

SECURITY NATIONAL FINANCIAL CORP
Form 10-K
March 30, 2016

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

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015, or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from _____ to _____

Commission file number 000-09341

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

UTAH 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:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Class A common stock, \$2.00 Par Value	NASDAQ National 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

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any,
every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of

this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark 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 Nonaccelerated filer Smaller reporting company
Accelerated filer Do not check if a smaller reporting company)

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

As of June 30, 2015, the aggregate market value of the registrant's Class A common stock held by non-affiliates of the registrant was \$27,000,000 based on the \$6.41 closing sale price of the Class A common stock as reported on The Nasdaq National Market.

As of March 24, 2016, there were outstanding 13,137,698 shares of Class A common stock, \$2.00 par value per share, and 1,716,024 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, 2015

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Item 1. Business

Security National Financial Corporation (the "Company") operates in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. 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 seven 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 loan segment originates and underwrites or otherwise purchases residential and commercial loans for new construction, existing homes and real estate projects. The mortgage loan segment operates through 121 wholesale and retail offices in 23 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 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) and American Republic Insurance Company (2015).

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. ("Green Street Mortgage") also to originate and refinance residential mortgage loans. Green Street Mortgage ceased its operations on March 31, 2015, but has elected to maintain several licenses and approvals.

See Note 14 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, Memorial Insurance Company of America ("Memorial Insurance Company"), 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.

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, Missouri, 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, 2015:

	2015	2014	2013	2012	2011
Life Insurance Policy/Cert Count as of December 31	509,058	497,933	498,228	502,978	(2) 414,411 (1)
Insurance in force as of December 31 (omitted 000)	\$2,862,803	\$2,763,496	\$2,828,470	\$2,913,419	(2) \$2,969,648 (1)
Premiums Collected (omitted 000)	\$55,780	\$52,418	\$50,009	\$48,168	\$47,982 (1)

(1)Includes the assumption reinsurance of North America Life Insurance Company.

(2)Includes coinsurance with Mothe Life Insurance Company and DLE Life Insurance Company.

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 <u>Birth</u> day	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, 2015:

	2015	2014	2013	2012	2011
Annuities Policy/Cert Count as of December 31	12,022	12,701	12,703	12,320	11,313 (1)
Deposits Collected (omitted 000)	\$8,069	\$8,010	\$7,281	\$6,777	\$5,757 (1)

(1) Includes the assumption reinsurance of North America Life Insurance Company.

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, 2015:

	2015	2014	2013	2012	2011
Accident and Health Policy/Cert Count as of December 31	5,185	5,838	6,451	7,291	8,268
Premiums Collected (omitted 000)	\$119	\$133	\$144	\$158	\$175

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 Company is willing to assume for itself. The 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.

The Company's policy is 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, 2015 was \$65,824,000, which represents approximately 2.3% 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 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 three 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 beneficiary 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.

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Mortgage Loans

Products

The Company, through its wholly owned subsidiary, SecurityNational Mortgage is 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), the Federal Home Loan Mortgage Corporation (Freddie Mac), 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. Green Street Mortgage ceased its operations on March 31, 2015. The Company has elected to maintain several licenses and approvals that would allow Green Street Mortgage to resume originating mortgage loans.

Security National Life originates 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

Reinsurance Agreement with North America Life Insurance Company

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

Reinsurance Agreement with American Republic Insurance Company

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

Reinsurance Agreement with LJA Insurance Company

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

Sale of Paradise Chapel Funeral Home, Inc. – Phoenix, Arizona

On December 8, 2014, the Company and its subsidiaries, Paradise Sunset Chapel Funeral Home, Inc. ("Paradise Sunset Chapel"), and Security National Life completed an asset sales transaction with 40th Street Developers, LLC ("40th Street"), to sell certain real estate. Under the terms of the asset purchase agreement among Paradise Sunset Chapel, Security National Life and 40th Street, 40th Street paid \$1,505,000 at closing to Paradise Sunset Chapel and Security National Life.

Acquisition of American Funeral Financial

On June 4, 2014, the Company, through its wholly owned subsidiary, SNFC Subsidiary, LLC, completed a purchase transaction with American Funeral Financial, LLC, a South Carolina limited liability company, and Hypershop, LLC, a North Carolina limited liability company and sole owner of all the limited liability company interests of American Funeral Financial, to purchase all of the outstanding limited liability company interests, or membership units, of American Funeral Financial. American Funeral Financial is engaged in the operation of a factoring business with the principal purpose to provide funding for funeral homes and mortuaries. For the year ended December 31, 2014, American Funeral Financial had revenues of \$5,026,000 with a net income of \$164,000. As of December 31, 2014, the total assets of American Funeral Financial were \$19,153,000 and total equity was \$1,680,000.

Under the terms of the transaction, as set forth in the Purchase Agreement dated June 4, 2014, among the Company, SNFC Subsidiary, American Funeral Financial and Hypershop, the Company paid Hypershop purchase consideration equal to (i) \$3,000,000 in cash, of which \$175,000 was deposited into an interest bearing escrow account to be held for a period of twelve months from the closing date to pay off the indebtedness and other liabilities of American Funeral Financial, plus (ii) \$12,011,183, representing the amount of the good standing receivables of American Funeral Financial, plus (iii) earn-out payments equal to .0042 of the aggregate amount of life insurance assignments funded by American Funeral Financial during the three year period following the closing date of the transaction. This earn-out liability was estimated to be \$1,368,000. The purchase consideration was to be used to pay off the indebtedness that American Funeral Financial owed to Security Finance Corporation of Spartanburg, as well as to pay off all other indebtedness and liabilities of American Funeral Financial.

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 group plans to continue its development endeavors as the market demands.

Dry Creek at East Village Apartments

The construction of Dry Creek at East Village Apartments ("Dry Creek") was completed in December 2015. The total project consists of 282 units and contains a mixture of 1, 2 and 3 bedroom units. It is located within close proximity to a transit hub and as of December 31, 2015 was 69% 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.

Following the market trend of leasing units as delivered, instead of waiting until the project completed, allowed revenue to begin ahead of final completion. The management company pushed lease rates throughout construction due to the strong leasing performance and overall market demand dynamics. Vacancy rates in the Salt Lake City market continue to outperform the national average as employment and population in-migration remain strong in Utah.

53rd Corporate 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 12 stories, and will be serviced by three parking structures with over 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 914 structured parking stalls. This phase of the campus is expected to be completed in the second quarter of 2017. This asset is included in property and equipment in the accompanying consolidated balance sheet.

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Regulation

The Company's insurance subsidiaries, Security National Life, Memorial Insurance Company, Southern Security and Trans-Western 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, 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 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 subsidiary, Security National Life, is 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, reserves for future policyholder benefits (with modifications), and a small life insurance company deduction (up to 60% of life insurance company taxable income). The Company may be subject to the corporate Alternative Minimum Tax (AMT). Also,

under the Tax Reform Act of 1986, distributions in excess of stockholders' surplus account or a significant decrease in life reserves will result in taxable income.

Security National Life computes its 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 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 Company, Southern Security and Trans-Western.

Competition

The life insurance industry is highly competitive. There are approximately 2,000 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, 2015, the Company had 1,271 full-time and 316 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
5201 S. Green Street	Salt Lake City	UT	Mortgage Operations	Owned	36,899	/	N/ A
3935 I-55 South, Frontage Rd.	Jackson	MS	Insurance Operations	Owned	12,300	/	N/ A
5239 Greenpine Dr. 497-A Sutton Bridge Rd.	Murray	UT	Funeral Service Operations	Owned	1,642	/	N/ A
9700 Stirling Rd., Suite 110	Rainbow City	AL	Fast Funding Operations	Leased	5,500	\$33,600 / yr	6/30/2018
3515 Pelham Rd., Suite 200	Cooper City	FL	Fast Funding Operations	Leased	1,018	\$63,600 / yr	4/30/2016
5201 S. Green Street	Greenville	SC	Operations	Leased	4,000	\$3,800 / mo	5/31/2018
2567 Mall Rd.	Murray	UT	Mortgage Sales	Leased	10,990	\$12,684 / mo	6/30/2016
3100 W. Ray Rd.	Florence	AL	Mortgage Sales	Sub-Leased	1,600	\$750 / mo	month to
2450 S. Gilbert Rd.	Chandler	AZ	Mortgage Sales	Leased	1,000	\$949 / mo	9/30/2016
5701 Talavi Blvd. Suite 155	Chandler	AZ	Mortgage Sales	Leased	6,306	\$10,247 / mo	2/28/2019 month to
6751 N. Sunset Blvd.	Glendale	AZ	Mortgage Sales	Leased	2,214	\$4,358 / mo	month to
1819 S. Dobson	Glendale	AZ	Mortgage Sales	Leased	3,431	\$4,358 / mo	month to
2345 E. Thomas Rd., Suite 400	Mesa	AZ	Mortgage Sales	Leased	2,397	\$1,350 / mo	4/30/2016 month to
17015 N. Scottsdale Rd., Suite 125	Phoenix	AZ	Mortgage Sales	Leased	3,762	\$4,232 / mo	month to
17015 N. Scottsdale Rd., Suite 210	Scottsdale	AZ	Mortgage Sales	Leased	3,140	\$6,542 / mo	month to
17015 N. Scottsdale Rd., Suite 340	Scottsdale	AZ	Mortgage Sales	Leased	2,906	\$6,054 / mo	3/31/2017
5650 El Camino Real 13191 Crossroads Prkway	Scottsdale	AZ	Mortgage Sales	Leased	1,900	\$3,958 / mo	1/31/2019
3643 East 4th Street, Suite A	Carlsbad	CA	Mortgage Sales	Leased	1,739	\$2,869 / mo	10/31/2017
750 University Ave. 18625 Suter Blvd., Suite 300	City of Ind.	CA	Mortgage Sales	Leased	2,569	\$5,780 / mo	8/14/2020
765 The City Dr., Suite 360	Long Beach	CA	Mortgage Sales	Leased	1,250	\$2,060 / mo	10/31/2017
	Los Gatos	CA	Mortgage Sales	Leased	2,137	\$8,762 / mo	4/30/2018
	Morgan Hill	CA	Mortgage Sales	Leased	2,255	\$2,593 / mo	6/30/2018
	Orange	CA	Mortgage Sales	Leased	3,886	\$7,772 / mo	8/31/2017
	Pasadena	CA	Mortgage Sales	Leased	1,105	\$3,149 / mo	3/31/2017

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140 Lake Ave., Suite
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8215 White Oak Ave. 3005 Douglas Blvd., Suite 100	Rancho Cucamonga	CA	Mortgage Sales	Leased	937	\$1,450	/ mo 4/30/2016
	Roseville	CA	Mortgage Sales	Leased	3,722	\$6,997	/ mo 4/14/2018 month to
421 S. Cataract 7100 E. Bellview Ave., Suite 301	San Dimas Greenwood Village	CA	Mortgage Sales	Leased	6,200	\$6,510	/ yr month
8480 E. Orchard Rd. 2500 N. Military Trail	Greenwood Village	CO	Mortgage Sales	Leased	2,549	\$3,717	/ mo 10/31/2016
3046 Del Prado Blvd. 4575 Via Royal, Suite 100	Boca Raton Cape Coral	FL	Mortgage Sales	Leased	2,453	\$4,500	/ mo 7/14/2017
8191 College Prkway, Suite 201	Ft Myers	FL	Mortgage Sales	Leased	2,047	\$2,000	/ mo 11/30/2018 month to
1145 TownPark Ave., Suite 2215	Ft Myers	FL	Mortgage Sales	Leased	1,704	\$1,502	/ mo 10/31/2016
4947 Tamiami Trail N.	Lake Mary	FL	Mortgage Sales	Leased	7,425	\$13,922	/ mo 3/1/2020