion for summary judgment and denying the cross motion of Lehman Bank and Aurora Loan Services. On May 27, 2014, Lehman Bank and Aurora Loan Services filed a motion to reconsider Judge Nuffer's summary judgment ruling. On June 2, 2014, a hearing was held before Judge Nuffer to determine the amount owing to SecurityNational Mortgage pursuant to the summary judgment ruling. On December 23, 2014, Judge Nuffer issued an order denying Lehman Bank's and Aurora Loan Services' motion for reconsideration of his summary judgment ruling in favor of SecurityNational Mortgage.

On December 24, 2014, Judge Nuffer issued an amended order granting SecurityNational Mortgage's motion for summary judgment. The amended order provided that the amount of monies previously paid by SecurityNational Mortgage that were wrongfully applied by Lehman Bank to losses on loans actually owed by Lehman Holdings, as established at the June 2, 2014 hearing, was \$3,892,974. The amended order also provided for prejudgment interest at 9% per annum to SecurityNational Mortgage. The total amount of prejudgment interest awarded is \$1,674,240 through May 31, 2014, with a per diem of \$960 for each day after May 31, 2014 until judgment. The court also commented that further replenishment of the indemnification fund under the Indemnification Agreement appears to be

barred by language in the assignment effecting a waiver, but that this issue had not been briefed before the June 2, 2014 hearing. In addition, the court stated that the offset that Lehman Bank and Aurora Loan Services pled as an affirmative defense had not yet been adjudicated by the court. Finally, the court ordered the parties to meet and confer by January 16, 2015, and to file a motion to schedule the disposition of the remaining issues in the case. The motion is to clarify whether any issues other than the offset remain to be resolved.



On May 7, 2014, Judge Stewart issued an order for the parties to submit supplemental briefs as to the effect of Judge Nuffer's summary judgment order on SecurityNational Mortgage's motion for summary judgment in the Lehman Holdings case. The supplemental briefing was continued until January 16, 2015. Judge Stewart also granted leave for SecurityNational Mortgage to file an additional motion for summary judgment in the Lehman Holdings case on the basis that the claims of Lehman Holdings are barred by the statute of limitations. The motion was also to be filed by January 16, 2015. The August 11, 2014 trial setting before Judge Stewart in the Lehman Holdings case was stricken without providing a new trial date.

On January 16, 2015, SecurityNational Mortgage and Lehman Holdings filed briefs with Judge Stewart concerning the effect of the rulings in Judge Nuffer's case on the case before Judge Stewart, and on the same date SecurityNational Mortgage filed a motion for summary judgment in the Lehman Holdings case based on the statute of limitations. A hearing concerning SecurityNational Mortgage's summary judgment motion based on the statute of limitations is scheduled before Judge Stuart on April 14, 2015. On February 28, 2015, Lehman Bank and Aurora Loan Services filed a partial summary judgment motion before Judge Nuffer asserting that the Indemnification Agreement security fund should be replenished, and for a right to offset alleged losses of approximately \$8.6 million, based on more than 100 loans retained by Lehman Bank, against the amount owing to SecurityNational per Judge Nuffer's summary judgment order. Lehman Bank and Aurora Loan Services asserts that another 124 loans are not analyzed yet for potential breaches.

SecurityNational Mortgage had until March 30, 2015 to respond to the motion of Lehman Bank and Aurora Loan Services, and to file a motion if so determined by SecurityNational Mortgage. SecurityNational Mortgage asserts that Lehman Bank and Aurora Loan Services have no rights to a replenishment of the Indemnification Agreement reserve account, or for any offset against the liability of Lehman Bank and Aurora Loan Services to SecurityNational Mortgage, including the assertion that Lehman Bank and Aurora Loan Services executed an assignment to Lehman Holdings containing a waiver and release of rights and remedies which affect the foregoing asserted replenishment and offset matters. On March 30, 2015, SecurityNational Mortgage filed a response in opposition to the partial summary judgment motion of Lehman Bank and Aurora Loan Services and also filed its own partial summary judgment motion on the same issue against Lehman Bank and Aurora Loan Services.

On April 16, 2015, Lehman Bank and Aurora Loan Services filed a reply to SecurityNational Mortgage's response to their motion for partial summary judgment. On April 30, 2015, Lehman Bank and Aurora Loan Services filed their opposition to SecurityNational Mortgage's cross motion for partial summary judgment on the same issue as the partial summary judgment motion of Lehman Bank and Aurora Loan Services, and SecurityNational Mortgage is entitled to file a reply to their response. On April 21, 2015, Judge Stewart issued a memorandum decision and order denying SecurityNational Mortgage's motion for summary judgment against Lehman Holdings which motion was filed on September 4, 2012.

On April 28, 2015, a hearing was held before Judge Stewart on SecurityNational Mortgage's additional motion for summary judgment that it filed against Lehman Holdings requesting dismissal of Lehman Holdings' action based on the statute of limitations. Because of certain cases pending before the United States Court of Appeals for the Tenth Circuit concerning statute of limitation issues also involving Lehman Holdings, Judge Stewart inquired at the hearing as to whether his ruling on SecurityNational Mortgage's motion should be held in abeyance until a ruling from the Tenth Circuit. With the parties agreeing to an abeyance, Judge Stewart issued an order on May 11, 2015 postponing a ruling on SecurityNational Mortgage's motion for summary judgment until after the Tenth Circuit Court of Appeals had issued a ruling on the pending appeal concerning statute of limitations issues also involving Lehman Holdings.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which if adversely determined, would have a material adverse effect on its financial condition or results of operation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

None

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Item 5. Other Information.

None

Item 6. Exhibits, Financial Statements Schedules and Reports on Form 8-K.

(a)(1) Financial Statements

See "Table of Contents – Part I – Financial Information" under page 2 above

(a)(2) Financial Statement Schedules

None

All other schedules to the consolidated financial statements required by Article 7 of Regulation S-X are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) Exhibits

The following Exhibits are filed herewith pursuant to Rule 601 of Regulation S-K or are incorporated by reference to previous filings.

3.1 Articles of Restatement of Articles of Incorporation (3)

3.2 Amended Bylaws (5)

4.1 Specimen Class A Stock Certificate (1)

4.2 Specimen Class C Stock Certificate (1)

4.3 Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)

10.1 Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)

10.2 2003 Stock Option Plan (4)

10.3 2006 Director Stock Option Plan (8)

10.4	2013 Stock Option Plan (11)
10.5	2014 Director Stock Option Plan (13)
10.6	Deferred Compensation Plan (2)
10.7	Employment agreement with J. Lynn Beckstead, Jr. (6)
10.8	Employment agreement with Scott M. Quist (7)
10.9	Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (9)
10.10	Agreement and Plan of Reorganization among Security National Financial Corporation and certain subsidiaries (10)
10.11	Purchase Agreement among Security National Financial Corporation, SNFC Subsidiary, LLC, American Funeral Financial, LLC, and Hypershops, LLC (12)
21	Subsidiaries of the Registrant
31.1	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101 INS	XBRL Instance Document*
101 SCH	XBRL Schema Document*
101 CAL	XBRL Calculation Linkbase Document*
101 DEF	XBRL Definition Linkbase Document*
101 LAB	XBRL Labels Linkbase Document*
101 PRE	XBRL Presentation Linkbase Document*

\* The XBRL related information in Exhibit 101 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability of that section and shall not be incorporated by reference into any filing or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing or document.



- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 29, 1987
- (2) Incorporated by reference from Annual Report on Form 10-K, as filed on April 3, 2002
- (3) Incorporated by reference from Report on Form 8-K/A, as filed on January 8, 2003
- (4) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on September 5, 2003, relating to the Company's Annual Meeting of Stockholders
- (5) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
- (6) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
- (7) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
- (8) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 1, 2007, relating to the Company's Annual Meeting of Stockholders
- (9) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
- (10) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2013
- (11) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 5, 2013, relating to the Company's Annual Meeting of Stockholders
- (12) Incorporated by reference from Report on Form 8-K, as filed on June 13, 2014
- (13) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 2, 2014, related to Company's Annual Meeting of Stockholders

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTRANT

SECURITY NATIONAL FINANCIAL CORPORATION  
Registrant

Dated: May 15, 2015            /s/ Scott M. Quist  
Scott M. Quist  
Chairman of the Board, President and Chief  
Executive Officer  
(Principal Executive Officer)

Dated: May 15, 2015            /s/ Garrett S. Sill  
Garrett S. Sill  
Chief Financial Officer and Treasurer  
(Principal Financial Officer and Principal  
Accounting Officer)