SECURITY NATIONAL FINANCIAL CORP
Form 10-K
April 02, 2018

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017, or

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

For the Transition Period from _____ to _____

Commission file number 000-09341

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

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

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

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

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934: None

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

| Title of each class which registered | Name of each exchange on |
|---|---|
| Class A common stock, $2.00 Par Value | Nasdaq Stock Market |
| Class C common stock, $2.00 Par Value | None |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 [X] No [ ]

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

Large accelerated filer [ ] Accelerated filer [ ]
Nonaccelerated filer [ ] Smaller reporting company [X]

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

As of June 30, 2017, the aggregate market value of the registrant's Class A common stock held by non-affiliates of the registrant was approximately $32,000,000 based on the $6.07 closing sale price of the Class A common stock as reported on The Nasdaq Stock Market.

As of March 28, 2018, there were outstanding 14,569,321 shares of Class A common stock, $2.00 par value per share, and 2,089,372 shares of Class C common stock, $2.00 par value per share.

Documents Incorporated by Reference

None.

Security National Financial Corporation
Form 10-K
For the Fiscal Year Ended December 31, 2017

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# PART I

## Item 1.  Business

Security National Financial Corporation (the "Company") operates in three main business segments: life insurance, cemetery and mortuary, and mortgages. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products, and accident and health insurance. These products are marketed in 38 states through a commissioned sales force of independent licensed insurance agents who may also sell insurance products of other companies. The cemetery and mortuary segment consists of eight mortuaries and five cemeteries in the state of Utah and one cemetery in the state of California. The Company also engages in pre-need selling of funeral, cemetery, mortuary and cremation services through its Utah and California operations. Many of the insurance agents also sell pre-need funeral, cemetery and cremation services. The mortgage segment originates and underwrites or otherwise purchases residential and commercial loans for new construction, existing homes and other real estate projects. The mortgage segment operates through 145 retail and three wholesale offices in 28 states, and is an approved mortgage lender in several other states.

The Company's design and structure are that each business segment is related to the other business segments and contributes to the profitability of the other segments. The Company's cemetery and mortuary segment provides a level of public awareness that assists in the sales and marketing of insurance and pre-need cemetery and funeral products. The Company's insurance segment invests their assets (including, in part, pre-paid funeral products and services) in investments authorized by the respective insurance departments of their states of domicile. The Company also pursues growth through acquisitions. The Company's mortgage segment provides mortgage loans and other real estate investment opportunities.

The Company was organized as a holding company in 1979, when Security National Life Insurance Company ("Security National Life") became a wholly owned subsidiary of the Company and the former stockholders of Security National Life became stockholders of the Company. Security National Life was formed in 1965 and has acquired or purchased significant blocks of business which include Capital Investors Life Insurance Company (1994), Civil Service Employees Life Insurance Company (1995), Southern Security Life Insurance Company (1998), Menlo Life Insurance Company (1999), Acadian Life Insurance Company (2002), Paramount Security Life Insurance Company (2004), Memorial Insurance Company of America (2005), Capital Reserve Life Insurance Company (2007), Southern Security Life Insurance Company, Inc. (2008), North America Life Insurance Company (2011, 2015), Trans-Western Life Insurance Company (2012), Mothe Life Insurance Company (2012), DLE Life Insurance Company (2012), American Republic Insurance Company (2015) and First Guaranty Insurance Company (2016).

The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies. The cemetery and mortuary companies that the Company has acquired are Holladay Memorial Park, Inc. (1991), Cottonwood Mortuary, Inc. (1991) and Deseret Memorial, Inc. (1991).

In 1993, the Company formed SecurityNational Mortgage Company ("SecurityNational Mortgage") to originate and refinance residential mortgage loans. In 2012, the Company formed Green Street Mortgage Services, Inc. (now known as EverLEND Mortgage Company) ("EverLEND Mortgage") also to originate and refinance residential mortgage loans.

See Note 15 of the Notes to Consolidated Financial Statements for additional information regarding business segments of the Company.

### Life Insurance

#### Products

The Company, through Security National Life, issues and distributes selected lines of life insurance and annuities. 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. The Company's other insurance subsidiaries, First Guaranty Insurance Company ("First Guaranty"), Memorial Insurance Company of America ("Memorial Insurance"), Southern Security Life Insurance Company, Inc. ("Southern Security") and Trans-Western Life Insurance Company ("Trans-Western"), service and maintain policies that were purchased prior to their acquisition by Security National Life.

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A funeral plan is a small face value life insurance policy that generally has face coverage of up to $25,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of 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.

Markets and Distribution

The Company is licensed to sell insurance in 38 states. The Company, in marketing its life insurance products, seeks to locate, develop and service specific niche markets. The Company's funeral plan policies are sold primarily to persons who range in age from 45 to 85 and have low to moderate income. A majority of the Company's funeral plan premiums come from the states of Arkansas, California, Florida, Georgia, Louisiana, Mississippi, Texas and Utah.

The Company sells its life insurance products through direct agents, brokers and independent licensed agents who may also sell insurance products of other companies. The commissions on life insurance products range from approximately 50% to 120% of first year premiums. In those cases, where the Company utilizes its direct agents in selling such policies, those agents customarily receive advances against future commissions.

In some instances, funeral plan insurance is marketed in conjunction with the Company's cemetery and mortuary sales force. When it is marketed by that group, the beneficiary is usually the Company's cemeteries and mortuaries. Thus, death benefits that become payable under the policy are paid to the Company's cemetery and mortuary subsidiaries to the extent of services performed and products purchased.

In marketing funeral plan insurance, the Company also seeks and obtains third-party endorsements from other cemeteries and mortuaries within its marketing areas. Typically, these cemeteries and mortuaries will provide letters of endorsement and may share in mailing and other lead-generating costs since these businesses are usually made the beneficiary of the policy. The following table summarizes the life insurance business for the five years ended December 31, 2017:

| | 2017 | 2016 | | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| Life Insurance | | | | | | |
| Policy/Cert Count as of December 31 | 533,065 | 531,775 | (1) | 509,058 | 497,933 | 498,228 |
| Insurance in force as of December 31 (omitted 000) | $1,759,148 | $1,672,081 | (1) | $2,862,803 | $2,763,496 | $2,828,470 |
| Premiums Collected (omitted 000) | $69,565 | $65,220 | (1) | $55,780 | $52,418 | $50,009 |

(1) Includes the acquisition of First Guaranty and the termination of the reinsurance assumed from Servicemembers' Group Life Insurance ("SGLI").

Underwriting

The factors considered in evaluating an application for ordinary life insurance coverage can include the applicant's age, occupation, general health and medical history. Upon receipt of a satisfactory (non-funeral plan insurance) application, which contains pertinent medical questions, the Company issues insurance based upon its medical limits and requirements subject to the following general non medical limits:

| Age Nearest Birthday | Non Medical Limits |
|---|---|
| 0 50 | $ 100,000 |

| | |
|---|---|
| 51 up | Medical information required (APS or exam) |

When underwriting life insurance, the Company will sometimes issue policies with higher premium rates for substandard risks.

The Company's funeral plan insurance is written on a simplified medical application with underwriting requirements being a completed application, a phone inspection on the applicant, and a Medical Information Bureau inquiry. There are several underwriting classes in which an applicant can be placed.

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Annuities

Products

The Company's annuity business includes single premium deferred annuities, flexible premium deferred annuities and immediate annuities. A single premium deferred annuity is a contract where the individual remits a sum of money to the Company, which is retained on deposit until such time as the individual may wish to annuitize or surrender the contract for cash. A flexible premium deferred annuity gives the contract holder the right to make premium payments of varying amounts or to make no further premium payments after his initial payment. These single and flexible premium deferred annuities can have initial surrender charges. The surrender charges act as a deterrent to individuals who may wish to prematurely surrender their annuity contracts. An immediate annuity is a contract in which the individual remits a sum of money to the Company in return for the Company's obligation to pay a series of payments on a periodic basis over a designated period of time, such as an individual's life, or for such other period as may be designated.

Annuities have guaranteed interest rates that range from 1% to 6.5% per annum. Rates above the guaranteed interest rate credited are periodically modified by the Board of Directors at their discretion. In order for the Company to realize a profit on an annuity product, the Company must maintain an interest rate spread between its investment income and the interest rate credited to the annuities. Commissions, issuance expenses and general and administrative expenses are deducted from this interest rate spread.

Markets and Distribution

The general market for the Company's annuities is middle to older age individuals. A major source of annuity sales come from direct agents and are sold in conjunction with other insurance sales. If an individual does not qualify for a funeral plan, the agent will often sell that individual an annuity to fund final expenses.

The following table summarizes the annuity business for the five years ended December 31, 2017:

| | 2017 | 2016 | | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|---|
| Annuities Policy/Cert Count as of December 31 | 22,729 | 21,364 | (1) | 12,022 | 12,701 | 12,703 |
| Deposits Collected (omitted 000) | $10,353 | $11,019 | (1) | $8,069 | $8,010 | $7,281 |

(1) Includes the acquisition of First Guaranty.

Accident and Health

Products

With the acquisition of Capital Investors in 1994, the Company acquired a small block of accident and health policies. Since 1999, the Company has offered a low-cost comprehensive diver's accident policy that provides worldwide coverage for medical expense reimbursement in the event of a diving accident.

Markets and Distribution

The Company currently markets its diver's accident policies through the internet.

The following table summarizes the accident and health insurance business for the five years ended December 31, 2017:

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Accident and Health Policy/Cert Count as of December 31 | 4,069 | 4,761 | 5,185 | 5,838 | 6,451 |
| Premiums Collected (omitted 000) | $104 | $113 | $119 | $133 | $144 |

Reinsurance

The primary purpose of reinsurance is to enable an insurance company to issue an insurance policy in an amount larger than the risk the insurance company is willing to assume for itself. The insurance company remains obligated for the amounts reinsured (ceded) in the event the reinsurers do not meet their obligations.

The Company currently cedes and assumes certain risks with various authorized unaffiliated reinsurers pursuant to reinsurance treaties, which are generally renewed annually. The premiums paid by the Company are based on a number of factors, primarily including the age of the insured and the risk ceded to the reinsurer.

It is the Company's policy to retain no more than $100,000 of ordinary insurance per insured life, with the excess risk being reinsured. The total amount of life insurance reinsured by other companies as of December 31, 2017, was $60,564,000, which represents approximately 3.4% of the Company's life insurance in force on that date.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding reinsurance.

Investments

The investments that support the Company's life insurance and annuity obligations are determined by the investment committees of the Company's subsidiaries and ratified by the full Board of Directors of the respective subsidiaries. A significant portion of the Company's investments must meet statutory requirements governing the nature and quality of permitted investments by its insurance subsidiaries. The Company maintains a diversified investment portfolio consisting of common stocks, preferred stocks, municipal bonds, investment and non investment grade bonds, mortgage loans, real estate, short-term investments and other securities and investments.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding investments.

Cemetery and Mortuary

Products

Through its cemetery and mortuary operations, the Company markets a variety of products and services both on a pre-need basis (prior to death) and an at-need basis (at the time of death). The products include: plots, interment vaults, mausoleum crypts, markers, caskets, flowers and other death care related products. These services include: professional services of funeral directors, opening and closing of graves, use of chapels and viewing rooms, and use of automobiles and clothing. The Company has a mortuary at each of its cemeteries, other than Holladay Memorial Park and Singing Hills Memorial Park, and has four separate stand-alone mortuary facilities.

Markets and Distribution

The Company's pre need cemetery and mortuary sales are marketed to persons of all ages but are generally purchased by persons 45 years of age and older. The Company is limited in its geographic distribution of these products to areas lying within an approximate 20-mile radius of its mortuaries and cemeteries. The Company's at-need sales are similarly limited in geographic area.

The Company actively seeks to sell its cemetery and funeral products to customers on a pre need basis. The Company employs cemetery sales representatives on a commission basis to sell these products. Many of these pre-need cemetery and mortuary sales representatives are also licensed insurance salesmen and sell funeral plan insurance. In some instances, the Company's cemetery and mortuary facilities are the named beneficiaries of the funeral plan policies.

Potential customers are located via telephone sales prospecting, responses to letters mailed by the pre-planning consultants, newspaper inserts, referrals, and door-to-door canvassing. The Company trains its sales representatives and helps generate leads for them.

Mortgage Loans

Products

The Company, through its wholly owned subsidiaries, SecurityNational Mortgage and EverLEND Mortgage, are active in the residential real estate market. SecurityNational Mortgage is approved by the U.S. Department of Housing and Urban Development (HUD), the Federal National Mortgage Association (Fannie Mae), and other secondary market investors, to originate a variety of residential mortgage loan products, which are subsequently sold to investors. EverLEND Mortgage is approved by the U.S. Department of Housing and Urban Development (HUD), and other secondary market investors, to originate a variety of residential mortgage loan products, which are subsequently sold to investors. The Company uses internal and external funding sources to fund mortgage loans.

Security National Life originates and funds commercial real estate loans, residential construction loans and land development loans for internal investment.

Markets and Distribution

The Company's residential mortgage lending services are marketed primarily to real estate brokers and some independent mortgage loan originators. The Company has a strong retail origination presence in the Utah, Florida, Nevada, and Texas markets in addition to three wholesale branch offices located in Florida, Texas and Utah, with sales representatives in these and other states. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding mortgage loans.

Recent Acquisitions and Other Business Activities

Acquisition of First Guaranty Insurance Company

On July 11, 2016, the Company, through its wholly owned subsidiary, Security National Life, completed a stock purchase transaction with the shareholders of Reppond Holding Corporation, an Arkansas corporation ("Reppond Holding") and sole shareholder of First Guaranty Insurance Company, a Louisiana domestic stock legal reserve life insurance company, to purchase all the outstanding shares of common stock of Reppond Holding. Under the terms of the stock purchase agreement, dated February 17, 2016, between Security National Life and Reppond Holding, which was later amended on March 4 and 17, 2016, Security National Life paid a total of $6,753,000 at the closing in consideration for the purchase of all the outstanding shares of stock of Reppond Holding from its shareholders.

Real Estate Development

The Company is capitalizing on the opportunity to develop commercial assets on its existing properties. The cost to acquire existing for-sale assets currently exceeds the replacement costs, thus creating the opportunity for development and redevelopment of the land the Company currently owns. The Company has developed, or is in the process of developing, assets that have an initial development cost exceeding $100,000,000. The Company plans to continue its development endeavors as the market demands.

<u>Dry Creek at East Village Apartments</u>

The construction of Dry Creek at East Village ("Dry Creek") was completed in December 2015. The total project consists of 282 units and contains a mixture of one, two and three bedroom units. It is located within close proximity to a transit hub and as of December 31, 2017, was 94% occupied. Rental rates increased in the market by 9.8% over pro forma rents, and effective (achieved) rates net of concessions also increased. Leasing remains strong and vacancy rates in the market remain below the long-term average.

As Dry Creek has matured in its leasing and operations, the management group has pushed to retain tenants and increase the resident experience. This optimism has seen great acceptance as Dry Creek continues to maintain longer term residents and management offers a Class A living experience in the suburban market of Salt Lake City. See Note 25 of the Notes to Consolidated Financial Statements regarding the disposition of Dry Creek.

53rd Center Development

In 2015, the Company broke ground and commenced development on the first phase of its new corporate campus. The anticipated project, comprising nearly 20 acres of land that is currently owned by the Company in the central valley of Salt Lake City, is envisioned to be a multi-year, phased development. At full development, the project will include nearly one million square-feet in six buildings, ranging from four to ten stories, and will be serviced by three parking structures with about 4,000 stalls.

The first phase of the project includes a building and a parking garage consisting of nearly 200,000 square feet of office and retail space with 748 parking stalls. This phase of the campus was completed in July 2017. The Company is currently in the process of leasing the building.

Regulation

The Company's insurance subsidiaries are subject to comprehensive regulation in the jurisdictions in which they do business under statutes and regulations administered by state insurance commissioners. Such regulation relates to, among other things, prior approval of the acquisition of a controlling interest in an insurance company; standards of solvency which must be met and maintained; licensing of insurers and their agents; nature of and limitations on investments; deposits of securities for the benefit of policyholders; approval of policy forms and premium rates; periodic examinations of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of insurers or for other purposes; and requirements regarding aggregate reserves for life policies and annuity contracts, policy claims, unearned premiums, and other matters. The Company's insurance subsidiaries are subject to this type of regulation in any state in which they are licensed to do business. Such regulation could involve additional costs, restrict operations or delay implementation of the Company's business plans.

The Company's life insurance subsidiaries are currently subject to regulation in Utah, Arkansas, Louisiana, Mississippi and Texas under insurance holding company legislation, and other states where applicable. Generally, intercompany transfers of assets and dividend payments from insurance subsidiaries are subject to prior notice of approval from the state insurance department, if they are deemed "extraordinary" under these statutes. The insurance subsidiaries are required, under state insurance laws, to file detailed annual reports with the supervisory agencies in each of the states in which they do business. Their business and accounts are also subject to examination by these agencies. The Company is currently undergoing examinations by Arkansas, Mississippi, Texas and Utah for the four year period ending December 31, 2017 and by Louisiana for the four year period ending December 31, 2016. The Texas Department of Banking also audits pre-need insurance policies that are issued in the state of Texas. Pre-need policies are life and annuity products sold as the funding mechanism for funeral plans through funeral homes by Security National agents. The Company is required to send the Texas Department of Banking an annual report that summarizes the number of policies in force and the face amount or death benefit for each policy. This annual report also indicates the number of new policies issued for that year, all death claims paid that year, and all premiums received.

The Company's cemetery and mortuary subsidiaries are subject to the Federal Trade Commission's comprehensive funeral industry rules and to state regulations in the various states where such operations are domiciled. The morticians must be licensed by the respective state in which they provide their services. Similarly, the mortuaries and cemeteries are governed and licensed by state statutes and city ordinances in Utah and California. Reports are required to be kept on file on a yearly basis which include financial information concerning the number of spaces sold and, where applicable, funds provided to the Endowment Care Trust Fund. Licenses are issued annually on the basis of such reports. The cemeteries maintain city or county licenses where they conduct business.

The Company's mortgage subsidiaries are subject to the rules and regulations of the U.S. Department of Housing and Urban Development (HUD), and to various state licensing acts and regulations and the Consumer Financial Protection Bureau (CFPB). These regulations, among other things, specify minimum capital requirements, procedures for loan origination and underwriting, licensing of brokers and loan officers, quality review audits and the fees that can be charged to borrowers. Each year, the Company is required to have an audit completed for each mortgage subsidiary by an independent registered public accounting firm to verify compliance under some of these regulations. In addition to the government regulations, the Company must meet loan requirements, and underwriting guidelines of various investors who purchase the loans.

Income Taxes

The Company's insurance subsidiaries, Security National Life and First Guaranty, are taxed under the Life Insurance Company Tax Act of 1984. Under the act, life insurance companies are taxed at standard corporate rates on life insurance company taxable income. Life insurance company taxable income is gross income less general business deductions and reserves for future policyholder benefits (with modifications). The Company may be subject to the corporate Alternative Minimum Tax (AMT) for tax years ending prior to January 1, 2018. The Tax Cuts and Jobs Act (the "Tax Act") repealed the corporate AMT for tax years beginning after December 31, 2017. Also, under the Tax Act, December 31, 2017 policyholder surplus account balances result in taxable income over a period of eight years.

Security National Life and First Guaranty calculate their life insurance taxable income after establishing a provision representing a portion of the costs of acquisition of such life insurance business. The effect of the provision is that a certain percentage of the Company's premium income is characterized as deferred expenses and recognized over a five or ten-year period. The Tax Act changed this recognition period for amounts deferred after December 31, 2017 to a five or fifteen-year period.

The Company's non life insurance company subsidiaries are taxed in general under the regular corporate tax provisions. The following subsidiaries are regulated as life insurance companies but do not meet the Internal Revenue Code definition of a life insurance company so are taxed as insurance companies other than life insurance companies: Memorial Insurance, Southern Security and Trans-Western.

Competition

The life insurance industry is highly competitive. There are approximately 1,000 legal reserve life insurance companies in business in the United States. These insurance companies differentiate themselves through marketing techniques, product features, price and customer service. The Company's insurance subsidiaries compete with a large number of insurance companies, many of which have greater financial resources, a longer business history, and more diversified line of insurance products than the Company. In addition, such companies generally have a larger sales force. Further, the Company competes with mutual insurance companies which may have a competitive advantage because all profits accrue to policyholders. Because the Company is smaller by industry standards and lacks broad diversification of risk, it may be more vulnerable to losses than larger, better-established companies. The Company believes that its policies and rates for the markets it serves are generally competitive.

The cemetery and mortuary industry is also highly competitive. In the Utah and California markets where the Company competes, there are a number of cemeteries and mortuaries which have longer business histories, more established positions in the community, and stronger financial positions than the Company. In addition, some of the cemeteries with which the Company must compete for sales are owned by municipalities and, as a result, can offer lower prices than can the Company. The Company bears the cost of a pre need sales program that is not incurred by those competitors which do not have a pre need sales force. The Company believes that its products and prices are generally competitive with those in the industry.

The mortgage industry is highly competitive with a large number of mortgage companies and banks in the same geographic area in which the Company is operating. The mortgage industry in general is sensitive to changes in interest rates and the refinancing market is particularly vulnerable to changes in interest rates.

Employees

As of December 31, 2017, the Company had 1,267 full-time and 186 part-time employees.

Item 2. Properties

The following table sets forth the location of the Company's office facilities and certain other information relating to these properties.

| Street | City | State | Function | Owned / Leased | Approximate Square Footage | Lease Amount | | Expiration |
|---|---|---|---|---|---|---|---|---|
| 5300 S. 360 W. | Salt Lake City | UT | Corporate Headquarters | Owned | 36,000 | N/A | | N/A |
| 5201 S. Green St. | Salt Lake City | UT | Mortgage Operations | Owned | 12,498 | N/A | | N/A |
| 1044 River Oaks Dr. | Flowood | MS | Insurance Operations | Owned | 5,522 | N/A | | N/A |
| 5239 Greenpine Dr. | Murray | UT | Funeral Service Operations | Owned | 1,642 | N/A | | N/A |
| 121 W. Election Rd., Suite 100 | Draper | UT | Mortgage Sales | Owned | 15,119 | N/A | | N/A |
| 497-A Sutton Bridge Rd. | Rainbow City | AL | Fast Funding Operations | Leased | 5,500 | $33,600 | / yr | 6/30/2018 |
| 3515 Pelham Rd., Suite 200 | Greenville | SC | Fast Funding Operations | Leased | 4,000 | $4,643 | / mo | 5/31/2018 |
| 16427 North Scottsdale Rd. | Scottsdale | AZ | Mortgage Sales | Leased | 3,966 | $10,246 | / mo | 2/29/2020 |
| 17015 N. Scottsdale Rd., Suite 125 | Scottsdale | AZ | Mortgage Sales | Leased | 6,070 | $13,025 | / mo | 4/30/2020 |
| 8600 East Anderson Dr., Suite 240 | Scottsdale | AZ | Mortgage Sales | Leased | 3,756 | $8,138 | / mo | 10/31/2019 |
| 1819 S. Dobson | Mesa | AZ | Mortgage Sales | Leased | 2,397 | $1,381 | / mo | 4/30/2018 |
| 6751 N. Sunset Blvd. | Glendale | AZ | Mortgage Sales | Leased | 3,431 | $6,576 | / mo | 6/30/2018 |
| 2450 S. Gilbert Rd. | Chandler | AZ | Mortgage Sales | Sub-Leased | 6,306 | $10,247 | / mo | 2/28/2019 |
| 8525 Madison Ave, Suite 142 | Fair Oaks | CA | Mortgage Sales | Sub-Leased | 2,435 | $4,013 | / mo | 6/31/2018 |
| 3435 South Demaree | Visalia | CA | Mortgage Sales | Leased | 1,740 | $2,175 | / mo | 4/30/2019 |
| 2333 San Ramon Vallue Blvd. | San Ramon | CA | Mortgage Sales | Leased | 1,563 | $3,908 | / mo | 5/30/2019 |
| 3005 Douglas Blvd., Suite 100 | Roseville | CA | Mortgage Sales | Leased | 3,722 | $7,406 | / mo | 4/14/2018 |
| 140 Gregory Ln. | Pleasant Hill | CA | Mortgage Sales | Leased | 3,125 | $3,244 | / mo | 1/31/2019 |
| 750 University Ave. | Los Gatos | CA | Mortgage Sales | Sub-Leased | 2,137 | $9,018 | / mo | 4/30/2018 |
| 3908 Hathaway Ave. | Long Beach | CA | Mortgage Sales | Sub-Leased | 200 | $100 | / mo | month to month |
| 13191 Crossroads Parkway | City of Ind. | CA | Mortgage Sales | Sub-Leased | 2,569 | $5,954 | / mo | 7/31/2020 |
| 5475 Tech Center Dr. | Colorado Springs | CO | Mortgage Sales | Leased | 3,424 | $3,709 | / mo | 7/31/2020 |
| 1150 Kelly Johnson Blvd | Colorado Springs | CO | Mortgage Sales | Sub-Leased | 130 | $1,000 | / mo | month to month |
| 1470 NW 107th Ave. Suite 1 Unit B | Sweetwater | FL | Mortgage Sales | Sub-Leased | 500 | $600 | / mo | month to month |
| 203 NE 1st Ave. | Delray Beach | FL | Mortgage Sales | Leased | 1,350 | $4,013 | / mo | 6/30/2021 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 17 N. Summerlin Ave. | Orlando | FL | Mortgage Sales | Sub-Leased | 1,400 | $3,328 | / mo | 11/30/2018 |
| 7575 Dr. Phillips Blvd., Suite 270 | Orlando | FL | Mortgage Sales | Leased | 1,844 | $5,292 | / mo | 3/31/2018 |
| 3689 Tampa Rd. | Oldsmar | FL | Mortgage Sales | Leased | 5,620 | $6,720 | / mo | 3/31/2018 |
| 4947 Tamiami Trail N. | Naples | FL | Mortgage Sales | Leased | 1,168 | $1,303 | / mo | 11/30/2018 |
| 4732 US Highway 98 N. | Lakeland | FL | Mortgage Sales | Leased | 1,250 | $1,070 | / mo | 5/30/2018 |
| 1145 TownPark Ave., Suite 2215 | Lake Mary | FL | Mortgage Sales | Leased | 9,390 | $14,775 | / mo | 3/1/2020 |
| 1525 International Parkway | Lake Mary | FL | Mortgage Sales | Leased | 2,862 | $5,128 | / mo | 10/31/2019 |
| 1716 Cape Coral Parkway | West Cape Coral | FL | Mortgage Sales | Sub-Leased | 500 | $800 | / mo | month to month |
| 23880 Messina Court | Naples/Bonita Springs | FL | Mortgage Sales | Leased | | $1,000 | / mo | month to month |
| 725 Cape Coral Parkway | West Cape Coral | FL | Mortgage Sales | Leased | 300 | $400 | / mo | month to month |
| 3970 Tampa Rd. Oldsmar | Pinnellas County | FL | Mortgage Sales | Leased | 750 | $813 | / mo | 8/31/2020 |
| 3030 McEver Rd. | Gainsville | GA | Mortgage Sales | Leased | 300 | $839 | / mo | month to month |
| 2250 Satellite Blvd. | Duluth | GA | Mortgage Sales | Leased | 1,380 | $1,553 | / mo | 1/31/2018 |
| 4370 Kukui Grove St. | Lihue | HI | Mortgage Sales | Leased | 864 | $1,290 | / mo | 2/28/2018 |
| 2747 Kihei Rd. H208 | Kihei | HI | Mortgage Sales | Leased | 300 | $100 | / mo | month to month |
| 12 W. Main St. | Rexburg | ID | Mortgage Sales | Sub-Leased | 800 | $800 | / mo | month to month |
| 9042 W. Barnes Dr. | Boise | ID | Mortgage Sales | Leased | 1,568 | $2,090 | / mo | 10/31/2018 |
| 3040 E 17th Suite A | Idaho Falls | ID | Mortgage Sales | Sub-Leased | 2,500 | $3,000 | / mo | 6/30/2018 |
| 7225-27 West Madison St. | Forest Park | IL | Mortgage Sales | Leased | 1,800 | $2,100 | / mo | 6/30/2018 |
| 2530 Scottsville Rd. | Bowling Green | KY | Mortgage Sales | Leased | 1,500 | $1,250 | / mo | month to month |
| 568 Greenluster Dr. | Covington | LA | Mortgage Sales | Sub-Leased | 180 | $250 | / mo | month to month |
| 100 Magnolia Rd. | Pinehurst | NC | Mortgage Sales | Leased | | $900 | / mo | 11/30/2018 |
| 7930 West Kenton Circle | Huntersville | NC | Mortgage Sales | Leased | 951 | $9 | / mo | 2/29/2020 |
| 10000 Lincold Drive Ease, Suite 201 | Marlton | NJ | Mortgage Sales | Leased | 900 | $1,500 | / mo | month to month |
| 10765 Double R Blvd. | Reno | NV | Mortgage Sales | Leased | 4,214 | $8,639 | / mo | 10/31/2021 |
| 1980 Festival Plaza Dr. | Las Vegas | NV | Mortgage Sales | Leased | 12,866 | $39,884 | / mo | 5/31/2021 |
| 4000 S. Eastern Ave., Suite 310 | Las Vegas | NV | Mortgage Sales | Leased | 2,750 | $54,450 | / yr | 1/31/2020 |
| 9330 W. Sahara Ave., Suite 270 | Las Vegas | NV | Mortgage Sales | Leased | 2,681 | $4,101 | / mo | 8/31/2018 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2370 Corporate Circle, Suite 200 | Henderson | NV | Mortgage Sales | Leased | 10,261 | $184,855 | / yr | 6/30/2018 |
| 999 Polaris Parkway | Columbus | OH | Mortgage Sales | Leased | 1,751 | $1,642 | / mo | 7/31/2018 |
| 11305 Reed Hartman Highway | Blue Ash | OH | Mortgage Sales | Leased | 711 | $918 | / mo | 5/31/2019 |
| 2468 W. New Orleans | Broken Arrow | OK | Mortgage Sales | Leased | 1,683 | $1,896 | / mo | 12/31/2019 |
| 10610 SE Washington | Portland | OR | Mortgage Sales | Sub-Leased | 506 | $1,000 | / mo | month to month |
| 3311 NE MLK Jr Blvd., Suite 203 | Portland | OR | Mortgage Sales | Sub-Leased | 1,400 | $675 | / mo | month to month |
| 10365 SE Sunnyside Rd. | Clackamus | OR | Mortgage Sales | Sub-Leased | 1,288 | $2,280 | / mo | 11/30/2019 |
| 12 Breakneckhill Rd. | Lincoln | RI | Mortgage Sales | Leased | 2,141 | $3,301 | / mo | 4/30/2020 |
| 5010 West Butler Rd. | Greenville | SC | Mortgage Sales | Sub-Leased | 600 | $715 | / mo | month to month |
| 6263 Poplar Ave. | Memphis | TN | Mortgage Sales | Leased | 1,680 | $2,380 | / mo | 3/31/2019 |
| 108 Stekola Ln. | Knoxville | TN | Mortgage Sales | Leased | 1,100 | $1,200 | / mo | month to month |

Item 2. Properties (Continued)

| Street | City | State | Function | Owned / Leased | Approximate Square Footage | Lease Amount | | Expiration |
|---|---|---|---|---|---|---|---|---|
| 6640 Carothers Parkway | Franklin | TN | Mortgage Sales | Leased | 3,229 | $3,902 | / mo | 3/31/2020 |
| 208 Sunset Dr., Suite 403 & 404 | Knoxville | TN | Mortgage Sales | Leased | 2,476 | $3,817 | / mo | 10/31/2022 |
| 8505 Technology Forest Place, Suite 304 | Woodlands | TX | Mortgage Sales | Sub-Leased | 1,250 | $2,900 | / mo | 5/31/2018 |
| 602 S Main St., Suite 300 | Weatherford | TX | Mortgage Sales | Sub-Leased | 1,000 | $1,200 | / mo | 4/30/2018 |
| 52 Sugar Creek Center Blvd., Suite 150 | Sugarland | TX | Mortgage Sales | Leased | 1,788 | $3,497 | / mo | 3/31/2020 |
| 2526 N. Loop 1604 W., Suite 210 | San Antonio | TX | Mortgage Sales | Leased | 4,959 | $10,125 | / mo | 11/30/2019 |
| 1 Chisholm Trail Rd., Suite 210 | Round Rock | TX | Mortgage Sales | Leased | 3,402 | $3,331 | / mo | 12/31/2020 |
| 3027 Marina Bay Dr. | League City | TX | Mortgage Sales | Leased | 2,450 | $2,016 | / mo | 3/31/2020 |
| 3027 Marina Bay Dr., Suite 110 | League City | TX | Mortgage Sales | Leased | 180 | $740 | / mo | 3/31/2020 |
| 120 W. Village | Laredo | TX | Mortgage Sales | Leased | 800 | $1,136 | / mo | 4/30/2018 |
| 24668 Kingsland Blvd. | Katy | TX | Mortgage Sales | Leased | 150 | $400 | / mo | month to month |
| 1848 Norwood Plaza, Suite 205 | Hurst | TX | Mortgage Sales | Sub-Leased | 455 | $361 | / mo | month to month |
| 16350 Park Ten Place | Houston | TX | Mortgage Sales | Leased | 3,397 | $7,077 | / mo | 11/30/2018 |
| 17347 Village Green Dr., Suite 102A | Houston | TX | Mortgage Sales | Sub-Leased | 3,000 | $8,970 | / mo | month to month |
| 30417 5th St., Suite B | Fulshear | TX | Mortgage Sales | Sub-Leased | 1,000 | $550 | / mo | month to month |
| 4100 Alpha Rd. | Farmers Branch | TX | Mortgage Sales | Leased | 2,935 | $4,035 | / mo | 3/31/2020 |
| 1626 Lee Trevino | El Paso | TX | Mortgage Sales | Leased | 8,400 | $7,059 | / mo | 12/31/2019 |
| 9737 Great Hills Trail, Suite 150 | Austin | TX | Mortgage Sales | Leased | 11,717 | $15,378 | / mo | 8/31/2024 |
| 1213 East Alton Gloor Blvd. | Brownsville | TX | Mortgage Sales | Leased | 2,000 | $2,200 | / mo | 2/28/2019 |
| 24668 Kingsland Blvd. | Katy | TX | Mortgage Sales | Leased | 144 | $500 | / mo | month to month |
| 7920 Belt Line Rd. | Dallas | TX | Mortgage Sales | Sub-Leased | 1,714 | $2,143 | / mo | month to month |
| 10613 W Sam Houston Parkway | North Houston | TX | Mortgage Sales | Sub-Leased | 4,572 | $8,001 | / mo | 12/31/2018 |
| 1855 Trawood, Suite 200 | El Paso | TX | Mortgage Sales | Sub-Leased | 300 | $300 | / mo | month to month |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 14087 Pebble Hills | El Paso | TX | Mortgage Sales | Leased | 1,100 | $800 | / mo | month to month |
| 12222 Merit Dr. | Dallas | TX | Mortgage Sales | Leased | 1,799 | $2,848 | / mo | 9/30/2019 |
| 12515-7 Research Blvd. | Austin | TX | Mortgage Sales | Sub-Leased | 2,799 | $4,723 | / mo | 12/31/2018 |
| 5020 Collinwood Ave. | Fort Worth | TX | Mortgage Sales | Leased | 2,687 | $4,926 | / mo | 1/31/2021 |
| 240 North Adams St. | Eagle Pass | TX | Mortgage Sales | Leased | 275 | $465 | / mo | 12/31/2018 |
| 13413 Galeria | Austin | TX | Mortgage Sales | Sub-Leased | 1,851 | $3,316 | / mo | 2/28/2019 |
| 118 E. Vine St. | Tooele | UT | Mortgage Sales | Leased | 1,000 | $849 | / mo | 7/1/2020 |
| 5965 S. Redwood Rd. | Taylorsville | UT | Mortgage Sales | Leased | 2,000 | $600 | / mo | month to month |
| 6575 S. Redwood Rd. | Taylorsville | UT | Mortgage Sales | Leased | 3,323 | $4,638 | / mo | 8/31/2019 |
| 10437 S. 1300 W. | South Jordan | UT | Mortgage Sales | Leased | 4,000 | $7,800 | / mo | month to month |
| 126 W. Sego Lily Dr. | Sandy | UT | Mortgage Sales | Leased | 2,794 | $5,451 | / mo | 8/31/2020 |
| 9815 S. Monroe St., Suite 304 | Sandy | UT | Mortgage Sales | Leased | 3,508 | $1,725 | / mo | 9/30/2018 |
| 9815 S. Monroe St., Suite 203 | Sandy | UT | Mortgage Sales | Leased | 1,725 | $3,306 | / mo | 5/31/2018 |
| 9815 S. Monroe St., Suite 206 | Sandy | UT | Mortgage Sales | Leased | 2,819 | $5,286 | / mo | 5/31/2018 |
| 3269 South Main St. Suite 275B | Salt Lake City | UT | Mortgage Sales | Leased | 966 | $986 | / mo | month to month |
| 1145 S. 800 E. | Orem | UT | Mortgage Sales | Leased | 2,581 | $4,302 | / mo | 2/28/2020 |
| 1111 Brickyard Rd. | Salt Lake City | UT | Mortgage Sales | Leased | 4,857 | $3,917 | / mo | 1/31/2018 |
| 5993 S. Redwood Rd. | Salt Lake City | UT | Mortgage Sales | Leased | 2,880 | $2,375 | / mo | 7/31/2021 |
| 1751 W. Alexander St. | Salt Lake City | UT | Mortgage Sales | Sub-Leased | 300 | $500 | / mo | month to month |
| 1224 S. River Rd., Suites E3 & E4 | Saint George | UT | Mortgage Sales | Leased | 1,900 | $1,814 | / mo | 4/30/2018 |
| 6965 S. Union Park, Suites 100, 260, 300, 460, 470, & 480 | Midvale | UT | Mortgage Sales | Leased | 37,226 | $74,098 | / mo | 6/30/2018 |
| 6975 Union Park Ave., Suite 420 | Midvale | UT | Mortgage Sales | Leased | 6,672 | $12,500 | / mo | 4/30/2019 |
| 1133 North Main St. | Layton | UT | Mortgage Sales | Sub-Leased | 300 | $500 | / mo | month to month |
| 497 S. Main | Ephraim | UT | Mortgage Sales | Leased | 953 | $765 | / mo | 9/30/2019 |
| 15640 NE Fourth Plain Blvd., Suite 220 | Vancouver | WA | Mortgage Sales | Leased | 360 | $1,190 | / mo | 6/30/2018 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 3518 6th Ave., Suite 302 B | Tacoma | WA | Mortgage Sales | Sub-Leased | 200 | $625 / mo | month to month |
| 11314 4th Ave. W. | Everett | WA | Mortgage Sales | Leased | 1,793 | $2,308 / mo | 10/31/2018 |
| 5002 7th Ave. | Kenosha | WI | Mortgage Sales | Sub-Leased | 1,450 | $1,200 / mo | 10/31/2019 |
| 4829 Riverside Rd. | Waterford | WI | Mortgage Sales | Sub-Leased | 144 | $400 / mo | month to month |
| 103 N. Dodge St. | Burlington | WI | Mortgage Sales | Sub-Leased | 1,288 | $2,349 / mo | 7/31/2018 |

The Company believes the office facilities it occupies are in good operating condition and adequate for current operations. The Company will enter into additional leases or modify existing leases to meet market demand. Those leases will be month to month where possible. As leases expire, the Company will either renew or find comparable leases or acquire additional office space.

Item 2. Properties (Continued)

The following table summarizes the location and acreage of the six Company owned cemeteries, each of which includes one or more mausoleums:

| Name of Cemetery | Location | Date Acquired | Developed Acreage (1) | Net Saleable Acreage<br>Total Acreage (1) | Acres Sold as Cemetery Spaces (2) | Total Available Acreage (1) |
|---|---|---|---|---|---|---|
| Memorial Estates, Inc. | | | | | | |
| Lakeview Cemetery | 1640 East Lakeview Drive<br>Bountiful, Utah | 1973 | 9 | 39 | 7 | 32 |
| Mountain View Cemetery | 3115 East 7800 South<br>Salt Lake City, Utah | 1973 | 26 | 54 | 20 | 34 |
| Redwood Cemetery (3) | 6500 South Redwood Road<br>West Jordan, Utah | 1973 | 28 | 71 | 35 | 36 |
| Deseret Memorial Inc.<br>Lake Hills Cemetery (3)(6) | | | | | | |
| Lake Hills Cemetery | 10055 South State Street<br>Sandy, Utah | 1991 | 9 | 28 | 6 | 22 |
| Holladay Memorial Park, Inc. | | | | | | |
| Holladay Memorial Park (3) | 4900 South Memory Lane<br>Holladay, Utah | 1991 | 12 | 14 | 7 | 7 |
| California Memorial Estates, Inc. | | | | | | |
| Singing Hills Memorial Park (4) | 2800 Dehesa Road<br>El Cajon, California | 1995 | 8 | 97 | 6 | 91 |

(1) The acreage represents estimates of acres that are based upon survey reports, title reports, appraisal reports or the Company's inspection of the cemeteries. The Company estimates that there are approximately 1,200 spaces per developed acre.
(2) Includes both reserved and occupied spaces.
(3) Includes two granite mausoleums.
(4) Includes an open easement.

Item 2. Properties (Continued)

The following table summarizes the location, square footage and the number of viewing rooms and chapels of the eight Company owned mortuaries:

| Name of Mortuary | Location | Date Acquired | Viewing Room(s) | Chapel(s) | Square Footage |
|---|---|---|---|---|---|
| Memorial Mortuary, Inc. | | | | | |
| Memorial Mortuary | 5850 South 900 East | | | | |
| | Murray, Utah | 1973 | 3 | 1 | 20,000 |
| Affordable Funerals and Cremations, St. George | 157 East Riverside Dr., No. 3A | 2016 | 1 | 1 | 2,360 |
| | St. George, Utah | | | | |
| Memorial Estates, Inc. | | | | | |
| Redwood Mortuary (1) | 6500 South Redwood Rd. | | | | |
| | West Jordan, Utah | 1973 | 2 | 1 | 10,000 |
| Mountain View Mortuary (1) | 3115 East 7800 South | | | | |
| | Salt Lake City, Utah | 1973 | 2 | 1 | 16,000 |
| Lakeview Mortuary (1) | 1640 East Lakeview Dr. | | | | |
| | Bountiful, Utah | 1973 | 0 | 1 | 5,500 |
| Deseret Memorial, Inc. | | | | | |
| Deseret Mortuary | 36 East 700 South | | | | |
| | Salt Lake City, Utah | 1991 | 2 | 2 | 36,300 |
| Lakehills Mortuary (1) | 10055 South State St. | | | | |
| | Sandy, Utah | 1991 | 2 | 1 | 18,000 |
| Cottonwood Mortuary, Inc. | | | | | |
| Cottonwood Mortuary (1) | 4670 South Highland Dr. | | | | |
| | Holladay, Utah | 1991 | 2 | 1 | 14,500 |

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(1) These funeral homes also provide burial niches at their respective locations.

Item 3. Legal Proceedings

Lehman Brothers 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 acquired these loans from Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, which in turn purchased the loans from certain residential mortgage loan originators, including 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 their 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 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.

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 declaratory judgment that SecurityNational Mortgage sought in its Delaware lawsuit, and for damages relating to the alleged obligations of the defendants under the 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. The case is presently in a motion period. 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 date for the motion has not been set. No Answer to the Second Amended Complaint is required to be filed by SecurityNational Mortgage pending further order of the Court. SecurityNational Mortgage denies that it has any liability to Lehman Holdings and intends to vigorously protect and defend its position.

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 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for the Registrant's Common Stock, Related Security Holder Matters, and Issuer Purchases of Equity Securities

The Company's Class A common stock trades on The NASDAQ National Market under the symbol "SNFCA." As of March 28, 2018, the closing stock price of the Class A common stock was $5.40 per share. The following were the high and low market closing stock prices for the Class A common stock by quarter as reported by NASDAQ since January 1, 2016:

| | Price Range (1) | |
|---|---|---|
| | High | Low |
| Period (Calendar Year) | | |
| 2016 | | |
| First Quarter | $5.87 | $4.62 |
| Second Quarter | $4.64 | $4.03 |
| Third Quarter | $5.35 | $4.37 |
| Fourth Quarter | $6.71 | $5.19 |
| | | |
| 2017 | | |
| First Quarter | $6.95 | $5.94 |
| Second Quarter | $6.71 | $5.95 |
| Third Quarter | $6.14 | $4.86 |
| Fourth Quarter | $5.32 | $4.67 |
| | | |
| 2018 | | |
| First Quarter (through March 28, 2018) | $5.40 | $4.32 |

(1) Stock prices have been adjusted retroactively for the effect of annual stock dividends.

The Class C common stock is not registered or traded on a national exchange. See Note 12 of the Notes to Consolidated Financial Statements.

The Company has never paid a cash dividend on its Class A or Class C common stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C common stock in the foreseeable future. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Board of Directors may deem appropriate. A 5% stock dividend on Class A and Class C common stock has been paid each year from 1990 through 2017.

The following table shows the Company's repurchase activity of its common stock during the three months ended December 31, 2017 under its Stock Purchase Plan.

| Period | (a) Total Number of Class A Shares | (b) Average Price Paid per | (c) Total Number of Class A Shares | (d) Maximum Number (or Approximate Dollar Value) |
|---|---|---|---|---|

| | Purchased | | Class A Share | Purchased as Part of Publicly Announced Plan or Program | of Class A Shares that May Yet Be Purchased Under the Plan or Program |
|---|---|---|---|---|---|
| 10/1/2017-10/31/2017 | - | | - | - | - |
| 11/1/2017-11/30/2017 | - | | - | - | - |
| 12/1/2017-12/31/2017 | 28,589 | (1) | $ 6.90 | - | - |
| Total | 28,589 | | $ 6.90 | - | - |

(1) On December 29, 2017, the Company purchased 28,589 shares of its Class A common stock from Scott M. Quist, Chairman, President and Chief Executive Officer of the Company, pursuant to the Company's Stock Purchase Plan.

The graph below compares the cumulative total stockholder return of the Company's Class A common stock with the cumulative total return on the Standard & Poor's 500 Stock Index and the Standard & Poor's Insurance Index for the period from December 31, 2012 through December 31, 2017. The graph assumes that the value of the investment in the Company's Class A common stock and in each of the indexes was $100 at December 31, 2012 and that all dividends were reinvested.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of the Company's Class A common stock.

| | 12/31/12 | 12/31/13 | 12/31/14 | 12/31/15 | 12/31/16 | 12/31/17 |
|---|---|---|---|---|---|---|
| SNFC | 100 | 58 | 72 | 86 | 90 | 76 |
| S & P 500 | 100 | 130 | 144 | 143 | 157 | 187 |
| S & P Insurance | 100 | 145 | 154 | 154 | 177 | 201 |

The stock performance graph set forth above is required by the Securities and Exchange Commission and shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed soliciting material or filed under such acts.

As of December 31, 2017, there were 3,356 record holders of Class A common stock and 69 record holders of Class C common stock.

Item 6. Selected Financial Data

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

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

The accompanying management's discussion and analysis gives effect to the restatement discussed in Note 22 of the Notes to Consolidated Financial Statements.

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

Insurance Operations

The following table shows the condensed financial results for the Company's insurance operations for the years ended December 31, 2017 and 2016. See Note 15 of the Notes to Consolidated Financial Statements.

| | Years ended December 31 (in thousands of dollars) | | |
|---|---|---|---|
| | 2017 | 2016 | 2017 vs 2016 % Increase (Decrease) |
| Revenues from external customers | | | |
| Insurance premiums | $70,412 | $64,501 | 9 % |
| Net investment income | 34,069 | 31,019 | 10 % |
| Realized losses on investments and other assets | (3,871) | (277) | (1297 %) |
| Other than temporary impairments | (774) | (270) | (187 %) |
| Other | 856 | 632 | 35 % |
| Total | $100,692 | $95,605 | 5 % |
| Intersegment revenue | $5,988 | $7,120 | (16 %) |
| Earnings before income taxes | $4,707 | $7,858 | (40 )% |

Intersegment revenues for the Company's insurance operations are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company to fund loans held for sale. Profitability in 2017 has decreased due to increases in realized losses on investments, increases in benefits and expenses and increases in other than temporary impairments.

Cemetery and Mortuary Operations

The following table shows the condensed financial results for the Company's cemetery and mortuary operations for the years ended December 31, 2017 and 2016. See Note 15 of the Notes to Consolidated Financial Statements.

Years ended December 31
(in thousands of dollars)

| | 2017 | 2016 | 2017 vs 2016 % Increase (Decrease) | |
|---|---|---|---|---|
| Revenues from external customers | | | | |
| Mortuary revenues | $5,003 | $4,848 | 3 | % |
| Cemetery revenues | 7,660 | 7,420 | 3 | % |
| Realized gains on investments and other assets | 186 | 211 | (12 | %) |
| Other | 538 | 401 | 34 | % |
| Total | $13,387 | $12,880 | 4 | % |
| Earnings before income taxes | $1,698 | $1,219 | 39 | % |

Included in other revenue was net rental income from residential and commercial properties purchased from Security National Life. Memorial Estates used financing provided by Security National Life to purchase these properties. The rental income was offset by property insurance, taxes, maintenance expenses and depreciation. Memorial Estates recorded depreciation on these properties of $645,000 and $715,000 and for the twelve months ended December 31, 2017 and 2016, respectively. Profitability in 2017 has increased due to a decrease in expenses and an increase in pre-need sales revenue.

Mortgage Operations

Approximately 60% of the Company's revenues for the fiscal year 2017 were through its wholly owned subsidiaries, SecurityNational Mortgage and EverLEND Mortgage. Both mortgage subsidiaries 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 obtain mortgage loans originated in retail offices and through independent brokers. Mortgage loans originated by the Company's mortgage subsidiaries are funded through loan purchase agreements from Security National Life and unaffiliated financial institutions.

The Company's mortgage subsidiaries receive fees from the borrowers and secondary fees from third-party investors that purchase their loans. Loans originated by SecurityNational Mortgage 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 30% of its loan origination volume. These loans are serviced by an approved third-party sub-servicer.

For the twelve months ended December 31, 2017 and 2016, SecurityNational Mortgage originated 12,877 loans ($2,534,032,000 total volume) and 16,022 loans ($3,097,872,000 total volume), respectively. For the twelve months ended December 31, 2017 and 2016, EverLEND Mortgage originated 49 loans ($11,724,000 total volume) and three loans ($838,000 total volume), respectively.

The following table shows the condensed financial results for the Company's mortgage operations for the years ended 2017 and 2016. See Note 15 and Note 22 of the Notes to Consolidated Financial Statements.

| | Years ended December 31 (in thousands of dollars) | | |
|---|---|---|---|
| | 2017 | 2016 | 2017 vs 2016 % Increase (Decrease) |
| Revenues from external customers: | | | |
| Revenues from loan originations | $45,040 | $48,496 | (7 %) |
| Secondary gains from investors | 108,757 | 140,651 | (23 %) |
| Total | $153,797 | $189,147 | (19 %) |
| Earnings before income taxes | $1,127 | $10,626 | (89 %) |

The decrease in revenues for the Company's mortgage operations for the twelve months ended December 31, 2017 as compared to December 31, 2016 was due to a reduction in mortgage loan originations and refinancings, and subsequent sales into the secondary market. This is offset by a one-time gain of $4,180,777 from the election of the fair value option for loans held for sale. See Note 3 of the Notes to the Consolidated Financial Statements.

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 potential losses on loans sold. The amounts expensed for loan losses in years ended December 31, 2017 and 2016 were $1,851,000 and $4,689,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2017 and 2016, the balances were $2,572,000 and $628,000, respectively.

Mortgage Loan Loss Litigation

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers holdings, see Part I, Item 3. Legal Proceedings.

Significant Accounting Policies

The following is a brief summary of our significant accounting policies and a review of our most critical accounting estimates. See Note 1 of the Notes to Consolidated Financial Statements.

Insurance Operations

In accordance with generally accepted accounting principles in the United States of America ("GAAP"), premiums and other considerations received for interest sensitive products are reflected as increases in liabilities for policyholder account balances and not as revenues. Revenues reported for these products consist of policy charges for the cost of insurance, administration charges, amortization of policy initiation fees and surrender charges assessed against policyholder account balances. Surrender benefits paid relating to these products are reflected as decreases in liabilities for policyholder account balances and not as expenses.

The Company receives investment income earned from the funds deposited into account balances, a portion of which is passed through to the policyholders in the form of interest credited. Interest credited to policyholder account balances and benefit claims in excess of policyholder account balances are reported as expenses in the consolidated financial statements.

Premiums and other considerations received for traditional life insurance products are recognized as revenues when due. Future policy benefits are recognized as expenses over the life of the policy by means of the provision for future policy benefits.

The costs related to acquiring new business, including certain costs of issuing policies and other variable selling expenses (principally commissions), defined as deferred policy acquisition costs, are capitalized and amortized into expense. For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits and are generally "locked in" at the date the policies are issued. For interest sensitive products, these costs are amortized generally in proportion to expected gross profits from surrender charges and investment, mortality and expense margins. This amortization is adjusted when the Company revises the estimate of current or future gross profits or margins. For example, deferred policy acquisition costs are amortized earlier than originally estimated when policy terminations are higher than originally estimated or when investments backing the related policyholder liabilities are sold at a gain prior to their anticipated maturity.

Death and other policyholder benefits reflect exposure to mortality risk and fluctuate from year to year on the level of claims incurred under insurance retention limits. The profitability of the Company is primarily affected by fluctuations in mortality, other policyholder benefits, expense levels, interest spreads (i.e., the difference between interest earned on investments and interest credited to policyholders) and persistency. The Company has the ability to mitigate adverse experience through sound underwriting, asset and liability duration matching, sound actuarial practices, adjustments to credited interest rates, policyholder dividends and cost of insurance charges.

Cemetery and Mortuary Operations

Pre-need sales of funeral services and caskets, including revenue and costs associated with the sales of pre-need funeral services and caskets, are deferred until the services are performed or the caskets are delivered.

Pre-need sales of cemetery interment rights (cemetery burial property), including revenue and costs associated with the sales of pre-need cemetery interment rights, are recognized in accordance with the retail land sales provisions of GAAP. Under GAAP, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected. Revenues related to the pre-need sale of unconstructed cemetery property will be deferred until such property is constructed and meets the criteria of GAAP, described above.

Pre-need sales of cemetery merchandise (primarily markers and vaults), including revenue and costs associated with the sales of pre-need cemetery merchandise, are deferred until the merchandise is delivered.

Pre-need sales of cemetery services (primarily merchandise delivery and installation fees and burial opening and closing fees), including revenue and costs associated with the sales of pre-need cemetery services, are deferred until the services are performed.

Prearranged funeral and pre-need cemetery customer obtaining costs, including costs incurred related to obtaining new pre-need cemetery and prearranged funeral business are accounted for under the guidance of the provisions of GAAP. Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business, are deferred until the merchandise is delivered or services are performed.

Revenues and costs for at need sales are recorded when a valid contract exists, the services are performed, collection is reasonably assured, and there are no significant company obligations remaining.

Mortgage Operations

Mortgage fee income consists of origination fees, processing fees, interest income and certain other income related to the origination and sale of mortgage loans. Mortgage loans held for sale prior to July 1, 2017 were shown on the Company's consolidated balance sheets at the lower of cost or market and all revenues and costs were deferred until the loans were sold to a third-party investor. On July 1, 2017, the Company made an election to use fair value accounting for all mortgage loans that are held for sale. Accordingly, all revenues and costs are now recognized when the mortgage loan is funded and any changes in fair value are shown as a component of mortgage fee income.

The Company, through its mortgage subsidiaries, sells mortgage loans to third-party investors without recourse, unless defects are identified in the representations and warranties made at loan sale. It may be required, however, to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

- Failure to deliver original documents specified by the investor,

- The existence of misrepresentation or fraud in the origination of the loan,

- The loan becomes delinquent due to nonpayment during the first several months after it is sold,

- Early pay-off of a loan, as defined by the agreements,

- Excessive time to settle a loan,

- Investor declines purchase, and

- Discontinued product and expired commitment.

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company.

It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

- Research reasons for rejection,

- Provide additional documents,

- Request investor exceptions,

- Appeal rejection decision to purchase committee, and

- Commit to secondary investors.

Once purchase commitments have expired and other alternatives to remedy are exhausted, which could be earlier than the six-month time period, the loans are repurchased and transferred to mortgage loans held for investment at the lower of cost or fair value and the previously recorded sales revenue that was to be received from a third-party investor is written off against the loan loss reserve. Any loan that later becomes delinquent is evaluated by the Company at that time and any impairment is adjusted accordingly.

Determining lower of cost or market. Cost for loans held for sale is equal to the amount paid to the warehouse bank and the amount originally funded by the Company. Market value, while often difficult to determine, is based on the following guidelines:

- For loans that are committed, the Company uses the commitment price.

- For loans that are non-committed that have an active market, the Company uses the market price.

- For loans that are non-committed where there is no market but there is a similar product, the Company uses the market value for the similar product.

- For loans that are non-committed where no active market exists, the Company determines that the unpaid principal balance best approximates the market value, after considering the fair value of the underlying real estate collateral, estimated future cash flows, and loan interest rate.

The appraised value of the real estate underlying the original mortgage loan adds significance to the Company's determination of fair value because, if the loan becomes delinquent, the Company has sufficient value to collect the unpaid principal balance or the carrying value of the loan, thus minimizing credit risk. In determining the market value on the date of repurchase, the Company considers the total value of all of the loans because any sale of loans would be made as a pool.

The majority of loans originated are sold to third-party investors. The amounts expected to be sold to investors are shown on the consolidated balance sheets as loans held for sale.

Use of Significant Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect reported amounts and disclosures. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized which could have a material impact on the financial statements. The following is a summary of our significant accounting estimates, and critical issues that impact them:

Loan Commitments

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted mortgage backed security ("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 net of estimated commission expense. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued and is shown net of related 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. 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.

Deferred Acquisition Costs

Amortization of deferred policy acquisition costs for interest sensitive products is dependent upon estimates of current and future gross profits or margins on this business. Key assumptions used include the following: yield on investments supporting the liabilities, amount of interest or dividends credited to the policies, amount of policy fees and charges, amount of expenses necessary to maintain the policies, amount of death and surrender benefits, and the length of time the policies will stay in force.

For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumption used for computing liabilities for future policy benefits and are generally "locked in" at the date the policies are issued.

Value of Business Acquired

Value of business acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred acquisition costs. The critical issues explained for deferred acquisition costs would also apply for value of business acquired.

Mortgage Loans Foreclosed to Real Estate Held for Investment

These properties are recorded at the lower of cost or fair value upon foreclosure. The Company believes that in an orderly market, fair value approximates 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 estimated future policy benefits. Accordingly, the fair value determination is generally weighted more heavily toward the rental analysis. The fair value is also estimated by obtaining an independent appraisal, which typically considers area comparables and property condition.

Future Policy Benefits

Reserves for future policy benefits for traditional life insurance products requires the use of many assumptions, including the duration of the policies, mortality experience, expenses, investment yield, lapse rates, surrender rates, and dividend crediting rates.

These assumptions are made based upon historical experience, industry standards and a best estimate of future results and, for traditional life products, include a provision for adverse deviation. For traditional life insurance, once established for a particular series of products, these assumptions are generally held constant.

Unearned Revenue

The universal life products the Company sells have significant policy initiation fees (front-end load) that are deferred and amortized into revenues over the estimated expected gross profits from surrender charges and investment, mortality and expense margins. The same issues that impact deferred acquisition costs would apply to unearned revenue.

Deferred Pre-need Cemetery and Funeral Contracts Revenues and Estimated Future Cost of Pre-need Sales

The revenue and cost associated with the sales of pre-need cemetery merchandise and funeral services are deferred until the merchandise is delivered or the service is performed.

The Company, through its cemetery and mortuary operations, provides a guaranteed funeral arrangement wherein a prospective customer can receive future goods and services at guaranteed prices. To accomplish this, the Company, through its life insurance operations, sells to the customer an increasing benefit life insurance policy that is assigned to the mortuaries. If, at the time of need, the policyholder or potential mortuary customer utilizes one of the Company's facilities, the guaranteed funeral arrangement contract that has been assigned will provide the funeral goods and services at the contracted price. The increasing life insurance policy will cover the difference between the original contract prices and current prices. Risks may arise if the difference cannot be fully met by the life insurance policy.

Mortgage Servicing Rights

Mortgage Service Rights ("MSR") arise from contractual agreements between the Company and third-party investors (or their agents) when mortgage loans are sold. Under these contracts, the Company is obligated to retain and provide loan servicing functions on the loans sold, in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest; holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising the acquisition of real estate owned and property dispositions. The Company initially accounts for MSRs at fair value and subsequently accounts for them using the amortization method. 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 accounted for using the amortization method for impairment.

Mortgage Allowance for Loan Losses and Loan Loss Reserve

The Company provides for losses on its mortgage loans held for investment through an allowance for loan losses (a contra-asset account) and through the mortgage loan loss reserve (a liability account). The allowance for loan losses is an allowance for losses on the Company's mortgage loans held for investment. 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 mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third-party investors. The Company may be required to reimburse third-party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, the Company initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions in the event of defects in the representations and warranties made at loan sale. The Company accrues a monthly allowance for indemnification losses to investors based on total production. This estimate is based on the Company's historical experience and is included as a component of mortgage fee income. Subsequent updates to the recorded liability from changes in assumptions are recorded in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses.

The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date.

Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities require various estimates and judgments and may be affected favorably or unfavorably by various internal and external factors. These estimates and judgments occur in the calculation of certain deferred tax assets and liabilities that arise from temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes and in estimating the ultimate amount of deferred tax assets recoverable in future periods. Factors affecting the deferred tax assets and liabilities include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, and changes to overall levels of pre-tax earnings. Changes in these estimates, judgments or factors may result in an increase or decrease to the Company's deferred tax assets and liabilities with a related increase or decrease in the Company's provision for income taxes.

Results of Consolidated Operations

2017 Compared to 2016

Total revenues decreased by $27,409,000, or 9.0%, to $276,926,000 for 2017 from $304,335,000 for the fiscal year 2016. Contributing to this decrease in total revenues was a $35,349,000 decrease in mortgage fee income, a $2,772,000 increase in realized losses on investments and other assets, and a $504,000 increase in other than temporary impairments. This decrease in total revenues was partially offset by a $5,911,000 increase in insurance premiums and other considerations, a $3,084,000 increase in net investment income, a $1,831,000 increase in other revenues, and a $390,000 increase in net cemetery and mortuary sales.

Insurance premiums and other considerations increased by $5,911,000, or 9.2%, to $70,412,000 for 2017, from $64,501,000 for the comparable period in 2016. This increase was due to a $5,007,000 increase in renewal premiums and a $904,000 increase in first year premiums as a result of increased insurance sales, improved persistency, and a full twelve months of operations for First Guaranty, which was acquired in July 2016.

Net investment income increased by $3,084,000, or 9.6%, to $35,063,000 for 2017, from $31,979,000 for the comparable period in 2016. This increase was primarily attributable to a $1,542,000 increase in fixed maturity securities income, a $1,413,000 increase in insurance assignment income, a $1,099,000 increase in interest from mortgage loans held for investment, a $734,000 increase in rental income from real estate held for investment, a $275,000 increase in income from short-term investments, and a $80,000 increase in income from other investments. This increase was partially offset by a $2,024,000 increase in investment expenses, a $25,000 decrease in equity securities income, and a $10,000 decrease in policy loan income. The increases in fixed maturity securities income and interest from mortgage loans held for investment were partially attributed to a full twelve months of operations for First Guaranty, which was acquired in July 2016.

Net mortuary and cemetery sales increased by $390,000, or 3.2%, to $12,657,000 for 2017, from $12,267,000 for the comparable period in 2016. This increase was primarily due to a $604,000 increase in pre-need sales in the cemetery operations and a $155,000 increase in at-need sales in the mortuary operations. This increase was partially offset by a decrease of $369,000 in at-need sales in the cemetery operations.

Realized losses on investments and other assets increased by $2,772,000, or 1571.6%, to $2,948,000 in realized losses for 2017, from $176,000 in realized losses for the comparable period in 2016. This increase in realized losses on investments and other assets was primarily attributable to a $1,730,000 increase in realized losses on other investments primarily due to impairment losses on real estate held for investment, a $972,000 increase in realized losses on fixed maturity securities held to maturity, and a $70,000 increase in realized losses on equity securities available for sale.

Other than temporary impairments on investments increased by $504,000, or 186.4%, to $774,000 for 2017 from $270,000 for the comparable period in 2016. This increase was primarily attributable to a $393,000 increase in impairments on fixed maturity securities held to maturity and a $111,000 increase in impairments on equity securities available for sale.

Mortgage fee income decreased by $35,349,000, or 18.7%, to $153,797,000 for 2017, from $189,146,000 for the comparable period in 2016. This decrease was primarily due to a decline in mortgage loan originations that was indicative of the mortgage loan industry as a whole. The decline in mortgage loan originations was primarily caused by a shortage of available new housing for mortgage loan origination transactions, and the decline in mortgage loan refinancings was primarily caused by recent increases in interest rates on mortgage loans. Additionally, the decline in mortgage originations and refinancings by SecurityNational Mortgage has resulted in a decline in fees earned from third-party investors that purchase mortgage loans from SecurityNational Mortgage. This decline is offset by a one-time gain of $4,180,777 from the election of the fair value option for loans held for sale. See Note 3 of the Notes to the Consolidated Financial Statements.

Other revenues increased by $1,831,000, or 26.6%, to $8,719,000 for 2017 from $6,888,000 for the comparable period in 2016. This increase was primarily due to a $1,619,000 increase in mortgage servicing revenues.

Total benefits and expenses were $269,394,000, or 97.3% of total revenues, for 2017, as compared to $284,632,000, or 93.5% of total revenues, for the comparable period in 2016.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of $5,008,000, or 9.2%, to $59,718,000 for 2017, from $54,710,000 for the comparable period in 2016. This increase was primarily the result of a $2,300,000 increase in future policy benefits, a $2,223,000 increase in death benefits, and a $485,000 increase in surrenders and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by $477,000, or 6.0%, to $8,480,000 for 2017, from $8,003,000 for the comparable period in 2016. This increase was primarily due to an increase in insurance sales expenses.

Selling, general and administrative expenses decreased by $21,807,000, or 10.1%, to $193,213,000 for 2017, from $215,020,000 for the comparable period in 2016. This decrease was primarily due to a $20,531,000 decrease in commission expenses due to the decline in mortgage loan originations, a $1,700,000 decrease in the provision for loan losses, a $671,000 decrease in advertising expenses, and a $528,000 decrease in costs related to funding mortgage loans. These decreases were partially offset by a $1,248,000 increase in other expenses, a $263,000 increase in rent and rent related expenses, a $74,000 increase in personnel expenses, and a $38,000 increase in depreciation on property and equipment.

Interest expense increased by $925,000, or 18.1%, to $6,037,000 for 2017, from $5,112,000 for the comparable period in 2016. This increase was primarily due to a $671,000 increase in interest expense on bank loans and a $283,000 increase in interest expense on mortgage warehouse lines. The increase in interest expense on bank loans is primarily attributed to interest expense on a bank loan related to the acquisition of First Guaranty, which was acquired in July 2016, and interest expense on the construction loan related to phase 1 of the Company's 53$^{rd}$ Center development. Interest expense for the 53$^{rd}$ Center development was capitalized during the construction phase of the building and thereafter expensed.

Cost of goods and services sold of the cemeteries and mortuaries increased by $159,000, or 8.9%, to $1,946,000 for 2017, from $1,787,000 for the comparable period in 2016. This increase was primarily due to a $91,000 increase in costs related to mortuary at-need sales and a $44,000 increase in costs related to cemetery pre-need sales.

Income tax benefit increased by $14,095,000, or 187.6%, to a $6,580,822 benefit for 2017, from a $7,514,604 expense for the comparable period in 2016. This increase was primarily the result of the Tax Act and a decrease in earnings before income taxes for 2017 compared to 2016. On December 22, 2017, the President signed the Tax Act into law. This Tax Act makes broad and complex changes to the U.S. tax code broadening the tax base and decreasing the corporate tax rate. Changes are largely effective for 2018 and include but are not limited to reducing the corporate income tax rate from 35 percent to 21 percent, repealing the corporate alternative minimum tax, increasing the capitalization of costs of acquisition of life insurance business and the related recognition period, and adjusting life tax reserve calculations. A tax benefit has been recorded of $8,973,722 primarily due to a re-measurement of deferred tax assets and liabilities.

Other comprehensive income for the years ended December 31, 2017 and December 31, 2016 amounted to gains of $338,000 and $764,000, respectively. This decrease of $426,000 in 2017 was primarily the result of a $421,000 unrealized loss in equity securities available for sale.

Risks

The following is a description of the most significant risks facing the Company and how it mitigates those risks:

Legal and Regulatory Risks. Changes in the legal or regulatory environment in which the Company operates may create additional expenses and risks not anticipated by the Company in developing and pricing its products. Regulatory initiatives designed to reduce insurer profits, new legal theories or insurance company insolvencies through guaranty fund assessments may create costs for the insurer beyond those recorded in the consolidated financial statements. In addition, changes in tax law with respect to mortgage interest deductions or other public policy or legislative changes may affect the Company's mortgage sales. Also, the Company may be subject to further regulations in the cemetery and mortuary business. The Company mitigates these risks by offering a wide range of products and by diversifying its operations, thus reducing its exposure to any single product or jurisdiction, and also by employing underwriting practices that identify and minimize the adverse impact of such risks.

Mortgage Industry Risks. Developments in the mortgage industry and credit markets can adversely affect the Company's ability to sell its mortgage loans to investors, which can impact the Company's financial results by requiring it to assume the risk of holding and servicing any unsold loans.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company could realize in the future on mortgage loans sold to third-party investors. The Company's mortgage subsidiaries may be required to reimburse third-party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, the Company initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. The initial reserve for loan losses in years ended December 31, 2017 and 2016 were $1,851,000 and $2,989,000, respectively, and the charge has been included in mortgage fee income. Additional amounts accrued for changes in estimates specific to settlements for loan losses in years ended December 31, 2017 and 2016 were $-0-, $1,700,000, respectively, and the charge has been included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2017 and 2016, the balances were $2,572,000 and $628,000, respectively. The Company believes the loan loss reserve represent probable loan losses incurred as of December 31, 2017. There is a risk, however, that future loan losses may exceed the loan loss reserve.

At various times third-party investors have asserted that SecurityNational Mortgage sold mortgage loans that allegedly contained borrower misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with loan purchase agreements involving SecurityNational Mortgage. As a result of these claims, third-party investors have made demands at times that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

The total amount of potential claims by third-party investors is difficult to determine. The Company has reserved and accrued $2,572,000 as of December 31, 2017 to settle all such investor related claims. The Company believes that the reserve for mortgage loan losses, which includes provisions for probable losses and indemnification on loans held for sale, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third-party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third-party investors. Furthermore, SecurityNational Mortgage believes there is potential to resolve the alleged claims by the third-party investors on acceptable terms. If SecurityNational Mortgage is unable to resolve such claims on acceptable terms, legal action may ensue. In the event of legal action by any third-party investor, SecurityNational Mortgage believes it has significant defenses to any such action and intends to vigorously defend itself against such action.

As of December 31, 2017, the Company's mortgage loans held for investment portfolio consisted of $5,385,000 in mortgage loans with delinquencies more than 90 days. Of this amount, $1,332,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the $5,385,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2017, the Company increased its allowance for loan losses by $20,000 and during the twelve months ended December 31, 2016, the Company decreased its allowance for loan losses by $99,000, which was charged to bad debt expense and included in selling, general and administrative expenses for the period. The allowances for loan losses as of December 31, 2017 and 2016 were $1,769,000 and $1,749,000, respectively.

Interest Rate Risk. The risk that interest rates will change which may cause a decrease in the value of the Company's investments or impair the ability of the Company to market its mortgage and cemetery and mortuary products. This change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. The Company mitigates this risk by charging fees for non-conformance with certain policy provisions, by offering products that transfer this risk to the purchaser, and by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company might have to borrow funds or sell assets prior to maturity and potentially recognize a loss on the sale.

Mortality and Morbidity Risks. The risk that the Company's actuarial assumptions may differ from actual mortality and morbidity experiences may cause the Company's products to be underpriced, may cause the Company to liquidate insurance or other claims earlier than anticipated, and other potentially adverse consequences to the business. The Company minimizes this risk through sound underwriting practices, asset and liability duration matching, and sound actuarial practices.

Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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 and unearned revenue; those used in determining the estimated future costs for pre-need sales; 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.

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 on 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, debt service, and to meet current operating expenses.

During the twelve months ended December 31, 2017, the Company's operations provided cash of $44,318,000. This was primarily due to an increase in cash collected on loans held for sale. During the twelve months ended December 31, 2016, the Company's operations provided cash of $35,535,000. This was primarily due to an increase in cash collected on 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 liquidating these long-term investments as a result of any sudden changes in market 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, which 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 also to invest predominantly in fixed maturity securities, real estate, mortgage loans, and warehousing of mortgage loans held for sale 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 $227,774,000 and $184,356,000 as of December 31, 2017 and 2016, respectively. This represents 35.1% and 33.1% of the total investments as of December 31, 2017, and 2016, 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 six categories used for rating bonds. At December 31, 2017, 5.4% (or $12,293,000) and at December 31, 2016, 9.0% (or $16,513,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are 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.

See Note 2 of the Notes to Consolidated Financial Statements for the schedule of the maturity of fixed maturity securities and for the schedule of principal payments for mortgage loans held for investment.

If market conditions were to cause interest rates to change, the market value of the Company's fixed income portfolio, which includes bonds, preferred stock, and mortgage loans held for investment, could change by the following amounts based on the respective basis point swing (the change in the market values were calculated using a modeling technique):

| | -200 bps | -100 bps | +100 bps | +200 bps |
|---|---|---|---|---|
| Change in Market Value (in thousands) | $31,919 | $14,373 | $(20,056) | $(34,593) |

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 December 31, 2017 and 2016, the life insurance subsidiaries exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank loans and other loans payable was $296,616,000 as of December 31, 2017, as compared to $284,700,000 as of December 31, 2016. Stockholders' equity as a percent of total capitalization was 46.9% and 46.6% as of December 31, 2017 and December 31, 2016, respectively. Bank loans and other loans payable increased by $5,310,000 for the twelve months ended December 31, 2017 as compared to December 31, 2016, thus limiting the increase in the stockholders' equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance was 10.6% in 2017 as compared to a rate of 9.6% for 2016.

At December 31, 2017, the statutory capital and surplus of the Company's life insurance subsidiaries was $44,041,000. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of state insurance regulatory authorities.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements to encourage companies to provide prospective information about their businesses without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. The Company desires to take advantage of the "safe harbor" provisions of the act.

This Annual Report on Form 10-K contains forward-looking statements, together with related data and projections, about the Company's projected financial results and its future plans and strategies. However, actual results and needs of the Company may vary materially from forward-looking statements and projections made from time to time by the Company on the basis of management's then-current expectations. The business in which the Company is engaged involves changing and competitive markets, which may involve a high degree of risk, and there can be no assurance that forward-looking statements and projections will prove accurate.

Factors that may cause the Company's actual results to differ materially from those contemplated or projected, forecast, estimated or budgeted in such forward looking statements include among others, the following possibilities: (i) heightened competition, including the intensification of price competition, the entry of new competitors, and the introduction of new products by new and existing competitors; (ii) adverse state and federal legislation or regulation, including decreases in rates, limitations on premium levels, increases in minimum capital and reserve requirements, benefit mandates and tax treatment of insurance products; (iii) fluctuations in interest rates causing a reduction of investment income or increase in interest expense and in the market value of interest rate sensitive investment; (iv) failure to obtain new customers, retain existing customers or reductions in policies in force by existing customers; (v) higher service, administrative, or general expense due to the need for additional advertising, marketing, administrative or management information systems expenditures; (vi) loss or retirement of key executives or employees; (vii) increases in medical costs; (viii) changes in the Company's liquidity due to changes in asset and liability matching; (ix) restrictions on insurance underwriting based on genetic testing and other criteria; (x) adverse changes in the ratings obtained by independent rating agencies; (xi) failure to maintain adequate reinsurance; (xii) possible claims relating to sales practices for insurance products and claim denials and (xiii) adverse trends in mortality and morbidity; (xiv) deterioration of real estate markets and (xv) lawsuits in the ordinary course of business.

Off-Balance Sheet Agreements

At December 31, 2017, the Company was contingently liable under a standby letter of credit aggregating $625,405, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's captive insurance program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid.

At December 31, 2017, the Company was contingently liable under standby letters of credit aggregating $1,250,000, to be used as collateral to cover any contingency related to claims filed in states where the Company's mortgage subsidiaries are licensed. The Company does not expect any material losses to result from the issuance of these standby letters of credit.

At December 31, 2017, the Company was contingently liable under a standby letter of credit aggregating $48,220, issued as a security deposit to guarantee payment of final bills for electric and gas utility services for a commercial real estate property owned by the Company in Wichita, Kansas. The Company does not expect any material losses to result from the issuance of the standby letter of credit. Accordingly, the estimated fair value of this letter of credit is zero.

The total of the Company's unfunded residential construction loan and land development loan commitments as of December 31, 2017, was $28,810,000.

In 2016, the Company, through its wholly-owned subsidiary 5300 Development, LLC, entered into a Construction Loan Agreement with a bank. Under the terms of this Agreement, the Company agrees to pay the bank the current outstanding principal up to $40,740,000 plus interest. These funds are being used for the construction of phase 1 of the Company's new corporate campus development in Salt Lake City, Utah. As of December 31, 2017, the Company has used $28,344,000 of these funds.

Contractual Obligations

The Company's contractual obligations as of December 31, 2017, and the principal payments due by period are shown in the following table:

| | Less than 1 year | 1-3 years | 4-5 years | over 5 years | Total |
|---|---|---|---|---|---|
| Non-cancelable operating leases | $4,825,139 | $5,924,403 | $50,630 | $24,273 | $10,824,445 |

| | | | | | |
|---|---|---|---|---|---|
| Bank and other loans payable | 88,437,940 | 56,760,119 | 3,783,531 | 8,469,335 | 157,450,925 |
| Future policy benefits | 5,543,150 | 26,036,227 | 37,989,315 | 523,502,642 | 593,071,334 |
| | $98,806,229 | $88,720,749 | $41,823,476 | $531,996,250 | $761,346,704 |

Casualty Insurance Program

In conjunction with the Company's casualty insurance program, limited equity interests are held in a captive insurance entity. This program permits the Company to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit its risk of loss in any particular year. The maximum exposure to loss related to the Company's involvement with this entity is limited to approximately $625,405 which is collateralized under a standby letter of credit issued on the insurance entity's behalf. See Note 10, "Reinsurance, Commitments and Contingencies," for additional discussion of commitments associated with the insurance program.

Item 7A. 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 8. Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS


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# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Security National Financial Corporation:

## Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and subsidiaries (the "Company") as of December 31, 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of its operations and its cash flows for the year then ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

## Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for mortgage loans held for sale in 2017 due to election of the fair value option.

## Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Salt Lake City, UT
March 30, 2018

We have served as the Company's auditor since 2017.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
Security National Financial Corporation

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and Subsidiaries as of December 31, 2016, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the year then ended. Our audits also included the financial statements Schedule II, Schedule IV and Schedule V. The Company's management is responsible for these consolidated financial statements and schedules. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Security National Financial Corporation and Subsidiaries as of December 31, 2016, and the consolidated results of their earnings and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 22, subsequent to the issuance of the Company's financial statements as of and for the year ended December 31, 2016, and our report thereon dated March 31, 2017, we became aware that those financial statements contained errors related to purchase agreements for mortgage loans and the tax valuation allowance, as well as related disclosures and a number of other matters. In our original report we expressed an unmodified opinion on these financial statements, and our opinion on the revised statements, as expressed herein, remains unmodified.

Salt Lake City, Utah
March 31, 2017, except for Note 21, for which the date is August 25, 2017

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| | December 31 | |
|---|---|---|
| Assets | 2017 | 2016 |
| Investments: | | |
| Fixed maturity securities, held to maturity, at amortized cost | $228,397,623 | $184,979,644 |
| Equity securities, available for sale, at estimated fair value | 6,037,855 | 9,911,256 |
| Mortgage loans held for investment (net of allowances for loan losses of $1,768,796 and $1,748,783 for 2017 and 2016) | 204,210,885 | 148,990,732 |
| Real estate held for investment (net of accumulated depreciation of $18,788,869 and $16,138,439 for 2017 and 2016) | 141,298,706 | 145,165,921 |
| Other investments and policy loans (net of allowances for doubtful accounts of $846,641 and $1,119,630 for 2017 and 2016) | 45,895,472 | 41,599,246 |
| Short-term investments | - | 27,560,040 |
| Accrued investment income | 3,644,077 | 2,972,596 |
| Total investments | 629,484,618 | 561,179,435 |
| Cash and cash equivalents | 45,315,661 | 38,987,430 |
| Loans held for sale (including $133,414,188 for 2017 and $-0- for 2016 at estimated fair value) | 133,414,188 | 189,139,832 |
| Receivables (net of allowances for doubtful accounts of $1,544,518 and $2,355,482 for 2017 and 2016) | 10,443,869 | 8,410,546 |
| Restricted assets (including $809,958 for 2017 and $736,603 for 2016 at estimated fair value) | 11,830,621 | 10,391,394 |
| Cemetery perpetual care trust investments (including $682,315 for 2017 and $698,202 for 2016 at estimated fair value) | 4,623,563 | 4,131,885 |
| Receivable from reinsurers | 13,394,603 | 13,079,668 |
| Cemetery land and improvements | 9,942,933 | 10,672,836 |
| Deferred policy and pre-need contract acquisition costs | 80,625,304 | 69,118,745 |
| Mortgage servicing rights, net | 21,376,937 | 18,872,362 |
| Property and equipment, net | 8,069,380 | 8,791,522 |
| Value of business acquired | 6,588,759 | 7,570,300 |
| Goodwill | 2,765,570 | 2,765,570 |
| Other | 4,297,048 | 9,310,040 |
| Total Assets | $982,173,054 | $952,421,565 |

See accompanying notes to consolidated financial statements.
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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)

| | December 31 | |
|---|---|---|
| Liabilities and Stockholders' Equity | 2017 | 2016 |
| Liabilities | | |
| Future policy benefits and unpaid claims | $604,746,951 | $584,067,692 |
| Unearned premium reserve | 4,222,410 | 4,469,771 |
| Bank and other loans payable | 157,450,925 | 152,140,679 |
| Deferred pre-need cemetery and mortuary contract revenues | 12,873,068 | 12,360,249 |
| Cemetery perpetual care obligation | 3,710,740 | 3,598,580 |
| Accounts payable | 3,613,100 | 4,213,109 |
| Other liabilities and accrued expenses | 29,655,087 | 34,693,485 |
| Income taxes | 17,332,783 | 24,318,869 |
| Total liabilities | 833,605,064 | 819,862,434 |
| Stockholders' Equity | | |
| Preferred Stock: | | |
| Preferred stock - non-voting-$1.00 par value; 5,000,000 shares authorized; none issued or outstanding | - | - |
| Common Stock: | | |
| Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 14,535,577 shares in 2017 and 13,819,006 shares in 2016 | 29,071,154 | 27,638,012 |
| 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 2,089,374 shares in 2017 and 1,902,229 shares in 2016 | 4,178,748 | 3,804,458 |
| Additional paid-in capital | 38,125,042 | 34,813,246 |
| Accumulated other comprehensive income, net of taxes | 603,170 | 264,822 |
| Retained earnings | 77,520,951 | 67,409,204 |
| Treasury stock, at cost - 537,203 Class A shares and -0- Class C shares in 2017; 704,122 Class A shares and -0- Class C shares in 2016 | (931,075) | (1,370,611) |
| Total stockholders' equity | 148,567,990 | 132,559,131 |
| Total Liabilities and Stockholders' Equity | $982,173,054 | $952,421,565 |

See accompanying notes to consolidated financial statements.

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

| | Years Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Revenues: | | |
| Insurance premiums and other considerations | $70,412,476 | $64,501,017 |
| Net investment income | 35,062,968 | 31,978,601 |
| Net mortuary and cemetery sales | 12,657,117 | 12,267,640 |
| Realized losses on investments and other assets | (2,948,482) | (176,387) |
| Other than temporary impairments on investments | (774,339) | (270,358) |
| Mortgage fee income | 153,797,171 | 189,146,639 |
| Other | 8,719,179 | 6,887,749 |
| Total revenues | 276,926,090 | 304,334,901 |
| | | |
| Benefits and expenses: | | |
| Death benefits | 33,256,001 | 31,033,222 |
| Surrenders and other policy benefits | 2,839,017 | 2,354,158 |
| Increase in future policy benefits | 23,622,750 | 21,322,195 |
| Amortization of deferred policy and pre-need acquisition costs and value of business acquired | 8,480,250 | 8,003,175 |
| Selling, general and administrative expenses: | | |
| Commissions | 68,103,017 | 88,634,494 |
| Personnel | 70,328,830 | 70,254,479 |
| Advertising | 5,754,740 | 6,425,277 |
| Rent and rent related | 8,710,694 | 8,448,120 |
| Depreciation on property and equipment | 2,220,693 | 2,182,724 |
| Provision for loan loss reserve | - | 1,700,000 |
| Costs related to funding mortgage loans | 8,663,223 | 9,191,488 |
| Other | 29,431,599 | 28,183,427 |
| Interest expense | 6,037,332 | 5,111,868 |
| Cost of goods and services sold – mortuaries and cemeteries | 1,945,832 | 1,787,043 |
| | | |
| Total benefits and expenses | 269,393,978 | 284,631,670 |
| | | |
| Earnings before income taxes | 7,532,112 | 19,703,231 |
| Income tax benefit (expense) | 6,580,822 | (7,514,604) |
| | | |
| Net earnings | $14,112,934 | $12,188,627 |
| | | |
| Net earnings per Class A equivalent common share (1) | $0.88 | $0.78 |
| | | |
| Net earnings per Class A equivalent common share - assuming dilution (1) | $0.87 | $0.77 |
| | | |
| Weighted average Class A equivalent common shares outstanding (1) | 15,972,329 | 15,575,632 |
| | | |
| Weighted average Class A equivalent common shares outstanding-assuming dilution (1) | 16,285,930 | 15,912,592 |

(1) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common stock basis. Net earnings per common share represent net earnings per equivalent Class A common share.

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| | Years Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Net earnings | $14,112,934 | $12,188,627 |
| Other comprehensive income: | | |
| Unrealized gains on available for sale securities | 511,974 | 1,156,918 |
| Unrealized gains on derivative instruments | 3,308 | 10,639 |
| Other comprehensive income, before income tax | 515,282 | 1,167,557 |
| Income tax expense | (176,934) | (403,377) |
| Other comprehensive income, net of income tax | 338,348 | 764,180 |
| Comprehensive income | $14,451,282 | $12,952,807 |

See accompanying notes to consolidated financial statements.
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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

| | Class A Common Stock | Class C Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total |
|---|---|---|---|---|---|---|---|
| Balance at December 31, 2015 | 26,218,200 | 3,419,280 | 30,232,582 | (499,358 ) | 60,525,404 | (2,179,429) | 117,716,679 |
| Net earnings | - | - | - | - | 12,188,627 | - | 12,188,627 |
| Other comprehensive income | - | - | - | 764,180 | - | - | 764,180 |
| Stock based compensation | - | - | 343,577 | - | - | - | 343,577 |
| Exercise of stock options | 85,268 | 209,950 | (179,112 ) | - | - | - | 116,106 |
| Sale of treasury stock | - | - | 621,144 | - | - | 808,818 | 1,429,962 |
| Stock dividends | 1,315,838 | 193,934 | 3,795,055 | - | (5,304,827 ) | - | - |
| Conversion Class C to Class A | 18,706 | (18,706 ) | - | - | - | - | - |
| Balance at December 31, 2016 | 27,638,012 | 3,804,458 | 34,813,246 | 264,822 | 67,409,204 | (1,370,611) | 132,559,131 |
| Net earnings | - | - | - | - | 14,112,934 | - | 14,112,934 |
| Other comprehensive income | - | - | - | 338,348 | - | - | 338,348 |
| Stock based compensation | - | - | 395,603 | - | - | - | 395,603 |
| Exercise of stock options | 16,366 | 206,804 | (213,323 ) | - | - | - | 9,847 |
| Sale of treasury stock | - | - | 712,591 | - | - | 822,270 | 1,534,861 |
| Purchase of treasury stock | - | - | - | - | - | (382,734 ) | (382,734 ) |
| Stock dividends | 1,385,270 | 198,992 | 2,416,925 | - | (4,001,187 ) | - | - |
| Conversion Class C to Class A | 31,506 | (31,506 ) | - | - | - | - | - |
| Balance at December 31, 2017 | $29,071,154 | $4,178,748 | $38,125,042 | $603,170 | $77,520,951 | $(931,075 ) | $148,567,990 |

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Years Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Cash flows from operating activities: | | |
| Net earnings | $14,112,934 | $12,188,627 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | |
| Realized losses on investments and other assets | 2,948,482 | 176,387 |
| Other than temporary impairments on investments | 774,339 | 270,358 |
| Depreciation | 6,280,438 | 5,579,259 |
| Provision for loan losses and doubtful accounts | 1,154,071 | 1,188,599 |
| Net amortization of deferred fees and costs, premiums and discounts | 96,509 | 653,761 |
| Provision for deferred income taxes | (7,752,028) | 6,130,644 |
| Policy and pre-need acquisition costs deferred | (19,005,268) | (16,943,538) |
| Policy and pre-need acquisition costs amortized | 7,498,709 | 6,829,702 |
| Value of business acquired amortized | 981,541 | 1,173,473 |
| Mortgage servicing rights, additions | (6,085,352) | (8,603,154) |
| Amortization of mortgage servicing rights | 3,580,777 | 2,410,547 |
| Stock based compensation expense | 395,603 | 343,577 |
| Benefit plans funded with treasury stock | 1,534,861 | 1,429,962 |
| Net change in fair value of loans held for sale | (4,180,777) | - |
| Originations of loans held for sale | (2,545,755,713) | (3,098,710,299) |
| Proceeds from sales of loans held for sale | 2,671,097,747 | 3,246,127,714 |
| Net gains on sales of loans held for sale | (105,368,129) | (137,682,984) |
| Change in assets and liabilities: | | |
| Land and improvements held for sale | 86,574 | 108,160 |
| Future policy benefits and unpaid claims | 22,815,274 | 17,989,595 |
| Other operating assets and liabilities | (892,550) | (5,125,376) |
| Net cash provided by operating activities | 44,318,042 | 35,535,014 |
| Cash flows from investing activities: | | |
| Fixed maturity securities held to maturity: | | |
| Purchase - fixed maturity securities | (61,232,155) | (11,386,383) |
| Calls and maturities - fixed maturity securities | 15,773,732 | 15,343,488 |
| Equity securities available for sale: | | |
| Purchase - equity securities | (5,301,353) | (4,980,320) |
| Sales - equity securities | 9,430,548 | 4,523,034 |
| Purchases of short-term investments | (32,865,263) | (18,228,912) |
| Sales of short-term investments | 60,425,303 | 12,943,083 |
| Net changes in restricted assets | (1,409,990) | (981,433) |
| Net changes in cemetery perpetual care trust investments | (377,317) | (1,082,969) |
| Mortgage loans held for investment, policy loans, and other investments made | (455,821,383) | (469,593,661) |
| Payments received for mortgage loans held for investment, policy loans, and other investments | 433,033,724 | 446,242,429 |
| Purchases of property and equipment | (911,007) | (3,566,511) |
| Sale of property and equipment | 24,978 | 47,293 |
| Purchases of real estate held for investment | (14,751,923) | (26,634,840) |
| Sale of real estate held for investment | 13,784,541 | 6,093,308 |
| Cash paid for purchase of subsidiaries, net of cash acquired | - | (4,328,520) |
| Net cash used in investing activities | (40,197,565) | (55,590,914) |

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

| | Years Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Cash flows from financing activities: | | |
| Investment contract receipts | $12,213,843 | $11,349,276 |
| Investment contract withdrawals | (14,912,154) | (13,620,998) |
| Proceeds from stock options exercised | 9,847 | 116,106 |
| Purchase of treasury stock | (382,734) | - |
| Repayment of bank loans | (2,796,258) | (1,680,678) |
| Proceeds from bank borrowings | 19,660,744 | 14,500,950 |
| Net change in warehouse line borrowings for loans held for sale | (11,585,534) | 8,325,432 |
| Net cash provided by financing activities | 2,207,754 | 18,990,088 |
| Net change in cash and cash equivalents | 6,328,231 | (1,065,812) |
| Cash and cash equivalents at beginning of year | 38,987,430 | 40,053,242 |
| Cash and cash equivalents at end of year | $45,315,661 | $38,987,430 |
| | | |
| Supplemental Disclosure of Cash Flow Information: | | |
| Cash paid during the year for: | | |
| Interest (net of amount capitalized) | $5,976,461 | $5,119,459 |
| Income taxes | 581,556 | 2,667,918 |
| | | |
| Non Cash Investing and Financing Activities: | | |
| Transfer of loans held for sale to mortgage loans held for investment | $39,932,516 | $12,578,743 |
| Accrued real estate construction costs and retainage | 258,961 | 7,358,922 |
| Mortgage loans held for investment foreclosed into real estate held for investment | 1,576,196 | 2,075,714 |
| Transfer of cemetery land and improvements to property and equipment | 643,329 | - |

See Note 20 regarding non cash transactions included in the acquisition of First Guaranty Insurance Company.

See accompanying notes to consolidated financial statements.
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1) Significant Accounting Policies

General Overview of Business

Security National Financial Corporation and its wholly owned subsidiaries (the "Company") operate in three main business segments: life insurance, cemetery and mortuary, and mortgages. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance marketed primarily in the Intermountain West, California and eleven southern states. The cemetery and mortuary segment of the Company consists of eight mortuaries and five cemeteries in Utah and one cemetery in California. The mortgage segment is an approved government and conventional lender that originates and underwrites residential and commercial loans for new construction, existing homes and real estate projects primarily in Florida, Nevada, Texas, and Utah.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The presentation of certain amounts in prior years has been reclassified to conform to the 2017 presentation. The Company reclassified certain amounts from other assets to receivables; from receivables to other liabilities; from other assets to other liabilities; from equity securities to other investments; from other liabilities to mortgage loans held for investment; from net investment income to mortgage fee income; and from mortgage fee income to net investment income. These reclassifications had no impact on net earnings or stockholders' equity. Additionally, see the discussion regarding correction of errors in Notes 22 and 23.

Principles of Consolidation

These consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

Use of Estimates

Management of the Company has made a number of estimates and assumptions related to the reported amounts of assets and liabilities, reported amounts of revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with GAAP. 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 estimated future costs for pre-need sales; 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.

Investments

The Company's management determines the appropriate classifications of investments in fixed maturity securities and equity securities at the acquisition date and re-evaluates the classifications at each balance sheet date.

Fixed maturity securities held to maturity are carried at cost, adjusted for amortization of premium or accretion of discount. Although the Company has the ability and intent to hold these investments to maturity, infrequent and unusual conditions could occur under which it would sell certain of these securities. Those conditions include unforeseen changes in asset quality, significant changes in tax laws, and changes in regulatory capital requirements or permissible investments.

Equity securities available for sale are carried at estimated fair value. Changes in fair values net of income taxes are reported as unrealized appreciation or depreciation and recorded as an adjustment directly to stockholders' equity and, accordingly, have no effect on net income.

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1) Significant Accounting Policies (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 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 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.

Real estate held for investment is carried at cost, less accumulated depreciation provided on a straight line basis over the estimated useful lives of the properties, or is adjusted to a new basis for impairment in value, if any. Included are foreclosed properties which the Company intends to hold for investment purposes. These properties are recorded at the lower of cost or fair value upon foreclosure.

Policy loans and other investments are carried at the aggregate unpaid balances, less allowances for possible losses.

Short-term investments are carried at cost and consist of money market funds.

Realized gains and losses on investments arise when investments are sold (as determined on a specific identification basis) or are other than temporarily impaired. If in management's judgment a decline in the value of an investment below cost is other than temporary, the cost of the investment is written down to fair value with a corresponding charge to earnings. Factors considered in judging whether an impairment is other than temporary include: the financial condition, business prospects and credit worthiness of the issuer, the length of time that fair value has been less than cost, the relative amount of the decline, and the Company's ability and intent to hold the investment until the fair value recovers, which is not assured.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents. The Company maintains its cash in bank deposit accounts, which at times exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Loans Held for Sale

Mortgage loans held for sale prior to July 1, 2017 were carried at the lower of cost or market net of direct selling revenues and costs. Based on the short-term nature of these assets, the Company had no related allowance for loan losses recorded for these assets. On July 1, 2017 the Company elected the fair value option for loans held for sale. See Note 3 and Note 17 to Consolidated Financial Statements for additional disclosures regarding loans held for sale.

Mortgage Fee Income

Mortgage fee income consists of origination fees, processing fees, interest income and certain other income related to the origination of mortgage loans held for sale. Mortgage loans held for sale prior to July 1, 2017 were shown on the Company's consolidated balance sheets at the lower of cost or market and all revenues and costs were deferred until the loans were sold to a third-party investor.  On July 1, 2017, the Company made an election to use fair value accounting for all mortgage loans that are held for sale.  Accordingly, all revenues and costs are now recognized when the mortgage loan is funded and any changes in fair value are shown as a component of mortgage fee income.  See Note 3 and Note 17 to Consolidated Financial Statements for additional disclosures regarding loans held for sale.

The Company, through its mortgage subsidiaries, sells mortgage loans to third-party investors without recourse unless defects are identified in the representations and warranties made at loan sale. It may be required, however, to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

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1) Significant Accounting Policies (Continued)

· Failure to deliver original documents specified by the investor,

· The existence of misrepresentation or fraud in the origination of the loan,

· The loan becomes delinquent due to nonpayment during the first several months after it is sold,

· Early pay-off of a loan, as defined by the agreements,

· Excessive time to settle a loan,

· Investor declines purchase, and

· Discontinued product and expired commitment.

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company.

It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

· Research reasons for rejection,

· Provide additional documents,

· Request investor exceptions,

· Appeal rejection decision to purchase committee, and

· Commit to secondary investors.

Once purchase commitments have expired and other alternatives to remedy are exhausted, which could be earlier than the six-month time period, the loans are repurchased and transferred to the long-term investment portfolio at the lower of cost or fair value and previously recorded mortgage fee income that was to be received from a third-party investor is written off against the loan loss reserve.

Determining Lower of Cost or Market

Cost for loans held for sale is equal to the amount paid to the warehouse bank and the amount originally funded by the Company. Market value is often difficult to determine, but is based on the following:

- For loans that are committed, the Company uses the commitment price.
- For loans that are non-committed that have an active market, the Company uses the market price.
- For loans that are non-committed where there is no market but there is a similar product, the Company uses the market value for the similar product.
- For loans that are non-committed where no active market exists, the Company determines that the unpaid principal balance best approximates the market value, after considering the fair value of the underlying real estate collateral, estimated future cash flows, and the loan interest rate.

The appraised value of the real estate underlying the original mortgage loan adds support to the Company's determination of fair value because if the loan becomes delinquent, the Company has sufficient value to collect the unpaid principal balance or the carrying value of the loan, thus minimizing credit risk. In determining the market value on the date of repurchase, the Company considers the total value of all of the loans because any sale of loans would be made as a pool.

The majority of loans originated are sold to third-party investors. The amounts expected to be sold to investors are shown on the consolidated balance sheets as loans held for sale.

Loan Loss Reserve

The loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on loans held for sale. The Company may be required to reimburse third-party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

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1) Significant Accounting Policies (Continued)

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, the Company initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. The Company accrues a monthly allowance for indemnification losses to investors based on total production. This estimate is based on the Company's historical experience and is included as a component of mortgage fee income. Subsequent updates to the recorded liability from changes in assumptions are recorded in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses.

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

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

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

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

The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date.

Additional information related to the Loan Loss Reserve is included in Note 3.

Restricted Assets

Restricted assets are assets held in a trust account for future mortuary services and merchandise and consist of cash and cash equivalents; participations in mortgage loans held for investment with Security National Life Insurance Company ("Security National Life"); mutual funds carried at estimated fair value; equity securities carried at estimated fair value; and a surplus note with Security National Life. Restricted assets also represents escrows held for borrowers and investors under servicing and appraisal agreements relating to mortgage loans, funds held by warehouse banks in accordance with loan purchase agreements and funds held in escrow for certain real estate construction development projects. Additionally, the Company elected to fund its medical benefit safe-harbor limit based on 35% of the qualified direct costs for the preceding year, and has included this amount as a component of restricted cash.

Cemetery Perpetual Care Trust Investments

Cemetery endowment care trusts have been set up for four of the six cemeteries owned by the Company. Of the six cemeteries owned by the Company, four cemeteries are endowment care properties. Under endowment care arrangements a portion of the price for each lot sold is withheld and invested in a portfolio of investments similar to those described in the prior paragraph. The earnings stream from the investments is designed to fund future maintenance and upkeep of the cemetery.

Cemetery Land and Improvements

The development of a cemetery involves not only the initial acquisition of raw land but the installation of roads, water lines, landscaping and other costs to establish a marketable cemetery lot. The costs of developing the cemetery are shown as an asset on the balance sheet. The amount on the balance sheet is reduced by the total cost assigned to the development of a particular lot when the criterion for recognizing a sale of that lot is met.

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1) Significant Accounting Policies (Continued)

Deferred Policy Acquisition Costs and Value of Business Acquired

Commissions and other costs, net of commission and expense allowances for reinsurance ceded, that vary with and are primarily related to the production of new insurance business have been deferred. Deferred policy acquisition costs ("DAC") for traditional life insurance are amortized over the premium paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. For interest-sensitive insurance products, deferred policy acquisition costs are amortized generally in proportion to the present value of expected gross profits from surrender charges, investment, mortality and expense margins. This amortization is adjusted when estimates of current or future gross profits to be realized from a group of products are reevaluated. Deferred acquisition costs are written off when policies lapse or are surrendered.

The Company follows GAAP when accounting for DAC on internal replacements of insurance and investment contracts. An internal replacement is a modification in product benefits, features, rights or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to contract, or by the election of a feature or coverage within a contract. Modifications that result in a replacement contract that is substantially changed from the replaced contract are accounted for as an extinguishment of the replaced contract. Unamortized DAC, unearned revenue liabilities and deferred sales inducements from the replaced contract are written-off. Modifications that result in a contract that is substantially unchanged from the replaced contract are accounted for as a continuation of the replaced contract.

Value of business acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred policy acquisition costs.

Mortgage Servicing Rights

Mortgage Service Rights ("MSR") arise from contractual agreements between the Company and third-party investors (or their agents) when mortgage loans are sold. Under these contracts, the Company is obligated to retain and provide loan servicing functions on loans sold, in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising the acquisition of real estate owned and property dispositions.

The total residential mortgage loans serviced for others consist primarily of agency conforming fixed-rate mortgage loans. The value of MSRs is derived from the net cash flows associated with the servicing contracts. The Company receives a servicing fee of generally about 0.250% annually on the remaining outstanding principal balances of the loans. Based on the result of the cash flow analysis, an asset or liability is recorded for mortgage servicing rights. The servicing fees are collected from the monthly payments made by the mortgagors. The Company generally receives other remuneration including rights to various mortgagor-contracted fees such as late charges, and collateral reconveyance charges and the Company is generally entitled to retain the interest earned on funds held pending remittance of mortgagor principal, interest, tax and insurance payments. Contractual servicing fees and late fees are included in other revenues on the consolidated statements of earnings.

The Company's subsequent accounting for MSRs is based on the class of MSRs. The Company has identified two classes of MSRs: MSRs backed by mortgage loans with initial term of 30 years and MSRs backed by mortgage loans with initial term of 15 years. The Company distinguishes between these classes of MSRs due to their differing sensitivities to change in value as the result of changes in market. 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.

Interest rate risk, prepayment risk, and default risk are inherent risks in MSR valuation. Interest rate changes largely drive prepayment rates. Refinance activity generally increases as rates decline. A significant decrease in rates beyond expectation could cause a decline in the value of the MSR. On the contrary, if rates increase borrowers are less likely to refinance or prepay their mortgage, which extends the duration of the loan and MSR values are likely to rise. Because of these risks, discount rates and prepayment speeds are used to estimate the fair value.

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1) Significant Accounting Policies (Continued)

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.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is calculated principally on the straight-line method over the estimated useful lives of the assets which range from three to forty years. Leasehold improvements paid for by the Company as a lessee are amortized over the lesser of the useful life or remaining lease terms.

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset, and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. No impairment of long-lived assets has been recognized in the accompanying financial statements.

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.

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.

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1) Significant Accounting Policies (Continued)

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 consolidated balance sheets.

Call and Put Options

The Company uses a strategy of selling "out of the money" call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company 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 recognizes a gain on the sale of the equity security enhanced by the value of the option that was sold. If the option expires unexercised, the Company recognizes 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 realized gains (losses) on investments and other assets. Call and put options are shown in other liabilities and accrued expenses on the consolidated balance sheets.

Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

The Company records an allowance and recognizes an expense for potential losses from mortgage loans held for investment, other investments and receivables in accordance with GAAP.

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

The Company provides 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. See the schedules in Note 2 for additional information. In addition, when a mortgage loan is past due more than 90 days, the Company does not accrue any interest income. When a loan becomes delinquent, the Company proceeds to foreclose on the real estate and all expenses for foreclosure are expensed as incurred. Once foreclosed, an adjustment for the lower of cost or fair value is made, if necessary, and the amount is classified as real estate held for investment. The Company will rent the properties until it is deemed desirable to sell them.

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1) Significant Accounting Policies (Continued)

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.

Future Policy Benefits and Unpaid Claims

Future policy benefit reserves for traditional life insurance are computed using a net level method, including assumptions as to investment yields, mortality, morbidity, withdrawals, and other assumptions based on the life insurance subsidiaries' experience, modified as necessary to give effect to anticipated trends and to include provisions for possible unfavorable deviations. Such liabilities are, for some plans, graded to equal statutory values or cash values at or prior to maturity. The range of assumed interest rates for all traditional life insurance policy reserves was 4% to 10%. Benefit reserves for traditional limited-payment life insurance policies include the deferred portion of the premiums received during the premium-paying period. Deferred premiums are recognized as income over the life of the policies. Policy benefit claims are charged to expense in the period the claims are incurred. Increases in future policy benefits are charged to expense.

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 3% to 6.5%.

The Company records an unpaid claims liability for claims in the course of settlement equal to the death benefit amount less any reinsurance recoverable amount for claims reported. There is also an unpaid claims liability for claims incurred but not reported. This liability is based on the historical experience of the net amount of claims that were reported in reporting periods subsequent to the reporting period when claims were incurred. This amount is adjusted to include a margin for adverse deviation.

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1) Significant Accounting Policies (Continued)

Participating Insurance

Participating business constituted 2% of insurance in force for the years ended 2017 and 2016. The provision for policyholders' dividends included in policyholder obligations is based on dividend scales anticipated by management. Amounts to be paid are determined by the Board of Directors.

Recognition of Insurance Premiums and Other Considerations

Premiums and other consideration for traditional life insurance products (which include those products with fixed and guaranteed premiums and benefits and consist principally of whole life insurance policies, limited payment life insurance policies, and certain annuities with life contingencies) are recognized as revenues when due from policyholders. Premiums and other consideration for interest-sensitive insurance policies (which include universal life policies, interest-sensitive life policies, deferred annuities, and annuities without life contingencies) are recognized when earned and consist of amounts assessed against policyholder account balances during the period for policy administration charges and surrender charges.

Reinsurance

The Company follows the procedure of reinsuring risks in excess of $100,000 to provide for greater diversification of business to allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. The Company remains liable for amounts ceded in the event the reinsurers are unable to meet their obligations.

The Company entered into coinsurance agreements with unaffiliated insurance companies under which the Company assumed 100% of the risk for certain life insurance policies and certain other policy-related liabilities of the insurance company.

Reinsurance premiums, commissions, expense reimbursements, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Expense allowances received in connection with reinsurance ceded are accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly.

Pre-need Sales and Costs

Pre-need contract sales of funeral services and caskets - revenue and costs associated with the sales of pre-need funeral services and caskets are deferred until the services are performed or the caskets are delivered.

Sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sale of cemetery interment rights are recognized in accordance with the retail land sales provisions based on GAAP. Under GAAP, recognition of revenue and associated costs from constructed cemetery property must be deferred until 10% of the sales price has been collected.

Pre-need contract sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sale of pre-need cemetery merchandise is deferred until the merchandise is delivered.

Pre-need contract sales of cemetery services (primarily merchandise delivery, installation fees and burial opening and closing fees) - revenue and costs associated with the sales of pre-need cemetery services are deferred until the services are performed.

Prearranged funeral and pre-need cemetery customer acquisition costs - costs incurred related to obtaining new pre-need contract cemetery and prearranged funeral services are accounted for under the guidance of the provisions based on GAAP. Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral services, are deferred until the merchandise is delivered or services are performed.

Revenues and costs for at need sales are recorded when a valid contract exists, the services are performed, collection is reasonably assured and there are no significant obligations remaining.

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1) Significant Accounting Policies (Continued)

The Company, through its cemetery and mortuary operations, provides guaranteed funeral arrangements wherein a prospective customer can receive future goods and services at guaranteed prices. To accomplish this, the Company, through its life insurance operations, sells to the customer an increasing benefit life insurance policy that is assigned to the mortuaries. If, at the time of need, the policyholder/potential mortuary customer utilizes one of the Company's facilities, the guaranteed funeral arrangement contract that has been assigned will provide the funeral goods and services at the contracted price. The increasing life insurance policy will cover the difference between the original contract prices and current prices. Risks may arise if the difference cannot be fully met by the life insurance policy. However, management believes that given current inflation rates and related price increases of goods and services, the risk of exposure is minimal.

Goodwill

Previous acquisitions have been accounted for as purchases under which assets acquired and liabilities assumed were recorded at their fair values with the excess purchase price recognized as goodwill. The Company evaluates annually or when changes in circumstances warrant the recoverability of goodwill and if there is a decrease in value, the related impairment is recognized as a charge against income. No impairment of goodwill has been recognized in the accompanying financial statements.

Income Taxes

Income taxes include taxes currently payable plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the temporary differences in the financial reporting basis and tax basis of assets and liabilities and operating loss carry-forwards. Deferred tax assets are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled.

Liabilities are established for uncertain tax positions expected to be taken in income tax returns when such positions are judged to meet the "more-likely-than-not" threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax penalties are included as a component of other expenses.

Earnings Per Common Share

The Company computes earnings per share which requires presentation of basic and diluted earnings per share. Basic earnings per equivalent Class A common share are computed by dividing net earnings by the weighted-average number of Class A common shares outstanding during each year presented, after the effect of the assumed conversion of Class C common stock to Class A common stock. Diluted earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding during the year used to compute basic earnings per share plus dilutive potential incremental shares. Basic and diluted earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

Stock Based Compensation

The cost of employee services received in exchange for an award of equity instruments is recognized in the financial statements and is measured based on the fair value on the grant date of the award. The fair value of stock options is calculated using the Black Scholes Option Pricing Model. Stock option compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award and is included in personnel expenses on the consolidated statements of earnings.

Concentration of Credit Risk

For a description of the geographic concentration risk regarding mortgage loans held for investment and real estate held for investment, refer to Note 2 of the Notes to Consolidated Financial Statements.

Advertising

The Company expenses advertising costs as incurred.

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1) Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

Accounting Standards Update ("ASU") No. 2017-01: "Business Combinations (Topic 805): Clarifying the Definition of a Business" – Issued in January 2017, ASU 2017-01 intends to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business: inputs, processes, and outputs. While an integrated set of assets and activities, collectively referred to as a "set," that is a business usually has outputs, outputs are not required to be present. ASU 2017-01 provides a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. While the Company's acquisitions have historically been classified as either business combinations or asset acquisitions, certain acquisitions that were classified as business combinations by the Company likely would have been considered asset acquisitions under the new standard. As a result, transaction costs are more likely to be capitalized since the Company expects some of its future acquisitions to be classified as asset acquisitions under this new standard. In addition, goodwill that was previously allocated to businesses that were sold or held for sale will no longer be allocated and written off upon sale if future sales were deemed to be sales of assets and not businesses. ASU 2017-01 was adopted by the Company on January 1, 2018 and it will be applied prospectively to transactions occurring after the adoption date, as applicable.

ASU No. 2016-18: "Statement of Cash Flows (Topic 230): Restricted Cash" – Issued in November 2016, ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents in the consolidated statement of cash flows and disclose the nature of the restrictions on cash and cash equivalents. The Company currently discloses the restrictions on cash and cash equivalents in Note 8 of the Notes to Consolidated Financial Statements and will continue these disclosures. Note 8 also discloses the components of the Company's restricted assets which includes restricted cash. The Company currently presents changes in restricted cash and cash equivalents under investing activities on the consolidated statements of cash flows. Upon adoption of ASU 2016-18, the Company will amend the presentation in the consolidated statements of cash flows to include the restricted cash and cash equivalents with cash and cash equivalents and will retrospectively reclassify all periods presented. After adoption, net changes in restricted cash will no longer be presented under investing activities on the consolidated statements of cash flows. ASU 2016-18 was adopted by the Company on January 1, 2018. The adoption of this standard does not impact the Company's total cash and cash equivalents but is a change in presentation within the consolidated statements of cash flows.

ASU No. 2016-13: "Financial Instruments – Credit Losses (Topic 326)" – Issued in June 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 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. The new authoritative guidance will be effective for the Company on January 1, 2020. The Company is in the process of evaluating the potential impact of this standard.

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 by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new authoritative guidance will be effective for the Company on January 1, 2019. The Company is in the process of evaluating the potential impact of this standard, which is not expected to be material to the Company's results of operations but will have an effect on the balance sheet presentation for leased assets and obligations.

ASU No. 2016-01: "Financial Instruments – Overall (Topic 825-10)" – Issued in January 2016, ASU 2016-01 changes the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in income. Under current guidance, changes in fair value for investments of this nature are recognized in accumulated other comprehensive income as a component of stockholders' equity. Additionally, ASU 2016-01 simplifies the impairment assessment of equity investments without readily determinable fair values; requires entities to use the exit price when estimating the fair value of financial instruments; and modifies various presentation disclosure requirements for financial instruments. The Company holds equity securities classified as available for sale securities that are currently measured at fair value with changes in fair value recognized through other comprehensive income. Upon adoption of ASU 2016-01 the Company will be required to recognize changes in the fair value of these equity securities through earnings, thus increasing the volatility of the Company's earnings. However, adoption of this standard will not significantly affect the Company's comprehensive income or stockholders' equity. The Company adopted this standard on January 1, 2018 using the modified retrospective approach with the cumulative effect of the adoption made to the balance sheet as of the date of adoption. Thus, the adoption will result in a reclassification of the related accumulated net unrealized gains of $603,170 included in accumulated other comprehensive income as of December 31, 2017 to retained earnings. See Note 2 and 8 for more details regarding equity securities available for sale and Note 18 for more details regarding the components of accumulated other comprehensive income.

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1) Significant Accounting Policies (Continued)

ASU No. 2014-09: "Revenue from Contracts with Customers (Topic 606)" - Issued in May 2014, ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition". ASU 2014-09 clarifies the principles for recognizing revenue in order to improve comparability of revenue recognition practices across entities and industries. ASU 2014-09 provides guidance intended to assist in the identification of contracts with customers and separate performance obligations within those contracts, the determination and allocation of the transaction price to those identified performance obligations and the recognition of revenue when a performance obligation has been satisfied. ASU 2014-09 also requires disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. Premiums and related fees from insurance contracts and mortgage banking revenues are excluded from the scope of this new guidance.

The Company analyzed the potential impact of this standard by reviewing its revenue sources and its current policies and procedures to identify potential differences that would result from applying the requirements of this new standard to its contracts with customers. Through the review process, the Company identified and made changes to its processes, systems, and controls to support recognition and disclosure under the new standard.

The Company also evaluated the potential changes from adopting the new standard on its future reporting and disclosures. The Company also reviewed its contracts with customers and developed a process for the systematic application of the standard to existing undelivered performance obligations at adoption. Additionally, the Company is implementing a new software program to accommodate recognition and disclosure requirements under the new standard. Finally, the Company identified and designed additional controls around new processes that were implemented upon adoption of the new standard.

The Company's revenues from contracts with customers that are subject to ASU 2014-09 include revenues on mortuary and cemetery contracts, which is less than 5% of the Company's total revenues. The recognition and measurement of these items is not expected to change as a result of the Company's adoption of ASU 2014-09 and thus the adoption of ASU 2014-09 will not significantly impact the Company's results of operations or financial position. The Company adopted this standard on January 1, 2018 using a modified retrospective approach. No cumulative effect adjustment will be made to beginning retained earnings.

The standard primarily impacts the manner in which the Company recognizes a) certain nonrefundable up-front fees and b) incremental costs to acquire new pre-need funeral trust contracts and pre-need and at-need cemetery contracts (i.e., selling costs). The nonrefundable fees will continue to be deferred and recognized as revenue when the underlying goods and services are delivered to the customer. The incremental selling costs will continue to be deferred and amortized by specific identification to the delivery of the underlying goods and services. Additionally, the amounts due from customers for undelivered performance obligations on cancelable pre-need contracts represent contract assets, which are required to be netted with deferred pre-need cemetery and mortuary contract revenues, instead of receivables on the Company's consolidated balance sheets.

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
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2) Investments

The Company's investments as of December 31, 2017 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| December 31, 2017: | | | | |
| Fixed maturity securities held to maturity carried at amortized cost: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies | $54,077,069 | $211,824 | $(579,423) | $53,709,470 |
| Obligations of states and political subdivisions | 5,843,176 | 112,372 | (71,013) | 5,884,535 |
| Corporate securities including public utilities | 158,350,727 | 14,336,452 | (1,007,504) | 171,679,675 |
| Mortgage-backed securities | 9,503,016 | 210,652 | (162,131) | 9,551,537 |
| Redeemable preferred stock | 623,635 | 49,748 | (191) | 673,192 |
| Total fixed maturity securities held to maturity | $228,397,623 | $14,921,048 | $(1,820,262) | $241,498,409 |
| Equity securities available for sale at estimated fair value: | | | | |
| Common stock: | | | | |
| Industrial, miscellaneous and all other | $6,002,931 | $667,593 | $(632,669) | $6,037,855 |
| Total securities available for sale | $6,002,931 | $667,593 | $(632,669) | $6,037,855 |
| Mortgage loans held for investment at amortized cost: | | | | |
| Residential | $102,527,111 | | | |
| Residential construction | 50,157,533 | | | |
| Commercial | 54,954,865 | | | |
| Less: Unamortized deferred loan fees, net | (1,659,828) | | | |
| Less: Allowance for loan losses | (1,768,796) | | | |
| Total mortgage loans held for investment | $204,210,885 | | | |
| Real estate held for investment - net of accumulated depreciation: | | | | |
| Residential | $68,329,917 | | | |
| Commercial | 72,968,789 | | | |

| | |
|---|---|
| Total real estate held for investment | $141,298,706 |
| | |
| Other investments and policy loans at amortized cost: | |
| Policy loans | $6,531,352 |
| Insurance assignments | 36,301,739 |
| Federal Home Loan Bank stock | 689,400 |
| Other investments | 3,219,622 |
| Less: Allowance for doubtful accounts | (846,641 ) |
| | |
| Total policy loans and other investments | $45,895,472 |
| | |
| Accured investment income | $3,644,077 |
| | |
| Total investments | $629,484,618 |

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SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2017 and 2016

2) Investments (Continued)

The Company's investments as of December 31, 2016 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| December 31, 2016: | | | | |
| Fixed maturity securities held to maturity carried at amortized cost: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies | $4,475,065 | $249,028 | $(66,111) | $4,657,982 |
| Obligations of states and political subdivisions | 6,017,225 | 153,514 | (133,249) | 6,037,490 |
| Corporate securities including public utilities | 164,375,636 | 10,440,989 | (3,727,013) | 171,089,612 |
| Mortgage-backed securities | 9,488,083 | 221,400 | (280,871) | 9,428,612 |
| Redeemable preferred stock | 623,635 | 13,418 | - | 637,053 |
| Total fixed maturity securities held to maturity | $184,979,644 | $11,078,349 | $(4,207,244) | $191,850,749 |
| Equity securities available for sale at estimated fair value: | | | | |
| Common stock: | | | | |
| Industrial, miscellaneous and all other | $10,323,238 | $447,110 | $(859,092) | $9,911,256 |
| Total securities available for sale | $10,323,238 | $447,110 | $(859,092) | $9,911,256 |
| Mortgage loans held for investment at amortized cost: | | | | |
| Residential | $58,593,622 | | | |
| Residential construction | 40,800,117 | | | |
| Commercial | 51,536,622 | | | |
| Less: Unamortized deferred loan fees, net | (190,846) | | | |
| Less: Allowance for loan losses | (1,748,783) | | | |
| Total mortgage loans held for investment | $148,990,732 | | | |
| Real estate held for investment - net of accumulated depreciation: | | | | |
| Residential | $76,191,985 | | | |

| | |
|---|---|
| Commercial | 68,973,936 |
| Total real estate held for investment | $145,165,921 |
| Other investments and policy loans at amortized cost: | |
| Policy loans | $6,694,148 |
| Insurance assignments | 33,548,079 |
| Promissory notes | 48,797 |
| Federal Home Loan Bank stock | 662,100 |
| Other investments | 1,765,752 |
| Less: Allowance for doubtful accounts | (1,119,630 ) |
| Total policy loans and other investments | $41,599,246 |
| Short-term investments at amortized cost | $27,560,040 |
| Accured investment income | $2,972,596 |
| Total investments | $561,179,435 |

SECURITY NATIONAL FINANCIAL CORPORATION
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2) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturities securities, which are carried at amortized cost, at December 31, 2017 and 2016. 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 |
|---|---|---|---|---|---|---|
| At December 31, 2017 | | | | | | |
| U.S. Treasury Securities and Obligationsof U.S. Government Agencies | $532,010 | $51,606,699 | $47,413 | $643,380 | $579,423 | $52,250,079 |
| Obligations of States and Political Subdivisions | 296 | 214,882 | 70,717 | 2,225,021 | 71,013 | 2,439,903 |
| Corporate Securities | 167,786 | 11,551,865 | 839,718 | 13,193,258 | 1,007,504 | 24,745,123 |
| Mortgage and other asset-backed securities | 56,756 | 2,516,660 | 105,375 | 1,676,494 | 162,131 | 4,193,154 |
| Redeemable preferred stock | 191 | 11,421 | - | - | 191 | 11,421 |
| Total unrealized losses | $757,039 | $65,901,527 | $1,063,223 | $17,738,153 | $1,820,262 | $83,639,680 |
| | | | | | | |
| At December 31, 2016 | | | | | | |
| U.S. Treasury Securities and Obligationsof U.S. Government Agencies | $66,111 | $1,342,088 | $- | $- | $66,111 | $1,342,088 |
| Obligations of States andPolitical Subdivisions | 133,249 | 3,686,856 | - | - | 133,249 | 3,686,856 |
| Corporate Securities | 1,728,312 | 41,796,016 | 1,998,701 | 12,969,135 | 3,727,013 | 54,765,151 |
| Mortgage and other asset-backed securities | 176,715 | 4,176,089 | 104,156 | 940,278 | 280,871 | 5,116,367 |
| Total unrealized losses | $2,104,387 | $51,001,049 | $2,102,857 | $13,909,413 | $4,207,244 | $64,910,462 |

There were 141 securities with fair value of 97.9% of amortized cost at December 31, 2017. There were 250 securities with fair value of 93.9% of amortized cost at December 31, 2016. During the years ended December 31, 2017 and 2016, an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of $493,371 and $100,000, respectively.

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 Commissions ("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
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2) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2017, 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 | $20,125,883 | $20,299,016 |
| Due in 2-5 years | 69,849,085 | 70,873,975 |
| Due in 5-10 years | 49,842,819 | 52,444,399 |
| Due in more than 10 years | 78,453,185 | 87,656,290 |
| Mortgage-backed securities | 9,503,016 | 9,551,537 |
| Redeemable preferred stock | 623,635 | 673,192 |
| Total held to maturity | $228,397,623 | $241,498,409 |

The Company is a member of the Federal Home Loan Bank of Des Moines ("FHLB"). In June through August of 2017, the Company purchased a total of $50,000,000, par value, of United States Treasury fixed maturity securities that it deposited with the FHLB. These securities will generate interest income for the Company and will be available to use as collateral on any cash borrowings from the FHLB. As of December 31, 2017, the Company did not have any outstanding amounts owed to FHLB and the estimated maximum borrowing capacity was $47,252,871.

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at December 31, 2017 and 2016. The unrealized losses were primarily the result of decreases in fair value in the retail, industrial and energy sectors. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available for sale in a loss position:

| | Unrealized Losses for Less than Twelve Months | No. of Investment Positions | Unrealized Losses for More than Twelve Months | No. of Investment Positions | Total Unrealized Losses |
|---|---|---|---|---|---|
| At December 31, 2017 | | | | | |
| Industrial, miscellaneous and all other | $213,097 | 98 | $419,572 | 81 | $632,669 |
| Total unrealized losses | $213,097 | 98 | $419,572 | 81 | $632,669 |
| Fair Value | $847,718 | | $1,329,213 | | $2,176,931 |
| | | | | | |
| At December 31, 2016 | | | | | |
| Industrial, miscellaneous and all other | $215,563 | 124 | $643,529 | 104 | $859,092 |

| | | | | | |
|---|---|---|---|---|---|
| Total unrealized losses | $215,563 | 124 | $643,529 | 104 | $859,092 |
| Fair Value | $2,063,144 | | $1,685,874 | | $3,749,018 |

The average market value of the equity securities available for sale was 77.5% and 81.4% of the original investment as of December 31, 2017 and 2016, respectively. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During the years ended December 31, 2017 and 2016, an other than temporary decline in the market value resulted in the recognition of an impairment loss on equity securities of $280,968 and $170,358, respectively.

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2) Investments (Continued)

On a quarterly basis, the Company reviews its investment in equity securities that are in a loss position. The first step is to identify securities by lots which are currently carried on the books at a value greater than the 52-week high. These securities are further evaluated by reviewing current market value in relation to historical value, price earnings ratios, projected earnings, revenue growth rates, negative company related events, market sector comparisons and analyst reports to determine if a security has a reasonable expectation to return to the current cost basis. Based on the analysis, a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the security will recover from the loss position, the loss is considered to be other than temporary, the security is written down to a restated value and an impairment loss is recognized.
The fair values for equity securities are based on quoted market prices.
There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on equity securities available for sale) at December 31, 2017, other than investments issued or guaranteed by the United States Government.
The Company's net realized gains and losses from sales, calls, and maturities, and other than temporary impairments from investments and other assets for the years ended December 31 are summarized as follows:

| | 2017 | 2016 |
|---|---|---|
| Fixed maturity securities held to maturity: | | |
| Gross realized gains | $179,182 | $389,558 |
| Gross realized losses | (893,567) | (132,124) |
| Other than temporary impairments | (493,371) | (100,000) |
| Equity securities available for sale: | | |
| Gross realized gains | 166,950 | 221,817 |
| Gross realized losses | (76,475) | (61,242) |
| Other than temporary impairments | (280,968) | (170,358) |
| Other assets: | | |
| Gross realized gains | 3,410,076 | 349,252 |
| Gross realized losses | (5,734,648) | (943,648) |
| Total | $(3,722,821) | $(446,745) |

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 for disposals of securities classified as held to maturity was $2,932,961 and $2,380,027, for the years ended December 31, 2017 and 2016, respectively. The net realized loss and gain related to these disposals was $463,892 and $155,346, for the years ended December 31, 2017 and 2016, respectively. Although the intent is to buy and hold a bond to maturity, the Company will sell a bond prior to maturity if conditions have changed within the entity that issued the bond to increase the risk of default to an unacceptable level.

SECURITY NATIONAL FINANCIAL CORPORATION
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2) Investments (Continued)

Major categories of net investment income for the years ended December 31, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Fixed maturity securities held to maturity | $10,626,400 | $9,083,858 |
| Equity securities available for sale | 245,490 | 270,942 |
| Mortgage loans held for investment | 12,498,578 | 11,398,986 |
| Real estate held for investment | 11,703,947 | 10,969,828 |
| Policy loans | 488,561 | 498,444 |
| Insurance assignments | 13,289,818 | 11,876,836 |
| Other investments | 105,218 | 25,122 |
| Short-term investments | 543,528 | 268,988 |
| Gross investment income | 49,501,540 | 44,393,004 |
| Investment expenses | (14,438,572) | (12,414,403) |
| Net investment income | $35,062,968 | $31,978,601 |

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of $501,227 and $419,360 for the years ended December 31, 2017 and 2016, respectively.

Net investment income on real estate consists primarily of rental revenue received under short-term leases.

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

Securities on deposit for regulatory authorities as required by law amounted to $9,264,977 and $9,269,121 at December 31, 2017 and 2016, respectively. The restricted securities are included in various assets under investments on the accompanying consolidated balance sheets.

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 segments in the form of acquisition, development and mortgage foreclosures. The Company reports real estate held for investment pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

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 8 states. These properties include industrial warehouses, office buildings, retail centers, undeveloped land and includes the redevelopment and expansion of its corporate campus in Salt Lake City, Utah. The Company does use debt in strategic cases to leverage established yields or to acquire a higher quality or different class of asset.

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2) Investments (Continued)

The aggregated net ending balance of commercial real estate that serves as collateral for bank borrowings was approximately $64,704,000 and $51,507,000 as of December 31, 2017 and 2016, respectively. The associated bank loan carrying values totaled approximately $40,994,000 and $21,831,000 as of December 31, 2017 and 2016, respectively.

During the years ended December 31, 2017 and 2016, the Company recorded impairment losses on commercial real estate held for investment of $5,350,967 and $900,000, respectively. These impairment losses are included in realized gains (losses) on investment and other assets on the consolidated statements of earnings.

The Company's investment in commercial real estate for the years ended December 31, are summarized as follows:

| | Net Ending Balance | | | | Total Square Footage | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | 2016 |
| Arizona | $4,000 | (1) | $450,538 | (1) | - | 16,270 |
| Arkansas | 96,169 | | 100,369 | | 3,200 | 3,200 |
| Kansas | 7,200,000 | | 12,450,297 | | 222,679 | 222,679 |
| Louisiana | 493,197 | | 518,700 | | 7,063 | 7,063 |
| Mississippi | 3,725,039 | | 3,818,985 | | 33,821 | 33,821 |
| New Mexico | 7,000 | (1) | 7,000 | (1) | - | - |
| Texas | 335,000 | | 3,734,974 | | 23,470 | 23,470 |
| Utah | 61,108,384 | (2) | 47,893,073 | | 433,244 | 433,244 |
| | $72,968,789 | | $68,973,936 | | 723,477 | 739,747 |

(1) Includes Vacant Land

(2) Includes 53rd Center completed in July 2017

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 December 31, 2017, SNRE manages 105 residential properties in 9 states across the United States which includes a newly constructed apartment complex, Dry Creek at East Village ("Dry Creek"), in Sandy Utah. See Note 25 regarding the disposition of Dry Creek.

The net ending balance of residential real estate that serves as collateral for a bank borrowing was approximately $34,431,000 and $35,798,000, as of December 31, 2017 and 2016, respectively. The associated bank loan carrying value was approximately $26,773,000 and $27,377,000 as of December 31, 2017 and 2016, respectively.

The net ending balance of foreclosed residential real estate included in residential real estate held for investment is $33,372,228 and $39,856,434 as of December 31, 2017 and 2016, respectively.

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2) Investments (Continued)

The Company's investment in residential real estate for the years ended December 31, are summarized as follows:

| | Net Ending Balance | |
|---|---|---|
| | 2017 | 2016 |
| Arizona | $217,105 | $742,259 |
| California | 5,463,878 | 5,848,389 |
| Colorado | - | 364,489 |
| Florida | 7,000,684 | 8,327,355 |
| Hawaii | 712,286 | - |
| Ohio | 10,000 | - |
| Oklahoma | 17,500 | 46,658 |
| Texas | 509,011 | 1,091,188 |
| Utah | 54,113,272 | 59,485,466 |
| Washington | 286,181 | 286,181 |
| | $68,329,917 | $76,191,985 |

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 10% of the overall commercial real estate holdings.

As of December 31, 2017, 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 consolidated balance sheets

Mortgage Loans Held for Investment

The Company reports mortgage loans held for investment pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0 % to 10.5%, maturity dates range from three 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 December 31, 2017, the Company has 42%, 27%, 12%, 14% and 5% of its mortgage loans from borrowers located in the states of Utah, California, Florida, Texas and Nevada, respectively. The mortgage loan balances on the consolidated balance sheet are reflected net of an allowance for loan losses of $1,768,796 and $1,748,783 at December 31, 2017 and 2016, respectively.

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2) Investments (Continued)

The Company establishes a valuation allowance for credit losses in its portfolio. The following is a summary of the allowance for loan losses as a contra-asset account for the periods presented:

Allowance for Credit Losses and Recorded Investment in Mortgage Loans Held for Investment
Years Ended December 31

| | Commercial | Residential | Residential Construction | Total |
|---|---|---|---|---|
| 2017 | | | | |
| Allowance for credit losses: | | | | |
| Beginning balance | $187,129 | $1,461,540 | $100,114 | $1,748,783 |
| Charge-offs | - | (351,357) | (64,894) | (416,251) |
| Provision | - | 436,264 | - | 436,264 |
| Ending balance | $187,129 | $1,546,447 | $35,220 | $1,768,796 |
| Ending balance: individually evaluated for impairment | $- | $237,560 | $- | $237,560 |
| Ending balance: collectively evaluated for impairment | $187,129 | $1,308,887 | $35,220 | $1,531,236 |
| Mortgage loans: | | | | |
| Ending balance | $54,954,865 | $102,527,111 | $50,157,533 | $207,639,509 |
| Ending balance: individually evaluated for impairment | $- | $4,923,552 | $461,834 | $5,385,386 |
| Ending balance: collectively evaluated for impairment | $54,954,865 | $97,603,559 | $49,695,699 | $202,254,123 |
| 2016 | | | | |
| Allowance for credit losses: | | | | |
| Beginning balance | $187,129 | $1,560,877 | $100,114 | $1,848,120 |
| Charge-offs | - | (420,135) | - | (420,135) |
| Provision | - | 320,798 | - | 320,798 |
| Ending balance | $187,129 | $1,461,540 | $100,114 | $1,748,783 |
| Ending balance: individually evaluated for impairment | $- | $187,470 | $- | $187,470 |
| Ending balance: collectively evaluated for impairment | $187,129 | $1,274,070 | $100,114 | $1,561,313 |
| Mortgage loans: | | | | |
| Ending balance | $51,536,622 | $58,593,622 | $40,800,117 | $150,930,361 |
| Ending balance: individually evaluated for impairment | $202,992 | $2,916,538 | $64,895 | $3,184,425 |
| Ending balance: collectively evaluated for impairment | $51,333,630 | $55,677,084 | $40,735,222 | $147,745,936 |

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2) Investments (Continued)

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

Age Analysis of Past Due Mortgage Loans Held for Investment
Years Ended December 31

| | 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 |
|---|---|---|---|---|---|---|---|---|---|
| | $1,943,495 | $- | $- | $- | $1,943,495 | $53,011,370 | $54,954,865 | $(187,129 ) | $(67,411 ) |
| | 6,613,479 | 495,347 | 3,591,333 | 1,332,219 | 12,032,378 | 90,494,733 | 102,527,111 | (1,546,447) | (1,164,130) |
| struction | - | - | 461,834 | - | 461,834 | 49,695,699 | 50,157,533 | (35,220 ) | (428,287 ) |
| | $8,556,974 | $495,347 | $4,053,167 | $1,332,219 | $14,437,707 | $193,201,802 | $207,639,509 | $(1,768,796) | $(1,659,828) |
| | $- | $- | $- | $202,992 | $202,992 | $51,333,630 | $51,536,622 | $(187,129 ) | $(155,725 ) |
| | 964,960 | 996,779 | 1,290,355 | 1,626,183 | 4,878,277 | 53,715,345 | 58,593,622 | (1,461,540) | (35,121 ) |
| struction | - | - | 64,895 | - | 64,895 | 40,735,222 | 40,800,117 | (100,114 ) | - |
| | $964,960 | $996,779 | $1,355,250 | $1,829,175 | $5,146,164 | $145,784,197 | $150,930,361 | $(1,748,783) | $(190,846 ) |

1) There was not any interest income recognized on loans past due greater than 90 days or in foreclosure.

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2) 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:

Impaired Loans
Years Ended December 31

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| 2017 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial | $ - | $ - | $ - | $ 365,220 | $ - |
| Residential | 3,322,552 | 3,322,552 | - | 3,290,094 | - |
| Residential construction | 461,834 | 461,834 | - | 277,232 | - |
| With an allowance recorded: | | | | | |
| Commercial | $ - | $ - | $ - | $ - | $ - |
| Residential | 1,601,000 | 1,601,000 | 237,560 | 1,350,115 | - |
| Residential construction | - | - | - | - | - |
| Total: | | | | | |
| Commercial | $ - | $ - | $ - | $ 365,220 | $ - |
| Residential | 4,923,552 | 4,923,552 | 237,560 | 4,640,209 | - |
| Residential construction | 461,834 | 461,834 | - | 277,232 | - |
| 2016 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial | $ 202,992 | $ 202,992 | $ - | $ 202,992 | $ - |
| Residential | - | - | - | - | - |
| Residential construction | 64,895 | 64,895 | - | 79,082 | - |
| With an allowance recorded: | | | | | |
| Commercial | $ - | $ - | $ - | $ - | $ - |
| Residential | 2,916,538 | 2,916,538 | 374,501 | 3,001,850 | - |
| Residential construction | - | - | - | - | - |
| Total: | | | | | |
| Commercial | $ 202,992 | $ 202,992 | $ - | $ 202,992 | $ - |

| | | | | | |
|---|---|---|---|---|---|
| Residential | 2,916,538 | 2,916,538 | 374,501 | 3,001,850 | - |
| Residential construction | 64,895 | 64,895 | - | 79,082 | - |

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.
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2) 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
Years Ended December 31

| | Commercial | | Residential | | Residential Construction | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Performing | $54,954,865 | $51,333,630 | $97,603,559 | $55,677,084 | $49,695,699 | $40,735,222 | $202,254,123 | $147,745,936 |
| Non-performing | - | 202,992 | 4,923,552 | 2,916,538 | 461,834 | 64,895 | 5,385,386 | 3,184,425 |
| Total | $54,954,865 | $51,536,622 | $102,527,111 | $58,593,622 | $50,157,533 | $40,800,117 | $207,639,509 | $150,930,361 |

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 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 $204,083 and $172,000 as of December 31, 2017 and 2016, 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 Years Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Commercial | $- | $202,992 |
| Residential | 4,923,552 | 2,916,538 |
| Residential construction | 461,834 | 64,895 |
| Total | $5,385,386 | $3,184,425 |

Principal Amounts Due

The amortized cost and contractual payments on mortgage loans held for investment by category as of December 31, 2017 are shown below. Expected principal payments may differ from contractual obligations because certain borrowers may elect to pay off mortgage obligations with or without early payment penalties.

| Total | Principal Amounts Due in 1 Year | Principal Amounts Due in 2-5 Years | Principal Amounts Due Thereafter |
|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Residential | $102,527,111 | $5,454,776 | $40,995,574 | $56,076,761 |
| Residential Construction | 50,157,533 | 42,763,420 | 7,394,113 | - |
| Commercial | 54,954,865 | 36,690,847 | 15,674,563 | 2,589,455 |
| Total | $207,639,509 | $84,909,043 | $64,064,250 | $58,666,216 |

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3) Loans Held for Sale

Fair Value Option Election

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 originated after July 1, 2017. 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 consolidated statement of earnings. None of these loans are 90 or more days past due nor on nonaccrual status as of December 31, 2017. See Note 17 of the Notes to Consolidated Financial Statements for additional disclosures regarding loans held for sale.

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 December 31 2017 |
|---|---|
| Aggregate fair value | $133,414,188 |
| Unpaid principal balance | 129,233,411 |
| Unrealized gain | 4,180,777 |

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 for the years ended December 31, are as follows:

| | 2017 | 2016 |
|---|---|---|
| Loan fees | $40,434,686 | $44,341,501 |
| Interest income | 7,089,025 | 8,004,952 |
| Secondary gains | 108,756,613 | 140,651,103 |
| Change in fair value of loan commitments | (4,812,743) | (862,163) |
| Change in fair value of loans held for sale | 4,180,777 | - |
| Provision for loan loss reserve | (1,851,187) | (2,988,754) |
| Mortgage fee income | $153,797,171 | $189,146,639 |

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.

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3) Loans Held for Sale (Continued)

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

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Balance, beginning of period | $627,733 | $2,805,900 |
| Provision for current loan originations (1) | 1,851,187 | 2,988,754 |
| Additional provision for loan loss reserve | - | 1,700,000 |
| Charge-offs, net of recaptured amounts | 92,604 | (6,866,921) |
| Balance, at December 31 | $2,571,524 | $627,733 |

(1) Included in Mortgage fee income on the consolidated statements of earnings.

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.

4) Receivables

Receivables consist of the following:

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Trade contracts | $3,608,379 | $3,410,321 |
| Receivables from sales agents | 3,528,703 | 4,016,393 |
| Held in Escrow – Southern Security | - | 107,388 |
| Other | 4,851,305 | 3,231,926 |
| Total receivables | 11,988,387 | 10,766,028 |
| Allowance for doubtful accounts | (1,544,518 ) | (2,355,482 ) |
| Net receivables | $10,443,869 | $8,410,546 |

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5) Value of Business Acquired and Goodwill

Information with regard to value of business acquired is as follows:

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Balance at beginning of year | $7,570,300 | $8,743,773 |
| Value of business acquired | - | - |
| Imputed interest at 7% | 39,767 | 45,762 |
| Amortization | (1,021,308) | (1,219,235) |
| Net amortization charged to income | (981,541) | (1,173,473) |
| Balance at end of year | $6,588,759 | $7,570,300 |

Presuming no additional acquisitions, net amortization charged to income is expected to approximate $919,000, $854,000, $766,000, $713,000, and $663,000 for the years 2018 through 2022. Actual amortization may vary based on changes in assumptions or experience. As of December 31, 2017, value of business acquired is being amortized over a weighted average life of 6.1 years.

Information with regard to goodwill acquired is as follows:

Goodwill of $2,765,570 is not amortized but tested annually for impairment. The annual impairment tests resulted in no impairment of goodwill.

6) Property and Equipment

The cost of property and equipment is summarized below:

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Land and buildings | $8,689,302 | $9,155,665 |
| Furniture and equipment | 16,952,404 | 19,548,521 |
| | 25,641,706 | 28,704,186 |
| Less accumulated depreciation | (17,572,326) | (19,912,664) |
| Total | $8,069,380 | $8,791,522 |

Depreciation expense for the years ended December 31, 2017 and 2016 was $2,220,693 and $2,182,724, respectively. During 2017, the Company transferred $643,329 of land from cemetery land and improvements to property and equipment. This transfer is shown as a non cash item on the consolidated statements of cash flows.

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7) Bank and Other Loans Payable

Bank and other loans payable are summarized as follows:

| | December 31 2017 | 2016 |
|---|---|---|
| 1.65% above the monthly LIBOR rate note payable in monthly installments of $13,741 including principal and interest, collateralized by real property with a book value of approximately $498,000, paid in full in November 2017. | $- | $147,346 |
| Mark to market of interest rate swaps (discussed below) adjustment, terminated in November 2017 | - | 3,308 |
| 6.50% note payable in monthly installments of $1,702 including principal and interest, collateralized by real property with a book value of approximately $271,000, due October 2041. | 246,847 | 251,072 |
| 2.25% above the monthly LIBOR rate (1.56% at December 31, 2017) plus 1/16th of the monthly LIBOR rate note payable in monthly principal payments of $13,167 plus interest, collateralized by real property with a book value of approximately $4,457,000, due September 2021. | 2,975,781 | 3,133,787 |
| 3.85% fixed note payable in monthly installments of $85,419 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due January 2018. | 85,419 | 1,093,349 |
| 4.27% fixed note payable in monthly installments of $53,881 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, dueNovember 2021. | 2,372,690 | 2,904,354 |
| 4.40% fixed note payable in monthly installments of $46,825 including principal and interest, collateralized by real property with a book value of approximately $11,837,000, dueJanuary 2026. | 7,712,854 | 7,927,526 |
| 4.329% fixed note payable in monthly installments of $9,775 including principal and interest, collateralized by real property with a book value of approximately $3,004,000, due September 2025. | 1,961,573 | 1,992,056 |
| 2.5% above the monthly LIBOR rate (1.56% at December 31, 2017) plus 1/16th of the monthly LIBOR rate construction loan payable, collateralized by real property with a book value of approximately $45,406,000, due August 2019. | 28,343,684 | 8,777,941 |
| 2.25% above 90 day LIBOR rate (1.69% at December 31, 2017) note payable in monthly installments of approximately $125,000, collateralized by real property with a book value of approximately $34,431,000, due October 2019. | 26,773,058 | 27,377,114 |

| | | |
|---|---|---|
| 1 month LIBOR rate (1.56% at December 31, 2017) plus 3% loan purchase agreement with a warehouse line availability of $100,000,000, matures June 2018 | 61,298,220 | 76,843,180 |
| 1 month LIBOR rate (1.56% at December 31, 2017) plus 3% loan purchase agreement with a warehouse line availability of $100,000,000, matures September 2018 | 25,538,378 | 21,578,951 |
| Other loans payable | 142,421 | 110,695 |
| Total bank and other loans | 157,450,925 | 152,140,679 |
| Less current installments | 88,437,940 | 101,177,574 |
| Bank and other loans, excluding current installments | $69,012,985 | $50,963,105 |

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7) Bank and Other Loans Payable (Continued)

Revolving Lines of Credit

The Company has a $2,000,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75% (3.75% at December 31, 2017), secured by the capital stock of Security National Life and maturing September 30, 2018, renewable annually. At December 31, 2017, the Company was contingently liable under a standby letter of credit aggregating $625,405, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's captive insurance program and under a standby letter of credit aggregating $48,220 issued as a security deposit to guarantee payment of final bills for electric and gas utility services for a commercial real estate property owned by the Company in Wichita, Kansas. These standby letters of credit will draw on the line of credit if necessary. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. As of December 31, 2017, there were no amounts outstanding under the revolving line-of-credit.

The Company also has a $2,500,000 revolving line-of-credit with a bank with interest payable at the overnight LIBOR rate plus 2.25% (3.68% at December 31, 2017) maturing September 30, 2018. At December 31, 2017, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating $1,250,000, to be used as collateral to cover any contingency relating to claims filed in states where SecurityNational Mortgage is licensed. This standby letter of credit will draw on the line of credit if necessary. The Company does not expect any material losses to result from the issuance of the standby letters of credit. As of December 31, 2017, there were no amounts outstanding under the revolving line-of-credit.

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 3% and matures on June 16, 2018. SecurityNational Mortgage is required to maintain an adjusted tangible net worth of $19,000,000, unrestricted cash of $10,000,000, indebtedness to adjusted tangible net worth of 12:1, liquidity overhead coverage of 1.75:1, 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 7, 2018. The Company is required to maintain an adjusted tangible net worth of $70,000,000, unrestricted cash of $15,000,000, and no two consecutive quarters with a net loss.

In addition to financial covenants of these agreements, the Company is required to carry insurance policies for errors and omissions and general liability and was in compliance with all debt covenants as of December 31, 2017.

The following tabulation shows the combined maturities of bank and other loans payable:

| | |
|---|---|
| 2018 | $88,437,940 |
| 2019 | 55,674,420 |

| | |
|---|---|
| 2020 | 1,085,699 |
| 2021 | 3,456,607 |
| 2022 | 326,923 |
| Thereafter | 8,469,336 |
| Total | $157,450,925 |

Interest expense in 2017 and 2016 was $6,037,332 and $5,111,868, respectively.

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8) Cemetery Perpetual Care Trust Investments and Obligation and Restricted Assets

State law requires the Company to pay into endowment care trusts a portion of the proceeds from the sale of certain cemetery property interment rights for cemeteries that have established an endowment care trust. These endowment care trusts are defined as variable interest entities pursuant to GAAP. Also, management has determined that the Company is the primary beneficiary of these trusts, as it absorbs both a majority of the losses and returns associated with the trusts. The Company has consolidated cemetery endowment care trust investments with a corresponding amount recorded as Cemetery Perpetual Care Obligation in the accompanying consolidated balance sheets.

The components of the cemetery perpetual care investments and obligation are as follows:

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Cash and cash equivalents | $997,498 | $865,699 |
| Fixed maturity securities, held to maturity, at amortized cost | 943,211 | 885,729 |
| Equity securities, at estimated fair value | 682,315 | 698,202 |
| Participating interests in mortgage loans held for investment with Security National Life | 4,128 | 3,821 |
| Real estate | 1,996,411 | 1,678,434 |
| Note receivables from Cottonwood Mortuary Singing Hills Cemetery and Memorial Estates eliminated in consolidation | 1,667,621 | 1,725,714 |
| Total cemetery perpetual care trust investments | 6,291,184 | 5,857,599 |
| Cemetery perpetual care obligation | (3,710,740) | (3,598,580) |
| Trust investments in excess of trust obligations | $2,580,444 | $2,259,019 |

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8) Cemetery Perpetual Care Trust Investments and Obligation and Restricted Assets (Continued)

The Company has also established certain restricted assets to provide for future merchandise and service obligations incurred in connection with its pre-need sales for its cemetery and mortuary segment.

Restricted cash also represents escrows held for borrowers and investors under servicing and appraisal agreements relating to mortgage loans, funds held by warehouse banks in accordance with loan purchase agreements and funds held in escrow for certain real estate construction development projects. Additionally, the Company elected to fund its medical benefit safe-harbor limit based on 35% of the qualified direct costs for the preceding year, and has included this amount as a component of restricted cash. These restricted cash items are for the Company's life insurance and mortgage segments.

Restricted assets are summarized as follows:

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Cash and cash equivalents (1) | $8,188,764 | $7,089,134 |
| Mutual funds, at estimated fair value | 715,952 | 645,241 |
| Fixed maturity securities, held to maturity, at amortized cost | 1,130,088 | 990,613 |
| Equity securities, at estimated fair value | 94,006 | 91,362 |
| Participating in mortgage loans held for investment with Security National Life | 1,701,811 | 1,575,044 |
| Total | $11,830,621 | $10,391,394 |

(1) Including cash and cash equivalents of $6,392,283 and $5,292,266 as of December 31, 2017 and 2016, respectively, for the life insurance and mortgage segments.

A surplus note receivable in the amount of $4,000,000 at December 31, 2017 and 2016, from Security National Life, was eliminated in consolidation.

See Notes 1 and 17 for additional information regarding restricted assets.
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9) Income Taxes

The Company's income tax liability (benefit) is summarized as follows:

| | December 31 2017 | 2016 |
|---|---|---|
| Current | $(922,754 ) | $(1,511,762 ) |
| Deferred | 18,255,537 | 25,830,631 |
| Total | $17,332,783 | $24,318,869 |

Significant components of the Company's deferred tax (assets) and liabilities are approximately as follows:

| | December 31 2017 | 2016 |
|---|---|---|
| Assets | | |
| Future policy benefits | $(6,803,339 ) | $(9,719,058 ) |
| Loan loss reserve | (697,779 ) | (288,590 ) |
| Unearned premium | (886,706 ) | (1,519,722 ) |
| Available for sale securities | (237,677 ) | (51,266 ) |
| Net operating loss | (631,892 ) | (1,531,160 ) |
| Deferred compensation | (1,600,401 ) | (2,225,208 ) |
| Deposit obligations | (627,193 ) | (1,033,580 ) |
| Other | (276,127 ) | (3,384,144 ) |
| Less: Valuation allowance | - | 431,802 |
| Total deferred tax assets | (11,761,114) | (19,320,926) |
| | | |
| Liabilities | | |
| Deferred policy acquisition costs | 13,700,093 | 18,150,517 |
| Basis difference in property and equipment | 6,110,374 | 10,749,036 |
| Value of business acquired | 1,383,639 | 2,573,902 |
| Deferred gains | 6,978,067 | 9,290,123 |
| Trusts | 1,066,438 | 1,599,657 |
| Tax on unrealized appreciation | 778,040 | 2,788,322 |
| Total deferred tax liabilities | 30,016,651 | 45,151,557 |
| Net deferred tax liability | $18,255,537 | $25,830,631 |

The valuation allowance relates to differences between recorded deferred tax assets and liabilities and ultimate anticipated realization. For the year ended December 31, 2017, the Company has not recorded a valuation allowance and, given additional operating results of First Guaranty Insurance Company ("First Guaranty") that was acquired in July 2016, the Company has determined that the $431,802 valuation allowance previously recorded in 2016 related to First Guaranty is no longer needed.

The Company paid $581,556 and $2,667,918 in income taxes for the years ended December 31, 2017 and 2016, respectively.

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9) Income Taxes (Continued)

The Company's income tax expense (benefit) is summarized as follows for the years ended December 31:

| | 2017 | 2016 |
|---|---|---|
| Current | | |
| Federal | $934,647 | $1,138,196 |
| State | 236,559 | 245,764 |
| | 1,171,206 | 1,383,960 |
| Deferred | | |
| Federal | (7,811,030) | 5,686,651 |
| State | 59,002 | 443,993 |
| | (7,752,028) | 6,130,644 |
| Total | $(6,580,822) | $7,514,604 |

The reconciliation of income tax expense (benefit) at the U.S. federal statutory rates is as follows:

| | 2017 | 2016 |
|---|---|---|
| Computed expense at statutory rate | $2,560,918 | $6,699,099 |
| State tax expense, net of federal tax benefit | 195,070 | 455,240 |
| Change in valuation allowance | (431,802) | 431,802 |
| Change in tax law | (8,973,722) | - |
| Other, net | 68,714 | (71,537) |
| Income tax expense (benefit) | $(6,580,822) | $7,514,604 |

The Company's overall effective tax rate for the years ended December 31, 2017 and 2016 was (87.4%) and 38.1%, respectively. During the fourth quarter of 2017, the Company recorded a tax benefit of $8,973,722 related to the enactment of the Tax Cuts and Jobs Act ("the Tax Act") signed into law December 22, 2017. The benefit is primarily related to a re-measurement of deferred tax assets and liabilities taking the Tax Act's newly enacted tax rate into account. The Company's overall effective tax rate for the year ended December 31, 2017 without the impact of the Tax Act would be 31.8%. The Company's effective tax rates differ from the U.S. federal statutory rate of 34% largely due to the Tax Act change, its provision for state income taxes and a reduction in the valuation allowance related to the prior acquisition of First Guaranty that decreased the effective income tax rate when compared to the prior year.

At December 31, 2017, the Company had no significant unrecognized tax benefits. As of December 31, 2017, the Company does not expect any material changes to the estimated amount of unrecognized tax benefits in the next twelve months. Federal and state income tax returns for 2014 through 2017 are subject to examination by taxing authorities.

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9) Income Taxes (Continued)

Net Operating Losses and Tax Credit Carryforwards:

| Year of Expiration | |
|---|---|
| 2019 | $229,201 |
| 2020 | 114,601 |
| 2021 | 17,101 |
| 2022 | - |
| 2023 | - |
| Thereafter up through 2037 | 2,323,615 |
| | $2,684,518 |

10) Reinsurance, Commitments and Contingencies

Reinsurance

The Company follows the procedure of reinsuring risks in excess of a specified limit, which ranged from $25,000 to $100,000 during the years 2017 and 2016. 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 having insurance in force amounting to approximately $106,000,000 and approximately $110,000,000 at December 31, 2017 and 2016, respectively.

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 potential losses on loans sold. The additional amounts expensed for loan losses (above the standard reserve for new loans sold) in years ended December 31, 2017 and 2016 were $-0- and $1,700,000, respectively, and the charge has been included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2017 and 2016, the balances were $2,572,000 and $628,000, respectively.

Mortgage Loan Loss Litigation

Lehman Brothers 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 acquired these loans from Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, which in turn purchased the loans from certain residential mortgage loan originators, including 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 their 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 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.

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10) 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 declaratory judgment that SecurityNational Mortgage sought in its Delaware lawsuit, and for damages relating to the alleged obligations of the defendants under the 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. The case is presently in a motion period. 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 date for the motion has not been set. No Answer to the Second Amended Complaint is required to be filed by SecurityNational Mortgage pending further order of the Court. SecurityNational Mortgage denies that it has any liability to Lehman Holdings and intends to vigorously protect and defend its position.

Non-Cancelable Leases

The Company leases office space and equipment under various non-cancelable agreements, with remaining terms up to five years. Minimum lease payments under these non-cancelable operating leases as of December 31, 2017, are approximately as follows:

| Years Ending December 31 | |
|---|---|
| 2018 | $4,825,139 |
| 2019 | 3,371,267 |
| 2020 | 1,705,632 |
| 2021 | 847,504 |
| 2022 | 26,357 |
| Total | $10,775,899 |

Total rent expense related to non-cancelable operating leases for the years ended December 31, 2017 and 2016 was approximately $7,374,000 and $7,879,000, respectively.

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 December 31, 2017, the Company's commitments were approximately $78,967,000, for these loans of which $50,158,000 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.

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10) Reinsurance, Commitments and Contingencies (Continued)

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.

11) Retirement Plans

The Company and its subsidiaries have a noncontributory Employee Stock Ownership Plan ("ESOP") for all eligible employees. Eligible employees are primarily those with more than one year of service, who work in excess of 1,000 hours per year. Contributions, which may be in cash or stock of the Company, are determined annually by the Board of Directors.

The Company's contributions are allocated to eligible employees based on the ratio of each eligible employee's compensation to total compensation for all eligible employees during each year. The Company did not make any contributions for the years ended December 31, 2017 and 2016. At December 31, 2017, the ESOP held 518,517 shares of Class A and 278,904 shares of Class C common stock of the Company. All shares held by the ESOP have been allocated to the participating employees and all shares held by the ESOP are considered outstanding for purposes of computing earnings per share.

The Company has three 401(k) savings plans covering all eligible employees, as defined above, which includes employer participation in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The plans allow participants to make pretax contributions up to a maximum of $18,000 and $18,000 for the years 2017 and 2016, respectively or the statutory limits.

Beginning January 1, 2008, the Company elected to be a "Safe Harbor" Plan for its matching 401(k) contributions. The Company matched 100% of up to 3% of an employee's total annual compensation and matched 50% of 4% to 5% of an employee's annual compensation. The match was in Company stock. The Company's contribution for the years ended December 31, 2017 and 2016 was $1,534,861 and $1,429,962, respectively under the "Safe Harbor" plan.

In 2001, the Company's Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The Board has appointed a Committee of the Company to be the Plan Administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company's Board of Directors. The Company did not make any contributions for 2017 and 2016.

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11) Retirement Plans (Continued)

On July 16, 2004, the Company entered into an employment agreement with Scott M. Quist, the Chairman of the Board, President and Chief Executive Officer. The agreement is effective as of December 4, 2003 and has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Quist performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Quist is to devote his full time to the Company serving as its Chairman of the Board, President, and Chief Executive Officer at not less than his current salary and benefits. The Company also agrees to maintain a group term life insurance policy of not less than $1,000,000 on Mr. Quist's life and a whole life insurance policy in the amount of $500,000 on Mr. Quist's life. In the event of disability, Mr. Quist's salary would be continued for up to five years at 75% of its current level.

In the event of a sale or merger of the Company and Mr. Quist is not retained in his current position, the Company would be obligated to continue Mr. Quist's current compensation and benefits for seven years following the merger or sale. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of twenty years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed $755,302 and $511,443 during the years ended December 31, 2017 and 2016, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is $4,531,670 and $3,776,368 as of December 31, 2017 and 2016, respectively and is included in Other liabilities and accrued expenses on the consolidated balance sheets.

On December 31, 2015, J. Lynn Beckstead, Jr., who served as Vice President of Mortgage Operations and President of SecurityNational Mortgage, retired from the Company. Under the terms of the employment agreement that the Company, through its wholly owned subsidiary, SecurityNational Mortgage, had entered into with Mr. Beckstead, Mr. Beckstead is entitled to receive retirement benefits from the Company for a period of ten years in an amount equal to 50% of his current rate of compensation at the time of his retirement, which was $267,685 for the year ended December 31, 2015. Such retirement payments are paid monthly during the ten-year period. In determining Mr. Beckstead's current rate of compensation, stock option grants and incentive or similar bonuses are not included. In the event Mr. Beckstead dies prior to receiving all of his retirement benefits under his employment agreement, the remaining benefits will be made to his heirs. The Company expensed $-0- and $148,557 during the years ended December 31, 2017 and 2016, respectively, to cover the present value of the retirement benefits under the employment agreement. The company paid $133,843 and $133,842 in retirement compensation to Mr. Beckstead during the years ended December 31, 2017 and 2016, respectively. The liability accrued was $975,434 and $1,109,277 as of December 31, 2017 and 2016, respectively and is included in Other liabilities and accrued expenses on the consolidated balance sheets.

12) Capital Stock

The Company has one class of preferred stock of $1.00 par value, 5,000,000 shares authorized, of which none are issued. The preferred stock is non-voting.

The Company has two classes of common stock with shares outstanding, Class A common shares and Class C common shares. Class C shares have 10 votes per share on all matters except for the election of one third of the directors who are elected solely by the Class A shares. Class C shares are convertible into Class A shares at any time on a one to one ratio. The decrease in treasury stock was the result of treasury stock being used to fund the company's 401(k) Plans.

Stockholders of both Class A and Class C common stock have received 5% stock dividends in the years 1990 through 2017, as authorized by the Company's Board of Directors.

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12) Capital Stock (Continued)

The Company has Class B common stock of $1.00 par value, 5,000,000 shares authorized, of which none are issued. Class B shares are non-voting stock except to any proposed amendment to the Articles of Incorporation which would affect Class B common stock.

The following table summarizes the activity in shares of capital stock for the two-year period ended December 31, 2017:

| | Class A | Class C |
|---|---|---|
| Balance at December 31, 2015 | 13,109,100 | 1,709,640 |
| Exercise of stock options | 42,634 | 104,975 |
| Stock dividends | 657,919 | 96,967 |
| Conversion of Class C to Class A | 9,353 | (9,353) |
| Balance at December 31, 2016 | 13,819,006 | 1,902,229 |
| Exercise of stock options | 8,183 | 103,402 |
| Stock dividends | 692,635 | 99,496 |
| Conversion of Class C to Class A | 15,753 | (15,753) |
| Balance at December 31, 2017 | 14,535,577 | 2,089,374 |

Earnings per share amounts have been retroactively adjusted for the effect of annual stock dividends. In accordance with GAAP, the basic and diluted earnings per share amounts were calculated as follows:

| | 2017 | 2016 |
|---|---|---|
| Numerator: | | |
| Net earnings | $14,112,934 | $12,188,627 |
| Denominator: | | |
| Denominator for basic earnings per share-weighted-average shares | 15,972,329 | 15,575,632 |
| Effect of dilutive securities | | |
| Employee stock options | 313,601 | 336,960 |
| Dilutive potential common shares | 313,601 | 336,960 |
| Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions | 16,285,930 | 15,912,592 |
| Basic earnings per share | $0.88 | $0.78 |
| Diluted earnings per share | $0.87 | $0.77 |

For the years ended December 31, 2017 and 2016, there were 589,822 and 334,425 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.

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13) Stock Compensation Plans

The Company has four fixed option plans (the "2003 Plan", the "2006 Director Plan", the "2013 Plan" and the "2014 Director Plan"). Compensation expense for options issued of $395,603 and $343,577 has been recognized under these plans for the years ended December 31, 2017 and 2016, respectively, and is included in personnel expenses on the consolidated statements of earnings. As of December 31, 2017, the total unrecognized compensation expense related to the options issued in December 2017 was $213,770, 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.

The following table summarizes the assumptions used in estimating the fair value of each option granted along with the weighted-average fair value of the options granted:

| | | | Assumptions | | | | |
|---|---|---|---|---|---|---|---|
| Grant Date | Plan | Weighted-Average Fair Value of Each Option (1) | Expected Dividend Yield | Underlying stock FMV | Weighted-Average Volatility | Weighted-Average Risk-Free Interest Rate | Weighted-Average Expected Life (years) |
| December 1, 2017 | All Plans | $ 1.20 | 5% | $ 4.80 | 41.07 % | 2.07 % | 4.35 |
| December 21, 2016 | 2013 Plan | $ 2.17 | 5% | $ 6.62 | 54.42 % | 1.99 % | 5.31 |
| December 7, 2016 | 2014 Director Plan | $ 2.41 | 5% | $ 7.36 | 54.60 % | 1.93 % | 5.31 |
| December 2, 2016 | 2013 Plan | $ 1.89 | 5% | $ 6.68 | 47.05 % | 1.78 % | 4.33 |
| December 2, 2016 | 2014 Director Plan | $ 1.89 | 5% | $ 6.68 | 47.05 % | 1.78 % | 4.33 |

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13) Stock Compensation Plans (Continued)

Activity of the stock option plans is summarized as follows:

| | Number of Class A Shares | Weighted Average Exercise Price | Number of Class C Shares | Weighted Average Exercise Price |
|---|---|---|---|---|
| Outstanding at December 31, 2015 | 618,261 | $ 3.89 | 577,436 | $ 3.54 |
| Adjustment for the effect of stock dividends | 35,346 | | 26,491 | |
| Granted | 133,500 | | 80,000 | |
| Exercised | (42,634 ) | | (127,629) | |
| Cancelled | (2,500 ) | | - | |
| Outstanding at December 31, 2016 | 741,973 | $ 4.33 | 556,298 | $ 4.52 |
| Adjustment for the effect of stock dividends | 40,978 | | 24,934 | |
| Granted | 124,500 | | 70,000 | |
| Exercised | (8,182 ) | | (103,402) | |
| Cancelled | (18,843 ) | | (24,227 ) | |
| Outstanding at December 31, 2017 | 880,426 | $ 4.35 | 523,603 | $ 5.24 |
| Exercisable at end of year | 749,701 | $ 4.22 | 450,103 | $ 5.31 |
| Available options for future grant | 421,241 | | 165,638 | |
| Weighted average contractual term of optionsoutstanding at December 31, 2017 | 6.62 years | | 3.45 years | |
| Weighted average contractual term of options exercisable at December 31, 2017 | 6.55 years | | 2.38 years | |
| Aggregated intrinsic value of options outstanding at December 31, 2017 (1) | $915,293 | | $204,015 | |
| Aggregated intrinsic value of options exercisable at December 31, 2017 (1) | $904,898 | | $189,315 | |

(1) The Company used a stock price of $5.00 as of December 31, 2017 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 years ended December 31, 2017 and 2016 was $611,126 and $670,959, respectively.

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14) Statutory Financial Information and Dividend Limitations

The Company's insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the NAIC, as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

All states require domiciled insurance companies to prepare statutory-basis financial statements in conformity with the NAIC Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director. Statutory accounting practices differ from GAAP primarily since they require charging policy acquisition and certain sales inducement costs to expense as incurred, establishing life insurance reserves based on different actuarial assumptions, and valuing certain investments and establishing deferred taxes on a different basis.

Statutory net income and capital and surplus of the Company's insurance subsidiaries, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities are as follows:

| | Net Income | | Capital and Surplus | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Amounts by insurance subsidiary: | | | | |
| Security National Life Insurance Company | $(3,025,616) | $2,601,408 | $36,281,485 | $36,789,358 |
| First Guaranty Insurance Company | 1,437,963 | 174,562 | 4,583,346 | 4,091,847 |
| Memorial Insurance Company of America | 36 | 460 | 1,081,799 | 1,081,319 |
| Southern Security Life Insurance Company, Inc. | 72 | 889 | 1,591,070 | 1,592,440 |
| Trans-Western Life Insurance Company | 2,597 | 1,203 | 502,930 | 500,333 |
| Total | $(1,584,948) | $2,778,522 | $44,040,630 | $44,055,297 |

The Utah, Arkansas, Louisiana, Mississippi and Texas Insurance Departments impose minimum risk-based capital (RBC) requirements that were developed by the NAIC on insurance enterprises. The formulas for determining the RBC specify various factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio (the Ratio) of the enterprise's regulatory total adjusted capital, as defined by the NAIC, to its authorized control level, as defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The life insurance subsidiaries have a combined weighted Ratio that is greater than the first level of regulatory action as of December 31, 2017.

Generally, the net assets of the life insurance subsidiaries available for transfer to the Company are limited to the amounts of the life insurance subsidiaries net assets, as determined in accordance with statutory accounting practices, which were $44,040,630 at December 31, 2017. These amounts exceed minimum statutory capital requirements; however, payments of such amounts as dividends are subject to approval by regulatory authorities.

Under the Utah Insurance Code, Security National Life Insurance Company is permitted to pay a stockholder dividend to the Company as long as the Company provides the Utah Insurance Commissioner (the "Utah Commissioner") with at least 30 days notice and the aggregate amount of all such dividends in any 12 month period does not exceed the lesser of: (i) 10% of its surplus to policyholders as of the end of the immediately preceding calendar year, or (ii) net gain from operations, not including realized capital gains, for the immediately preceding calendar year, not including pro rata distributions of the Company's own securities. In determining whether a dividend is extraordinary, the Company may include carryforward net income from the previous two calendar years, excluding realized capital gains less dividends paid in the second and immediately preceding calendar years. Security National Life Insurance Company will be permitted to pay a dividend to the Company in excess of the lesser of such two amounts only if it files notice of its intention to declare such a dividend and the amount thereof with the Utah Commissioner and the Utah Commissioner either approves the distribution of the dividend or does not disapprove the distribution within 30 days of its filing. In all cases, a dividend may not be paid that would reduce the insurer's total adjusted capital below the insurer's company action level risk-based capital, as defined for statutory reporting purposes. No amounts are available to be paid as dividends in the next 12 months because Security National Life Insurance Company had a net statutory loss for the immediately preceding calendar year.

Under the Louisiana Insurance Code, First Guaranty Insurance Company is permitted to pay a stockholder dividend to Security National Life as long as First Guaranty Insurance Company's capital has been (i) fully paid in cash, (ii) is unimpaired, (iii) has a surplus beyond its capital stock and (iv) has a surplus beyond its minimum required surplus. In 2017, First Guaranty Insurance Company paid to Security National Life a cash dividend of $1,000,000. Amounts still available to be paid as dividends at December 31, 2017 totaled approximately $683,000.

15) 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 pre-sold loans before the funds are received from financial institutional investors.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the Significant Accounting Principles. 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.

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15) Business Segment Information (Continued)

| | 2017 Life Insurance | Cemetery/ Mortuary | Mortgage | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| From external sources: | | | | | |
| Revenue from customers | $70,412,476 | $12,657,117 | $153,797,171 | $- | $236,866,764 |
| Net investment income | 34,068,565 | 445,663 | 548,740 | - | 35,062,968 |
| Realized gains (losses) on investments and other assets | (3,871,309) | 186,335 | 736,492 | - | (2,948,482) |
| Other than temporary impairments | (774,339) | - | - | - | (774,339) |
| Other revenues | 856,094 | 97,602 | 7,765,483 | - | 8,719,179 |
| Intersegment revenues: | | | | | |
| Net investment income | 5,987,731 | 422,623 | 392,083 | (6,802,437) | - |
| Total revenues | 106,679,218 | 13,809,340 | 163,239,969 | (6,802,437) | 276,926,090 |
| Expenses: | | | | | |
| Death and other policy benefits | 36,095,018 | - | - | - | 36,095,018 |
| Increase in future policy benefits | 23,622,750 | - | - | - | 23,622,750 |
| Amortization of deferred policy and preneed acquisition costs and value of business acquired | 8,157,456 | 322,794 | - | - | 8,480,250 |
| Depreciation | 484,349 | 401,564 | 1,334,780 | - | 2,220,693 |
| General, administrative and other costs: | | | | | |
| Intersegment | 315,588 | 184,853 | 505,707 | (1,006,148) | - |
| Provision for loan losses | - | - | - | - | - |
| Costs related to funding mortgage loans | - | - | 8,663,223 | - | 8,663,223 |
| Other | 30,632,307 | 10,689,813 | 142,952,592 | - | 184,274,712 |
| Interest expense: | | | | | |
| Intersegment | 445,520 | 181,793 | 5,168,976 | (5,796,289) | - |
| Other | 2,218,956 | 330,211 | 3,488,165 | - | 6,037,332 |
| Total benefits and expenses | 101,971,944 | 12,111,028 | 162,113,443 | (6,802,437) | 269,393,978 |
| Earnings before income taxes | $4,707,274 | $1,698,312 | $1,126,526 | $- | $7,532,112 |
| Income tax benefit (expense) | 6,400,669 | (606,293) | 786,446 | - | 6,580,822 |
| Net earnings | $11,107,943 | $1,698,312 | $1,912,972 | $- | $14,112,934 |
| Identifiable assets | $858,068,899 | $95,097,729 | $161,051,531 | $(134,810,675) | $979,407,484 |
| Goodwill | $2,765,570 | $- | $- | $- | $2,765,570 |

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15) Business Segment Information (Continued)

| | 2016<br>Life Insurance | Cemetery/ Mortuary | Mortgage | Intercompany Eliminations | Consolidated |
|---|---|---|---|---|---|
| Revenues: | | | | | |
| From external sources: | | | | | |
| Revenue from customers | $64,501,017 | $12,267,640 | $189,146,639 | $- | $265,915,296 |
| Net investment income | 31,019,594 | 312,494 | 646,513 | - | 31,978,601 |
| Realized gains (losses) on investments and other assets | (277,040) | 211,429 | (110,776) | - | (176,387) |
| Other than temporary impairments | (270,358) | - | - | - | (270,358) |
| Other revenues | 632,260 | 88,676 | 6,166,813 | - | 6,887,749 |
| Intersegment revenues: | | | | | |
| Net investment income | 7,119,692 | 691,876 | 327,778 | (8,139,346) | - |
| Total revenues | 102,725,165 | 13,572,115 | 196,176,967 | (8,139,346) | 304,334,901 |
| Expenses: | | | | | |
| Death and other policy benefits | 33,387,380 | - | - | - | 33,387,380 |
| Increase in future policy benefits | 21,322,195 | - | - | - | 21,322,195 |
| Amortization of deferred polic and preneed acquisition costs and value of business acquired | 7,647,097 | 356,078 | - | - | 8,003,175 |
| Depreciation | 596,827 | 390,362 | 1,195,535 | - | 2,182,724 |
| General, administrative and other costs: | | | | | |
| Intersegment | 261,119 | 148,025 | 219,974 | (629,118) | - |
| Provision for loan losses | - | - | 1,700,000 | - | 1,700,000 |
| Costs related to funding mortgage loans | - | - | 9,191,488 | - | 9,191,488 |
| Other | 29,478,156 | 10,524,535 | 163,730,148 | 1 | 203,732,840 |
| Interest expense: | | | | | |
| Intersegment | 519,959 | 651,046 | 6,339,224 | (7,510,229) | - |
| Other | 1,654,264 | 282,878 | 3,174,726 | - | 5,111,868 |
| Total benefits and expenses | 94,866,997 | 12,352,924 | 185,551,095 | (8,139,346) | 284,631,670 |
| Earnings before income taxes | $7,858,168 | $1,219,191 | $10,625,872 | $- | $19,703,231 |
| Income tax expense | (3,451,292) | - | (4,063,312) | - | (7,514,604) |
| Net earnings | $4,406,876 | $1,219,191 | $6,562,560 | $- | $12,188,627 |
| Identifiable assets | $818,140,804 | $99,611,263 | $172,778,387 | $(140,874,459) | $949,655,995 |
| Goodwill | $2,765,570 | $- | $- | $- | $2,765,570 |
| Expenditures for long-lived assets | $532,958 | $723,445 | $2,310,108 | $- | $3,566,511 |

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16) Related Party Transactions

The Company's Board of Directors has a written procedure, which requires disclosure to the Board of any material interest or any affiliation on the part of any of its officers, directors or employees that is in conflict or may be in conflict with the interests of the Company. The Company and its Board of Directors is unaware of any related party transactions that require disclosure as of December 31, 2017.

17) 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:

Securities Available for Sale and Held to Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 2 of the Notes to Consolidated Financial Statements.

Restricted Assets: A portion of these assets include mutual funds, equity securities and fixed maturity 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 held for investment.

Cemetery Endowment Care Trust Investments: A portion of these assets include equity securities and fixed maturity securities that have quoted market prices that are used to determine fair value. Also included are cash and cash equivalents, participations in mortgage loans held for investment and real estate.

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

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

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17) Fair Value of Financial Instruments (Continued)

The items shown under Level 3 are valued as follows:

Loans Held for Sale, at Fair Value: The Company elected the fair value option for all loans held for sale originated after July 1, 2017. 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.

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.

Interest Rate Swaps: Management considers interest rate swap instruments to be an effective cash flow hedge against the variable interest rate on bank borrowings since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. Interest rate swaps are derivative financial instruments carried at their fair value, which is derived from a model that factors in current market assumptions about future interest rates.

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 Marshall and Swift, 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 Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company 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.

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17) Fair Value of Financial Instruments (Continued)

Mortgage Servicing Rights: The Company initially recognizes 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. The precise fair value of MSRs cannot be readily determined because MSRs are not actively traded in stand-alone markets. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect the Company's earnings.

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2017.

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Assets accounted for at fair value on a recurring basis | | | | |
| Common stock | $6,037,855 | $6,037,855 | $ - | $- |
| Total securities available for sale | $6,037,855 | $6,037,855 | $ - | $- |
| | | | | |
| Loans held for sale | 133,414,188 | | | 133,414,188 |
| Restricted assets (1) | 809,958 | 809,958 | - | - |
| Cemetery perpetual care trust investments (1) | 682,315 | 682,315 | - | - |
| Derivatives - loan commitments (2) | 2,032,782 | - | - | 2,032,782 |
| | | | | |
| Total assets accounted for at fair value on a recurring basis | $9,562,910 | $7,530,128 | $ - | $2,032,782 |
| | | | | |
| Liabilities accounted for at fair value on a recurring basis | | | | |
| Derivatives - call options (3) | $(64,689) | $(64,689) | $ - | $- |
| Derivatives - put options (3) | (20,568) | (20,568) | - | - |
| Derivatives - loan commitments (3) | (36,193) | - | - | (36,193) |
| | | | | |
| Total liabilities accounted for at fair value on a recurring basis | $(121,450) | $(85,257) | $ - | $(36,193) |

(1) Mutual funds and equity securities
(2) Included in other assets on the consolidated balance sheets
(3) Included in other liabilities and accrued expenses on the consolidated balance sheets

For Level 3 assets and liabilities measured at fair value on a recurring basis as of December 31, 2017, the significant unobservable inputs used in the fair value measurements were as follows:

| | Fair Value at 12/31/2017 | Valuation Technique | Significant Unobservable Input(s) | Range of Inputs Minimum Value | Maximum Value | Weighted Average |
|---|---|---|---|---|---|---|
| Loans held for sale | $133,414,188 | Market approach | Investor contract pricing as a percentage of unpaid principal balance | 100.0% | 110.5% | 102.8% |
| Derivatives - loan commitments (net) | 1,996,589 | Market approach | Fall-out factor | 1.0% | 99.0% | 19.0% |
| | | | Initial-Value | N/A | N/A | N/A |
| | | | Servicing | 151 bps | 382 bps | 275 bps |

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17) Fair Value of Financial Instruments (Continued)

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

| | Net Derivatives Loan Commitments | Bank Loan Interest Rate Swaps | Loans Held for Sale |
|---|---|---|---|
| Balance - December 31, 2016, as restated | $ 6,809,332 | $ (3,308 ) | $ - |
| Originations | | | 1,233,683,666 |
| Sales | | | (1,151,031,388 ) |
| Total gains (losses): | | | |
| Included in earnings (1) | (4,812,743 ) | - | 50,761,910 |
| Included in other comprehensive income (2) | - | 3,308 | - |
| Balance - December 31, 2017 | $ 1,996,589 | $ - | $ 133,414,188 |

(1) As a component of mortgage fee income on the consolidated statements of earnings
(2) As a component of unrealized gains on derivative instruments on the consolidated statements of comprehensive income

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 consolidated balance sheet at December 31, 2017.

| | 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 | $ 1,363,440 | $ - | $ - | $ 1,363,440 |
| Mortgage servicing rights additions | 6,085,352 | - | - | 6,085,352 |
| Impaired real estate held for investment | 8,500,000 | - | - | 8,500,000 |
| Impaired fixed maturity securities, held to maturity | 426,984 | - | 426,984 | - |
| Total assets accounted for at fair value on a nonrecurring basis | $ 16,375,776 | $ - | $ 426,984 | $ 15,948,792 |

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17) Fair Value of Financial Instruments (Continued)

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2016.

| | 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 | $9,911,256 | $9,911,256 | $ - | $ - |
| Total securities available for sale | $9,911,256 | $9,911,256 | $ - | $ - |
| | | | | |
| Restricted assets (1) | $736,603 | $736,603 | $ - | $ - |
| Cemetery perpetual care trust investments (1) | 698,202 | 698,202 | - | - |
| Derivatives - loan commitments (2) | 6,911,544 | - | - | 6,911,544 |
| | | | | |
| Total assets accounted for at fair value on a recurring basis | $18,257,605 | $11,346,061 | $ - | $ 6,911,544 |
| | | | | |
| Liabilities accounted for at fair value on a recurring basis | | | | |
| Derivatives - bank loan interest rate swaps (3) | $(3,308) | | $ - | $ (3,308) |
| - call options (4) | (109,474) | (109,474) | - | - |
| - put options (4) | (26,494) | (26,494) | - | - |
| - loan commitments (4) | (102,212) | - | - | (102,212) |
| | | | | |
| Total liabilities accounted for at fair value on a recurring basis | $(241,488) | $(135,968) | $ - | $ (105,520) |

(1) Mutual funds and equity securities
(2) Included in other assets on the consolidated balance sheets
(3) Included in bank and other loans payable on the consolidated balance sheets
(4) Included in other liabilities and accrued expenses on the consolidated balance sheets

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

| | Net Derivatives Loan Commitments | Bank Loan Interest Rate Swaps |
|---|---|---|
| Balance - December 31, 2015, as restated | $ 7,671,495 | $(13,947) |

| | | |
|---|---|---|
| Total gains (losses): | | |
| Included in earnings (1) | (862,163 ) | - |
| Included in other comprehensive income (2) | - | 10,639 |
| Balance - December 31, 2016, as restated | $ 6,809,332 | $ (3,308 ) |

(1) As a component of mortgage fee income on the consolidated statements of earnings
(2) As a component of unrealized gains on derivative instruments on the consolidated statements of comprehensive income

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 consolidated balance sheet at December 31, 2016.

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17) Fair Value of Financial Instruments (Continued)

| | 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 | $2,809,925 | $ - | $ - | $ 2,809,925 |
| Mortgage servicing rights additions | 8,603,154 | - | - | 8,603,154 |
| Impaired real estate held for investment | 2,347,820 | - | - | 2,347,820 |
| Total assets accounted for at fair value on a nonrecurring basis | $13,760,899 | $ - | $ - | $ 13,760,899 |

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 December 31, 2017 and 2016.

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, 2017:

| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Estimated Fair Value |
|---|---|---|---|---|---|
| Assets | | | | | |
| Fixed maturity securities, held to maturity | $228,397,623 | $ - | $233,806,219 | $7,692,190 | $241,498,409 |
| Mortgage loans held for investment | | | | | |
| Residential | 99,816,535 | - | - | 106,050,169 | 106,050,169 |
| Residential construction | 49,694,025 | - | - | 49,694,025 | 49,694,025 |
| Commercial | 54,700,325 | - | - | 56,473,156 | 56,473,156 |
| Mortgage loans held for investment, net | $204,210,885 | $ - | $- | $212,217,350 | $212,217,350 |
| Policy loans | 6,531,352 | - | - | 6,531,352 | 6,531,352 |
| Insurance assignments, net (1) | 35,455,098 | - | - | 35,455,098 | 35,455,098 |
| Restricted assets (2) | 1,130,088 | - | 1,152,324 | - | 1,152,324 |
| Restricted assets (3) | 1,701,811 | - | - | 1,796,910 | 1,796,910 |
| Cemetery perpetual care trust investments (2) | 943,211 | - | 953,404 | - | 953,404 |

| | | | | | |
|---|---|---|---|---|---|
| Cemetery perpetual care trust investments (3) | 4,128 | - | - | 4,411 | 4,411 |
| Mortgage servicing rights, net | 21,376,937 | - | - | 27,427,174 | 27,427,174 |
| | | | | | |
| Liabilities | | | | | |
| Bank and other loans payable | $(157,450,925) | $ - | $- | $(157,450,925) | $(157,450,925) |
| Policyholder account balances (4) | (47,867,037) | - | - | (34,557,111) | (34,557,111) |
| Future policy benefits - annuities (4) | (99,474,392) | - | - | (98,827,107) | (98,827,107) |

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(1) Included in other investments and policy loans on the consolidated balance sheets
(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 consolidated balance sheets

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17) 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, 2016:

| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Estimated Fair Value |
|---|---|---|---|---|---|
| Assets | | | | | |
| Fixed maturity securities, held to maturity | $184,979,644 | $ - | $191,850,749 | $- | $191,850,749 |
| Mortgage loans held for investment | | | | | |
| Residential | 57,096,961 | - | - | 61,357,393 | 61,357,393 |
| Residential construction | 40,700,003 | - | - | 40,700,003 | 40,700,003 |
| Commercial | 51,193,768 | - | - | 53,299,800 | 53,299,800 |
| Mortgage loans held for investment, net | $148,990,732 | $ - | $- | $155,357,196 | $155,357,196 |
| Loans held for sale | 189,139,832 | - | - | 192,289,854 | 192,289,854 |
| Policy loans | 6,694,148 | - | - | 6,694,148 | 6,694,148 |
| Insurance assignments, net (1) | 32,477,246 | - | - | 32,477,246 | 32,477,246 |
| Short-term investments | 27,560,040 | - | - | 27,560,040 | 27,560,040 |
| Restricted assets (2) | 990,613 | - | 991,528 | - | 991,528 |
| Restricted assets (3) | 1,575,044 | - | - | 1,651,539 | 1,651,539 |
| Cemetery perpetual care trust investments (2) | 885,729 | - | 892,260 | - | 892,260 |
| Cemetery perpetual care trust investments (3) | 3,821 | - | - | 3,863 | 3,863 |
| Mortgage servicing rights, net | 18,872,362 | - | - | 25,496,832 | 25,496,832 |
| | | | | | |
| Liabilities | | | | | |
| Bank and other loans payable | $(152,137,341) | $ - | $- | $(152,137,341) | $(152,137,341) |
| Policyholder account balances (4) | (49,421,125) | - | - | (38,530,031) | (38,530,031) |
| Future policy benefits - annuities (4) | (99,385,662) | - | - | (100,253,261) | (100,253,261) |

(1) Included in other investments and policy loans on the consolidated balance sheets
(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 consolidated balance sheets

The methods, assumptions and significant valuation techniques and inputs used to estimate the fair value of 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 of mortgage loans 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 or priced 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.

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17) Fair Value of Financial Instruments (Continued)

Loans Held for Sale, at Amortized Cost: 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.

Policy Loans: The carrying amounts reported in the accompanying 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 short in maturity accordingly, the carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

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

Bank and Other Loans Payable: The carrying amounts reported in the accompanying 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.

18) Accumulated Other Comprehensive Income

The following summarizes the changes in accumulated other comprehensive income:

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Unrealized gains on equity securities available for sale, restricted assets and cemetery perpetual care trust investments | $421,499 | $996,343 |
| Reclassification adjustment for net realized gains in net income | 90,475 | 160,575 |
| Net unrealized gains before taxes | 511,974 | 1,156,918 |
| Tax expense | (175,644) | (399,228) |
| Net | 336,330 | 757,690 |
| Unrealized gains for bank loan interest rate swaps before taxes | 3,308 | 10,639 |
| Tax expense | (1,290) | (4,149) |
| Net | 2,018 | 6,490 |

| | | |
|---|---|---|
| Other comprehensive income changes | $338,348 | $764,180 |

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18) Accumulated Other Comprehensive Income (Continued)

The following is the accumulated balances of other comprehensive income as of December 31, 2017:

| | Beginning Balance December 31, 2016 | Change for the period | Ending Balance December 31, 2017 |
|---|---|---|---|
| Unrealized gains on equity securities available for sale, restricted assets and cemetery perpetual care trust investments | $ 266,840 | $ 336,330 | $ 603,170 |
| Unrealized gains for bank loan interest rate swaps | (2,018 ) | 2,018 | - |
| Other comprehensive income | $ 264,822 | $ 338,348 | $ 603,170 |

The following is the accumulated balances of other comprehensive income as of December 31, 2016:

| | Beginning Balance December 31, 2015 | Change for the period | Ending Balance December 31, 2016 |
|---|---|---|---|
| Unrealized gains (losses) on equity securities available for sale, restricted assets and cemetery perpetual care trust investments | $ (490,850 ) | $ 757,690 | $ 266,840 |
| Unrealized gains (losses) for bank loan interest rate swaps | (8,508 ) | 6,490 | (2,018 ) |
| Other comprehensive income (loss) | $ (499,358 ) | $ 764,180 | $ 264,822 |

See Note 1 regarding the adoption of ASU 2016-01.

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19) Derivative Instruments

The following table shows the fair value of derivatives as of December 31, 2017 and 2016.

Fair Values and Notional Amounts of Derivative Instruments

| | | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|---|
| | Balance Sheet Location | 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 | $105,679,107 | $2,032,782 | $36,193 | $191,757,193 | $6,911,544 | $102,212 |
| Call options | Other liabilities | 1,488,550 | -- | 64,689 | 2,169,850 | -- | 109,474 |
| Put options | Other liabilities | 2,265,900 | -- | 20,568 | 1,336,750 | -- | 26,494 |
| Derivatives designated as fair value hedging instruments: | | | | | | | |
| Interest rate swaps | Bank and other loans payable | -- | -- | -- | 175,762 | -- | 3,308 |
| Total | | $109,433,557 | $2,032,782 | $121,450 | $195,439,555 | $6,911,544 | $241,488 |

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

| | | Net Amount Gain (Loss) Years ended December 31 | |
|---|---|---|---|
| Derivative | Classification | 2017 | 2016 |
| Interest Rate Swaps | Other comprehensive income | $2,018 | $6,490 |
| Loan commitments | Mortgage fee income | $(4,812,743)(1) | $(862,163) |
| Call and put options | Realized gains on investments and other assets | $316,244 | $208,409 |

(1) Includes the transfer of loan commitments to the value of loans held for sale.

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20) Acquisitions

Acquisition of First Guaranty Insurance Company

On July 11, 2016, the Company, through its wholly owned subsidiary, Security National Life completed the stock purchase transaction with the shareholders of Reppond Holding Corporation, an Arkansas corporation (Reppond Holding) and sole shareholder of First Guaranty, a Louisiana domestic stock legal reserve life insurance company, to purchase all the outstanding shares of common stock of Reppond Holding. Under the terms of the stock purchase agreement, dated February 17, 2016, between Security National Life and Reppond Holding, which was later amended on March 4 and 17, 2016, Security National Life paid a total of $6,753,000 at the closing in consideration for the purchase of all the outstanding shares of stock of Reppond Holding from its shareholders.

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

| | |
|---|---|
| Fixed maturity securities, held to maturity | $43,878,084 |
| Equity securities, available for sale | 646,335 |
| Mortgage loans held for investment | 4,528,582 |
| Real estate held for investment | 528,947 |
| Policy loans | 145,953 |
| Short-term investments | 5,358,403 |
| Accrued investment income | 585,985 |
| Cash and cash equivalents | 2,424,480 |
| Receivables | 73,347 |
| Property and equipment | 21,083 |
| Deferred tax asset | 1,190,862 |
| Receivable from reinsurers | 34,948 |
| Other | 57,768 |
| Total assets acquired | 59,474,777 |
| Future policy benefits and unpaid claims | (52,648,838) |
| Accounts payable | (6,953) |
| Other liabilities and accrued expenses | (65,986) |
| Total liabilities assumed | (52,721,777) |
| Fair value of net assets acquired/consideration paid | $6,753,000 |

The estimated fair value of the fixed maturity securities and the equity securities is based on unadjusted quoted prices for identical assets in an active market. These types of financial assets are considered Level 1 under the fair value hierarchy. The estimated fair value of future policy benefits is based on assumptions of the future value of the business acquired. Based on the unobservable nature of certain of these assumptions, the valuation for these financial liabilities is 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. The fair value of assets acquired and liabilities assumed are subject to adjustment during the first twelve months after the acquisition date if additional information becomes available to indicate a more accurate or appropriate value for an asset or liability. No adjustments were made.

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20) Acquisitions (Continued)

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming the acquisition of First Guaranty had occurred at the beginning of the year ended December 31, 2016. This pro forma information is supplemental and does not necessarily present the operations of the Company that would have occurred had the acquisition occurred on this date and may not reflect the operations that will occur in the future:

| | For the Year Ended December 31, 2016 (unaudited) |
|---|---|
| Total revenues | $306,471,770 |
| Net earnings | $11,923,653 |
| Net earnings per Class A equivalent common share | $0.77 |
| Net earnings per Class A equivalent common share assuming dilution | $0.75 |

The pro forma results for the year ended December 31, 2017 are not included in the table above because the operating results for the First Guaranty acquisition were included in the Company's consolidated statements of earnings for this period.

21) Mortgage Servicing Rights

The Company reports MSRs pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

The following table presents the MSR activity for the periods presented.

| | December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Amortized cost: | | |
| Balance before valuation allowance at beginning of year | $18,872,362 | $12,679,755 |
| MSR additions resulting from loan sales | 6,085,352 | 8,603,154 |
| Amortization (1) | (3,580,777 ) | (2,410,547 ) |
| Application of valuation allowance to write down MSRs with other than temporary impairment | - | - |
| Balance before valuation allowance at year end | $21,376,937 | $18,872,362 |
| | | |
| 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 year end | $- | $- |
| Mortgage servicing rights, net | $21,376,937 | $18,872,362 |
| Estimated fair value of MSRs at year end | $27,427,174 | $25,496,832 |

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

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21) Mortgage Servicing Rights (Continued)

The following table summarizes the Company's estimate of future amortization of its existing MSRs carried at amortized cost. This projection was developed using the assumptions made by management in its December 31, 2017 valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

| | Estimated MSR Amortization |
|---|---|
| 2018 | $ 4,057,830 |
| 2019 | 4,057,830 |
| 2020 | 4,057,830 |
| 2021 | 4,057,684 |
| 2022 | 3,242,163 |
| Thereafter | 1,903,600 |
| Total | $ 21,376,937 |

During the years ended December 31, 2017 and 2016, the Company collected the following contractual servicing fee income and late fee income as reported in other revenues on the consolidated statements of earnings:

| | 2017 | 2016 |
|---|---|---|
| Contractual servicing fees | $7,199,649 | $5,661,699 |
| Late fees | 284,550 | 203,509 |
| Total | $7,484,199 | $5,865,207 |

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

| | Years Ended December 31 | |
|---|---|---|
| | 2017 | 2016 |
| Servicing UPB | 2,924,868,843 | 2,720,441,340 |

The following key assumptions were used in determining MSR value:

| | Prepayment Speeds | | Average Life(Years) | Discount Rate |
|---|---|---|---|---|
| December 31, 2017 | 3.67 | % | 6.34 | |