

SECURITY NATIONAL FINANCIAL CORP  
Form 10-Q  
May 15, 2014

---

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, 2014, 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

Edgar Filing: SECURITY NATIONAL FINANCIAL CORP - Form 10-Q

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	11,844,677
Title of Class	Number of Shares Outstanding as of May 14, 2014
Class C Common Stock, \$.20 par value	13,294,792
Title of Class	Number of Shares Outstanding as of May 14, 2014

---

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q

QUARTER ENDED MARCH 31, 2014

TABLE OF CONTENTS

	Page No.
<b>PART I - FINANCIAL INFORMATION</b>	
<b>Item 1. Financial Statements</b>	
Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013 (unaudited)	3-4
Condensed Consolidated Statements of Earnings for the Three Months Ended March 31, 2014 and 2013 (unaudited)	5
Condensed Consolidated Statements of Comprehensive Income for the Three Months Ended March 31, 2014 and 2013 (unaudited)	6
Condensed Consolidated Statements of Stockholders' Equity as of March 31, 2014 and March 31, 2013 (unaudited)	7
Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2014 and 2013 (unaudited)	8
Notes to Condensed Consolidated Financial Statements (unaudited)	9
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	<b>37</b>
<b>Item 3. Quantitative and Qualitative Disclosures about Market Risk</b>	<b>44</b>
<b>Item 4. Controls and Procedures</b>	<b>44</b>
<b>PART II - OTHER INFORMATION</b>	
<b>Item 1. Legal Proceedings</b>	<b>44</b>
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	<b>46</b>
<b>Item 3. Defaults Upon Senior Securities</b>	<b>46</b>
<b>Item 4. Mine Safety Disclosures</b>	<b>46</b>
<b>Item 5. Other Information</b>	<b>46</b>
<b>Item 6. Exhibits</b>	<b>47</b>



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

Part I - Financial Information

Item 1. Financial Statements.

	March 31 2014	December 31 2013
Assets		
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 141,891,408	\$ 143,466,494
Equity securities, available for sale, at estimated fair value	6,019,096	4,498,756
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of \$1,689,154 and \$1,652,090 for 2014 and 2013	116,077,494	102,781,878
Real estate held for investment, net of accumulated depreciation of \$9,941,411 and \$9,658,599 for 2014 and 2013	100,209,945	99,760,475
Policy and other loans, net of allowances for doubtful accounts of \$322,985 and \$269,175 for 2014 and 2013	22,400,544	19,724,006
Short-term investments	16,818,276	12,135,719
Accrued investment income	2,643,486	2,485,054
Total investments	406,060,249	384,852,382
Cash and cash equivalents	44,829,114	38,203,164
Mortgage loans sold to investors	59,037,697	77,179,652
Receivables, net	12,156,687	11,652,572
Restricted assets	6,590,806	6,670,980
Cemetery perpetual care trust investments	2,464,524	2,414,883
Receivable from reinsurers	7,489,080	12,033,877
Cemetery land and improvements	10,812,688	10,631,573
Deferred policy and pre-need contract acquisition costs	47,087,234	45,737,940
Mortgage servicing rights, net	5,153,495	4,844,101
Property and equipment, net	11,300,964	11,523,160
Value of business acquired	9,019,486	8,680,845
Goodwill	677,039	677,039
Other	4,061,264	3,655,286
<b>Total Assets</b>	<b>\$ 626,740,327</b>	<b>\$ 618,757,454</b>

See accompanying notes to condensed consolidated financial statements.

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

	March 31 2014	December 31 2013
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$460,053,487	\$452,130,649
Unearned premium reserve	5,133,054	5,173,785
Bank and other loans payable	17,724,275	18,289,438
Deferred pre-need cemetery and mortuary contract revenues	13,106,027	13,176,476
Cemetery perpetual care obligation	3,309,436	3,266,131
Accounts payable	2,295,186	2,850,575
Other liabilities and accrued expenses	20,432,293	20,167,363
Income taxes	16,183,968	15,951,848
Total liabilities	538,237,726	531,006,265
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 11,844,677 shares in 2014 and 11,807,287 shares in 2013	23,689,354	23,614,574
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$0.20 par value; 15,000,000 shares authorized; issued 13,294,792 shares in 2014 and 13,301,908 shares in 2013	2,658,958	2,660,382
Additional paid-in capital	23,341,976	23,215,875
Accumulated other comprehensive income, net of taxes	1,534,531	1,218,396
Retained earnings	39,797,080	39,666,587
Treasury stock at cost - 1,103,299 Class A shares in 2014 and 1,141,021 Class A shares in 2013	(2,519,298 )	(2,624,625 )
Total stockholders' equity	88,502,601	87,751,189
Total Liabilities and Stockholders' Equity	\$626,740,327	\$618,757,454

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	
	2014	2013
Revenues:		
Insurance premiums and other considerations	\$ 13,129,447	\$ 12,421,543
Net investment income	5,642,500	5,001,017
Net mortuary and cemetery sales	2,831,062	2,877,523
Realized gains on investments and other assets	198,993	842,578
Other than temporary impairments on investments	(30,000 )	(30,000 )
Mortgage fee income	22,537,538	33,262,881
Other	743,736	476,692
Total revenues	45,053,276	54,852,234
Benefits and expenses:		
Death benefits	6,675,493	6,756,419
Surrenders and other policy benefits	515,612	750,249
Increase in future policy benefits	4,367,443	4,551,741
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,403,642	1,493,905
Selling, general and administrative expenses:		
Commissions	10,560,881	17,570,585
Salaries	8,916,464	8,178,698
Provision for loan losses and loss reserve	372,093	552,289
Costs related to funding mortgage loans	1,297,685	1,607,235
Other	9,789,813	8,856,600
Interest expense	497,864	807,276
Cost of goods and services sold-mortuaries and cemeteries	490,299	499,614
Total benefits and expenses	44,887,289	51,624,611
Earnings before income taxes	165,987	3,227,623
Income tax expense	(27,139 )	(1,194,357 )
Net earnings	\$ 138,848	\$ 2,033,266
Net earnings per Class A Equivalent common share (1)	\$0.01	\$0.18
Net earnings per Class A Equivalent common share-assuming dilution (1)	\$0.01	\$0.16
Weighted-average Class A equivalent common share outstanding (1)	11,786,353	11,613,952
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	12,227,249	12,658,895

(1) Net earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common share basis. Net earnings per common share represent net earnings per equivalent Class A common share. Net earnings per Class C common share is equal to one-tenth (1/10) of such amount.

See accompanying notes to condensed consolidated financial statements.



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

	Three Months Ended	
	March 31	
	2014	2013
Net earnings	\$ 138,848	\$ 2,033,266
Other comprehensive income:		
Net unrealized gains (losses) on derivative instruments	278,230	(578,647 )
Net unrealized gains on available for sale securities	37,905	203,221
Other comprehensive income (loss)	316,135	(375,426 )
Comprehensive income	\$ 454,983	\$ 1,657,840

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, 2012	\$21,687,152	\$2,194,820	\$21,262,140	\$ 1,934,359	\$35,114,072	\$(2,380,434)	\$79,812,109
Net earnings	-	-	-	-	2,033,266	-	2,033,266
Other comprehensive loss	-	-	-	(375,426 )	-	-	(375,426 )
Grant of stock options	-	-	52,969	-	-	-	52,969
Exercise of stock options	204,206	86,677	(74,155 )	-	-	-	216,728
Sale of treasury stock	-	-	63,986	-	-	19,727	83,713
Conversion Class C to Class A	1,818	(1,819 )	1	-	-	-	-
Balance at March 31, 2013	\$21,893,176	\$2,279,678	\$21,304,941	\$ 1,558,933	\$37,147,338	\$(2,360,707)	\$81,823,359
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
Dividends	3,446	(1 )	4,910	-	(8,355 )	-	-
Conversion Class C to Class	1,424	(1,423 )	(1 )	-	-	-	-

A

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
----------------	--------------	-------------	--------------	-------------	--------------	---------------	--------------

See accompanying notes to condensed consolidated financial statements.

7

---

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

	Three Months Ended March	
	31	
	2014	2013
Cash flows from operating activities:		
Net cash provided by operating activities	\$22,716,675	\$5,449,312
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	-	(9,919,352 )
Calls and maturities - fixed maturity securities	1,482,142	2,406,652
Securities available for sale:		
Purchase - equity securities	(2,078,830 )	(425,877 )
Sales - equity securities	666,524	1,252,757
Purchase of short-term investments	(4,995,216 )	(10,206,512)
Sales of short-term investments	312,659	30,482,179
Sales (purchases) of restricted assets	94,028	(56,243 )
Changes in assets for perpetual care trusts	(59,880 )	(54,533 )
Amount received for perpetual care trusts	43,305	9,105
Mortgage, policy, and other loans made	(49,908,636)	(27,324,342)
Payments received for mortgage, policy and other loans	33,846,466	30,188,402
Purchase of property and equipment	(275,002 )	(810,223 )
Purchase of real estate	(2,139,341 )	(30,317 )
Sale of real estate	1,247,104	757,150
Cash received from reinsurance	7,304,993	-
Net cash provided by (used in) investing activities	(14,459,684)	16,268,846
Cash flows from financing activities:		
Annuity contract receipts	2,524,342	2,189,717
Annuity contract withdrawals	(3,647,370 )	(4,125,531 )
Proceeds from stock options exercised	50,299	216,728
Repayment of bank loans on notes and contracts	(588,471 )	(535,814 )
Proceeds from borrowing on bank loans	30,159	4,733,975
Change in line of credit borrowings	-	(4,608,204 )
Net cash used in financing activities	(1,631,041 )	(2,129,129 )
Net change in cash and cash equivalents	6,625,950	19,589,029
Cash and cash equivalents at beginning of period	38,203,164	38,906,115
Cash and cash equivalents at end of period	\$44,829,114	\$58,495,144
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	\$-	\$1,747,802

See accompanying notes to condensed consolidated financial statements.

8

---

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 2014 (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, 2013, 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, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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.

Certain 2013 amounts have been reclassified to bring them into conformity with the 2014 presentation.

2) Recent Accounting Pronouncements

ASU No. 2014-04: "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force) - In January 2014, ASU No. 2014-04 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 is not expected to have a significant impact on the Company's results of operations or financial position.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 2014 (Unaudited)

## 3) Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2014:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 2,280,748	\$ 322,509	\$ -	\$ 2,603,257
Obligations of states and political subdivisions	1,791,368	228,771	(8,326 )	2,011,813
Corporate securities including public utilities	133,084,680	13,552,685	(649,300)	145,988,065
Mortgage-backed securities	4,122,589	280,868	(11,017 )	4,392,440
Redeemable preferred stock	612,023	10,531	-	622,554
Total fixed maturity securities held to maturity	\$ 141,891,408	\$ 14,395,364	\$ (668,643)	\$ 155,618,129

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2014:				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 6,249,495	\$ 301,155	\$ (531,554)	\$ 6,019,096
Total equity securities available for sale at	\$ 6,249,495	\$ 301,155	\$ (531,554)	\$ 6,019,096

estimated fair value

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

Residential	\$ 55,147,389
Residential construction	13,978,754
Commercial	48,640,505
Less: Allowance for loan losses	(1,689,154 )

Total mortgage loans on real estate and construction loans held for investment \$ 116,077,494

Real estate held for investment - net of depreciation \$ 100,179,474

Policy and other loans at amortized cost:

Policy loans	\$ 7,408,878
Other loans	15,314,651
Less: Allowance for doubtful accounts	(322,985 )

Total policy and other loans at amortized cost \$ 22,400,544

Short-term investments at amortized cost \$ 16,818,276



SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
March 31, 2014 (Unaudited)

## 3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2013 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies				
	\$ 2,284,261	\$ 298,901	\$ -	\$ 2,583,162
Obligations of states and political subdivisions				
	1,790,661	197,340	(9,404 )	1,978,597
Corporate securities including public utilities				
	134,257,468	10,513,448	(1,394,919)	143,375,997
Mortgage-backed securities				
	4,522,081	206,617	(11,351 )	4,717,347
Redeemable preferred stock				
	612,023	12,994	(5,900 )	619,117
Total fixed maturity securities held to maturity				
	\$ 143,466,494	\$ 11,229,300	\$ (1,421,574)	\$ 153,274,220

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2013:				

Equity securities available for sale at estimated fair value: