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SECURITY NATIONAL FINANCIAL CORP

FORM 10-Q

(Quarterly Report)

Filed 11/14/19 for the Period Ending 09/30/19

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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 quarterly period ended **September 30, 2019**

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)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading symbol</u>	<u>Name of exchange on which registered</u>
Class A Common Stock	SNFCA	The Nasdaq Global Select Market

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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 14, 2019, the registrant had 15,327,298 shares of Class A Common Stock, \$2.00 par value, outstanding and 2,254,168 shares of Class C Common Stock, \$2.00 par value, outstanding.

**SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q**

QUARTER ENDED SEPTEMBER 30, 2019

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

Part I - Financial Information

Item 1. Financial Statements.

	September 30 2019 (Unaudited)	December 31 2018
Assets		
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 239,749,797	\$ 232,078,723
Equity securities at estimated fair value	8,109,778	5,558,611
Mortgage loans held for investment (net of allowances for loan losses of \$1,301,476 and \$1,347,972 for 2019 and 2018)	196,508,903	186,465,069
Real estate held for investment (net of accumulated depreciation of \$17,784,514 and \$16,739,578 for 2019 and 2018)	117,055,398	121,558,222
Other investments and policy loans (net of allowances for doubtful accounts of \$1,495,268 and \$1,092,528 for 2019 and 2018)	46,448,120	46,617,655
Accrued investment income	4,046,143	3,566,146
Total investments	611,918,139	595,844,426
Cash and cash equivalents	123,178,762	142,199,942
Loans held for sale at estimated fair value	233,713,098	136,210,853
Receivables (net of allowances for doubtful accounts of \$1,597,186 and \$1,519,842 for 2019 and 2018)	8,611,105	8,935,343
Restricted assets (including \$1,145,917 and \$744,673 for 2019 and 2018 at estimated fair value)	13,555,294	10,981,562
Cemetery perpetual care trust investments (including \$908,493 and \$483,353 for 2019 and 2018 at estimated fair value)	4,188,476	4,335,869
Receivable from reinsurers	10,819,898	10,820,102
Cemetery land and improvements	9,777,156	9,878,427
Deferred policy and pre-need contract acquisition costs	93,596,603	89,362,096
Mortgage servicing rights, net	16,951,124	20,016,822
Property and equipment, net	9,363,971	7,010,778
Value of business acquired	5,227,790	5,765,190
Goodwill	3,519,588	2,765,570
Other	18,228,380	6,684,143
Total Assets	<u>\$1,162,649,384</u>	<u>\$1,050,811,123</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	September 30 2019 (Unaudited)	December 31 2018
Liabilities and Stockholders' Equity		
Liabilities		
Future policy benefits and unpaid claims	\$ 631,759,294	\$ 620,399,714
Unearned premium reserve	3,707,062	3,920,473
Bank and other loans payable	261,034,322	187,521,188
Deferred pre-need cemetery and mortuary contract revenues	12,901,226	12,508,625
Cemetery perpetual care obligation	3,907,519	3,821,979
Accounts payable	4,670,615	2,883,349
Other liabilities and accrued expenses	48,035,927	31,821,624
Income taxes	15,561,029	16,122,998
Total liabilities	<u>981,576,994</u>	<u>878,999,950</u>
Stockholders' Equity		
Preferred Stock - non-voting - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 15,327,298 shares in 2019 and 15,304,798 shares in 2018	30,654,596	30,609,596
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; 3,000,000 shares authorized; issued 2,254,168 shares in 2019 and 2,193,643 shares in 2018	4,508,336	4,387,286
Additional paid-in capital	42,626,015	41,821,778
Accumulated other comprehensive income, net of taxes	(1,542)	(2,823)
Retained earnings	104,228,749	95,201,732
Treasury stock at cost - 358,325 Class A shares in 2019 and 302,541 Class A shares in 2018	(943,764)	(206,396)
Total stockholders' equity	<u>181,072,390</u>	<u>171,811,173</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,162,649,384</u>	<u>\$ 1,050,811,123</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Revenues:				
Insurance premiums and other considerations	\$ 19,832,492	\$ 18,639,401	\$ 58,504,712	\$ 56,640,590
Net investment income	10,478,566	9,641,496	31,061,069	29,457,892
Net mortuary and cemetery sales	3,526,416	3,646,290	11,205,774	10,430,128
Gains (losses) on investments and other assets	(519,673)	1,022,427	261,095	25,371,595
Mortgage fee income	39,735,752	31,664,704	97,161,190	88,833,944
Other	2,326,106	2,608,775	7,124,836	7,430,179
Total revenues	<u>75,379,659</u>	<u>67,223,093</u>	<u>205,318,676</u>	<u>218,164,328</u>
Benefits and expenses:				
Death benefits	9,937,711	8,616,285	29,264,410	27,579,540
Surrenders and other policy benefits	636,366	692,445	2,266,275	2,198,479
Increase in future policy benefits	5,980,721	6,686,536	17,407,962	18,420,499
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	3,477,160	2,746,288	9,678,912	7,967,003
Selling, general and administrative expenses:				
Commissions	16,714,061	13,619,192	40,243,042	39,361,315
Personnel	16,287,957	17,075,236	47,018,553	50,547,638
Advertising	1,361,745	1,423,933	3,566,823	3,647,610
Rent and rent related	1,749,402	1,913,813	5,377,869	5,806,296
Depreciation on property and equipment	421,970	457,430	1,294,576	1,426,087
Costs related to funding mortgage loans	1,917,390	1,732,617	4,831,604	5,147,557
Other	9,355,218	7,616,264	25,154,712	21,562,432
Interest expense	2,078,733	1,855,548	5,353,177	5,297,066
Cost of goods and services sold-mortuaries and cemeteries	701,403	575,708	2,044,937	1,641,596
Total benefits and expenses	<u>70,619,837</u>	<u>65,011,295</u>	<u>193,502,852</u>	<u>190,603,118</u>
Earnings before income taxes	4,759,822	2,211,798	11,815,824	27,561,210
Income tax expense	(1,142,408)	(198,052)	(2,788,038)	(5,383,324)
Net earnings	<u>\$ 3,617,414</u>	<u>\$ 2,013,746</u>	<u>\$ 9,027,786</u>	<u>\$ 22,177,886</u>
Net earnings per Class A Equivalent common share (1)	<u>\$ 0.21</u>	<u>\$ 0.12</u>	<u>\$ 0.52</u>	<u>\$ 1.30</u>
Net earnings per Class A Equivalent common share-assuming dilution (1)	<u>\$ 0.21</u>	<u>\$ 0.12</u>	<u>\$ 0.52</u>	<u>\$ 1.28</u>
Weighted-average Class A equivalent common share outstanding (1)	<u>17,230,987</u>	<u>17,152,656</u>	<u>17,240,745</u>	<u>17,072,531</u>
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	<u>17,420,731</u>	<u>17,387,326</u>	<u>17,434,755</u>	<u>17,295,302</u>

(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 (unaudited).

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Net earnings	\$ 3,617,414	\$ 2,013,746	\$ 9,027,786	\$ 22,177,886
Other comprehensive income:				
Foreign currency translation adjustments	(340)	1,013	1,707	(916)
Other comprehensive income, before income tax	(340)	1,013	1,707	(916)
Income tax benefit	85	(252)	(426)	229
Other comprehensive income, net of income tax	(255)	761	1,281	(687)
Comprehensive income	\$ 3,617,159	\$ 2,014,507	\$ 9,029,067	\$ 22,177,199

See accompanying notes to condensed consolidated financial statements (unaudited).

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

Nine Months Ended September 30, 2019

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
January 1, 2019	\$ 30,609,596	\$ 4,387,286	\$ 41,821,778	\$ (2,823)	\$ 95,201,732	\$ (206,396)	\$ 171,811,173
Net earnings	-	-	-	-	1,930,318	-	1,930,318
Other comprehensive gain	-	-	-	820	-	-	820
Stock-based compensation expense	-	-	64,704	-	-	-	64,704
Exercise of stock options	8,936	-	8,444	-	-	-	17,380
Sale of treasury stock	-	-	295,153	-	-	42,343	337,496
Purchase of treasury stock	-	-	-	-	-	(112,404)	(112,404)
Stock dividends	282	(4)	489	-	(769)	-	(2)
Conversion Class C to Class A	6,560	(6,560)	-	-	-	-	-
March 31, 2019	\$ 30,625,374	\$ 4,380,722	\$ 42,190,568	\$ (2,003)	\$ 97,131,281	\$ (276,457)	\$ 174,049,485
Net earnings	-	-	-	-	3,480,054	-	3,480,054
Other comprehensive loss	-	-	-	716	-	-	716
Stock-based compensation expense	-	-	65,037	-	-	-	65,037
Exercise of stock options	20,274	-	9,519	-	-	-	29,793
Sale of treasury stock	-	-	92,605	-	-	25,190	117,795
Purchase of treasury stock	-	-	-	-	-	(174,704)	(174,704)
Conversion Class C to Class A	12	(14)	2	-	-	-	-
June 30, 2019	\$ 30,645,660	\$ 4,380,708	\$ 42,357,731	\$ (1,287)	\$ 100,611,335	\$ (425,971)	\$ 177,568,176
Net earnings	-	-	-	-	3,617,414	-	3,617,414
Other comprehensive income	-	-	-	(255)	-	-	(255)
Stock-based compensation expense	-	-	65,746	-	-	-	65,746
Exercise of stock options	8,936	127,628	114,376	-	-	-	250,940
Sale of treasury stock	-	-	88,162	-	-	35,400	123,562
Purchase of treasury stock	-	-	-	-	-	(553,193)	(553,193)
Conversion Class C to Class A	-	-	-	-	-	-	-
September 30, 2019	<u>\$ 30,654,596</u>	<u>\$ 4,508,336</u>	<u>\$ 42,626,015</u>	<u>\$ (1,542)</u>	<u>\$ 104,228,749</u>	<u>\$ (943,764)</u>	<u>\$ 181,072,390</u>

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

Nine Months Ended September 30, 2018

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
January 1, 2018	\$ 29,071,154	\$ 4,178,748	\$ 38,125,042	\$ 603,170	\$ 77,520,951	\$ (931,075)	\$ 148,567,990
Net earnings	-	-	-	-	16,925,923	-	16,925,923
Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-01)	-	-	-	(603,170)	603,170	-	-
Stock-based compensation expense	-	-	58,087	-	-	-	58,087
Sale of treasury stock	-	-	88,964	-	-	222,410	311,374
Exercise of stock options	63,968	-	(22,115)	-	-	-	41,853
Stock dividends	3,520	(4)	5,362	-	(8,878)	-	-
March 31, 2018	<u>\$ 29,138,642</u>	<u>\$ 4,178,744</u>	<u>\$ 38,255,340</u>	<u>\$ -</u>	<u>\$ 95,041,166</u>	<u>\$ (708,665)</u>	<u>\$ 165,905,227</u>
Net earnings	-	-	-	-	3,238,217	-	3,238,217
Other comprehensive loss	-	-	-	(1,448)	-	-	(1,448)
Stock-based compensation expense	-	-	58,053	-	-	-	58,053
Sale of treasury stock	-	-	163,335	-	-	222,420	385,755
Conversion Class C to Class A	376	(376)	-	-	-	-	-
June 30, 2018	<u>\$ 29,139,018</u>	<u>\$ 4,178,368</u>	<u>\$ 38,476,728</u>	<u>\$ (1,448)</u>	<u>\$ 98,279,383</u>	<u>\$ (486,245)</u>	<u>\$ 169,585,804</u>
Net earnings	-	-	-	-	2,013,746	-	2,013,746
Other comprehensive income	-	-	-	761	-	-	761
Stock-based compensation expense	-	-	58,691	-	-	-	58,691
Exercise of stock options	8,298	-	7,261	-	-	-	15,559
Sale of treasury stock	-	-	168,500	-	-	242,954	411,454
Purchase of treasury stock	-	-	-	-	-	(54,507)	(54,507)
September 30, 2018	<u>\$ 29,147,316</u>	<u>\$ 4,178,368</u>	<u>\$ 38,711,180</u>	<u>\$ (687)</u>	<u>\$ 100,293,129</u>	<u>\$ (297,798)</u>	<u>\$ 172,031,508</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

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

	Nine Months Ended September 30	
	2019	2018
Cash flows from operating activities:		
Net cash used in operating activities	\$ (62,865,938)	\$ (10,250,549)
Cash flows from investing activities:		
Purchases of fixed maturity securities	(27,227,180)	(29,074,605)
Calls and maturities of fixed maturity securities	19,444,922	26,356,188
Purchases of equity securities	(3,521,610)	(2,356,207)
Sales of equity securities	1,691,231	2,478,051
Net changes in restricted assets	(514,574)	121,418
Net changes in perpetual care trusts	(111,076)	1,664,215
Mortgage loans, other investments and policy loans made	(421,682,247)	(376,549,887)
Payments received for mortgage loans, other investments and policy loans	410,303,611	403,724,354
Purchase of property and equipment	(931,691)	(1,020,257)
Sale of property and equipment	51,104	2,014,704
Purchase of real estate	(6,465,802)	(22,399,516)
Sale of real estate	8,291,147	65,457,047
Cash paid for purchase of subsidiaries, net of cash acquired	(3,261,788)	(3,405,783)
Net cash provided by (used in) investing activities	<u>(23,933,953)</u>	<u>67,009,722</u>
Cash flows from financing activities:		
Investment contract receipts	9,628,472	8,833,639
Investment contract withdrawals	(13,282,143)	(11,667,269)
Proceeds from stock options exercised	298,113	57,412
Purchase of treasury stock	(840,301)	(54,507)
Repayment of bank and other loans	(139,046,605)	(92,873,253)
Proceeds from borrowing on bank loans	149,304,399	116,455,289
Net change in warehouse line borrowings	62,987,462	14,131,782
Net change in line of credit borrowings	-	1,250,000
Net cash provided by financing activities	<u>69,049,397</u>	<u>36,133,093</u>
Net change in cash, cash equivalents, restricted cash and restricted cash equivalents	<u>(17,750,494)</u>	<u>92,892,266</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	<u>150,936,673</u>	<u>54,501,923</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period	<u>\$ 133,186,179</u>	<u>\$ 147,394,189</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	\$ 5,292,868	\$ 5,206,262
Income taxes (net of refunds)	3,350,434	162,327
Non Cash Operating, Investing and Financing Activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 13,441,537	\$ -
Right-of-use assets obtained in exchange for finance lease liabilities	255,147	-
Accrued real estate construction costs and retainage	689,291	17,433
Mortgage loans held for investment foreclosed into real estate held for investment	1,410,499	670,601
Benefit plans funded with treasury stock	578,853	1,108,583
Mortgage loans held for investment foreclosed into receivables	155,347	-
Transfer of loans held for sale to mortgage loans held for investment	-	139,464

See Note 15 regarding non cash transactions included in the acquisitions of Probst Family Funeral and Cremations and Heber Valley Funeral Home and Beta Capital Corp.

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

Reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents as shown in the condensed consolidated statements of cash flows is presented in the table below:

	Nine Months Ended September 30	
	2019	2018
Cash and cash equivalents	\$ 123,178,762	\$ 137,106,471
Restricted assets	9,166,838	8,717,416
Cemetery perpetual care trust investments	840,579	1,570,302
Total cash, cash equivalents, restricted cash and restricted cash equivalents	<u>\$ 133,186,179</u>	<u>\$ 147,394,189</u>

See accompanying notes to condensed consolidated financial statements (unaudited).

1) Basis of Presentation

The accompanying unaudited condensed 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, 2018, included in the Company's Annual Report on Form 10-K (File Number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019.

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.

Material estimates that are particularly susceptible to significant changes in the near term are those used in determining the value of derivative assets and liabilities; those used in determining deferred acquisition costs and the value of business acquired; those used in determining the value of mortgage loans foreclosed to real estate held for investment; those used in determining the liability for future policy benefits; those used in determining the value of mortgage servicing rights; those used in determining allowances for loan losses for mortgage loans held for investment; those used in determining loan loss reserve; and those used in determining deferred tax assets and liabilities. 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 Adopted in 2019

ASU No. 2016-02: "Leases (Topic 842)" - Issued in February 2016, ASU 2016-02 supersedes the requirements in Accounting Standards Codification ("ASC") Topic 840, "Leases", and was issued to increase transparency and comparability among organizations. The new standard sets forth the principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record on the balance sheet right-of-use assets and lease liabilities, equal to the present value of the remaining lease payments. The lease classification will determine whether the lease expense is recognized based on an effective interest rate method or a straight-line basis over the term of the leases. The FASB further clarified ASU 2016-02 and provided targeted improvements by issuing ASU 2018-01, ASU 2018-10, ASU 2018-11 and ASU 2018-20.

The Company adopted this standard on January 1, 2019 using the modified retrospective transition method with no cumulative-effect adjustment to the opening balance of retained earnings. Under this transition method, the application date was the beginning of the reporting period, January 1, 2019, in which the Company first applied the standard. Under this transition option, the Company will apply the legacy guidance in ASC 840, "Leases", including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company has made an accounting policy election not to apply the recognition requirements to short-term leases, which are leases that, at the commencement date, have a lease term of 12 months or less and do not include an option to purchase the underlying assets that the lessee is reasonably certain to exercise. The new authoritative guidance allows for certain practical expedients to be utilized to assist with the implementation of the new standard. The Company has elected the transition package of practical expedients which allows the Company to not reassess whether any expired or existing contracts are or contain leases, to not reassess the lease classification for any expired or existing leases and to not reassess initial direct costs for any existing leases.

2) Recent Accounting Pronouncements (Continued)

The Company implemented a third-party lease accounting system to assist with the measurement of the lease liabilities and the related right-of-use assets. The Company compiled an inventory of its leases, determined the appropriate discount rates and has determined the impact of this standard which is not material to the Company's results of operations, but has an effect on the balance sheet presentation for leased assets and obligations. The Company recognized a right-of-use asset and related lease liability for approximately \$12,076,000 on January 1, 2019. This standard did not impact the Company's accounting for leases where the Company is the lessor.

Accounting Standards Issued But Not Yet Adopted

ASU No. 2016-13: "Financial Instruments – Credit Losses (Topic 326)" – Issued in September 2016, ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis (such as mortgage loans and held to maturity debt securities) and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current general accepted accounting principles ("GAAP") and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. In October 2019, the FASB proposed an update to ASU No. 2016-13 that would make the ASU effective for the Company on January 1, 2023. The Company is in the process of evaluating the potential impact of this standard, especially as it relates to held to maturity debt securities and mortgage loans held for investment.

ASU No. 2018-13: "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement" – Issued in August 2018, ASU 2018-13 modifies the disclosure requirements of Topic 820 by removing, modifying or adding certain disclosures. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 does not change the fair value measurements already required or permitted by existing standards. This new authoritative guidance will be effective for the Company on January 1, 2020. The adoption of this standard will not materially impact the Company's financial statements.

ASU No. 2018-12: "Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts" – Issued in August 2018, ASU 2018-12 is intended to improve the timeliness of recognizing changes in the liability for future policy benefits on traditional long-duration contracts by requiring that assumptions be updated after contract inception and by modifying the rate used to discount future cash flows. The ASU will simplify and improve the accounting for certain market-based options or guarantees associated with deposit or account balance contracts, simplify amortization of deferred acquisition costs while improving and expanding required disclosures. In October 2019, the FASB proposed an update to ASU No. 2018-12 that would make the ASU effective for the Company on January 1, 2024. The Company is in the process of evaluating the potential impact of this standard.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments

The Company's investments as of September 30, 2019 are summarized as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
September 30, 2019				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S.				
Government agencies	\$ 62,267,359	\$ 703,132	\$ (35,072)	\$ 62,935,419
Obligations of states and political subdivisions	5,877,586	144,335	-	6,021,921
Corporate securities including public utilities	154,480,928	16,868,422	(696,122)	170,653,228
Mortgage-backed securities	17,020,727	732,042	(42,738)	17,710,031
Redeemable preferred stock	103,197	14,039	-	117,236
Total fixed maturity securities held to maturity	<u>\$239,749,797</u>	<u>\$18,461,970</u>	<u>\$ (773,932)</u>	<u>\$257,437,835</u>
Equity securities at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other				
	\$ 8,126,632	\$ 962,133	\$ (978,987)	\$ 8,109,778
Total equity securities at estimated fair value	<u>\$ 8,126,632</u>	<u>\$ 962,133</u>	<u>\$ (978,987)</u>	<u>\$ 8,109,778</u>
Mortgage loans held for investment at amortized cost:				
Residential	\$ 79,853,121			
Residential construction	92,602,632			
Commercial	26,720,812			
Less: Unamortized deferred loan fees, net	(1,366,186)			
Less: Allowance for loan losses	(1,301,476)			
Total mortgage loans held for investment	<u>\$196,508,903</u>			
Real estate held for investment net of accumulated depreciation:				
Residential	\$ 23,420,598			
Commercial	93,634,800			
Total real estate held for investment	<u>\$117,055,398</u>			
Other investments and policy loans at amortized cost:				
Policy loans	\$ 6,344,074			
Insurance assignments	34,404,766			
Federal Home Loan Bank stock (1)	3,006,500			
Other investments	4,188,048			
Less: Allowance for doubtful accounts	(1,495,268)			
Total other investments and policy loans	<u>\$ 46,448,120</u>			
Accrued investment income	<u>\$ 4,046,143</u>			
Total investments	<u>\$611,918,139</u>			

(1) Includes \$806,500 of Membership stock and \$2,200,000 of Activity stock due to short-term borrowings.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

The Company's investments as of December 31, 2018 are summarized as follows:

	<u>Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>December 31, 2018:</u>				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 52,017,683	\$ 264,891	\$ (727,798)	\$ 51,554,776
Obligations of states and political subdivisions	6,959,237	32,274	(111,271)	6,880,240
Corporate securities including public utilities	157,639,860	7,002,864	(3,704,137)	160,938,587
Mortgage-backed securities	15,358,746	227,398	(308,864)	15,277,280
Redeemable preferred stock	103,197	1,903	(5,125)	99,975
Total fixed maturity securities held to maturity	<u>\$232,078,723</u>	<u>\$ 7,529,330</u>	<u>\$ (4,857,195)</u>	<u>\$234,750,858</u>
Equity securities at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 6,312,158	\$ 422,528	\$ (1,176,075)	\$ 5,558,611
Total equity securities at estimated fair value	<u>\$ 6,312,158</u>	<u>\$ 422,528</u>	<u>\$ (1,176,075)</u>	<u>\$ 5,558,611</u>
Mortgage loans held for investment at amortized cost:				
Residential	\$ 89,935,600			
Residential construction	71,366,544			
Commercial	27,785,927			
Less: Unamortized deferred loan fees, net	(1,275,030)			
Less: Allowance for loan losses	<u>(1,347,972)</u>			
Total mortgage loans held for investment	<u>\$186,465,069</u>			
Real estate held for investment net of accumulated depreciation:				
Residential	\$ 29,507,431			
Commercial	92,050,791			
Total real estate held for investment	<u>\$121,558,222</u>			
Other investments and policy loans at amortized cost:				
Policy loans	\$ 6,424,325			
Insurance assignments	35,239,396			
Federal Home Loan Bank stock (1)	2,548,700			
Other investments	3,497,762			
Less: Allowance for doubtful accounts	<u>(1,092,528)</u>			
Total other investments and policy loans	<u>\$ 46,617,655</u>			
Accrued investment income	<u>\$ 3,566,146</u>			
Total investments	<u>\$595,844,426</u>			

(1) Includes \$708,700 of Membership stock and \$1,840,000 of Activity stock due to short-term borrowings.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturity securities held to maturity, which are carried at amortized cost, at September 30, 2019 and December 31, 2018. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	Fair Value	Unrealized Losses for More than Twelve Months	Fair Value	Total Unrealized Loss	Fair Value
<u>At September 30, 2019</u>						
U.S. Treasury securities and obligations of U.S. Government Agencies	\$ 2,966	\$ 658,550	\$ 32,106	\$19,885,300	\$ 35,072	\$ 20,543,850
Corporate securities	191,271	5,965,416	504,851	4,416,332	696,122	10,381,748
Mortgage and other asset-backed securities	10,067	379,177	32,671	706,509	42,738	1,085,686
Total unrealized losses	<u>\$ 204,304</u>	<u>\$ 7,003,143</u>	<u>\$ 569,628</u>	<u>\$25,008,141</u>	<u>\$ 773,932</u>	<u>\$ 32,011,284</u>
<u>At December 31, 2018</u>						
U.S. Treasury securities and obligations of U.S. Government Agencies	\$ 10,519	\$ 695,863	\$ 717,279	\$39,930,052	\$ 727,798	\$ 40,625,915
Obligations of states and political subdivisions	6,643	1,791,257	104,628	2,889,517	111,271	4,680,774
Corporate securities	2,514,549	61,090,431	1,189,588	11,767,349	3,704,137	72,857,780
Mortgage and other asset-backed securities	79,896	1,705,296	228,968	2,690,065	308,864	4,395,361
Redeemable preferred stock	5,125	90,000	-	-	5,125	90,000
Total unrealized losses	<u>\$ 2,616,732</u>	<u>\$65,372,847</u>	<u>\$ 2,240,463</u>	<u>\$57,276,983</u>	<u>\$ 4,857,195</u>	<u>\$122,649,830</u>

There were 47 securities with fair value of 97.6% of amortized cost at September 30, 2019. There were 361 securities with fair value of 96.2% of amortized cost at December 31, 2018. No credit losses have been recognized for the three and nine months ended September 30, 2019 and 2018.

On a quarterly basis, the Company evaluates its fixed maturity securities held to maturity. This evaluation includes a review of current ratings by the National Association of Insurance Commissioners ("NAIC"). Securities with a rating of 1 or 2 are considered investment grade and are not reviewed for impairment. Securities with ratings of 3 to 5 are evaluated for impairment. Securities with a rating of 6 are automatically determined to be impaired and are written down. The evaluation involves an analysis of the securities in relation to historical values, interest payment history, projected earnings and revenue growth rates as well as a review of the reason for a downgrade in the NAIC rating. Based on the analysis of a security that is rated 3 to 5, a determination is made whether the security will likely make interest and principal payments in accordance with the terms of the financial instrument. If it is unlikely that the security will meet contractual obligations, the loss is considered to be other than temporary, the security is written down to the new anticipated market value and an impairment loss is recognized. Impairment losses are treated as credit losses as the Company holds fixed maturity securities to maturity unless the underlying conditions have changed in the financial instrument to require an impairment.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) **Investments** (Continued)

The amortized cost and estimated fair value of fixed maturity securities held to maturity, at September 30, 2019, 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 1 year	\$ 3,135,187	\$ 3,152,560
Due in 2-5 years	85,443,407	87,087,887
Due in 5-10 years	66,438,645	71,147,090
Due in more than 10 years	67,608,634	78,223,031
Mortgage-backed securities	17,020,727	17,710,031
Redeemable preferred stock	103,197	117,236
Total held to maturity	<u>\$239,749,797</u>	<u>\$257,437,835</u>

The Company is a member of the Federal Home Loan Bank of Des Moines ("FHLB"). The Company currently has deposited a total of \$60,000,000, par value, of United States Treasury fixed maturity securities with FHLB. These securities generate interest income for the Company and are available to use as collateral on any cash borrowings from the FHLB. As of September 30, 2019, the Company owed \$55,000,000 to the FHLB. This amount owed was paid in October 2019.

Equity Securities

The fair values for equity securities are based on quoted market prices. The Company recognizes the changes (unrealized gains and losses) in the fair value of these equity securities through earnings as part of gains on investments and other assets on the condensed consolidated statements of earnings instead of other comprehensive income on the condensed consolidated balance sheets.

Investment Related Earnings

The Company's net realized gains and losses from sales, calls, and maturities, unrealized gains and losses on equity securities, and other than temporary impairments are summarized as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Fixed maturity securities held to maturity:				
Gross realized gains	\$ 113,849	\$ 109,554	\$ 362,475	\$ 397,190
Gross realized losses	(16,814)	(31,670)	(121,829)	(601,303)
Equity securities:				
Gains (losses) on securities sold	85,998	11,214	138,662	(13,933)
Unrealized gains and (losses) on securities held at the end of the period	(98,635)	284,192	676,589	71,143
Other assets:				
Gross realized gains	472,691	814,471	2,265,914	26,060,598 (1)
Gross realized losses	(1,076,762)	(165,334)	(3,060,716)	(542,100)
Total	<u>\$ (519,673)</u>	<u>\$ 1,022,427</u>	<u>\$ 261,095</u>	<u>\$ 25,371,595</u>

(1) Includes a one-time gain of \$22,252,000 from the sale of Dry Creek at East Village Apartments.

The net realized gains and losses on the sale of securities are recorded on the trade date, and the cost of the securities sold is determined using the specific identification method.

The carrying amount of held to maturity securities sold was \$2,724,199 and \$4,998,249 for the nine months ended September 30, 2019 and 2018, respectively. The net realized loss related to these sales was \$12,394 and \$243,023 for the nine months ended September 30, 2019 and 2018, respectively. Although the Company has the positive intent and ability to buy and hold a fixed maturity security to maturity, the Company will sell a security prior to maturity if conditions and circumstances have changed within the entity that issued the security to increase the risk of default to an unacceptable level.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

Major categories of net investment income are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Fixed maturity securities held to maturity	\$ 2,563,481	\$ 2,481,202	\$ 7,596,035	\$ 7,521,884
Equity securities	74,629	64,214	227,280	176,126
Mortgage loans held for investment	4,558,232	4,240,624	13,187,416	14,016,985
Real estate held for investment	2,259,064	2,124,138	6,266,286	6,423,996
Policy loans	113,541	85,044	308,583	296,540
Insurance assignments	3,851,804	3,583,964	11,970,755	10,956,651
Other investments	-	57,050	106,678	186,594
Cash and cash equivalents	398,997	375,310	1,363,873	752,339
Gross investment income	<u>13,819,748</u>	<u>13,011,546</u>	<u>41,026,906</u>	<u>40,331,115</u>
Investment expenses	<u>(3,341,182)</u>	<u>(3,370,050)</u>	<u>(9,965,837)</u>	<u>(10,873,223)</u>
Net investment income	<u>\$10,478,566</u>	<u>\$ 9,641,496</u>	<u>\$31,061,069</u>	<u>\$ 29,457,892</u>

Net investment income includes income earned by the restricted assets cemeteries and mortuaries of \$102,888 and \$81,486 for the three months ended September 30, 2019 and 2018, respectively, and \$323,404 and \$287,545 for the nine months ended September 30, 2019 and 2018, 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 with regulatory authorities as required by law amounted to \$9,070,694 at September 30, 2019 and \$9,220,520 at December 31, 2018. These restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on equity securities) at September 30, 2019, other than investments issued or guaranteed by the United States Government.

Real Estate Held for Investment

The Company continues to strategically deploy resources into real estate to match the income and yield durations of its primary obligations. The sources for these real estate assets come through its various business units in the form of acquisition, development and mortgage foreclosures.

Commercial Real Estate Held for Investment

The Company owns and manages commercial real estate assets as a means of generating investment income. These assets are acquired in accordance with the Company's goals and objectives for risk-adjusted returns. Due diligence is conducted on each asset using internal and third-party reports. Geographic locations and asset classes of the investment activity is determined by senior management under the direction of the Board of Directors.

The Company employs full-time employees to attend to the day-to-day operations of those assets within the greater Salt Lake area and close surrounding markets. The Company utilizes third party property managers when the geographic boundary does not warrant full-time staff or through strategic lease-up periods. The Company generally looks to acquire assets in regions that are high growth regions for employment and population and in assets that provide operational efficiencies.

The Company currently owns and operates 12 commercial properties in 5 states. These properties include industrial warehouses, office buildings, retail centers, a restaurant, and includes the redevelopment and expansion of its corporate campus ("Center53") in Salt Lake City, Utah. The Company also holds undeveloped land that may be used for future commercial developments. The Company uses bank debt in strategic cases to leverage established yields or to acquire a higher quality or different class of asset.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

The aggregated net ending balance of commercial real estate that serves as collateral for bank borrowings was approximately \$87,696,000 and \$84,880,000 as of September 30, 2019 and December 31, 2018, respectively. The associated bank loan carrying values totaled approximately \$54,037,000 and \$52,237,000 as of September 30, 2019 and December 31, 2018, respectively.

During the three months ended September 30, 2019 and 2018, the Company recorded impairment losses on commercial real estate held for investment of \$790,827 and \$-0-, respectively and during the nine months ended September 30, 2019 and 2018, the Company recorded impairment losses on commercial real estate held for investment of \$2,658,024 and \$-0-, respectively. The impairment loss of \$1,867,197 recognized in the second quarter of 2019 relates to an office building held by the life insurance segment for which the Company received an unsolicited bid in May 2019 from a potential buyer that was significantly below the building's carrying value. Although management did not consider the offer as representative of fair value, the Company evaluated the unsolicited bid as a potential impairment indicator and performed an additional impairment analysis internally, concluding based on management's best estimates that the fair value of the building was less than its carrying value. During the third quarter of 2019, the Company obtained an independent appraisal from an outside commercial real estate valuation firm. This appraisal indicated an additional impairment of \$790,827 which the Company recognized in the third quarter 2019. These impairment losses are included in gains (losses) on investment and other assets on the condensed consolidated statements of earnings.

The following is a summary of the Company's commercial real estate held for investment for the periods presented:

	Net Ending Balance		Total Square Footage	
	September 30 2019	December 31 2018	September 30 2019	December 31 2018
Arizona	\$ 4,000 (1)	\$ 4,000 (1)	-	-
Kansas	4,714,777	6,861,898	222,679	222,679
Louisiana	456,437	467,694	7,063	7,063
Mississippi	3,288,045	3,329,948	33,821	33,821
Nevada	655,499	-	4,800	-
New Mexico	7,000 (1)	7,000 (1)	-	-
Texas	300,000 (2)	300,000 (2)	-	-
Utah	84,209,042	81,080,251	502,129	502,129
	<u>\$93,634,800</u>	<u>\$92,050,791</u>	<u>770,492</u>	<u>765,692</u>

(1) Undeveloped land

(2) Improved commercial pad

Residential Real Estate Held for Investment

The Company owns a portfolio of residential homes primarily as a result of loan foreclosures. The strategy has been to lease these homes to produce cash flow and allow time for the economic fundamentals to return to the various markets. As an orderly and active market for these homes returns, the Company has the option to dispose or to continue and hold them for cash flow and acceptable returns.

The Company established Security National Real Estate Services ("SNRE") to manage the residential portfolio. SNRE cultivates and maintains the preferred vendor relationships necessary to manage costs and quality of work performed on the portfolio of homes across the country.

As of September 30, 2019, SNRE manages 50 residential properties in 6 states across the United States.

The net ending balance of foreclosed residential real estate included in residential real estate held for investment is \$16,073,000 and \$23,532,000 as of September 30, 2019 and December 31, 2018, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

During the three months ended September 30, 2019 and 2018, the Company recorded impairment losses on residential real estate held for investment of \$125,980 and \$-0-, respectively, and during the nine months ended September 30, 2019 and 2018, the Company recorded impairment losses on residential real estate held for investment of \$125,980 and \$147,925, respectively. These impairment losses are included in gains (losses) on investment and other assets on the condensed consolidated statements of earnings.

The following is a summary of the Company's residential real estate held for investment for the periods presented:

	Net Ending Balance	
	September 30 2019	December 31 2018
California	\$ 1,565,639	\$ 2,644,321
Florida	5,158,218	6,534,277
Ohio	10,000	10,000
South Carolina	205,000	-
Tennessee	-	105,260
Texas	-	139,174
Utah	16,005,560	19,598,218
Washington	476,181	476,181
	<u>\$23,420,598</u>	<u>\$29,507,431</u>

Real Estate Owned and Occupied by the Company

The primary business units of the Company occupy a portion of the real estate owned by the Company. Currently, the Company occupies nearly 70,000 square feet, or approximately 10% of the overall commercial real estate holdings.

As of September 30, 2019, real estate owned and occupied by the Company is summarized as follows:

Location	Business Segment	Approximate Square Footage	Square Footage Occupied by the Company
5300 South 360 West, Salt Lake City, UT (1)	Corporate Offices, Life Insurance and Cemetery/Mortuary Operations	36,000	100%
5201 Green Street, Salt Lake City, UT	Mortgage Operations	36,899	34%
1044 River Oaks Dr., Flowood, MS	Life Insurance Operations	21,521	27%
121 West Election Road, Draper, UT	Mortgage Sales	78,978	19%

(1) This asset is included in property and equipment on the condensed consolidated balance sheets

Mortgage Loans Held for Investment

Mortgage loans held for investment consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0% to 10.5%, maturity dates range from nine months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At September 30, 2019, the Company had 55%, 13%, 12%, 5%, 5%, 4% and 2% of its mortgage loans from borrowers located in the states of Utah, Florida, Texas, California, Nevada, Arizona, and Tennessee, respectively.

3) Investments (Continued)

Mortgage loans held for investment are carried at their unpaid principal balances adjusted for net deferred fees, charge-offs and the related allowance for loan losses. Interest income is included in net investment income on the condensed consolidated statements of earnings and is recognized when earned. The Company defers related material loan origination fees, net of related direct loan origination costs, and amortizes the net fees over the term of the loans. Origination fees are included in net investment income on the condensed consolidated statements of earnings.

Mortgage loans are secured by the underlying property and require an appraisal at the time of underwriting and funding. Generally, the Company will fund a loan not to exceed 80% of the loan's collateral fair market value. Amounts over 80% will require additional collateral or mortgage insurance by an approved third-party insurer.

The Company provides for losses on its mortgage loans held for investment through an allowance for loan losses (a contra-asset account). 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. 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 real estate held for investment. 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.

For purposes of determining the allowance for losses, the Company has segmented its mortgage loans held for investment by loan type. The Company's loan types are commercial, residential, and residential construction. The inherent risks within the portfolio vary depending upon the loan type as follows:

Commercial - Underwritten in accordance with the Company's policies to determine the borrower's ability to repay the obligation as agreed. Commercial loans are made primarily based on the underlying collateral supporting the loan. Accordingly, the repayment of a commercial loan depends primarily on the collateral and its ability to generate income and secondary on the borrower's (or guarantors) ability to repay.

Residential - Secured by family dwelling units. These loans are secured by first mortgages on the unit, which are generally the primary residence of the borrower, generally at a loan-to-value ratio ("LTV") of 80% or less.

Residential construction (including land acquisition and development) - Underwritten in accordance with the Company's underwriting policies which include a financial analysis of the builders, borrowers (guarantors), construction cost estimates, and independent appraisal valuations. These loans will rely on the value associated with the project upon completion. These cost and valuation estimates may be inaccurate. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project and the ability of the borrower to secure long-term financing. Additionally, land is underwritten according to the Company's policies, which include independent appraisal valuations as well as the estimated value associated with the land upon completion of development into finished lots. These cost and valuation estimates may be inaccurate. These loans are considered to be of a higher risk than other mortgage loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term or construction financing, and interest rate sensitivity.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

Allowance for Credit Losses and Recorded Investment in Mortgage Loans

	<u>Commercial</u>	<u>Residential</u>	<u>Residential Construction</u>	<u>Total</u>
September 30, 2019				
Allowance for credit losses:				
Beginning balance - January 1, 2019	\$ 187,129	\$ 1,125,623	\$ 35,220	\$ 1,347,972
Charge-offs	-	(21,786)	7,982	(13,804)
Provision	-	(32,692)	-	(32,692)
Ending balance - September 30, 2019	<u>\$ 187,129</u>	<u>\$ 1,071,145</u>	<u>\$ 43,202</u>	<u>\$ 1,301,476</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 30,341</u>	<u>\$ -</u>	<u>\$ 30,341</u>
Ending balance: collectively evaluated for impairment	<u>\$ 187,129</u>	<u>\$ 1,040,804</u>	<u>\$ 43,202</u>	<u>\$ 1,271,135</u>
Mortgage loans:				
Ending balance	<u>\$ 26,720,812</u>	<u>\$ 79,853,121</u>	<u>\$ 92,602,632</u>	<u>\$ 199,176,565</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 4,470,805</u>	<u>\$ 350,000</u>	<u>\$ 4,820,805</u>
Ending balance: collectively evaluated for impairment	<u>\$ 26,720,812</u>	<u>\$ 75,382,316</u>	<u>\$ 92,252,632</u>	<u>\$ 194,355,760</u>
December 31, 2018				
Allowance for credit losses:				
Beginning balance - January 1, 2018	\$ 187,129	\$ 1,546,447	\$ 35,220	\$ 1,768,796
Charge-offs	-	(5,725)	-	(5,725)
Provision	-	(415,099)	-	(415,099)
Ending balance - December 31, 2018	<u>\$ 187,129</u>	<u>\$ 1,125,623</u>	<u>\$ 35,220</u>	<u>\$ 1,347,972</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 74,185</u>	<u>\$ -</u>	<u>\$ 74,185</u>
Ending balance: collectively evaluated for impairment	<u>\$ 187,129</u>	<u>\$ 1,051,438</u>	<u>\$ 35,220</u>	<u>\$ 1,273,787</u>
Mortgage loans:				
Ending balance	<u>\$ 27,785,927</u>	<u>\$ 89,935,600</u>	<u>\$ 71,366,544</u>	<u>\$ 189,088,071</u>
Ending balance: individually evaluated for impairment	<u>\$ 196,182</u>	<u>\$ 2,939,651</u>	<u>\$ 502,991</u>	<u>\$ 3,638,824</u>
Ending balance: collectively evaluated for impairment	<u>\$ 27,589,745</u>	<u>\$ 86,995,949</u>	<u>\$ 70,863,553</u>	<u>\$ 185,449,247</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

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

Age Analysis of Mortgage Loans Held for Investment

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (1)	In Process of Foreclosure (1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses	Unamortized deferred loan fees, net	Net Mortgage Loans
September 30, 2019										
Commercial	\$ 1,500,000	\$ -	\$ -	\$ -	\$ 1,500,000	\$ 25,220,812	\$ 26,720,812	\$ (187,129)	\$ (6,647)	\$ 26,527,036
Residential	8,478,442	1,745,409	3,659,589	811,216	14,694,656	65,158,465	79,853,121	(1,071,145)	(637,408)	78,144,568
Residential Construction	200,963	437,819	350,000	-	988,782	91,613,850	92,602,632	(43,202)	(722,131)	91,837,299
Total	\$10,179,405	\$2,183,228	\$4,009,589	\$ 811,216	\$17,183,438	\$181,993,127	\$199,176,565	\$(1,301,476)	\$ (1,366,186)	\$196,508,903
December 31, 2018										
Commercial	\$ 4,588,424	\$ -	\$ 196,182	\$ -	\$ 4,784,606	\$ 23,001,321	\$ 27,785,927	\$ (187,129)	\$ 32,003	\$ 27,630,801
Residential	9,899,380	2,312,252	1,715,362	1,224,289	15,151,283	74,784,317	89,935,600	(1,125,623)	(862,411)	87,947,566
Residential Construction	-	-	-	502,991	502,991	70,863,553	71,366,544	(35,220)	(444,622)	70,886,702
Total	\$14,487,804	\$2,312,252	\$1,911,544	\$ 1,727,280	\$20,438,880	\$168,649,191	\$189,088,071	\$(1,347,972)	\$ (1,275,030)	\$186,465,069

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

Impaired Mortgage Loans Held for Investment

Impaired mortgage loans held for investment 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:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
September 30, 2019					
With no related allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ 502,484	\$ -
Residential	4,196,527	4,196,527	-	3,738,138	-
Residential construction	350,000	350,000	-	1,724,705	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	-	-
Residential	274,278	274,278	30,341	387,687	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ -	\$ -	\$ -	\$ 502,484	\$ -
Residential	4,470,805	4,470,805	30,341	4,125,825	-
Residential construction	350,000	350,000	-	1,724,705	-
December 31, 2018					
With no related allowance recorded:					
Commercial	\$ 196,182	\$ 196,182	\$ -	\$ 98,023	\$ -
Residential	1,612,164	1,612,164	-	2,423,135	-
Residential construction	502,991	502,991	-	675,950	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	-	-
Residential	1,327,487	1,327,487	74,185	1,543,416	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ 196,182	\$ 196,182	\$ -	\$ 98,023	\$ -
Residential	2,939,651	2,939,651	74,185	3,966,551	-
Residential construction	502,991	502,991	-	675,950	-

Credit Risk Profile Based on Performance Status

The Company's mortgage loan held for investment 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 or greater delinquent or on non-accrual status.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

3) Investments (Continued)

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

**Mortgage Loans Held for Investment Credit Exposure
Credit Risk Profile Based on Payment Activity**

	<u>Commercial</u>		<u>Residential</u>		<u>Residential Construction</u>		<u>Total</u>	
	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>	<u>September 30, 2019</u>	<u>December 31, 2018</u>
Performing	\$ 26,720,812	\$ 27,589,745	\$ 75,382,316	\$ 86,995,949	\$ 92,252,632	\$ 70,863,553	\$ 194,355,760	\$ 185,449,247
Non-performing	-	196,182	4,470,805	2,939,651	350,000	502,991	4,820,805	3,638,824
Total	\$ 26,720,812	\$ 27,785,927	\$ 79,853,121	\$ 89,935,600	\$ 92,602,632	\$ 71,366,544	\$ 199,176,565	\$ 189,088,071

Non-Accrual Mortgage Loans Held for Investment

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any interest income that had been accrued. Payments received for loans on a non-accrual status are recognized on a cash basis. Interest income recognized from any payments received for loans on a non-accrual status was immaterial. Accrual of interest resumes if a loan is brought current. Interest not accrued on these loans totals approximately \$183,000 and \$151,000 as of September 30, 2019 and December 31, 2018, respectively.

The following is a summary of mortgage loans held for investment on a non-accrual status for the periods presented.

	Mortgage Loans on Non-Accrual Status	
	As of September 30 2019	As of December 31 2018
Commercial	\$ -	\$ 196,182
Residential	4,470,805	2,939,651
Residential construction	350,000	502,991
Total	\$ 4,820,805	\$ 3,638,824

4) Loans Held for Sale

Accounting Standards Codification ("ASC") No. 825, "Financial Instruments", allows for the option to report certain financial assets and liabilities at fair value initially and at subsequent measurement dates with changes in fair value included in earnings. The option may be applied instrument by instrument, but it is irrevocable. The Company elected the fair value option for loans held for sale. The Company believes the fair value option most closely aligns the timing of the recognition of gains and costs. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Electing fair value also reduces certain timing differences and better matches changes in the fair value of these assets with changes in the fair value of the related derivatives used for these assets.

Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on mortgage loans held for investment and is included in mortgage fee income on the condensed consolidated statement of earnings. There are seven loans with an aggregate unpaid principal balance of \$1,925,914 that are 90 or more days past due and on a nonaccrual status as of September 30, 2019. See Note 8 to the condensed consolidated financial statements for additional disclosures regarding loans held for sale.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

4) Loans Held for Sale (Continued)

The following is a summary of the aggregate fair value and the aggregate unpaid principal balance of loans held for sale for the periods presented:

	As of September 30 2019	As of December 31 2018
Aggregate fair value	\$233,713,098	\$136,210,853
Unpaid principal balance	227,842,398	131,663,946
Unrealized gain	5,870,700	4,546,907

Mortgage Fee Income

Mortgage fee income consists of origination fees, processing fees, interest income and certain other income related to the origination and sale of mortgage loans held for sale.

Major categories of mortgage fee income for loans held for sale are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Loan fees	\$ 8,438,471	\$ 7,758,284	\$22,162,455	\$21,347,320
Interest income	2,127,775	1,993,895	5,032,505	4,698,899
Secondary gains	27,574,294	22,315,022	66,434,923	58,633,363
Change in fair value of loan commitments	378,899	94,569	1,915,223	537,696
Change in fair value of loans held for sale	1,411,322	(203,623)	2,065,978	4,563,222
Provision for loan loss reserve	(195,009)	(293,443)	(449,894)	(946,556)
Mortgage fee income	<u>\$39,735,752</u>	<u>\$31,664,704</u>	<u>\$97,161,190</u>	<u>\$88,833,944</u>

Loan Loss Reserve

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

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

	As of September 30 2019	As of December 31 2018
Balance, beginning of period	\$ 3,604,869	\$ 2,571,524
Provision on current loan originations (1)	449,894	1,148,334
Charge-offs, net of recaptured amounts	(172,917)	(114,989)
Balance, end of period	<u>\$ 3,881,846</u>	<u>\$ 3,604,869</u>

(1) Included in mortgage fee income

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. The Company believes there is potential to resolve any alleged claims by third-party investors on acceptable terms. If the Company is unable to resolve such claims on acceptable terms, legal action may ensue. In the event of legal action by any third-party investor, the Company believes it has significant defenses to any such action and intends to vigorously defend itself against such action.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

5) Stock Compensation Plans

The Company has two fixed option plans (the "2013 Plan" and the "2014 Director Plan"). Compensation expense for options issued of \$65,746 and \$58,691 has been recognized for these plans for the three months ended September 30, 2019 and 2018, respectively, and \$195,487 and \$174,831 has been recognized for these plans for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, the total unrecognized compensation expense related to the options issued was \$43,169, which is expected to be recognized over the vesting period of one year.

The fair value of each option granted is estimated on the date of grant using the Black Scholes Option Pricing Model. The Company estimates the expected life of the options using the simplified method. Future volatility is estimated based upon the weighted historical volatility of the Company's Class A common stock over a period equal to the expected life of the options. The risk-free interest rate for the expected life of the options is based upon the Federal Reserve Board's daily interest rates in effect at the time of the grant.

A summary of the status of the Company's stock compensation plans as of September 30, 2019, and the changes during the nine months ended September 30, 2019, 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, 2018	1,011,274	\$ 4.49	577,280	\$ 5.15
Granted	2,000		-	
Exercised	(19,796)		(63,814)	
Cancelled	-		-	
Outstanding at September 30, 2019	<u>993,478</u>	\$ 4.50	<u>513,466</u>	\$ 5.33
As of September 30, 2019:				
Options exercisable	<u>955,195</u>	\$ 4.46	<u>489,840</u>	\$ 5.34
As of September 30, 2019:				
Available options for future grant	<u>299,351</u>		<u>146,425</u>	
Weighted average contractual term of options outstanding at September 30, 2019				
	5.40 years		3.63 years	
Weighted average contractual term of options exercisable at September 30, 2019				
	5.34 years		3.37 years	
Aggregated intrinsic value of options outstanding at September 30, 2019 (1)				
	<u>\$ 765,360</u>		<u>\$ 106,646</u>	
Aggregated intrinsic value of options exercisable at September 30, 2019 (1)				
	<u>\$ 765,360</u>		<u>\$ 106,646</u>	

(1) The Company used a stock price of \$4.90 as of September 30, 2019 to derive intrinsic value.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2019 (Unaudited)

5) Stock Compensation Plans (Continued)

A summary of the status of the Company's stock compensation plans as of September 30, 2018, and the changes during the nine months ended September 30, 2018, 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, 2017	880,426	\$ 4.35	523,603	\$ 5.24
Granted	-		-	
Exercised	(36,133)		-	
Cancelled	(5,704)		-	
Outstanding at September 30, 2018	<u>838,589</u>	\$ 4.48	<u>523,603</u>	\$ 5.24
As of September 30, 2018:				
Options exercisable	<u>805,902</u>	\$ 4.46	<u>505,227</u>	\$ 5.26
As of September 30, 2018:				
Available options for future grant	<u>421,241</u>		<u>165,638</u>	
Weighted average contractual term of options outstanding at September 30, 2018				
	6.05 years		2.69 years	
Weighted average contractual term of options exercisable at September 30, 2018				
	6.05 years		2.45 years	
Aggregated intrinsic value of options outstanding at September 30, 2018 (1)				
	<u>\$ 867,356</u>		<u>\$ 267,943</u>	
Aggregated intrinsic value of options exercisable at September 30, 2018 (1)				
	<u>\$ 862,157</u>		<u>\$ 260,592</u>	

(1) The Company used a stock price of \$5.20 as of September 30, 2018 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 nine months September 30, 2019 and 2018 was \$112,340 and \$118,003, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
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6) Earnings Per Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Numerator:				
Net earnings	\$ 3,617,414	\$ 2,013,746	\$ 9,027,786	\$22,177,886
Denominator:				
Basic weighted-average shares outstanding	17,230,987	17,152,656	17,240,745	17,072,531
Effect of dilutive securities:				
Employee stock options	189,744	234,670	194,010	222,771
Diluted weighted-average shares outstanding	17,420,731	17,387,326	17,434,755	17,295,302
Basic net earnings per share	\$ 0.21	\$ 0.12	\$ 0.52	\$ 1.30
Diluted net earnings per share	\$ 0.21	\$ 0.12	\$ 0.52	\$ 1.28

Net earnings per share amounts have been retroactively adjusted for the effect of annual stock dividends. For the nine months September 30, 2019 and 2018, there were 864,915 and 589,822 of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net earnings per common share as their effect would be anti-dilutive.

7) Business Segment Information

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 fee income and expenses from the originations of residential mortgage loans and interest earned and interest expenses from warehousing loans held for sale.

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 10-K for the year ended December 31, 2018. 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 are managed separately due to the different products provided and the need to report separately to the various regulatory jurisdictions. The Company regularly reviews the quantitative thresholds and other criteria to determine when other business segments may need to be reported.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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7) Business Segment Information (Continued)

	<u>Life Insurance</u>	<u>Cemetery/ Mortuary</u>	<u>Mortgage</u>	<u>Intercompany Eliminations</u>	<u>Consolidated</u>
For the Three Months Ended					
September 30, 2019					
Revenues from external customers	\$ 29,824,686	\$ 3,570,419	\$ 41,984,554	\$ -	\$ 75,379,659
Intersegment revenues	1,465,778	106,638	120,891	(1,693,307)	-
Segment profit before income taxes	1,263,836	213,198	3,282,788	-	4,759,822
For the Three Months Ended					
September 30, 2018					
Revenues from external customers	\$ 28,962,288	\$ 4,008,943	\$ 34,251,862	\$ -	\$ 67,223,093
Intersegment revenues	1,108,093	106,637	117,746	(1,332,476)	-
Segment profit before income taxes	2,192,036	781,875	(762,113)	-	2,211,798
For the Nine Months Ended					
September 30, 2019					
Revenues from external customers	\$ 88,937,110	\$12,472,711	\$103,908,855	\$ -	\$ 205,318,676
Intersegment revenues	3,441,497	336,911	372,170	(4,150,578)	-
Segment profit before income taxes	4,568,178	2,421,845	4,825,801	-	11,815,824
Identifiable Assets	941,739,161	84,250,592	243,272,631	(110,132,588)	1,159,129,796
Goodwill	2,765,570	754,018	-	-	3,519,588
Total Assets	<u>944,504,731</u>	<u>85,004,610</u>	<u>243,272,631</u>	<u>(110,132,588)</u>	<u>1,162,649,384</u>
For the Nine Months Ended					
September 30, 2018					
Revenues from external customers	\$109,198,662	\$13,060,357	\$ 95,905,309	\$ -	\$ 218,164,328
Intersegment revenues	2,915,379	322,675	383,625	(3,621,679)	-
Segment profit before income taxes	28,840,882	3,714,304	(4,993,976)	-	27,561,210
Identifiable Assets	920,458,422	91,084,393	178,089,215	(128,148,062)	1,061,483,968
Goodwill	2,765,570	-	-	-	2,765,570
Total Assets	<u>923,223,992</u>	<u>91,084,393</u>	<u>178,089,215</u>	<u>(128,148,062)</u>	<u>1,064,249,538</u>

8) Fair Value of Financial Instruments

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 the Company 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 the Company's 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 significant financial instruments.

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

Equity Securities: The fair values for equity securities are based on quoted market prices.

Restricted Assets: A portion of these assets include mutual funds and equity securities that have quoted market prices that are used to determine fair value. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in the accompanying condensed consolidated balance sheets for these financial instruments approximate their fair values due to their short-term nature.

Cemetery Endowment Care Trust Investments: A portion of these assets include equity securities that have quoted market prices that are used to determine fair value. Also included are cash and cash equivalents. The carrying amounts reported in the accompanying condensed consolidated balance sheets for these financial instruments approximate their fair values due to their short-term nature.

Call and Put Options: The fair values for call and put options are based on quoted market prices.

Additionally, there were no transfers between Level 1 and Level 2 in the fair value hierarchy.

The items shown under Level 3 are valued as follows:

Loans Held for Sale: The Company elected the fair value option for loans held for sale. The fair value is based on quoted market prices, when available. When a quoted market price is not readily available, the Company uses the market price from its last sale of similar assets.

8) Fair Value of Financial Instruments (Continued)

Loan Commitments and Forward Sale Commitments: The Company's mortgage segment enters into loan commitments with potential borrowers and forward sale commitments to sell loans to third-party investors. The Company also uses a hedging strategy for these transactions. A 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 issuance of the loan commitment. Loan commitments are defined to be derivatives under GAAP and are recognized at fair value on the consolidated balance sheets with changes in their fair values recorded in current earnings.

The Company estimates the fair value of a loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted MBS prices, estimates of the fair value of mortgage servicing rights, and an estimate of 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 loan commitment is issued. 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 and other factors from the Company's recent historical data are used to estimate the quantity and value of mortgage loans that will fund within the terms of the commitments.

Impaired Mortgage Loans Held for Investment: The Company believes that the fair value of these nonperforming loans will approximate the unpaid principal balance expected to be recovered based on the fair value of the underlying collateral. For residential and commercial properties, the collateral value is estimated by obtaining an independent appraisal. The appraisal typically considers area comparables and property condition as well as potential rental income that could be generated (particularly for commercial properties). For residential construction loans, the collateral is typically incomplete, so fair value is estimated as the replacement cost using data from a provider of building cost information to the real estate construction.

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.

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses a provider of building cost information to the real estate construction industry. For the investment analysis, the Company uses market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company also considers area comparables and property condition when determining fair value.

In addition to this analysis performed by the Company, the Company depreciates 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 Mortgage Servicing Rights ("MSRs") 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.

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8) 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 September 30, 2019.

	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	\$ 8,109,778	\$ 8,109,778	\$ -	\$ -
Total equity securities	<u>\$ 8,109,778</u>	<u>\$ 8,109,778</u>	<u>\$ -</u>	<u>\$ -</u>
Loans held for sale	\$233,713,098	\$ -	\$ -	\$233,713,098
Restricted assets (1)	1,145,917	1,145,917	-	-
Cemetery perpetual care trust investments (1)	908,493	908,493	-	-
Derivatives - loan commitments (2)	<u>4,047,124</u>	<u>-</u>	<u>-</u>	<u>4,047,124</u>
Total assets accounted for at fair value on a recurring basis	<u>\$247,924,410</u>	<u>\$10,164,188</u>	<u>\$ -</u>	<u>\$237,760,222</u>
Liabilities accounted for at fair value on a recurring basis				
Derivatives - call options (3)	\$ (75,604)	\$ (75,604)	\$ -	\$ -
Derivatives - put options (3)	(29,547)	(29,547)	-	-
Derivatives - loan commitments (3)	<u>(540,085)</u>	<u>-</u>	<u>-</u>	<u>(540,085)</u>
Total liabilities accounted for at fair value on a recurring basis	<u>\$ (645,236)</u>	<u>\$ (105,151)</u>	<u>\$ -</u>	<u>\$ (540,085)</u>

(1) Mutual funds and equity securities

(2) Included in other assets on the condensed consolidated balance sheets

(3) Included in other liabilities and accrued expenses on the condensed consolidated balance sheets

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

	Net Loan Commitments	Loans Held for Sale
Balance - December 31, 2018	\$ 1,591,816	\$ 136,210,853
Originations	-	1,840,552,029
Sales	-	(1,805,713,146)
Total gains (losses):		
Included in earnings (1)	<u>1,915,223</u>	<u>62,663,362</u>
Balance - September 30, 2019	<u>\$ 3,507,039</u>	<u>\$ 233,713,098</u>

(1) As a component of Mortgage fee income on the condensed consolidated statements of earnings

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8) 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 September 30, 2019.

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets accounted for at fair value on a nonrecurring basis				
Impaired mortgage loans held for investment	\$ 243,937	\$ -	\$ -	\$ 243,937
Impaired real estate held for investment	<u>6,256,277</u>	<u>-</u>	<u>-</u>	<u>6,256,277</u>
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 6,500,214</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,500,214</u>

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, 2018.

	<u>Total</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets accounted for at fair value on a recurring basis				
Common stock	\$ 5,558,611	\$ 5,558,611	\$ -	\$ -
Total equity securities	<u>\$ 5,558,611</u>	<u>\$ 5,558,611</u>	<u>\$ -</u>	<u>\$ -</u>
Loans held for sale	\$136,210,853	\$ -	\$ -	\$136,210,853
Restricted assets (1)	744,673	744,673	-	-
Cemetery perpetual care trust investments (1)	483,353	483,353	-	-
Derivatives - loan commitments (2)	<u>1,969,967</u>	<u>-</u>	<u>-</u>	<u>1,969,967</u>
Total assets accounted for at fair value on a recurring basis	<u>\$144,967,457</u>	<u>\$ 6,786,637</u>	<u>\$ -</u>	<u>\$138,180,820</u>
Liabilities accounted for at fair value on a recurring basis				
Derivatives - call options (3)	(4,629)	(4,629)	-	-
Derivatives - put options (3)	(296,053)	(296,053)	-	-
Derivatives - loan commitments (3)	<u>(378,151)</u>	<u>-</u>	<u>-</u>	<u>(378,151)</u>
Total liabilities accounted for at fair value on a recurring basis	<u>\$ (678,833)</u>	<u>\$ (300,682)</u>	<u>\$ -</u>	<u>\$ (378,151)</u>

(1) Mutual funds and equity securities

(2) Included in other assets on the condensed consolidated balance sheets

(3) Included in other liabilities and accrued expenses on the condensed consolidated balance sheets

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8) 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:

	Net Loan Commitments	Loans Held for Sale
Balance - December 31, 2017	\$ 1,996,589	\$ 133,414,188
Originations	-	2,194,607,543
Sales	-	(2,259,145,473)
Transfer to mortgage loans held for investment	-	(10,827,797)
Total gains (losses):		
Included in earnings (1)	(404,773)	78,162,392
Balance - December 31, 2018	<u>\$ 1,591,816</u>	<u>\$ 136,210,853</u>

(1) As a component of Mortgage fee income on the condensed consolidated statements of earnings

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, 2018.

	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				
Impaired mortgage loans held for investment	\$ 1,253,302	\$ -	\$ -	\$ 1,253,302
Impaired real estate held for investment	<u>1,611,384</u>	<u>-</u>	<u>-</u>	<u>1,611,384</u>
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 2,864,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,864,686</u>

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8) Fair Value of Financial Instruments (Continued)

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 September 30, 2019 and December 31, 2018.

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 September 30, 2019:

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Estimated Fair Value</u>
<u>Assets</u>					
Fixed maturity securities held to maturity	\$ 239,749,797	\$ -	\$ 253,688,345	\$ 3,749,490	\$ 257,437,835
Mortgage loans held for investment:					
Residential	78,144,568	-	-	82,208,452	82,208,452
Residential construction	91,837,299	-	-	91,837,299	91,837,299
Commercial	26,527,036	-	-	27,156,433	27,156,433
Mortgage loans held for investment, net	\$ 196,508,903	\$ -	\$ -	\$ 201,202,184	\$ 201,202,184
Policy loans	6,344,074	-	-	6,344,074	6,344,074
Insurance assignments, net (1)	32,909,498	-	-	32,909,498	32,909,498
Restricted assets (2)	976,869	-	1,010,581	-	1,010,581
Restricted assets (3)	2,265,669	-	-	2,259,287	2,259,287
Cemetery perpetual care trust investments (2)	978,913	-	1,010,634	-	1,010,634
Mortgage servicing rights, net	16,951,124	-	-	20,216,363	20,216,363
<u>Liabilities</u>					
Bank and other loans payable	\$(261,034,322)	\$ -	\$ -	\$(261,034,322)	\$(261,034,322)
Policyholder account balances (4)	(45,480,785)	-	-	(36,775,860)	(36,775,860)
Future policy benefits - annuities (4)	(96,259,449)	-	-	(96,537,956)	(96,537,956)

(1) Included in other investments and policy loans on the condensed consolidated balance sheet.

(2) Fixed maturity securities held to maturity

(3) Mortgage loans held for investment

(4) Included in future policy benefits and unpaid claims on the condensed consolidated balance sheet.

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8) 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, 2018:

	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Estimated Fair Value</u>
Assets					
Fixed maturity securities held to maturity	\$ 232,078,723	\$ -	\$229,668,844	\$ 5,082,014	\$ 234,750,858
Mortgage loans held for investment:					
Residential	87,947,566	-	-	92,503,553	92,503,553
Residential construction	70,886,702	-	-	70,886,702	70,886,702
Commercial	27,630,801	-	-	28,359,205	28,359,205
Mortgage loans held for investment, net	\$ 186,465,069	\$ -	\$ -	\$ 191,749,460	\$ 191,749,460
Policy loans	6,424,325	-	-	6,424,325	6,424,325
Insurance assignments, net (1)	34,146,868	-	-	34,146,868	34,146,868
Restricted assets (2)	1,258,397	-	1,271,687	-	1,271,687
Restricted assets (3)	1,799,268	-	-	1,810,185	1,810,185
Cemetery perpetual care trust investments (2)	990,390	-	983,410	-	983,410
Mortgage servicing rights, net	20,016,822	-	-	28,885,316	28,885,316
Liabilities					
Bank and other loans payable	\$(187,521,188)	\$ -	\$ -	\$(187,521,188)	\$(187,521,188)
Policyholder account balances (4)	(46,479,853)	-	-	(37,348,289)	(37,348,289)
Future policy benefits - annuities (4)	(98,137,615)	-	-	(97,641,146)	(97,641,146)

(1) Included in other investments and policy loans on the condensed consolidated balance sheet.

(2) Fixed maturity securities held to maturity

(3) Participation in mortgage loans held for investment (commercial)

(4) Included in future policy benefits and unpaid claims on the condensed consolidated balance sheet.

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

Fixed Maturity Securities Held to Maturity: 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.

Mortgage Loans Held for Investment: The estimated fair value of the Company's mortgage loans held for investment 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 is determined through a combination of discounted cash flows (estimating expected future cash flows of interest payments and discounting them using current interest rates from single family mortgages) and considering pricing of similar loans that were sold recently.

Residential Construction - These loans are primarily short in maturity. Accordingly, the estimated fair value is determined to be the carrying 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 Loans: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values because they are fully collateralized by the cash surrender value of the underlying insurance policies.

Insurance Assignments, Net: These investments are primarily short in maturity, accordingly, the carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

8) Fair Value of Financial Instruments (Continued)

Bank and Other Loans Payable: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values due to their relatively short-term maturities and variable interest rates.

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 1.5% to 6.5%. The fair values for these investment-type insurance contracts are estimated based on the present value of liability cash flows.

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.

9) Allowance for Doubtful Accounts

The Company records an allowance and recognizes an expense for potential losses from other investments 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

10) Derivative Instruments

Mortgage Banking Derivatives

Loan Commitments

The Company is exposed to price risk due to the potential impact of changes in interest rates on the values of loan commitments from the time a 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 loan commitments that will be exercised (i.e., the number of loans that will be funded) fluctuates. The probability that a loan will not be funded or the loan application is denied or withdrawn within the terms of the commitment is driven by a number of factors, particularly the change, if any, in mortgage rates following the issuance of the loan commitment.

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 loan commitments and are updated periodically to reflect the most current data.

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10) Derivative Instruments (Continued)

The Company estimates the fair value of a loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted mortgage-backed securities ("MBS") prices, estimates of the fair value of mortgage servicing rights, and an estimate of 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 loan commitment is issued and is shown net of expenses. Following issuance, the value of a loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans.

Forward Sale Commitments

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

The net changes in fair value of loan commitments and forward sale commitments are shown in current earnings as a component of mortgage fee income on the consolidated statements of earnings. Mortgage banking derivatives are shown in other assets and other liabilities and accrued expenses on the condensed consolidated balance sheets.

Call and Put Options

The Company uses a strategy of selling "out of the money" call options on its 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 uses the strategy of selling 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 options is adjusted to fair value at each reporting date. In the event a call option is exercised, the Company sells the equity security at a favorable price enhanced by the value of the option that was sold. If the option expires unexercised, the Company realizes a gain from the sale of the option. In the event a put option is exercised, the Company acquires an equity security at the strike price of the option reduced by the value received from the sale of the put option. The equity security is then traded as a normal equity security in the Company's portfolio. The net changes in the fair value of call and put options are shown in current earnings as a component of gains (losses) on investments and other assets. Call and put options are shown in other liabilities and accrued expenses on the condensed consolidated balance sheets.

The following table shows the notional amount and fair value of derivatives as of September 30, 2019 and December 31, 2018.

Balance Sheet Location		Fair Values and Notional Values of Derivative Instruments					
		September 30, 2019			December 31, 2018		
		Notional Amount	Asset Fair Value	Liability Fair Value	Notional Amount	Asset Fair Value	Liability Fair Value
Derivatives not designated as hedging instruments:							
Loan commitments	Other assets and other liabilities	\$ 218,687,084	\$ 4,047,124	\$ 540,085	\$ 93,758,218	\$ 1,969,967	\$ 378,151
Call options	Other liabilities	2,591,700	--	75,604	805,500	--	4,629
Put options	Other liabilities	1,444,490	--	29,547	4,861,700	--	296,053
Total		\$ 222,723,274	\$ 4,047,124	\$ 645,236	\$ 99,425,418	\$ 1,969,967	\$ 678,833

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10) Derivative Instruments (Continued)

The following table shows the gains and losses on derivatives for the periods presented.

Derivative	Classification	Net Amount Gain (Loss)		Net Amount Gain (Loss)	
		Three Months Ended		Nine Months Ended	
		September 30		September 30	
		2019	2018	2019	2018
Loan commitments	Mortgage fee income	\$ 378,899	\$ 94,569	\$ 1,915,223	\$ 537,696
Call and put options	Gains on investments and other assets	\$ 104,702	\$ 83,612	\$ 509,639	\$ 313,913

11) Reinsurance, Commitments and Contingencies

Reinsurance

The Company follows the procedure of reinsuring risks in excess of a specified limit, which ranges from \$25,000 to \$100,000. The Company is liable for these amounts in the event such reinsurers are unable to pay their portion of the claims. The Company has also assumed insurance from other companies.

Mortgage Loan Loss Settlements

Future loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its potential losses on loans sold. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of September 30, 2019 and December 31, 2018, the balances were \$3,882,000 and \$3,605,000, respectively.

Mortgage Loan Loss Litigation

Lehman Brothers Holdings Litigation - Delaware and New York

In January 2014, Lehman Brothers Holdings Inc. ("Lehman Holdings") entered into a settlement with the Federal National Mortgage Association (Fannie Mae) concerning the mortgage loan claims that Fannie Mae had asserted against Lehman Holdings, which were based on alleged breaches of certain representations and warranties by Lehman Holdings in the mortgage loans it had sold to Fannie Mae. Lehman Holdings had acquired these loans from Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, which in turn purchased the loans from residential mortgage loan originators, including SecurityNational Mortgage Company ("SecurityNational Mortgage"). A settlement based on similar circumstances was entered into between Lehman Holdings and the Federal Home Loan Mortgage Corporation (Freddie Mac) in February 2014.

Lehman Holdings filed a motion in May 2014 with the U.S. Bankruptcy Court of the Southern District of New York to require the mortgage loan originators, including SecurityNational Mortgage, to engage in non-binding mediations of the alleged indemnification claims against the mortgage loan originators relative to the Fannie Mae and Freddie Mac settlements with Lehman Holdings. The mediation was not successful in resolving any issues between SecurityNational Mortgage and Lehman Holdings.

On January 26, 2016, SecurityNational Mortgage filed a declaratory judgment action against Lehman Holdings in the Superior Court for the State of Delaware. In the Delaware action, SecurityNational Mortgage asserted its right to obtain a declaration of rights in that there are allegedly millions of dollars in dispute with Lehman Holdings pertaining to approximately 136 mortgage loans. SecurityNational Mortgage sought a declaratory judgment as to its rights as it contends that it has no liability to Lehman Holdings as a result of Lehman Holdings' settlements with Fannie Mae and Freddie Mac. Lehman Holdings filed a motion in the Delaware court seeking to stay or dismiss the declaratory judgment action. On August 24, 2016, the Court ruled that it would exercise its discretion to decline jurisdiction over the action and granted Lehman Holdings' motion to dismiss.

11) Reinsurance, Commitments and Contingencies (Continued)

On February 3, 2016, Lehman Holdings filed an adversary proceeding against approximately 150 mortgage loan originators, including SecurityNational Mortgage, in the U.S. Bankruptcy Court of the Southern District of New York seeking a declaration of rights similar in nature to the declaration judgment that SecurityNational Mortgage sought in its Delaware lawsuit, and for damages relating to the alleged obligations of the defendants under indemnification provisions of the alleged agreements, in amounts to be determined at trial, including interest, attorneys' fees and costs incurred by Lehman Holdings in enforcing the obligations of the defendants. No response was required to be filed relative to the Complaint or the Amended Complaint dated March 7, 2016. A Case Management Order was entered on November 1, 2016.

On December 27, 2016, pursuant to the Case Management Order, Lehman Holdings filed a Second Amended Complaint against SecurityNational Mortgage, which eliminates the declaratory judgment claim but retains a similar claim for damages as in the Complaint. Many of the defendants, including SecurityNational Mortgage, filed a joint motion in the case asserting that the Bankruptcy Court does not have subject matter jurisdiction concerning the matter and that venue is improper. Lehman Holdings' response memorandum was filed on May 31, 2017 and a reply memorandum of the defendants filing the motion was filed on July 14, 2017. A hearing on the motion was held on June 12, 2018.

On August 13, 2018, the Court issued its Memorandum Decision and Order ("Decision") denying the motion. On August 27, 2018, a number of the defendants, including SecurityNational Mortgage, filed a joint motion with the United States District Court (Case No. 18-mc-00392(VEC)) requesting that the Bankruptcy Court's Decision be treated as findings of fact and conclusions of law, and for the District Court to review the Decision *de novo* as to jurisdiction. Included with the motion were proposed objections to the Bankruptcy Court's Decision. On September 18, 2018, Lehman Holdings filed its response to the joint motion, and defendants' reply was filed on October 2, 2018.

On September 17, 2018, certain defendants, including SecurityNational Mortgage, also filed a notice of appeal, and thereafter a motion for leave to file an interlocutory appeal as to the Bankruptcy Court's Decision pertaining to jurisdiction and improper venue as a "protective" appeal should the District Court decide not to treat the Decision as findings of fact and conclusions of law. Separately, certain other defendants also filed a notice of appeal and motion for leave to file an interlocutory appeal with respect to the Bankruptcy Court's Decision concerning improper venue. Lehman Holdings filed its response on October 22, 2018, and defendants filed a joint reply to Lehman Holdings' response on November 26, 2018. The motions to file appeals were consolidated before Valerie Caproni, U.S. District Court Judge, Case No. 18-cv-08986 (VEC). Case No. 18-mc-00392 (VEC) is also before Judge Caproni.

On October 1, 2018, Lehman Holdings filed a motion for leave to file a Third Amended Complaints against numerous defendants including SecurityNational Mortgage. In addition to the Fannie Mae and Freddie Mac related loans, the amendments/supplements include additional mortgage loans sold to Lehman Holdings that were packaged for securitization ("RMBS loans"). The RMBS loans had allegedly been sold by defendants to Lehman Bank that, in turn, sold them to Lehman Holdings. The allegations pertaining to the RMBS loans include, e.g., purported breaches of representations and warranties made to the securitization trusts by Lehman Holdings. Lehman Holdings asserts that it made representations and warranties purportedly based in part by representations and warranties made to Lehman Bank by loan originators, including SecurityNational Mortgage.

The alleged RMBS loans in dispute with SecurityNational Mortgage allegedly involve millions of dollars pertaining to approximately 577 mortgage loans in addition to the Fannie Mae and Freddie Mac related loans. Lehman Holdings also moved the Court to simultaneously allow alternative dispute resolution procedures to take place, including potential mediation. Over objections, at a hearing on October 29, 2018, the Court granted Lehman Holdings' motion to amend/supplement its complaints adding the RMBS loans, and also to mandate alternative dispute resolution procedures affecting many defendants including SecurityNational Mortgage.

Instead of filing a Third Amended Complaint to include the RMBS loans referenced above, Lehman Holdings filed the matter against SecurityNational Mortgage as a new complaint ("RMBS Complaint") (United States Bankruptcy Court, Southern District of New York, Adversary Proceeding 18-01819) pertaining to the approximately 577 RMBS loans, in addition to the Second Amended Complaint already on file. The RMBS Complaint seeks alleged damages relating to obligations under alleged contractual indemnification provisions in an amount to be determined at trial, interest, costs and expenses incurred by LBHI in enforcing alleged obligations, including attorneys' fees and any expert witness fees incurred in litigation; and such other relief as the Court deems just and proper. SecurityNational Mortgage denies any liability to Lehman Holdings and intends to vigorously protect and defend its position.

11) **Reinsurance, Commitments and Contingencies** (Continued)

In response to a Court order, certain defendants referenced in the Second Amended Complaint and the RMBS Complaints negotiated with Lehman Holdings concerning an amended case management order pertaining to certain case procedures and management for both lawsuits including, but not limited to, timing for filing motions and answering the complaints, and provisions concerning discovery such as document production, taking depositions, and use of experts. At a hearing held on March 7, 2019, the Court considered differences of the parties as to the content of an amended case management order, and thereafter signed an amended case management order dated March 13, 2019.

On May 8, 2019, Judge Caproni issued her Opinion and Order denying the motion for an interlocutory appeal of the bankruptcy court's ruling relative to jurisdiction and venue. Further, the judge denied the motion for immediate *de novo* review of the bankruptcy court's ruling indicating that *de novo* review can be left for the future. Certain discovery has begun in the cases, and SecurityNational Mortgage filed answers and amended answers in the cases.

Lehman Holdings sent an Indemnification Alternative Dispute Resolution Notice ("Notice") to SecurityNational Mortgage dated August 1, 2019. SecurityNational Mortgage sent its Statement of Position to Lehman Brothers Holdings dated September 3, 2019 in response to the Notice. Thereafter, Lehman Holdings sent its Reply dated October 2, 2019 to SecurityNational Mortgage. The parties are finalizing the selection of the mediator in anticipation of then working out details with the mediator for non-binding mediation.

Debt Covenants for Mortgage Warehouse Lines of Credit

The Company, through its subsidiary SecurityNational Mortgage, has a \$100,000,000 line of credit with Wells Fargo Bank N.A. The agreement charges interest at the 1-Month LIBOR rate plus 2.1% and matures on June 16, 2020. SecurityNational Mortgage is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, the ratio of indebtedness to adjusted tangible net worth, and the liquidity overhead coverage ratio, and a quarterly gross profit of at least \$1.

The Company, through its subsidiary SecurityNational Mortgage, also uses a line of credit with Texas Capital Bank N.A. This agreement with the bank allows SecurityNational Mortgage to borrow up to \$100,000,000 for the sole purpose of funding mortgage loans. SecurityNational Mortgage is currently approved to borrow \$30,000,000 of the \$100,000,000 available. The agreement charges interest at the 1-Month LIBOR rate plus 3% and matures on September 9, 2020. The Company is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, and minimum combined pre-tax income (excluding any changes in the fair value of mortgage servicing rights) of at least \$1 on a rolling four-quarter basis.

The agreements for both warehouse lines include cross default provisions in that a covenant violation under one agreement constitutes a covenant violation under the other agreement. As of September 30, 2019, the Company had approximately \$54,156,000 and \$94,950,000 outstanding on the Texas Capital Bank and Wells Fargo warehouse lines, respectively, and was in compliance with all debt covenants.

Other Contingencies and Commitments

The Company has entered into commitments to fund construction and land development loans and has also provided financing for land acquisition and development. As of September 30, 2019, the Company's commitments were approximately \$123,113,000 for these loans, of which \$94,570,000 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 and interest for these loans and the interest rate is generally fixed 5.50% to 8.00% per annum. Maturities range between six and eighteen months.

The Company belongs to a captive insurance group for certain casualty insurance, worker compensation and liability programs. Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the insurance liabilities and related reserves, the captive insurance management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since captive insurance management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date.

The Company is a defendant in various other legal actions arising from the normal conduct of business. Management believes that none of the actions will have a material effect on the Company's financial position or results of operations. Based on management's assessment and legal counsel's representations concerning the likelihood of unfavorable outcomes, no amounts have been accrued for the above claims in the consolidated financial statements.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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12) Mortgage Servicing Rights

The Company initially records these MSRs at fair value as discussed in Note 8.

After being initially recorded at fair value, MSRs backed by mortgage loans are accounted for using the amortization method. Amortization expense is included in other expenses on the consolidated statements of earnings. MSR amortization is determined by amortizing the MSR balance in proportion to, and over the period of the estimated future net servicing income of the underlying financial assets.

The Company periodically assesses MSRs 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 is a summary of the MSR activity for the periods presented.

	As of September 30 2019	As of December 31 2018
Amortized cost:		
Balance before valuation allowance at beginning of year	\$20,016,822	\$21,376,937
MSR additions resulting from loan sales	2,015,872	3,922,816
Amortization (1)	(5,081,570)	(5,282,931)
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance before valuation allowance at end of period	<u>\$16,951,124</u>	<u>\$20,016,822</u>
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	<u>\$ -</u>	<u>\$ -</u>
Mortgage servicing rights, net	<u>\$16,951,124</u>	<u>\$20,016,822</u>
Estimated fair value of MSRs at end of period	<u>\$20,216,363</u>	<u>\$28,885,316</u>

(1) Included in other expenses on the condensed consolidated statements of earnings

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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12) Mortgage Servicing Rights (Continued)

The following table summarizes the Company's estimate of future amortization of its existing MSRs carried at amortized cost:

	Estimated MSR Amortization
2019	1,447,366
2020	5,452,834
2021	3,769,028
2022	3,003,819
2023	2,412,176
Thereafter	865,901
Total	<u>\$16,951,124</u>

The Company collected the following contractual servicing fee income and late fee income as reported in other revenues on the condensed consolidated statement of earnings:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Contractual servicing fees	\$ 1,765,957	\$ 1,905,887	\$ 5,433,970	\$ 5,670,346
Late fees	82,547	106,354	261,437	334,452
Total	<u>\$ 1,848,504</u>	<u>\$ 2,012,241</u>	<u>\$ 5,695,407</u>	<u>\$ 6,004,798</u>

The following is a summary of the unpaid principal balances ("UPB") of the servicing portfolio for the periods presented:

	As of September 30 2019	As of December 31 2018
Servicing UPB	\$2,754,157,857	\$2,941,231,563

The following key assumptions were used in determining MSR value:

	Prepayment Speeds	Average Life (Years)	Discount Rate
September 30, 2019	18.00	4.58	9.51
December 31, 2018	11.70	6.33	9.51

13) Income Taxes

The Company's overall effective tax rate for the three months ended September 30, 2019 and 2018 was 24.0% and 9.0%, respectively, which resulted in a provision for income taxes of \$1,142,000 and \$198,000, respectively. The Company's overall effective tax rate for the nine months ended September 30, 2019 and 2018 was 23.6% and 19.5%, respectively, which resulted in a provision for income taxes of \$2,788,000 and \$5,383,000, respectively. The Company's effective tax rates differ from the U.S. federal statutory rate of 21% partially due to its provision for state income taxes. The effective tax rate in the current period increased when compared to the prior year period largely due to the Company's provision for state income taxes and larger discrete provision-to-return adjustments in the prior year mainly due to the Tax Cuts and Jobs Act reduction of the federal statutory rate from 35% to 21%.

14) Revenues from Contracts with Customers

The Company reports revenues from contracts with customers pursuant to ASC No. 606, Revenue from Contracts with Customers.

Information about Performance Obligations and Contract Balances

The Company's cemetery and mortuary segment sells a variety of goods and services to customers in both at-need and pre-need situations. Due to the timing of the fulfillment of the obligation, revenue is deferred until that obligation is fulfilled.

The Company's three types of future obligations are as follows:

Pre-need Merchandise and Service Revenue: All pre-need merchandise and service revenue is deferred and the funds are placed in trust until the need arises, the merchandise is received or the service is performed. The trust is then relieved, and the revenue and commissions are recognized.

At-need Specialty Merchandise Revenue: At-need specialty merchandise revenue consists of customizable merchandise ordered from a manufacturer such as markers and bases. When specialty merchandise is ordered, it can take time to manufacture and deliver the product. Revenue is deferred until the at-need merchandise is received.

Deferred Pre-need Land Revenue: Deferred pre-need revenue and corresponding commissions are deferred until 10% of the funds are received from the customer through regular monthly payments. Deferred pre-need land revenue is not placed in trust.

Complete payment of the contract does not constitute fulfillment of the performance obligation. Goods or services are deferred until such time the service is performed or merchandise is received. Pre-need contracts are required to be paid in full prior to a customer using a good or service from a pre-need contract. Goods and services from pre-need contracts can be transferred when paid in full from one owner to another. In such cases, the Company will act as an agent in transferring the requested goods and services. A transfer of goods and services does not fulfill an obligation and revenue remains deferred.

The opening and closing balances of the Company's receivables, contract assets and contract liabilities are as follows:

	Receivables (1)	Contract Balances	
		Contract Asset	Contract Liability
Opening (1/1/2019)	\$ 2,816,225	\$ -	\$12,508,625
Closing (9/30/2019)	2,912,835	-	12,901,226
Increase/(decrease)	96,610	-	392,601

(1) Included in Receivables, net on the condensed consolidated balance sheets

The amount of revenue recognized and included in the opening contract liability balance for the three months ended September 30, 2019 and 2018 was \$884,180 and \$724,097, respectively, and for the nine months ended September 30, 2019 and 2018 was \$2,515,278 and \$2,079,157, respectively.

The difference between the opening and closing balances of the Company's contract assets and contract liabilities primarily results from the timing difference between the Company's performance and the customer's payment.

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14) Revenues from Contracts with Customers (Continued)

Disaggregation of Revenue

The following table disaggregates revenue for the Company's cemetery and mortuary contracts for the periods presented:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Major goods/service lines				
At-need	\$ 2,888,996	\$ 2,772,859	\$ 8,883,846	\$ 7,973,554
Pre-need	637,420	873,431	2,321,928	2,456,574
	<u>\$ 3,526,416</u>	<u>\$ 3,646,290</u>	<u>\$11,205,774</u>	<u>\$10,430,128</u>
Timing of Revenue Recognition				
Goods transferred at a point in time	\$ 2,371,041	\$ 2,448,836	\$ 7,515,881	\$ 6,934,973
Services transferred at a point in time	1,155,375	1,197,454	3,689,893	3,495,155
	<u>\$ 3,526,416</u>	<u>\$ 3,646,290</u>	<u>\$11,205,774</u>	<u>\$10,430,128</u>

The following table reconciles revenues from cemetery and mortuary contracts to Note 7 - Business Segment Information for the Cemetery/Mortuary Segment for the periods presented:

	Three Months Ended September 30		Nine Months Ended September 30	
	2019	2018	2019	2018
Net mortuary and cemetery sales	\$ 3,526,416	\$ 3,646,290	\$11,205,774	\$10,430,128
Gains on investments and other assets	(100,685)	245,448	752,412	2,330,701
Net investment income	112,246	56,284	387,617	194,425
Other revenues	32,442	60,921	126,908	105,103
Revenues from external customers	<u>3,570,419</u>	<u>4,008,943</u>	<u>12,472,711</u>	<u>13,060,357</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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15) Acquisitions

Probst Family Funerals and Cremations and Heber Valley Funeral Home

On February 15, 2019, the Company, through its wholly-owned subsidiary, Memorial Mortuary Inc., completed an asset purchase transaction with Probst Family Funerals and Cremations, LLC. ("Probst Family Funerals") and Heber Valley Funeral Home, Inc. ("Heber Valley Funeral Home"). These funeral homes are both located in Heber Valley, a community situated about 45 miles southeast of Salt Lake City. For the year ended December 31, 2018, Probst Family Funerals and Heber Valley Funeral Home had combined revenues of \$1,055,634 and a combined net pre-tax income of \$179,613. As of December 31, 2018, Probst Family Funerals and Heber Valley Funeral Home had combined assets of \$1,161,029 and a combined total equity of \$18,052.

Under the terms of the transaction, as set forth in the Asset Purchase Agreement, dated February 15, 2019, by and among SN Probst, a wholly owned subsidiary of Memorial Mortuary, and Probst Family Funerals, Heber Valley Funeral Home, Joe T. Probst, Clinton Wayne Probst, Calle J. Probst, and Marsha L. Probst, Memorial Mortuary, through its wholly owned subsidiary SN Probst, paid a net purchase price of \$3,315,647 for the business and assets of Probst Family Funerals and Heber Valley Funeral Home, subject to a \$150,000 holdback. At the closing, Probst Funeral Homes and Heber Valley Funeral Home paid off the \$907,407 principal balance and \$4,340 in interest on a loan at Zions Bank that was secured by the Heber Valley Funeral Home. Also, at the closing, Probst Funeral Homes and Heber Valley Funeral Home paid off the \$157,148 loan with Utah Community Credit Union and the \$32,987 line of credit with Zions Bank.

The estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition were as follows:

Cash	\$ 53,859
Property and equipment	2,475,526
Receivables	13,620
Goodwill	754,018
Other	21,800
Total assets acquired	<u>3,318,823</u>
Bank and other loans payable	(3,176)
Total liabilities assumed	<u>(3,176)</u>
Fair value of net assets acquired/consideration paid	<u>\$ 3,315,647</u>

The estimated fair values of buildings, land and warehouses included in property and equipment are based on independent appraisals using a sales comparison approach which are considered to be Level 3 under the fair value hierarchy. The Company determined that the estimated fair value of the remaining assets and liabilities acquired approximated their book values.

15) Acquisitions (Continued)

Beta Capital Corp

On June 1, 2018, the Company completed a stock purchase transaction with Beta Capital Corp. ("Beta Capital") and Ronald D. Maxson ("Maxson"), the sole owner of all the outstanding shares of common stock of Beta Capital, to purchase all of the outstanding shares of common stock of Beta Capital. Beta Capital is engaged in the operation of a factoring business with the principal purpose of providing funding for funeral homes and mortuaries.

Under the terms of the transaction, as set forth in the Stock Purchase Agreement dated June 1, 2018, by and among the Company, Beta Capital and Maxson, the Company paid Maxson the purchase consideration at the closing of the transaction equal to the sum of (i) \$890,000 in cash plus (ii) the accounts receivable value of \$2,515,783, representing the total amount of the Company's outstanding receivables as of the closing date of June 1, 2018, for a total closing payment of \$3,405,783. From the \$3,405,783 closing payment, a holdback amount equal to \$175,000 was deposited into an interest bearing escrow account to be held for a period of eighteen months from the closing date to pay off any uncollected accounts receivable and other liabilities of Beta Capital as of the closing date.

The estimated fair values of the assets acquired as of the date of acquisition were as follows:

Other investments - insurance assignments	\$ 2,515,783
Other - customer list intangible asset	890,000
Total assets acquired	<u>3,405,783</u>
Fair value of net assets acquired/consideration paid	<u>\$ 3,405,783</u>

16) Subsequent Events

Kilpatrick Life Insurance Company

On October 11, 2019, the Company, through its wholly owned subsidiary, Security National Life Insurance Company ("Security Life") entered into a stock purchase agreement (the "Stock Purchase Agreement") with Kilpatrick Life Insurance Company, a Louisiana domiciled life insurance company ("Kilpatrick Life") and its shareholders to purchase all of the outstanding shares of common stock of Kilpatrick Life. The closing of the transaction is subject to approval by the Louisiana Department of Insurance of the change of control of Kilpatrick Life. Closing will occur after approval by the Louisiana Department of Insurance.

Under the terms of the Stock Purchase Agreement, the aggregate purchase price for all the shares held by the Kilpatrick Life shareholders is \$22,000,000 plus or minus adjustments for increases or decreases in the fair value of bonds held by Kilpatrick Life as defined in the Stock Purchase Agreement.

The Stock Purchase Agreement further provides that Security Life and Kilpatrick Life each agree to enter into a Coinsurance Agreement contemporaneous with the execution of the Stock Purchase Agreement. Subject to the terms and conditions of the Coinsurance Agreement, Security Life, as coinsurer, agrees to coinsure all of the insurance policies as of the coinsure effective date in exchange for receipt of the reinsurance settlement amount from Kilpatrick Life, to the extent permitted by the Louisiana Department of Insurance, except for certain policies not included with the coinsured policies. It is anticipated that the settlement amount compensating Security Life for assuming the obligations associated with these policies will be approximately \$166,453,000. Unless otherwise directed by Security Life, as coinsurer, Kilpatrick Life will administer the policies on behalf of Security Life, as coinsurer, for the duration of the Coinsurance Agreement.

For further information regarding the Stock Purchase Agreement and the Coinsurance Agreement between Security Life and Kilpatrick Life, please refer to the Company's Form 8-K filed on November 14, 2019.

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 an improving housing market by originating mortgage loans.

Insurance Operations

The Company's life insurance business includes funeral plans and interest-sensitive life insurance, as well as other traditional life, accident 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 is less competitive 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 a person's death. On a per thousand-dollar cost of insurance basis, these policies can be more expensive to the policyholder 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 three and nine months ended September 30, 2019 and 2018. See Note 7 to the condensed consolidated financial statements.

	Three months ended September 30 (in thousands of dollars)			Nine months ended September 30 (in thousands of dollars)		
	2019	2018	% Increase (Decrease)	2019	2018	% Increase (Decrease)
Revenues from external customers						
Insurance premiums	\$ 19,832	\$ 18,639	6%	\$ 58,505	\$ 56,641	3%
Net investment income	10,147	9,376	8%	30,020	28,574	5%
Gains (losses) on investments and other assets	(486)	466	(204%)	(615)	22,786	(103%)
Other	331	482	(31%)	1,027	1,198	(14%)
Total	<u>\$ 29,824</u>	<u>\$ 28,963</u>	<u>3%</u>	<u>\$ 88,937</u>	<u>\$ 109,199</u>	<u>(19%)</u>
Intersegment revenue	<u>\$ 1,466</u>	<u>\$ 1,108</u>	<u>32%</u>	<u>\$ 3,441</u>	<u>\$ 2,915</u>	<u>18%</u>
Earnings before income taxes	<u>\$ 1,264</u>	<u>\$ 2,192</u>	<u>(42%)</u>	<u>\$ 4,568</u>	<u>\$ 28,841</u>	<u>(84%)</u>

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company ("SecurityNational Mortgage"). Profitability in the three and nine months ended September 30, 2019 has decreased due to the \$22,252,000 gain that was realized on the sale of Dry Creek at East Village Apartments in the first quarter of 2018 and impairment losses on commercial real estate recognized in 2019.

Cemetery and Mortuary Operations

The Company sells mortuary services and products through its eight mortuaries in Utah. The Company also sells cemetery products and services through its five cemeteries in Utah and one cemetery in San Diego County, California. At-need product sales and services are recognized as revenue when the services are performed or when the products are delivered. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed. Recognition of revenue for cemetery land sales occurs when 10% of the purchase price is received.

The following table shows the condensed financial results of the cemetery and mortuary operations for the three and nine months ended September 30, 2019 and 2018. See Note 7 to the condensed consolidated financial statements.

	Three months ended September 30 (in thousands of dollars)			Nine months ended September 30 (in thousands of dollars)		
	2019	2018	% Increase (Decrease)	2019	2018	% Increase (Decrease)
	Revenues from external customers					
Mortuary revenues	\$ 1,465	\$ 1,422	3%	\$ 4,693	\$ 4,071	15%
Cemetery revenues	2,061	2,225	(7%)	6,512	6,359	2%
Net investment income	112	56	100%	388	194	100%
Gains on investments and other assets	(101)	245	(141%)	752	2,331	(68%)
Other	32	61	(48%)	127	105	21%
Total	\$ 3,569	\$ 4,009	(11%)	\$ 12,472	\$ 13,060	(90%)
Earnings before income taxes	\$ 213	\$ 782	(73%)	\$ 2,422	\$ 3,714	(35%)

Included in Net investment income was 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 depreciation. Memorial Estates has recorded depreciation on these properties of \$121,000 and \$104,000 for the three months ended September 30, 2019 and 2018, respectively, and \$384,000 and \$413,000 for the nine months ended September 30, 2019 and 2018, respectively. Profitability in the nine months ended September 30, 2019 has decreased due to a realized gain recognized on the sale of assets of Deseret Mortuary in 2018. This decrease was partially offset by increases in net investment income and cemetery and mortuary at-need sales 2019.

Mortgage Operations

The Company's wholly owned subsidiaries, SecurityNational Mortgage and EverLEND Mortgage Company (formerly known as Green Street Mortgage Services, Inc.), are mortgage lenders incorporated under the laws of the State of Utah and approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), which originate mortgage loans that qualify for government insurance in the event of default by the borrower, in addition to various conventional mortgage loan products. SecurityNational Mortgage and EverLEND Mortgage originate and refinance mortgage loans on a retail basis. Mortgage loans originated or refinanced by the Company's mortgage subsidiaries are funded through loan purchase agreements with Security National Life and unaffiliated financial institutions.

The Company's mortgage subsidiaries receive fees from borrowers that are involved in mortgage loan originations and refinancings, and secondary fees earned from third party investors that purchase the mortgage loans originated by the mortgage subsidiaries. Mortgage loans originated by the mortgage subsidiaries are generally sold with mortgage servicing rights released to third-party investors or retained by SecurityNational Mortgage. SecurityNational Mortgage currently retains the mortgage servicing rights on approximately 12% of its loan origination volume. These mortgage loans are serviced by either SecurityNational Mortgage or an approved third-party sub-servicer.

For the nine months ended September 30, 2019 and 2018, SecurityNational Mortgage originated 7,817 loans (\$1,792,058,000 total volume) and 7,953 loans (\$1,169,071,000 total volume), respectively. For the nine months ended September 30, 2019 and 2018, EverLEND Mortgage originated 185 loans (\$48,494,000 total volume) and 130 loans (\$33,603,000 total volume), respectively.

The following table shows the condensed financial results of the mortgage operations for the three and nine months ended September 30, 2019 and 2018. See Note 7 to the condensed consolidated financial statements.

	Three months ended September 30 (in thousands of dollars)			Nine months ended September 30 (in thousands of dollars)		
	2019	2018	% Increase (Decrease)	2019	2018	% Increase (Decrease)
Revenues from external customers						
Income from loan originations	\$ 12,162	\$ 9,350	30%	\$ 30,726	\$ 30,201	2%
Secondary gains from investors	27,574	22,315	24%	66,435	58,633	13%
Net investment income	219	210	4%	654	689	(5%)
Gains on investments and other assets	67	311	(78%)	123	255	(52%)
Other	1,962	2,066	(5%)	5,971	6,128	(3%)
Total	\$ 41,984	\$ 34,252	23%	\$ 103,909	\$ 95,906	8%
Earnings before income taxes	\$ 3,283	\$ (762)	531%	\$ 4,826	\$ (4,994)	197%

Included in other revenues is service fee income. The increase in earnings for the nine months ended September 30, 2019 was due to the efforts to reduce costs and restructure internal processes.

Mortgage Loan Loss Settlements

Future mortgage loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its potential losses on mortgage loans sold. The estimated liability for indemnification losses was included in other liabilities and accrued expenses and, as of September 30, 2019 and December 31, 2018, the balances were \$3,882,000 and \$3,605,000, respectively.

Mortgage Loan Loss Litigation

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers Holdings, see Part I, Item 1. Notes to Condensed Consolidated Financial Statements (unaudited) in Note 11.

Consolidation

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

Total revenues increased by \$8,157,000, or 12.1%, to \$75,380,000 for the three months ended September 30, 2019, from \$67,223,000 for the comparable period in 2018. Contributing to this increase in total revenues was a \$8,071,000 increase in mortgage fee income, a \$1,193,000 increase in insurance premiums and other considerations, and a \$837,000 increase in net investment income. This increase in total revenues was partially offset by a \$1,542,000 decrease in gains on investments and other assets, a \$283,000 decrease in other revenues, and a \$120,000 decrease in net mortuary and cemetery sales.

Insurance premiums and other considerations increased by \$1,193,000, or 6.4%, to \$19,832,000 for the three months ended September 30, 2019, from \$18,639,000 for the comparable period in 2018. This increase was primarily due to an increase in renewal premiums due to the growth of the Company in recent years, particularly in whole life products, which resulted in more premium paying business in force.

Net investment income increased by \$837,000, or 8.7%, to \$10,478,000 for the three months ended September 30, 2019, from \$9,641,000 for the comparable period in 2018. This increase was primarily attributable to a \$318,000 increase in mortgage loan interest, a \$268,000 increase in insurance assignment income, a \$135,000 increase in rental income from real estate held for investment, an \$82,000 increase in fixed maturity securities income, a \$29,000 decrease in investment expenses, a \$28,000 increase in policy loan income, a \$24,000 increase in interest on cash and cash equivalents, and a \$10,000 increase in equity securities income. This increase was partially offset by a \$57,000 decrease in other investment income.

Net mortuary and cemetery sales decreased by \$120,000, or 3.3%, to \$3,526,000 for the three months ended September 30, 2019, from \$3,646,000 for the comparable period in 2018. This decrease was primarily due to a \$236,000 decrease in cemetery preneed sales. This decrease was partially offset by a \$43,000 increase in mortuary at-need sales and a \$73,000 increase in cemetery at-need sales.

Gains on investments and other assets decreased by \$1,542,000, or 150.8%, to losses of \$520,000 for the three months ended September 30, 2019, from gains of \$1,022,000 for the comparable period in 2018. This decrease in gains on investments and other assets was primarily due to an impairment loss of \$791,000 recognized on a commercial real estate property held for investment. The Company elected to conduct a review of the property's value after it received an unsolicited offer to buy during the second quarter 2019. The Company recognized an impairment loss of \$1,867,000 in the second quarter 2019. The Company also obtained an independent appraisal from an outside commercial real estate valuation firm during the third quarter 2019 which indicated an additional impairment loss. This decrease was also the result of a \$462,000 decrease in gains on other assets and a \$308,000 decrease in gains on equity securities mostly attributable to decreases in the fair value of these equity securities. Due to the adoption of Accounting Standards Update ("ASU") 2016-01 on January 1, 2018, these changes in fair value are now recognized in earnings instead of other comprehensive income. This decrease in gains on investments and other assets was partially offset by a \$19,000 increase in gains on fixed maturity securities.

Mortgage fee income increased by \$8,071,000, or 25.5%, to \$39,736,000, for the three months ended September 30, 2019, from \$31,665,000 for the comparable period in 2018. This increase was primarily due to a \$5,259,000 increase in secondary gains from loans sold to third-party investors, an increase of \$1,899,000 in the fair value of loans held for sale and loan commitments, an increase of \$814,000 in loan fees and interest income, and a \$99,000 decrease in the provision for loan loss reserve.

Other revenues decreased by \$283,000, or 10.8%, to \$2,326,000 for the three months ended September 30, 2019, from \$2,609,000 for the comparable period in 2018. This decrease was primarily attributable to a decrease in servicing fee revenue.

Total benefits and expenses were \$70,620,000, or 93.7% of total revenues, for the three months ended September 30, 2019, as compared to \$65,011,000, or 96.7% of total revenues, for the comparable period in 2018.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$560,000 or 3.5%, to \$16,555,000 for the three months ended September 30, 2019, from \$15,995,000 for the comparable period in 2018. This increase was primarily the result of a \$1,322,000 increase in death benefits. This decrease was partially offset by a \$706,000 decrease in future policy benefits and a \$56,000 decrease in surrender and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$731,000, or 26.6%, to \$3,477,000 for the three months ended September 30, 2019, from \$2,746,000 for the comparable period in 2018. This increase was primarily due to an increase in the average outstanding balance of deferred policy and pre-need acquisition costs.

Selling, general and administrative expenses increased by \$3,969,000, or 9.1%, to \$47,808,000 for the three months ended September 30, 2019, from \$43,839,000 for the comparable period in 2018. This increase was primarily the result of a \$3,095,000 increase in commissions and a \$1,739,000 increase in other expenses. This increase was partially offset by a \$787,000 decrease in personnel expenses, a \$185,000 decrease in costs related to funding mortgage loans, a \$164,000 decrease in rent and rent related expenses, a \$62,000 decrease in advertising expenses, and a \$35,000 decrease in depreciation on property and equipment.

Interest expense increased by \$223,000, or 12.0%, to \$2,079,000 for the three months ended September 30, 2019, from \$1,856,000 for the comparable period in 2018. This increase was primarily due to an increase in interest expense on bank loans for real estate held for investment.

Cost of goods and services sold-mortuaries and cemeteries increased by \$126,000, or 21.8%, to \$702,000 for the three months ended September 30, 2019, from \$576,000 for the comparable period in 2018. This increase was primarily due to increases in both mortuary and cemetery at-need sales and cemetery preneed sales.

Nine months Ended September 30, 2019 Compared to Nine months Ended September 30, 2018

Total revenues decreased by \$12,846,000, or 5.9%, to \$205,319,000 for the nine months ended September 30, 2019, from \$218,164,000 for the comparable period in 2018. Contributing to this decrease in total revenues was a \$25,111,000 decrease in gains on investments and other assets and a \$305,000 decrease in other revenues. This decrease in total revenues was partially offset by a \$8,327,000 increase in mortgage fee income, a \$1,864,000 increase in insurance premiums and other considerations, a \$1,603,000 increase in net investment income, and a \$776,000 increase in net mortuary and cemetery sales.

Insurance premiums and other considerations increased by \$1,864,000, or 3.3%, to \$58,505,000 for the nine months ended September 30, 2019, from \$56,640,000 for the comparable period in 2018. This increase was primarily due to an increase in renewal premiums due to the growth of the Company in recent years, particularly in whole life products, which resulted in more premium paying business in force.

Net investment income increased by \$1,603,000, or 5.4%, to \$31,061,000 for the nine months ended September 30, 2019, from \$29,458,000 for the comparable period in 2018. This increase was primarily attributable to a \$1,014,000 increase in insurance assignment income due to higher volume, a \$907,000 decrease in investment expenses, and a \$612,000 increase in interest on cash and cash equivalents due to higher invested balances and slight increases in interest rates, a \$74,000 decrease in fixed maturity securities income, a \$51,000 increase in equity securities income, and a \$12,000 increase in policy loan income. This increase was partially offset by a \$829,000 decrease in mortgage loan interest, a \$158,000 decrease in rental income from real estate held for investment, and an \$80,000 decrease in other investment income.

Net mortuary and cemetery sales increased by \$776,000, or 7.4%, to \$11,206,000 for the nine months ended September 30, 2019, from \$10,430,000 for the comparable period in 2018. This increase was primarily due to a \$613,000 increase in mortuary at-need sales and a \$288,000 increase in cemetery at-need sales, driven in large measure by the acquisition of Probst Family Funerals and Cremations and Heber Valley Funeral Home. This increase was partially offset by a \$135,000 decrease in cemetery preneed sales.

Gains on investments and other assets decreased by \$25,111,000, or 99.0%, to \$261,000 for the nine months ended September 30, 2019, from \$25,372,000 for the comparable period in 2018. This decrease in gains on investments and other assets was primarily attributable to the \$22,252,000 gain that was realized on the sale of Dry Creek at East Village Apartments in the first quarter of 2018 and an impairment loss of \$2,658,000 recognized on a commercial real estate property held for investment. The Company elected to conduct a review of the property's value after it received an unsolicited offer to buy and also obtained an independent appraisal from an outside commercial real estate valuation firm. This decrease was also the result of a \$1,556,000 gain that was realized on the sale of assets of Deseret Mortuary in the second quarter of 2018. This decrease was partially offset by a \$758,000 increase in gains on equity securities mostly attributable to increases in the fair value of these securities. Due to the adoption of Accounting Standards Update ("ASU") 2016-01 on January 1, 2018, these changes in fair value are now recognized in earnings instead of other comprehensive income. This decrease was also partially offset by a \$445,000 increase in gains on fixed maturity securities and a \$153,000 increase in gains on other assets.

Mortgage fee income increased by \$8,327,000, or 9.4%, to \$97,161,000, for the nine months ended September 30, 2019, from \$88,834,000 for the comparable period in 2018. This increase was primarily due to \$7,802,000 increase in secondary gains on loans sold to third-party investors from increased lending volumes, a \$1,149,000 increase in other loan fees and interest income, and a \$496,000 decrease in the provision for loan loss reserve. This increase was partially offset by a net decrease of \$1,120,000 in the fair value of loans held for sale and loan commitments.

Other revenues decreased by \$305,000, or 4.1%, to \$7,125,000 for the nine months ended September 30, 2019, from \$7,430,000 for the comparable period in 2018. This decrease was primarily attributable to a decrease in servicing fee revenue.

Total benefits and expenses were \$193,503,000, or 94.2% of total revenues, for the nine months ended September 30, 2019, as compared to \$190,603,000, or 87.4% of total revenues, for the comparable period in 2018.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$741,000 or 1.5%, to \$48,939,000 for the nine months ended September 30, 2019, from \$48,198,000 for the comparable period in 2018. This increase was primarily the result of a \$1,685,000 increase in death benefits and a \$68,000 increase in surrender and other policy benefits. This increase was partially offset by a \$1,012,000 decrease in future policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$1,712,000, or 21.5%, to \$9,679,000 for the nine months ended September 30, 2019, from \$7,967,000 for the comparable period in 2018. This increase was primarily due to an increase in the average outstanding balance of deferred policy and pre-need acquisition costs.

Selling, general and administrative expenses decreased by \$12,000, or 0.0%, to \$127,487,000 for the nine months ended September 30, 2019, from \$127,499,000 for the comparable period in 2018. This decrease was primarily the result of a \$3,529,000 decrease in personnel expenses, a \$316,000 decrease in costs related to funding mortgage loans, a \$428,000 decrease in rent and rent related expenses, a \$132,000 decrease in depreciation on property and equipment, and a \$81,000 decrease in advertising expenses. This decrease was partially offset by a \$3,592,000 increase in other expenses from increased amortization of mortgage servicing rights and a \$882,000 increase in commissions. The decreases in personnel expenses are primarily a result of the efforts of the Mortgage segment to reduce costs and restructure internal processes.

Interest expense increased by \$56,000, or 1.1%, to \$5,353,000 for the nine months ended September 30, 2019, from \$5,297,000 for the comparable period in 2018. This increase was primarily due to an increase in interest expense on bank loans for real estate held for investment.

Cost of goods and services sold-mortuaries and cemeteries increased by \$403,000, or 24.6%, to \$2,045,000 for the nine months ended September 30, 2019, from \$1,642,000 for the comparable period in 2018. This increase was primarily due to increases in both mortuary and cemetery at-need sales and cemetery preneed sales.

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 fees earned from mortgage loans held for sale that are 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 related to the issuance of new policies, the maintenance of existing policies, and debt service, and to meet current operating expenses.

During the nine months ended September 30, 2019 and 2018, the Company's operations used cash of \$62,866,000 and \$10,251,000, respectively. This increase was due primarily to originations of mortgage loans held for sale.

The Company's liability for future policy 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 having to liquidate these long-term investments as a result of any sudden changes in their 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, real estate, mortgage loans, and 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 \$239,647,000 and \$231,976,000 as of September 30, 2019 and December 31, 2018, respectively. This represents 39.2% and 38.9% of the total investments as of September 30, 2019 and December 31, 2018, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are nine categories used for rating bonds. At September 30, 2019, 2.99% (or \$7,160,000) and at December 31, 2018, 3.6% (or \$8,413,000) of the Company's total bond investments were invested in bonds in rating categories three through nine, which were considered non-investment grade.

The Company has classified its fixed income securities as held to maturity. Notwithstanding, business conditions may develop in the future which 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 September 30, 2019 and December 31, 2018, the life insurance subsidiaries were in compliance with the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank and other loans payable was \$442,107,000 as of September 30, 2019, as compared to \$359,172,000 as of December 31, 2018. Stockholders' equity as a percent of total capitalization was 41.0% and 47.8% as of September 30, 2019 and December 31, 2018, respectively.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2018 was 9.9% as compared to a rate of 10.6% for 2017. The 2019 lapse rate to date has been approximately the same as 2018.

At September 30, 2019, the combined statutory capital and surplus of the Company's life insurance subsidiaries was \$57,269,000. The life insurance subsidiaries cannot pay a dividend to its parent company without approval of state insurance regulatory authorities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

As a smaller reporting company, the Company is not required to provide information typically disclosed under this item.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

As of September 30, 2019, 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 that 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 executive officers have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2019, 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.

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers Holdings, see Part I, Item 1. Notes to Condensed Consolidated Financial Statements (unaudited) in Note 11.

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 1A. Risk Factors.

As a smaller reporting company, the Company is not required to provide information typically disclosed under this item.

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

Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities

None.

Issuer Purchases of Equity Securities

On September 7, 2018, the Board of Directors of the Company approved a Stock Repurchase Plan that authorized the repurchase of 300,000 shares of the Company's Class A Common Stock in the open market. The repurchased shares of Class A common stock will be held as treasury shares to be used as the Company's employer matching contribution to the Employee 401(k) Retirement Savings Plan.

The following table shows the Company's repurchase activity during the three months ended September 30, 2019 under the Stock Repurchase Plan.

Period	(a) Total Number of Class A Shares Purchased	(b) Average Price Paid per Class A Share	(c) Total Number of Class A Shares Purchased as Part of Publicly Announced Plan or Program	(d) Maximum Number (or Approximate Dollar Value) of Class A Shares that May Yet Be Purchased Under the Plan or Program
7/1/2019-7/31/2019	10,000	\$ 5.22	-	200,620
8/1/2019-8/31/2019	-	-	-	200,620
9/1/2019-9/30/2019	9,823	4.96	-	190,797
Total	19,823	\$ 5.07	-	190,797

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

None.

Item 5. Other Information.

Acquisition of Probst Family Funerals and Cremations and Heber Valley Funeral Home

On February 15, 2019, the Company, through its wholly-owned subsidiary, Memorial Mortuary Inc., completed an asset purchase transaction with Probst Family Funerals and Cremations, LLC. ("Probst Family Funerals") and Heber Valley Funeral Home, Inc. ("Heber Valley Funeral Home"). These funeral homes are both located in Heber Valley, a community situated about 45 miles southeast of Salt Lake City. For the year ended December 31, 2018, Probst Family Funerals and Heber Valley Funeral Home had combined revenues of \$1,055,634 and a combined net pre-tax income of \$179,613. As of December 31, 2018, Probst Family Funerals and Heber Valley Funeral Home had combined assets of \$1,161,029 and a combined total equity of \$18,052.

Under the terms of the transaction, as set forth in the Asset Purchase Agreement, dated February 15, 2019, by and among SN Probst, a wholly owned subsidiary of Memorial Mortuary, and Probst Family Funerals, Heber Valley Funeral Home, Joe T. Probst, Clinton Wayne Probst, Calle J. Probst, and Marsha L. Probst, Memorial Mortuary, through its wholly owned subsidiary SN Probst, paid a net purchase price of \$3,315,647 for the business and assets of Probst Family Funerals and Heber Valley Funeral Home, subject to a \$150,000 holdback. At the closing, Probst Funeral Homes and Heber Valley Funeral Home paid off the \$907,407 principal balance and \$4,340 in interest on a loan at Zions Bank that was secured by the Heber Valley Funeral Home. Also, at the closing, Probst Funeral Homes and Heber Valley Funeral Home paid off the \$157,148 loan with Utah Community Credit Union and the \$32,987 line of credit with Zions Bank.

Acquisition of Beta Capital Corp.

On June 1, 2018, the Company completed a stock purchase transaction with Beta Capital Corp. ("Beta Capital") and Ronald D. Maxson ("Maxson"), the sole owner of all the outstanding shares of common stock of Beta Capital, to purchase all of the outstanding shares of common stock of Beta Capital. Beta Capital is engaged in the operation of a factoring business with the principal purpose of providing funding for funeral homes and mortuaries. For the year ended December 31, 2017, Beta Capital had revenues of \$1,208,000 with a net pre-tax income of \$204,000. As of December 31, 2017, the total assets of Beta Capital were \$3,270,000 and total equity was \$1,832,000.

Under the terms of the transaction, as set forth in the Stock Purchase Agreement dated September 1, 2018 (the "Purchase Agreement"), by and among the Company, Beta Capital and Maxson, the Company paid Maxson the purchase consideration at the closing of the transaction equal to the sum of (i) \$890,000 in cash plus (ii) the accounts receivable value of \$2,515,783, representing the total amount of the Company's outstanding receivables as of the closing date of September 1, 2018, for a total closing payment of \$3,405,783. From the \$3,405,783 closing payment, a holdback amount equal to \$175,000 was deposited into an interest bearing escrow account to be held for a period of eighteen months from the closing date to pay off any uncollected accounts receivable and other liabilities of Beta Capital as of the closing date.

Sale of Dry Creek at East Village Apartments

On March 29, 2018, the Company through its wholly owned subsidiary, Security National Life Insurance Company ("Security National Life"), completed the sale of the Dry Creek at East Village ("Dry Creek") apartments to a subsidiary of Dinapoli Capital Partners, LLC ("Dinapoli Capital") pursuant to the terms of the Purchase and Sale Agreement, dated February 14, 2018, between Security National Life and Dinapoli Capital. The purchase price paid for the Dry Creek apartments was \$57,000,000. From the proceeds that Security National Life received from the sale of the apartment complex, \$26,802,904 was used to pay off an existing loan at Zions First National Bank, N.A., which was secured by a security interest in the apartment complex. A brokerage commission of \$285,000 and legal fees and related costs were also paid from the purchase proceeds. The Company's book basis in Dry Creek was approximately \$34,400,000, and the Company recognized the gain net of tax effects from the sale in the first quarter of 2018.

The Dry Creek apartments consist of 282 units, with a mixture of one, two, and three-bedroom units. The construction of Dry Creek was completed in December 2015. As of December 31, 2017, the apartments were 95% leased. Also, rental rates in the market had increased by 9.8% over pro forma rents, and effective (achieved) rates net of concessions increased. The Company had owned the land for the development since 1991, when the Company purchased the land, along with the cemetery and mortuary that are adjacent to the property. The Company continues to operate the cemetery and mortuary.

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 Incorporation, as amended and restated (6)
3.2	Bylaws, as amended and restated (10)
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	Employee Stock Ownership Plan (ESOP) and Trust Agreement, as amended and restated (1)
10.2	2013 Stock Option and Other Equity Incentive Awards Plan, as amended and restated (4)
10.3	2014 Director Stock Option Plan (2)
10.4	Employment Agreement with Scott M. Quist (3)
10.5	Stock Purchase Agreement among Security National Financial Corporation, Beta Capital Corp., and Ronald D. Maxson, sole shareholder (7)
10.6	Stock Repurchase Plan (8)
10.7	Asset Purchase Agreement among SN Probst LLC, Probst Family Funerals and Cremations, L.L.C, Heber Valley Funeral Home, Inc., Joe T. Probst, Clinton Wayne Probst, Calle J. Probst, and Marsha J. Probst (9)
10.8	Stock Purchase Agreement among Security National Financial Corporation, Kilpatrick Life Insurance Company, and the Shareholders of Kilpatrick Life Insurance Company (11)
10.9	Coinsurance Agreement between Kilpatrick Life Insurance Company and Security National Life Insurance Company (12)
14	Code of Business Conduct and Ethics (10)
21	Subsidiaries of the Registrant (10)
23.1	Consent of Eide Bailly LLP (5)
23.2	Consent of Mackey Price & Mecham (5)
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.xml	Instance Document
101.xsd	Taxonomy Extension Schema Document
101.cal	Taxonomy Extension Calculation Linkbase Document
101.def	Taxonomy Extension Definition Linkbase Document
101.lab	Taxonomy Extension Label Linkbase Document
101.pre	Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on June 29, 1987
- (2) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 2, 2014, related to Company's Annual Meeting of Stockholders
- (3) Incorporated by reference from Report on Form 10-Q, as filed on November 13, 2015
- (4) Incorporated by reference from Report on Form 10-Q, as filed on August 15, 2016
- (5) Incorporated by reference from Registration Statement on Form S-8, as filed on September 7, 2016
- (6) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2017
- (7) Incorporated by reference from Report on Form 8-K, as filed on June 6, 2018
- (8) Incorporated by reference from Report on Form 10-Q, as filed on November 13, 2018
- (9) Incorporated by reference from Report on Form 8-K, as filed on February 28, 2019
- (10) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2019
- (11) Incorporated by reference from Report on Form 8-K, as filed on November 12, 2019
- (12) Incorporated by reference from Report on Form 8-K, as filed on November 12, 2019

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: November 14, 2019

/s/ Scott M. Quist
Scott M. Quist
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

Dated: November 14, 2019

/s/ Garrett S. Sill
Garrett S. Sill
Chief Financial Officer and Treasurer
(Principal Financial Officer and Principal Accounting Officer)