

Security National

Family of Companies



2021

Annual Report

Security National

Family of Companies



Who We Are...

The roots of our company were planted deep in 1965 with the founding of Security National Life Insurance Company. Starting with only \$543,000 in assets, in a small rented house in Salt Lake City, Utah, Security National has grown into a strong industry leader in several fields of service.

Over the past five decades we have grown consistently through new sales and investment opportunities, and through the acquisition of life insurance companies, funeral homes and cemeteries, as well as the formation and growth of our mortgage operations.

Profile

Our company operates three main business segments: life insurance, funeral service and mortgage loans. Our company is designed and structured so each segment relates to the others, and contributes to the profitability of the whole. For example, our cemetery and mortuary operations enjoy a high level of public awareness, assisting in the sales and marketing of our insurance and preneed cemetery and funeral products. Security National Life Insurance Company in turn invests its assets in high quality mortgage loans. Thus, while each segment is a stand-alone profit center, this horizontal integration is strategically planned to improve profitability. Additionally, our company actively pursues growth through acquisitions of life insurance companies and mortuaries, and through expanding our mortgage operations.



Scott M. Quist

Chairman of the Board
Chief Executive Officer
President

My Fellow Shareholders:

I am pleased to report on the affairs of our Company for the year ended December 31, 2021, and to invite you to attend the annual Stockholders Meeting to be held June 17, 2022, in Salt Lake City, Utah.

Our Company achieved exceptional performance in 2021. All things Pandemic have been hashed and rehashed over the past two years, but I would be remiss not giving due regard to one of the most, if not the most, disruptive circumstance of the last 75 years. Many adjectives have been used to describe these pandemic years, including “unprecedented”, “extraordinary”, “devastating” and “unparalleled”. For Security National, I would use the term “remarkable” in describing the performance of our teams. Among the most telling metrics summarizing our Company’s performance for 2020 and 2021 are that top line revenue increased 66% and total Stockholders’ Equity increased 50%.

The pandemic related economic and societal currents have had very mixed effects on our Company. The pandemic caused horrific increases in mortality, which did economically benefit our Death Care segment, but correspondingly economically stressed our Insurance segment. The precipitous decline in interest rates further stressed our Insurance segment, but correspondingly benefitted our Mortgage segment. As those currents reverse themselves, as they seem to be doing, I anticipate

that those economic stresses and benefits will also reverse. The speed, timing, and sometimes even the direction of those currents, is very difficult to anticipate.

During the past two years our Death Care segment has struggled over staffing shortages due to pandemic related staff illnesses, meeting restrictions, and unprecedented demand for services. Their performance in providing care during this most difficult time has been remarkable. Notably, in that stressed environment two significant acquisitions were accomplished establishing a significant new market presence in New Mexico and expanding our market presence in Utah. Our Mortgage segment saw demand double in a matter of weeks as interest rates fell, refinance transaction volume exploded, and offices converted to work from home. Then, more recently as interest rates have risen, we have seen refinance demand evaporate, causing an opposite problem in staffing levels. Their performance in serving our customers’ financing needs during this up-and-down demand environment has been remarkable.

Our Insurance segment, also while first converting to work from home and now converting back to in-office, processed huge increases in death claims while maintaining pre-pandemic levels of service to our nearly 700,000 policyholders. Significantly, in our real estate activities during the past two years we participated in a number of single-family and multi-family developments and broke ground and have now completed, within budget, Building 2 in our Center 53 office park. We have consolidated and moved the majority of our Salt Lake City offices to Building 2, which provides an excellent state of the art employee environment which, in turn, contributes significantly to both employee retention and the return to in-office work. The remainder of Building 2 is fully leased to a third party. I believe we should all be justifiably proud of our Company’s performance.

I thank you for your continued support and I hope to see you at our Annual Meeting on June 17, 2022.

Very truly yours,

A handwritten signature in black ink, appearing to read "Scott M. Quist". The signature is fluid and cursive, written over a white background.

Scott M. Quist
Chairman, Chief Executive Officer, and President

SNFC Board of Directors and Officers



Scott M. Quist

Chairman of the Board
President
Chief Executive Officer
Director
Executive Committee



H. Craig Moody

President, Moody & Associates
Director
Executive Committee
Audit Committee
Compensation Committee
Nominating and Corporate
Governance Committee



Robert G. Hunter M.D.

Past Medical Staff President
Department Head-Otolaryngology,
Head and Neck Surgery
Intermountain Medical Center
Director
Compensation Committee
Nominating and Corporate
Governance Committee



Gilbert A. Fuller

Former Executive Vice President,
Chief Financial Officer and Secretary,
USANA Health Sciences, Inc.
Director
Executive Committee
Audit Committee
Compensation Committee
Nominating and Corporate
Governance Committee



John L. Cook

Co-Owner & Operator
Cook Brothers Painting, Inc.
Director
Audit Committee
Compensation Committee
Nominating and Corporate
Governance Committee



S. Andrew Quist

Director
Vice President
General Counsel
Executive Committee



Jason G. Overbaugh

Director
Vice President
National Marketing
Director of Life Insurance



Mia B. Love

Former Member - U.S. House of Representatives
Former Mayor of Saratoga Springs, UT
Former Member - Saratoga Springs City Council
Senior Fellow - U.S. Study Center for Politics (Sydney, AU)
Regular Political Commentator - CNN
Director
Audit Committee
Compensation Committee
Nominating and Corporate
Governance Committee



Alexandra Mysoor

Founder and Chairwoman of Mysoor Industries
Executive Producer and Host of
The Alexandra Mysoor Show
Director
Audit Committee
Compensation Committee
Nominating & Corporate
Governance Committee



Adam G. Quist

Director
Vice President-Memorial Services
Assistant Secretary
General Counsel



Jeffrey R. Stephens

Secretary
Senior General Counsel



Garrett S. Sill

Chief Financial Officer
Treasurer



Diana C. Olson

Vice President
Finance



Stephen C. Johnson

Vice President
Mortgage Operations



Thayne D. Atkinson

Vice President
Chief Information Officer



John W. VanValkenburg

Vice President
Actuarial Services



Richard R. Dahl

Vice President, Tax



Jeffery P. Adams

Controller



Matthew G. Bagley

General Counsel

1965

- 1965 - The founding of Security National Life Insurance Company
- 1966 - The acquisition of Grand Canyon Life
- 1967 - The acquisition of Bankers Trust Life
- 1969 - The acquisition of American Alliance Life

1970

- 1970 - The acquisition of Charter Oak Life & Washington Life Assurance
- 1972 - The acquisition of Columbia Life
- 1973 - The acquisition of National Capital Life and Memorial Estates Companies
- 1979 - The organization of Security National Financial Corporation

1980

- 1981 - The acquisition of American Home Security Life
- 1984 - The acquisition of Western Investors policy block
- 1985 - The acquisition of Del Pueblo Life policy block and Cibola Life policy block
- 1986 - The acquisition of Investors Equity Life
- 1987 - IPO of Security National Financial Corporation and the acquisition of Southwest American policy block
- 1989 - The acquisition of Paradise Chapel Funeral Home

1990

- 1991 - The sale of Investors Equity Life and the acquisition of Deseret Memorial Group
- 1993 - The formation of SecurityNational Mortgage Company
- 1994 - The acquisition of Camelback Sunset Funeral Home and Capital Investors Life

- 1995 - The acquisition of Greer Wilson Funeral Home, Tolleson Funeral Home and Civil Service Employees Life
- 1996 - The dedication of Singing Hills Memorial Park
- 1997 - The acquisition of Crystal Rose Funeral Home and the formation of Adobe Funeral Home
- 1998 - The acquisition of Southern Security Life (FL)
- 1999 - The acquisition of Menlo Life policy block

2000

- 2000 - The organization of Southern Security Mortgage Company
- 2002 - The acquisition of Gulf National Life policy block and Acadian Life policy block
- 2004 - The acquisition of Paramount Security Life
- 2005 - The acquisition of Memorial Insurance Company of America
- 2007 - The acquisition of C&J Financial and Capital Reserve Life Insurance Company
- 2008 - The acquisition of Southern Security Life (MS)

2010

- 2011 - The acquisition of North America Life policy block
- 2012 - The acquisition of Trans-Western Life and the formation of EverLEND Mortgage Company
- 2014 - The acquisition of American Funeral Financial
- 2016 - The acquisition of First Guaranty Insurance Company
- 2018 - The acquisition of Beta Capital Corporation
- 2019 - The acquisition of Probst Family Funeral Homes
- 2019 - The acquisition of Kilpatrick Life Insurance Company

2020

- 2021 - The merger of EverLEND Mortgage Company with SecurityNational Mortgage Company
- 2021 - The acquisition of Rivera Family Funeral Homes and Santa Fe Memorial Gardens
- 2021 - The acquisition of Holbrook Mortuary



Scott Quist
Chief Executive Officer
and President



Jason Overbaugh
Vice President
National Sales Director



Guy Winstead
Vice President of Sales
Preneed & Final Expense Divisions



Todd Clendennen
Regional Vice President of Sales
Preneed Division



Jason Richardson
Vice President of Sales
Home Service Division



Tommy Overton
National Sales Director
Final Expense Division

Security National

Family of Life Companies



We specialize in affordable and convenient products that “make sense” for you and your family. Let SNL show you a better way.

Many of life's big moments are curated events with careful planning and preparation such as birthdays, graduations, or weddings. Yet, there is one major life event, the loss of a loved one, where the date or time cannot be predicted. While time and place are uncertain, we can still make preparations for this inevitable event.

Funerals and memorial services can seem like extravagant ceremonies with little benefit. In truth, they are important for those left behind as they give a chance for closure, a chance to start the grieving process, and a way to find understanding and meaning during difficult times. Making arrangements for yourself or a loved one is a gift that alleviates both financial and emotional burdens on those you love most.

What is Preneed?

A celebration of life. A tribute to family. A treasured memory for loved ones. Your funeral is an expression of your life and a gift to the friends and family you leave behind. By pre-funding this tribute with life insurance from Security National Life you are assured your wishes will be honored. Preneed is the pre-planning and funding of a funeral before one's passing.

What is Final Expense?

It is an act of caring, and of preparation; ultimately it is an expression of compassion and responsibility for those you leave behind. New responsibilities arise when a life ends. Final Expense insurance provides an affordable and convenient solution for those responsibilities. The passing of a loved one can be a traumatic event for those left behind,



Final Expense insurance provides a way to manage the financial aspects of the end of life. Even if you have fully prepared, Final Expense Insurance can provide the safety net to take care of those unexpected items that will allow you to tell your loved ones “It is all taken care of.”

What is Home Service?

Home Service is a family-oriented organization that cares for and is committed to serving our clients with integrity and respect. We offer a combination of sales and on-going service within the home, including insurance review and premium collections, to provide peace of mind to individuals and families through an affordable funeral plan. The Home Service Division partners with almost 1,000 agents and funeral homes—together serving over 320,000 policyholders. With coverage amounts starting at \$1,000 in most states and going up to \$50,000, our plans assure that our customers will have the dignity to bury their loved ones without worrying about the costs.

Kilpatrick Life Insurance Company

Security National Life acquired Kilpatrick Life Insurance Company in 2019. Kilpatrick is based in Shreveport, LA with roots dating back to 1932. Through three generations, the Kilpatrick family has overseen tremendous company growth and expansion. The addition of Kilpatrick Life Insurance to Security National Life was an easy fit with its priority and focus on family. With award winning service, we are proud to join in one mission to serve families across the nation.

LEADERSHIP TEAM



Marty Rich
Vice President
Marketing & Sales Support



Jon Meredith
Director
Policy Administration



Wendi Beauchaine
Chief Underwriter



Sara McCulley
Director
Marketing and Lead Development



Anita Amos
Director
Home Service Operations



Jo Clark
Director
Kilpatrick Life Policy Administration



Scott Quist
Chief Executive Officer



Steve Johnson
President



J. Paul Christensen
Sr. Vice President, National Sales Director



Cory Taylor
Vice President, Production



Joel Harward
Vice President, Production



Eric Bergstrom
Chief Strategy Officer



Jacob Banks
Chief Financial Officer



We're Turning Houses into Homes[®]



\$5.62

We're SecurityNational Mortgage **A mortgage company with a rock-solid reputation**

SecurityNational Mortgage Company took advantage of market momentum from the previous year to again exceed \$5.6 billion in total mortgage loans funded in 2021. In spite of on-going challenges from Covid 19 variants, the team members at SecurityNational combined in their efforts to provide the best possible experience for each of our customers. The results were the second-best year, both for total production and financial returns in the company's history.

Demand for mortgage loans remained high in 2021 as low interest rates continued throughout the year. Refinance transactions made up almost two-thirds of total loan closings for the industry, however SNMC continued to focus on loans for home purchase transactions, those being a sustainable source of business both now and in the future. 62% of the company's 2021 volume was for purchase mortgage transactions. SecurityNational Mortgage also had a strong recruiting year, attracting experienced mortgage sales professionals in both existing branches and in several new locations. SNMC's portfolio of retained mortgage servicing rights ended the year at \$7.1 billion, as measured by the unpaid principle balance of loans serviced, a 40% increase over the 2020 year end total.



BILLION

IN LOAN VOLUME

The 2021 performance was no fluke. The leadership, with deep industry experience, individually has worked together as a management team at SecurityNational Mortgage for over a decade. This strategic maturity allows us to combine world-class technology with process in crafting an exceptional customer experience from point-of-contact through loan closing. In fact, for many of our customers, that individual care extends beyond the closing table to the long-term servicing of those loans. Strong relationships with Fannie Mae, Freddie Mac, FHA, VA, USDA, many other secondary market investors, and tailored portfolio products provided by our sister companies, ensures a full compliment of mortgage products at competitive prices. An unparalleled marketing and business support group help keep our sales team front and center in a very competitive marketplace. These company qualities are just a few of the reasons that new mortgage professionals are joining SNMC each month to help sustain our growth into the future.

Even though our reach is nationwide, each of our branches are part of the local community. Our suite of products offered covers just about every mortgage loan need, but we take extra satisfaction helping our customers buy a home, especially their first home. Home ownership is one of the most important financial decisions most people will make in their lifetime. The process to finance a home purchase may be unfamiliar and complicated for most people. We are experts at originating mortgages for low-to-moderate income buyers and can match qualifications with mortgage programs and resources specifically designed for each applicant's needs. Beyond loans, many of our co-workers are actively engaged in their cities, towns, and neighborhoods to feed the hungry, shelter the needy and add a splash of color along with a kind word while cleaning up after a disaster. While we have all the tools, tactics, and financial strength to be a consistent leader in the mortgage industry, for SecurityNational Mortgage the end result is **more than just a mortgage.**



Jeff Orme
Chief Compliance Officer



Michael Muirbrook
Vice President, Servicing & Audits



Dave Bennett
Vice President, Market Execution



Karie Wakefield
Vice President, Fulfillment



Tim Yates
Director of Secondary Marketing



Wes Schueneman
Director of Marketing



Rob Coke
Director of Appraisals



J. Paul Christensen
Executive Regional Manager,
Midvale Region



David Christensen
Executive Regional Manager,
Las Vegas Region



Sean Christensen
Executive Regional Manager,
Las Vegas Region

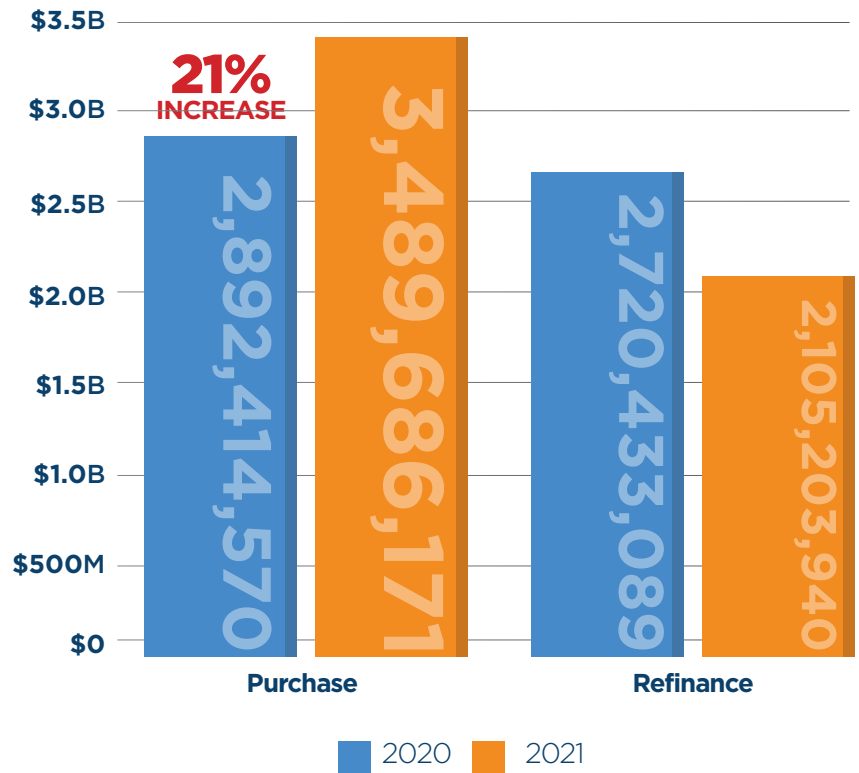


Troy Mannella
Executive Regional Manager,
Texas Region

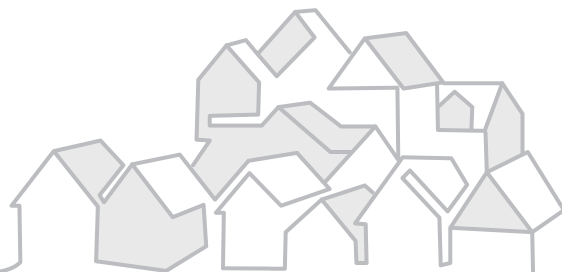
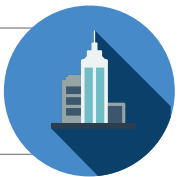


469 Loan Officers

SNMC Funding Comparison Year-Over-Year



109 Branch Offices





Joel Harward
Executive Regional Manager,
Salt Lake Region



Lisa Newman
Executive Regional Manager,
East Coast Region



Scott Shelton
Executive Regional Manager,
Mid-Atlantic Region



Jon Reed
Executive Regional Manager,
Midwest Region

**Turning Houses
into Homes[®]**



Scott Quist
Chief Executive Officer



Adam Quist
Vice President and
Chief Operating Officer



Jordan Buckner
Vice President of Marketing
and Funeral Home Operations



Josh Atkinson
General Sales Director
Utah Cemeteries



Scott Prine
Manager Singing Hills
Memorial Park



MEMORIAL

MORTUARIES & CEMETERIES

Our Memorial segment's mission is to provide excellent customer service, peace of mind, and personalized funeral and cemetery services to families in Utah, California, and New Mexico.

We operate fifteen funeral homes and seven cemeteries consisting of seven brands and spanning three states.



Memorial's Mission

Our mission is to provide customers with peace of mind and comfort both while planning for and while experiencing end of life events. We are committed to treating each family we serve as if it were our own and holding ourselves accountable to the highest standards of the funeral and cemetery professions. We excel at providing unique and customized experiences for each of the families we serve while personalizing their loved one's funeral and cemetery services.

Memorial's Goal

Our goal is growth. Growth is the natural result of providing excellent service to the families we serve. Growth also provides our employees with an opportunity to improve their livelihood through career advancement.

Since 2014, Memorial has realized double digit operational net income growth every year, averaging a compound annual growth rate of over 20%. In 2020, Memorial became the largest funeral services provider in Salt Lake County as measured by market share. Furthermore, Rivera is Northern New Mexico's largest provider of funeral services, with a market share in excess of 40%.



WINNER BEST OF STATE



2018 • 2019 • 2020
2021 • 2022

Winner: Best of State Five Years in a Row

Memorial Mortuaries and Cemeteries is a five time, consecutive “Best of State” award winner for Utah. Affordable Funerals and Cremations is also a two time “Best of State - Budget Funeral Service” winner. Criteria for the awards are based on overall excellence, superiority and quality of a nominee’s products, services or performance, differentiating themselves from their competitors and improving the quality of life for their neighbors. The Best of State Awards were created to recognize outstanding individuals, organizations, and businesses in Utah. By recognizing excellence in the community and sharing examples of success for many worthy endeavors the awards motivate and reward those who have strived for excellence in their respective fields.

Acquisitions: In 2021, Memorial completed the acquisition of Rivera Family Funeral Homes & Cemetery and Holbrook Mortuary

During the fourth quarter of 2021, we acquired Rivera Family Funeral Homes & Cemetery. Rivera is a New Mexico based death care service provider with four mortuaries and one cemetery located in northern New Mexico. Tim Rivera, founder of Rivera, said, “We are excited to join an organization that shares the same values and high standards as our family. Together, we are committed to continuing to provide the families of New Mexico with the premier products and services they have come to expect from our organization.” Rivera has been serving the communities of Northern New Mexico for over 80 years and serves in excess of 1,300 families annually.

Additionally, during the fourth quarter of 2021, we acquired Holbrook Mortuary, a Salt Lake City based funeral service provider. John Holbrook, the great grandson of Holbrook’s founder, said “We are thrilled to be joining Security National. Since 1941, as a three-generation family owned and operated business, we have been committed to serving our clients with honesty, excellence, and compassion. Security National shares that same commitment and together we will continue that legacy in the greater Salt Lake area for generations to come.”



Brandon Federico
Manager of Corporate Real Estate



Gina Carter
Property Manager



Adam Perry
Facilities Manager



Security National Real Estate manages commercial properties through wise investment strategies.

Security National Real Estate is a wholly owned subsidiary of Security National Life and offers property management and leasing services. Each of our commercial properties is a fine example of the wise investment strategy of our management team. The team consists of an eight member staff handling sales, maintenance, and remodeling to suit the needs of new and existing tenants. Our rental properties consist of 17 commercial leases. All properties have the potential for development or raw land with plans for future improvements.

Center 53 Campus

Security National Real Estate is developing approximately 1,000,000 square feet of commercial real estate at the center of the Wasatch Front. The project, Center 53, encompasses over 20 acres in the central valley of Salt Lake City which is only 30 minutes from anywhere along the Wasatch Front. The first building was completed in 2018 and includes an on-site fitness center with cardio and weight stations. Building 1 is fully leased and its current full floor tenants include: RI, Finicity, and SoFi.



Each of the buildings in the campus will have the following features:

- Large floor plates with great views of the Salt Lake Valley
- Exterior features include natural stone, glass curtain walls and terraneo finish
- Large modern lobby with wood walls and large format tile feature walls
- Structured parking
- Easy access to freeway



Security National Corporate Headquarters

Security National has completed the second, new, 6-story Class A office building within its 19-acre office campus. This latest addition will become Security National's corporate headquarters. The building is approximately 217,000 sf and opened Fall 2021. It includes numerous energy efficient enhancements, employee amenities, spectacular Salt Lake valley views, and is fully leased with Security National occupying approximately 100,000 sf, and RI – who also occupies the 6th floor of Building I – taking approximately 100,000 sf.

Security National has relocated many of its Utah-based operational functions to this new building, which includes Security National Life, Memorial Mortuaries and Cemeteries, and SecurityNational Mortgage, thereby improving efficiency by consolidating several retail mortgage and other subsidiary offices.



Wasatch 16

- 78,000 sf class A building located in Draper, Utah
- Key tenants include T-Mobile, Credit Corp Services, Journey Team – Microsoft Partner.

Cabela's

- Purchased in 2018
- 70,000 sf of retail
- Located in Farmington, Utah at Station Park
- 25 year lease with Cabela's





**Our passion is commercial and residential real estate finance.
We are your commercial and residential loan source.**

Security National Commercial Capital is a wholly owned subsidiary of Security National Life and originates interim/bridge loans to enhance the mortgage banker's traditional long-term lender relationships with a faster closing, flexible, interim loan product intended to provide a bridge until a property stabilizes and conventional long-term financing can be obtained. These loans are designed to facilitate the purchase, refinance, leveraging or ownership change of good quality, performing commercial real estate. We lend on investor or owner/occupied real estate, including single or multi-tenant office, retail, office, warehouse, and multifamily properties. We also provide construction and land development financing that compli-

ments SecurityNational Mortgage on approved new residential construction and on select commercial construction projects throughout the United States.

**“Our target loan size is between
\$1,000,000 and \$4,500,000...”**

**“Our loans are generated
using relationships...”**

Our loans are generated using relationships with mortgage bankers, other life insurance companies, commercial banks, website requests, referrals from past business relationships, commercial lending institutions, Real Estate professionals, Wall Street investors, and through publication advertising. Our target loan size is between \$1,000,000 and \$4,500,000, with a maximum term of 3 years (12-month term preferred). We also provide interim bridge financing for SBA-504 loans waiting for debenture funding.



We offer flexible fast funding commercial real estate loans, and respect our fiduciary responsibility to Security National Life's insureds by providing secure, higher yielding investments. We provide competitive products and service to borrowers and the desired return to our shareholders.

To learn more, visit www.snclloans.com for a presentation of products offered.

Some of our many properties funded:



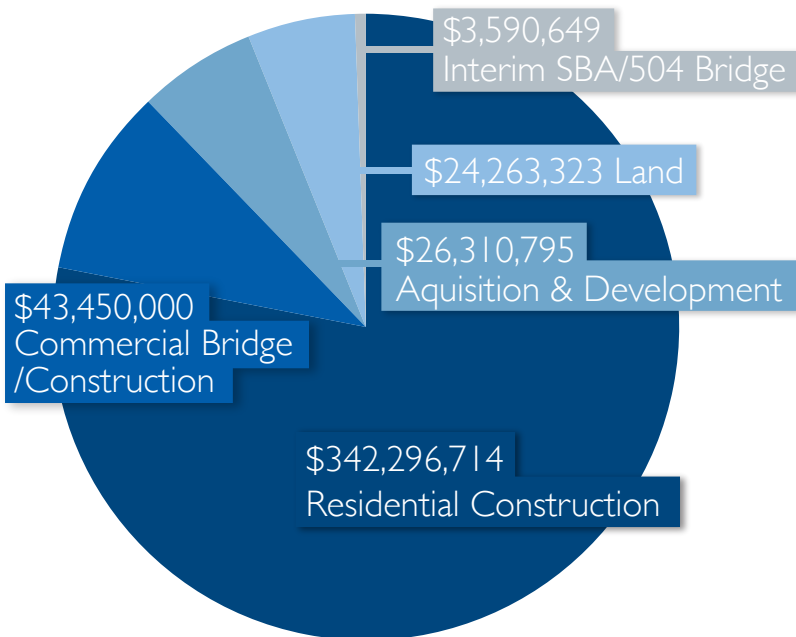
Henry Kesler
Vice President



Richard Clissold
Construction Loan Manager



Brian Nelsen
Commercial Loan Manager



2021 SNCC Originations



Andrew Quist
Vice President and
Chief Operating Officer



Jamie Meredith
Executive Vice President



Kathryn Kilgore
Vice President of Operations



Chuck Gallagher
Vice President of Sales



Jennifer Oliver
Senior Director
of Customer Loyalty



Family of Companies



C&J Financial provides insurance assignment funding to funeral homes and cemeteries across the nation. When firms need dependability, certainty, and transparency, they choose *Fast Funding*®.

Since 1996, C&J Financial has helped funeral homes and cemeteries eliminate the challenges and cash flow delays in processing insurance death claims. As North America's #1 provider of assignment funding, we are honored to have assisted more than 800,000 families in providing a dignified funeral for their loved ones and funded \$4.8+ Billion to thousands of firms across America.

Why Assignment Funding?

When a family walks into the funeral home to make arrangements, most funeral directors would prefer the family pay with cash, check, or credit card vs. using their loved one's life insurance policy. It's certainly understandable because some life insurance companies can be a hassle to deal with, sometimes taking hours or days to verify benefits, then it's another 30, 60, 90 days or longer before payment is received.

While 56% of Americans have \$5000 or less in savings, 6 out of 10 families own some type of life insurance. When asked, most would prefer to use their loved one's life insurance to cover the funeral expenses. It makes it a cashless event for the family while bridging the gap between what they want and what they can afford.

Families that use life insurance spend 31% more, on average, than those that pay with cash, check, or credit card. Insurance relieves the financial burden, allowing them to honor their loved ones how they see fit. This creates a better experience for the family. Despite these advantages, only 16% of families actually pay with life insurance. Why? Many funeral directors don't want to deal with the challenges and cash flow delay they create.



This is where C&J Financial can help. Our purpose is to help families provide a dignified and meaningful service for their loved ones. We accomplish this by eliminating the hassle, headache, and cash flow delays that firms have in processing insurance death claims. With C&J's Quick Claim process it takes less than 2 minutes to submit assignment information, then our team will contact the insurance company and verify the benefits of the policy. Once the benefits are confirmed and the beneficiary has signed C&J's assignment, payment is made to the firm. Instead of waiting weeks or months, funds are typically available in just 24-48 hours. It really is that simple.

Innovation Funeral Homes Trust

Utilizing cutting-edge technology with a simple and easy-to-use experience, C&J's Assignment Funding Management System platform creates better efficiencies for firms, saving them time and money. Our Assignment Funding Management System allows firms to track the processing and status of their claims in real-time, communicate with their Customer Loyalty Representative, and upload documents directly to an assignment. They can also see which claims have been funded, what is needed on their open claims, and when C&J has been paid by the insurance company.

Introduced in 2021, our Quick Claim Assignment™ provides the fastest claim submission process in the industry. Insurance-specific paperwork is automatically generated for the beneficiary to sign, taking the guesswork out of what is needed. In most cases, C&J can handle any claimant statements or other documents on behalf of the beneficiary, reducing the amount of paperwork required by the firm.

C&J's also offers full integration with DocuSign, the most trusted and widely used eSign platform in the world, allowing firms to send the assignment to be signed electronically at no cost. When this option is used, the completed documents are automatically uploaded to the system and firms can track the process in real-time. Innovations like Quick Claim Assignment™ and DocuSign integration can greatly reduce the amount of time funeral homes and cemeteries spend filing their claims.



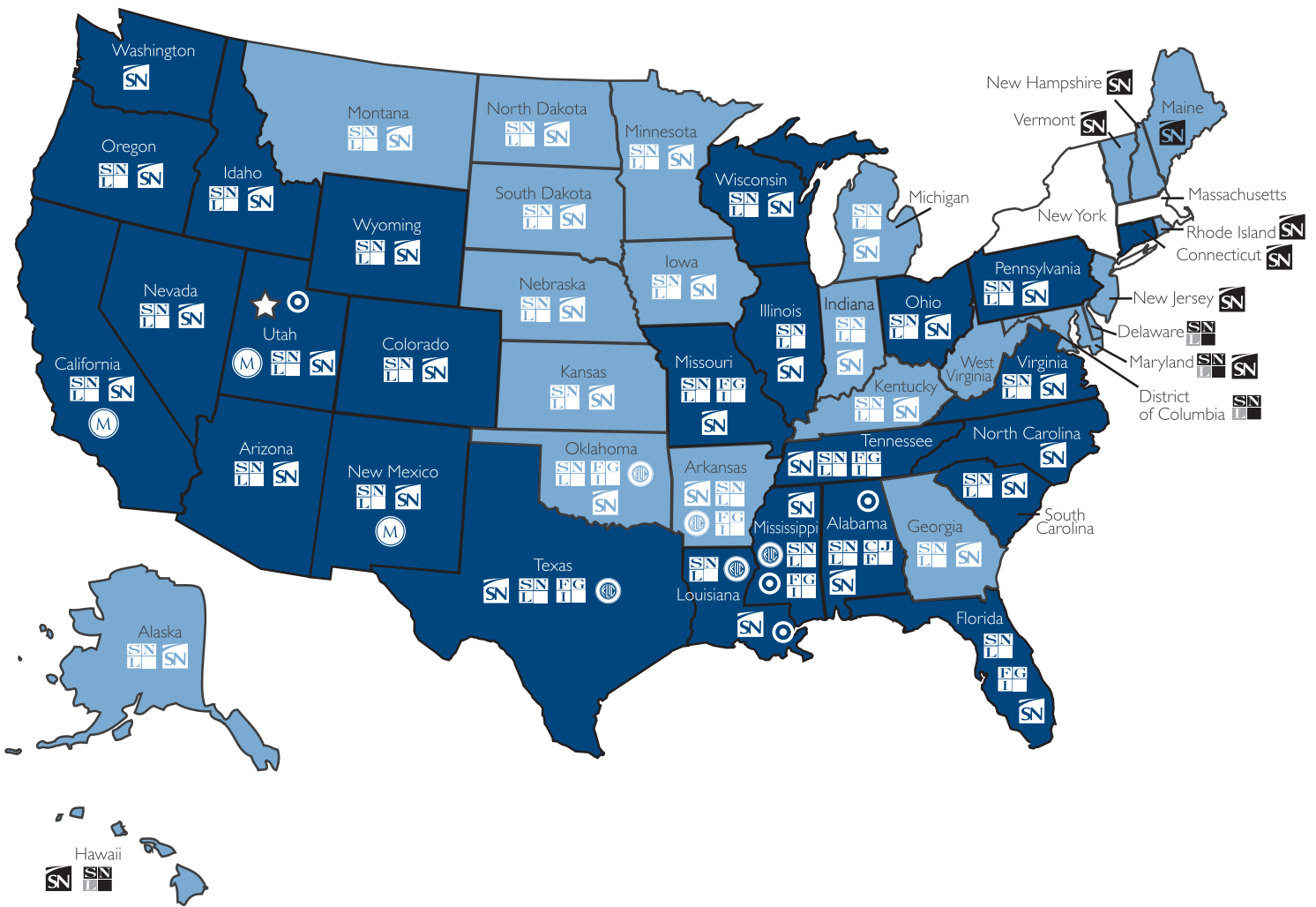
We will miss you, Paul

With great sadness we announce the passing of our friend and co-worker, J. Paul Christensen, on March 29, 2022. As the Senior Vice President and National Sales Director of SecurityNational Mortgage Company, Paul played a key role for more than a decade in propelling the Company's growth and prosperity.

Paul's dynamic leadership included countless hours of one-on-one mentoring, encouragement to sales and operations staffs, and strategic management of the Company's residential mortgage production.

We express sincere appreciation for the significant professional contributions Paul made to Security National and the personal impact he made in so many of our lives.





Legend

Sales Office

Corporate Headquarters

First Guaranty

License Held

Operations

Memorial Mortuaries & Cemeteries

No License Held

Security National Life

SecurityNational Mortgage

Kilpatrick Life

C&J Financial, LLC

Where We Are

SNFC Corporate Offices

Security National Financial Corporation
433 Ascension Way, 6th Floor
Salt Lake City, UT 84123

P.O. Box 57250
Salt Lake City, UT 84157-0250
Telephone: (801) 264-1060
Toll Free: (800) 574-7117
Fax: (801) 264-8430

Form 10-K Offer

If you are a holder or beneficial owner of the company's stock, the company will send you, upon request and at no charge, a copy of the company's Annual Report on Form 10-K filed with the Securities & Exchange Commission for the year 2021 (including a list of exhibits). All requests must be made in writing to the Corporate Secretary.

Security National Financial Corporation
P.O. Box 57250
Salt Lake City, Utah 84157-0250

Stock Transfer Agents
Zions First National Bank
P.O. Box 30880
Salt Lake City, UT 84130

Former Holders of Preferred Stock and/or Promissory Notes
Security National Financial Corporation
Attn: Stock Department
P.O. Box 57250
Salt Lake City, UT 84157-0250

Certified Public Accountants
Deloitte & Touche LLP
Salt Lake City, Utah

Company E-mail Address:
contact@securitynational.com

Company Internet Address:
www.securitynational.com

Life Insurance Offices

Security National Life Insurance Company
433 Ascension Way, 6th Floor
Salt Lake City, UT 84123
Telephone: (800) 574-7117

Security National Life Insurance Company
Home Service Division
1044-B River Oaks Drive
Flowood, MS 39232
Telephone: (800) 826-6803

Security National Life Insurance Company
Preneed Sales Division
1 Sanctuary Blvd Suite 302
Mandeville, LA 70471
Telephone: (800) 574-7117

Kilpatrick Life Insurance Company
1818 Marshall St.
Shreveport, LA 71101
Telephone: (800) 235-0555

Fast Funding Offices

C&J Financial, LLC
200 Market Way
Rainbow City, AL 35906
Telephone: (800) 785-0003

Mortuaries & Cemeteries

Memorial Group Operations
433 Ascension Way, 6th Floor
Salt Lake City, UT 84123
Telephone: (801) 268-8771

Memorial Holladay-Cottonwood Mortuary
4670 S. Highland Drive
Salt Lake City, UT 84117
Telephone: (801) 278-2801

Memorial Lake Hills Mortuary & Cemetery
10055 S. State Street
Sandy, UT 84070
Telephone: (801) 566-1249

Memorial Lake View Mortuary & Cemetery
1640 E. Lakeview Drive
Bountiful, UT 84010
Telephone: (801) 298-1564

Memorial Murray Mortuary
5850 S. 900 E.
Murray, UT 84121
Telephone: (801) 262-4631

Memorial Mountain View Mortuary & Cemetery
3115 E. 7800 S.
Cottonwood Heights, UT 84121
Telephone: (801) 943-0831

Memorial Redwood Mortuary & Cemetery
6500 S. Redwood Road
West Jordan, UT 84123
Telephone: (801) 969-3456

Memorial Holladay Cemetery
4900 S. Memory Lane
Holladay, UT 84117
Telephone: (801) 278-2803

Singing Hills Memorial Park
2800 Dehesa Road
El Cajon, CA 92019
Telephone: (619) 444-3000

Affordable Funerals & Cremations
4387 South 500 West
Murray, UT 84123
Telephone: (801) 287-8233

Affordable Funerals & Cremations
St. George Location
157 E. Riverside Drive #3A
St. George, UT 84790
Telephone: (435) 680-7035

Heber Valley Funeral Home
288 N. Main Street
Heber City, UT 84032
Telephone: (435) 654-5458

Probst Family Funeral Home
79 E. Main Street
Midway, UT 84049
Telephone: (435) 654-5959

Holbrook Mortuary
3251 S 2300 E
Millcreek, UT 84109
Telephone: (801) 484-2045

Rivera Family Funeral Home
818 Paseo del Pueblo Sur
Taos, NM 87571
Telephone: (575) 758-3841

Rivera Family Funeral Home & Crematory
305 Calle Salazar
Española, NM 87532
Telephone: (505) 753-2288

Rivera Family Funeral Home
& Santa Fe Memorial Gardens
417 East Rodeo Rd.
Santa Fe, NM 87505
Telephone: (505) 989-7032

Rivera Family Funeral Home
1627 A Central Avenue
Los Alamos, NM 87544
Telephone: (505) 663-6880

Mortgage Offices

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Company—Operations
433 Ascension Way, 5th Floor
Salt Lake City, UT 84123
Telephone: (801) 264-8111

SecurityNational Mortgage
Company—Sales Offices

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500 Blount Avenue
Guntersville, AL 35976
Telephone: (844) 323-4640

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1101 McMurtrie Drive, Suite F1
Huntsville, AL 35806
Telephone: (844) 323-4640

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Bullhead City, AZ 86442
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Mesa, AZ 85202
Telephone: (602) 732-3993

1819 S. Dobson, Suite 202
Mesa, AZ 85202
Telephone: (877) 518-9450

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5100 N 99th Ave, Unit 101, 103 & 111
Phoenix, AZ 85037
Telephone: (602) 273-9610

1951 West Camelback Road, Ste 200
Phoenix, AZ 85015
Telephone: (844) 820-8699

2828 North Central Ave., Ste 1100A
Phoenix, AZ 85004
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4725 N 19th Ave.
Phoenix, AZ 85015
Telephone: (844) 820-8699

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17015 N Scottsdale Rd #125
Scottsdale, AZ 85255
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10609 N Hayden Rd, Suite 100
Scottsdale, AZ 85260
Telephone: (480) 237-4670

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5001 E. Commercenter Drive
Suite 285
Bakersfield, CA 93309
Telephone: (661) 558-0390

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26511 Silver Spring
Lake Forest, CA 92630
Telephone: (844) 323-4640

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44441 16th St.W., Suite 101 & 105
Lancaster, CA 93534
Telephone: (661) 499-1019

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2324 E. Broadway
Long Beach, CA 90803
Telephone: (310) 946-2023

Solana Beach
155 S Highway 101, Suite 7
Solana Beach, CA 92075
Telephone: (858) 290-3959

Stockton
3247 West March Lane, Suite 125
Stockton, CA 95219
Telephone: (209) 792-0670

West Covina
2934 E. Garvey Ave., South
Ste #250-N
West Covina, CA 91791
Telephone: (626) 209-2126

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36372 Canyon Terrace Drive
Yucaipa, CA 92399
Telephone: (844) 323-4640

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7398 Fox Trail Unit B
Yucca Valley, CA 92284
Telephone: (760) 853-2600

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5982 S Zeno Ct
Aurora, CO 80016
Telephone: (844) 820-8699

Colorado Springs
5475 Tech Center Drive, Suite 100
Colorado Springs, CO 80919
Telephone: (844) 323-4640

Denver
7800 East Union Avenue, Suite 550
Denver, CO 80237
Telephone: (844) 323-4640

Durango
734 E 2nd Avenue, Suite 100
Durango, CA 81303
Telephone: (844) 323-4640

Edwards
27 Main Street, Suite C-104B
Edwards, CO 81632
Telephone: (970) 331-2919

Larkspur
4501 Mohawk Drive
Larkspur, CO 80118
Telephone: (844) 820-8699

Longmont
500 Coffman St. #210
Longmont, CO 80501
Telephone: (844) 323-4640

Parker
19751 E. Mainstreet, Suite 247
Parker, CO 80138
Telephone: (970) 390-7337

CONNECTICUT

Vernon
15 Lakeview Dr
Vernon, CT 06066
Telephone: (860) 604-1688

FLORIDA

Ft. Myers
8191 College Parkway #302
Ft. Myers, FL 33919
Telephone: (888) 550-9221

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3956 Sunbeam Road, Ste 1
Jacksonville, FL 32257
Telephone: (866) 827-9558

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136 Parliament Loop #1030
Lake Mary, FL 32746
Telephone: (407) 302-8384

1145 Townpark Avenue #2215
Lake Mary, FL 32746
Telephone: (407) 302-8384

Oldsmar
3180 Curlew Rd, Unit 107
Oldsmar, FL 34677
Telephone: (727) 724-5438

Sarasota
2350 Fruitville Road, Suite 110
Sarasota, FL 34237
Telephone: (888) 312-1140

Seminole
8265 113th St.
Seminole, FL 33772
Telephone: (727) 498-3570

GEORGIA

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900 Circle 75 Parkway, Suite 175
Atlanta, GA 30339
Telephone: (404) 924-6148

Where We Are

6600 Peachtree Dunwoody Rd
Bldg 300, Ste 135
Atlanta, GA 30328
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Carrollton
106 A. Adamson Square
Carrollton, GA 30117
Telephone: (678) 525-1443

Cumming
102 Mary Alice Road, Suite 506
Cumming, GA 30040
Telephone: (844) 323-4640

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32 Kinoole Street, Suite 101
Hilo, HI 96720
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677 Ala Moana Boulevard, Suite 609
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Telephone: (844) 820-8699

Kapolei
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Telephone: (808) 427-9960

Lihue
4370 Kukui Grove Street
Suite #201
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Telephone: (808) 823-8050

Wailuku
1885 Main St, Ste 108
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McCall
116 N. 3rd Street #12
McCall, ID 83638
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3597 E. Monarch Sky Lane,
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1832 Leabrook Ct
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8530 Veterans Highway, Suite 100
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4987 Fall Creek Rd #1
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Henderson, NV 89044
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2635 St. Rose Parkway
Suites D-100, 110 & 120
Henderson, NV 89052
Telephone: (702) 487-5626

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1980 Festival Plaza Drive, Suite 850
Las Vegas, NV 89135
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Mesquite, NV 89027
(866) 607-3863

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Columbus, OH 43240
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Telephone: (503) 251-5482

3311 NE MLK Jr Blvd #203
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Franklin, TN 37064
Telephone: (615) 721-2934

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Johnson City, TN 37601
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23227 Red River Drive
Katy, TX 77494
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722 Kiowa Drive West
Lake Kiowa, TX 76240
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2408 Jacaman Rd. Suite F
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3027 Marina Bay Dr. #200
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Salem, UT 84653
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Salt Lake City
2455 East Parleys Way, Suite 150
Salem Lake City, UT 84109
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75 West Towne Ridge Parkway
Ste 100
Sandy, UT 84070
Telephone: (801) 262-6033

126 West Segoe Lily Drive #260
Sandy, UT 84070
Telephone: (801) 571-1313

South Jordan
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Suite 100
South Jordan, UT 84095
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859 W South Jordan Pkwy
Bldg A, Ste 1
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500 East Village Blvd., Unit #110
Stansbury Park, UT 84074
Telephone: (435) 843-5340

Talorsville
6575 S. Redwood Rd #225
Talorsville, UT 84123
Telephone: (801) 727-7600

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21430 Cedar Dr, Unit 200
Sterling, VA 20164
Telephone: (703) 880-1840

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Lynden
2107 Currant Street
Lynden, WA 98264
Telephone: (844) 820-8699

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15640 NE Fourth Plain Blvd
#220 & 221
Vancouver, WA 98682
Telephone: (360) 869-7265

WISCONSIN

Kenosha
1508 24th Avenue #23
Kenosha, WI 53140
Telephone: (844) 820-8699

Trevor
27903 99th Street
Trevor, WI 53179
Telephone: (262) 997-9444

WEST VIRGINIA

Charles Town
219 West Washington Street
Charles Town, WV 25414
Telephone: (304) 885-1067

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors 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, 2021 and 2020, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years then ended, and the related notes and the schedules 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, 2021 and 2020, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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 audits. 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 audits 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 audits, 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 audits 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 audits 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 audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Future Policy Benefits and Amortization of Deferred Policy Acquisition Costs for Insurance Contracts and Value of Business Acquired - Refer to Notes 1 and 22 to the financial statements


Critical Audit Matter Description

The Company's management sets assumptions in (1) estimating a liability for policy benefit payments that will be made in the future (future policy benefits) and (2) determining amortization of deferred policy acquisition costs for insurance contracts and value of business acquired. The most significant assumptions include mortality, lapse, and projected investment yield. Assumptions are determined based upon analysis of Company specific experience, industry standards, adjusted for changes in exposure and other relevant factors. Given the inherent uncertainty of these significant assumptions, auditing the development of such assumptions involved especially subjective judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to management's judgments regarding the assumptions used in the development of future policy benefits and the amortization of deferred policy acquisition costs for insurance contracts and value of business acquired, included the following, among others:

- We tested the design and implementation of controls over the assumption development process, the valuation of future policy benefits, and the amortization of deferred policy acquisition costs for insurance contracts and value of business acquired.
- With the assistance of our actuarial specialists, we:
 - evaluated management's selected actuarial assumptions, including testing the accuracy and completeness of the supporting experience studies,
 - evaluated management's judgments regarding the assumptions used in the development of future policy benefits and the amortization of deferred policy acquisition costs and value of business acquired,
 - evaluated the results of the Company's annual premium deficiency tests.



Salt Lake City, UT

March 31, 2022

We have served as the Company's auditor since 2017.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Assets	December 31	
	2021	2020
Investments:		
Fixed maturity securities, available for sale, at estimated fair value (amortized cost of \$236,303,310 and \$265,150,484 for 2021 and 2020)	\$ 259,287,603	\$ 294,656,679
Equity securities at estimated fair value (cost of \$8,275,772 and \$9,698,490 for 2021 and 2020)	11,596,414	11,324,239
Mortgage loans held for investment (net of allowances for loan losses of \$1,699,902 and \$2,005,127 for 2021 and 2020)	277,306,046	249,343,936
Real estate held for investment (net of accumulated depreciation of \$17,692,038 and \$13,800,973 for 2021 and 2020)	197,365,797	131,684,453
Real estate held for sale	3,731,300	7,878,807
Other investments and policy loans (net of allowances for doubtful accounts of \$1,686,218 and \$1,645,475 for 2021 and 2020)	67,955,155	73,696,661
Accrued investment income	6,313,012	5,360,523
Total investments	823,555,327	773,945,298
Cash and cash equivalents	131,354,470	106,219,429
Loans held for sale at estimated fair value	302,776,827	422,772,418
Receivables (net of allowances for doubtful accounts of \$1,800,725 and \$1,685,382 for 2021 and 2020)	18,316,116	10,899,207
Restricted assets (including \$5,205,510 and \$3,989,415 for 2021 and 2020 at estimated fair value)	16,938,122	16,150,036
Cemetery perpetual care trust investments (including \$4,087,245 and \$2,810,070 for 2021 and 2020 at estimated fair value)	7,835,721	6,413,167
Receivable from reinsurers	14,850,608	15,569,156
Cemetery land and improvements	8,977,877	8,761,436
Deferred policy and pre-need contract acquisition costs	105,049,983	100,075,276
Mortgage servicing rights, net	53,060,455	35,210,516
Property and equipment, net	21,517,598	12,473,345
Value of business acquired	8,421,432	8,955,249
Goodwill	5,253,783	3,519,588
Other	29,684,987	27,976,357
Total Assets	\$1,547,593,306	\$ 1,548,940,478

See accompanying notes to consolidated financial statements.

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

	December 31	
	2021	2020
Liabilities and Stockholders' Equity		
Liabilities		
Future policy benefits and unpaid claims	\$ 863,274,693	\$ 844,790,087
Unearned premium reserve	3,060,738	3,328,623
Bank and other loans payable	251,286,927	297,824,368
Deferred pre-need cemetery and mortuary contract revenues	14,508,022	13,080,179
Cemetery perpetual care obligation	4,915,285	4,087,704
Accounts payable	10,166,573	8,932,683
Other liabilities and accrued expenses	69,578,138	87,650,981
Income taxes	31,036,096	25,258,800
Total liabilities	<u>1,247,826,472</u>	<u>1,284,953,425</u>
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 17,642,722 shares in 2021 and 16,595,783 shares in 2020	35,285,444	33,191,566
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 2,866,565 shares in 2021 and 2,679,603 shares in 2020	5,733,130	5,359,206
Additional paid-in capital	57,985,947	50,287,253
Accumulated other comprehensive income, net of taxes	18,070,448	23,243,133
Retained earnings	184,537,489	153,739,167
Treasury stock, at cost - 108,079 Class A shares and 109,193 Class C shares in 2021; 227,852 Class A shares and 10,985 Class C shares in 2020	<u>(1,845,624)</u>	<u>(1,833,272)</u>
Total stockholders' equity	<u>299,766,834</u>	<u>263,987,053</u>
Total Liabilities and Stockholders' Equity	<u>\$ 1,547,593,306</u>	<u>\$ 1,548,940,478</u>

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31	
	2021	2020
Revenues:		
Mortgage fee income	\$ 263,418,230	\$ 298,933,110
Insurance premiums and other considerations	100,254,573	93,020,617
Net investment income	58,264,683	56,329,803
Net mortuary and cemetery sales	23,997,313	20,307,435
Gains on investments and other assets	6,265,134	1,925,850
Other than temporary impairments on investments	(39,502)	(370,975)
Other	18,535,111	11,317,482
Total revenues	470,695,542	481,463,322
Benefits and expenses:		
Death benefits	63,247,616	59,040,130
Surrenders and other policy benefits	3,970,839	3,801,230
Increase in future policy benefits	26,263,312	23,568,650
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	16,142,970	14,307,425
Selling, general and administrative expenses:		
Commissions	118,286,469	124,426,297
Personnel	100,740,161	84,989,971
Advertising	6,626,418	5,380,896
Rent and rent related	7,242,287	6,873,561
Depreciation on property and equipment	1,935,613	2,078,738
Provision for loan loss reserve	-	16,506,030
Costs related to funding mortgage loans	10,541,570	9,877,700
Other	53,065,982	47,331,102
Interest expense	7,127,516	8,578,810
Cost of goods and services sold – cemeteries and mortuaries	3,704,014	3,252,655
Total benefits and expenses	418,894,767	410,013,195
Earnings before income taxes	51,800,775	71,450,127
Income tax expense	(12,281,785)	(15,853,514)
Net earnings	\$ 39,518,990	\$ 55,596,613
Net earnings per Class A equivalent common share (1)	<u>\$1.96</u>	<u>\$2.81</u>
Net earnings per Class A equivalent common share - assuming dilution (1)	<u>\$1.89</u>	<u>\$2.74</u>
Weighted average Class A equivalent common shares outstanding (1)	20,154,878	19,788,984
Weighted average Class A equivalent common shares outstanding-assuming dilution (1)	20,929,084	20,254,407

(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	
	2021	2020
Net earnings	\$ 39,518,990	\$ 55,596,613
Other comprehensive income:		
Unrealized gains (losses) on fixed maturity securities available for sale	(6,517,731)	12,013,692
Unrealized gains (losses) on restricted assets	(23,250)	41,225
Unrealized losses on cemetery perpetual care trust investments	(11,114)	(6,817)
Foreign currency translation adjustments	2,835	(46)
Other comprehensive income (loss), before income tax	(6,549,260)	12,048,054
Income tax benefit (expense)	1,376,575	(2,531,435)
Other comprehensive income (loss), net of income tax	(5,172,685)	9,516,619
Comprehensive income	\$ 34,346,305	\$ 65,113,232

See accompanying notes to consolidated financial statements.

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, 2019	32,215,558	5,001,774	46,091,112	13,726,514	101,256,229	(1,580,582)	196,710,605
Net earnings	-	-	-	-	55,596,613	-	55,596,613
Other comprehensive income	-	-	-	9,516,619	-	-	9,516,619
Stock based compensation expense	-	-	358,878	-	-	-	358,878
Exercise of stock options	137,940	261,640	432,572	-	-	-	832,152
Sale of treasury stock	-	-	1,224,877	-	-	2,715,071	3,939,948
Purchase of treasury stock	-	-	-	-	-	(2,967,761)	(2,967,761)
Stock dividends	810,420	123,440	2,179,814	-	(3,113,675)	-	(1)
Conversion Class C to Class A	27,648	(27,648)	-	-	-	-	-
Balance at December 31, 2020	33,191,566	5,359,206	50,287,253	23,243,133	153,739,167	(1,833,272)	263,987,053
Net earnings	-	-	-	-	39,518,990	-	39,518,990
Other comprehensive loss	-	-	-	(5,172,685)	-	-	(5,172,685)
Stock based compensation expense	-	-	118,384	-	-	-	118,384
Exercise of stock options	320,564	209,312	547,549	-	-	-	1,077,425
Sale of treasury stock	-	-	250,019	-	-	5,757,383	6,007,402
Purchase of treasury stock	-	-	-	-	-	(5,769,735)	(5,769,735)
Stock dividends	1,674,820	263,106	6,782,742	-	(8,720,668)	-	-
Conversion Class C to Class A	98,494	(98,494)	-	-	-	-	-
Balance at December 31, 2021	\$35,285,444	\$ 5,733,130	\$57,985,947	\$ 18,070,448	\$ 184,537,489	\$ (1,845,624)	\$299,766,834

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
Cash flows from operating activities:		
Net earnings	\$ 39,518,990	\$ 55,596,613
Adjustments to reconcile net earnings to net cash used in operating activities:		
Gains on investments and other assets	(6,265,134)	(1,925,850)
Other than temporary impairments on investments	39,502	370,975
Depreciation	5,540,672	5,447,363
Provision for loan losses and doubtful accounts	965,736	1,577,370
Net amortization of deferred fees and costs, premiums and discounts	(1,154,604)	(1,227,773)
Provision for deferred income taxes	11,308,436	2,854,669
Policy and pre-need acquisition costs deferred	(19,985,257)	(18,909,921)
Policy and pre-need acquisition costs amortized	15,027,841	13,520,600
Value of business acquired amortized	1,115,129	786,825
Mortgage servicing rights, additions	(32,701,819)	(29,896,465)
Amortization of mortgage servicing rights	14,851,880	11,841,478
Stock based compensation expense	118,384	358,878
Benefit plans funded with treasury stock	6,007,402	3,939,948
Net change in fair value of loans held for sale	8,783,376	(10,413,492)
Originations of loans held for sale	(5,611,189,587)	(5,627,013,749)
Proceeds from sales of loans held for sale	5,900,076,766	5,600,045,285
Net gains on sales of loans held for sale	(177,876,915)	(188,893,379)
Change in assets and liabilities:		
Land and improvements held for sale	441,839	758,514
Future policy benefits and unpaid claims	22,104,116	25,804,740
Other operating assets and liabilities	(32,088,511)	25,750,164
Net cash provided by (used in) operating activities	<u>144,638,242</u>	<u>(129,627,207)</u>
Cash flows from investing activities:		
Purchases of fixed maturity securities	(18,857,131)	(58,493,147)
Sales, calls and maturities of fixed maturity securities	48,015,753	131,269,730
Purchase of equity securities	(1,950,554)	(6,991,832)
Sales of equity securities	3,868,061	3,902,835
Net changes in restricted assets	473,156	(1,954,437)
Net changes in cemetery perpetual care trust investments	(143,379)	(2,755,856)
Mortgage loans held for investment, other investments and policy loans made	(838,524,150)	(682,170,126)
Payments received for mortgage loans held for investment, other investments and policy loans	818,108,666	672,544,708
Purchases of property and equipment	(5,219,928)	(1,630,734)
Sales of property and equipment	-	194,955
Purchases of real estate	(92,403,534)	(40,190,471)
Sales of real estate	35,644,576	22,418,816
Cash paid for purchase of subsidiaries, net of cash acquired	(12,625,142)	-
Net cash provided by (used in) investing activities	<u>(63,613,606)</u>	<u>36,144,441</u>

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

	Years Ended December 31	
	2021	2020
Cash flows from financing activities:		
Investment contract receipts	11,481,349	11,511,118
Investment contract withdrawals	(15,244,629)	(18,235,107)
Proceeds from stock options exercised	1,077,425	832,152
Purchase of treasury stock	(5,769,735)	(2,967,761)
Repayment of bank loans	(69,039,725)	(174,865,813)
Proceeds from bank loans	106,995,930	164,586,365
Net change in warehouse line borrowings for loans held for sale	(84,576,055)	90,351,225
Net cash provided by (used in) financing activities	<u>(55,075,440)</u>	<u>71,212,179</u>
Net change in cash, cash equivalents, restricted cash and restricted cash equivalents	<u>25,949,196</u>	<u>(22,270,587)</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year	<u>115,465,086</u>	<u>137,735,673</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents at end of year	<u>\$ 141,414,282</u>	<u>\$ 115,465,086</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	\$ 7,290,867	\$ 8,385,270
Income taxes	5,127,913	11,813,120
Non Cash Investing and Financing Activities:		
Right-of-use assets obtained in exchange for operating lease liabilities	\$ 5,216,048	\$ 5,631,193
Accrued real estate construction costs and retainage	4,400,320	6,365,534
Transfer of property and equipment to real estate held for investment	3,108,681	1,516,700
Mortgage loans held for investment foreclosed into real estate held for investment	931,079	686,124
Transfer of loans held for sale to mortgage loans held for investment	201,951	16,960,549
Right-of-use assets obtained in exchange for finance lease liabilities	-	8,494
See Note 20 regarding non cash transactions included in the acquisitions of Rivera Funerals, Cremations and Memorial Gardens and Holbrook Mortuary		

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

	Years Ended December 31	
	2021	2020
Cash and cash equivalents	\$ 131,354,470	\$ 106,219,429
Restricted assets	9,000,293	8,842,744
Cemetery perpetual care trust investments	1,059,519	402,913
Total cash, cash equivalents, restricted cash and restricted cash equivalents	<u>\$ 141,414,282</u>	<u>\$ 115,465,086</u>

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

1) Significant Accounting Policies

General Overview of Business

Security National Financial Corporation and its wholly owned subsidiaries (the “Company”) operate in three reportable 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 states located in western, mid-western and southern regions of the United States. The cemetery and mortuary segment of the Company consists of eleven mortuaries and five cemeteries in Utah, one cemetery in California, and four mortuaries and one cemetery in New Mexico. 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).

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 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 available for sale are carried at estimated fair value. Changes in fair values are reported as unrealized gains or losses and are recorded in accumulated other comprehensive income.

Equity securities are carried at estimated fair value. Changes in fair values are reported as unrealized gains or losses and are recorded through net earnings as a component of gains on investments and other assets.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

1) Significant Accounting Policies (Continued)

Mortgage loans held for investment are carried at their unpaid principal balances adjusted for net deferred fees, net discounts, 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 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. Also, included are residential subdivision land developments which are carried at cost.

Real estate held for sale is carried at lower of cost or fair value. Depreciation is not recognized on real estate classified as held for sale.

Other investments and policy loans are carried at the aggregate unpaid balances, less allowances for losses.

Accrued investment income refers to earned income from investments that has not yet been received by the Company.

Gains and losses on investments (except for equity securities carried at fair value through net earnings) 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

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

Accounting Standards Codification ("ASC") No. 825, "Financial Instruments", allows for the option to report certain financial assets and liabilities at fair value initially and at subsequent measurement dates with changes in fair value included in earnings. The option may be applied instrument by instrument, but it is irrevocable. The Company elected the fair value option for loans held for sale. The Company believes the fair value option most closely aligns the timing of the recognition of gains and costs. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Electing fair value also reduces certain timing differences and better matches changes in the fair value of these assets with changes in the fair value of the related derivatives used for these assets. See Note 3 and Note 17 to Consolidated Financial Statements for additional disclosures regarding loans held for sale.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

1) Significant Accounting Policies (Continued)

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. All revenues and costs are 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:

- 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 Fair Value

Cost for loans held for sale is equal to the amount paid to the warehouse bank and the amount originally funded by the Company. Fair value is often difficult to determine and may contain significant unobservable inputs, 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.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

1) Significant Accounting Policies (Continued)

- 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 losses.

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 sold. The Company may be required to reimburse third-party investors for costs associated with early payoff of loans within six months of origination 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 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 as a component of provision for loan loss reserve. 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 further 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, payments received, 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.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

1) Significant Accounting Policies (Continued)

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 (which is eliminated in consolidation). Restricted assets also include 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 funded its medical benefit safe-harbor limit based on the qualified direct costs, 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 five of the seven cemeteries owned by the Company. 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 also 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.

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.

When accounting for DAC, the Company considers 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 (“VOBA”) is the present value of estimated future profits of the acquired business and is amortized similar to deferred policy acquisition costs.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

1) Significant Accounting Policies (Continued)

Premium Deficiency and Loss Recognition Testing

At least annually, the Company tests the adequacy of the net benefit reserves (liability for future policy benefits, net of DAC and VOBA) recorded for life insurance and annuity products. The Company tests for recoverability by using the Company's current best-estimate assumptions as to policyholder mortality, persistency, maintenance expenses and invested asset returns. These tests evaluate whether the present value of future contract-related cash flows will support the capitalized DAC and VOBA assets. These cash flows consist primarily of premium income, less benefits and expenses. If the current contract liabilities plus the present value of future premiums is greater than the sum of the present values of future policy benefits, commissions, and expenses plus the current DAC and VOBA less unearned premium reserve balances, then the capitalized assets are deemed recoverable. The present values are calculated using the best estimate of the after tax net investment earned rate.

Mortgage Servicing Rights

Mortgage Servicing 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.

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

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

1) Significant Accounting Policies (Continued)

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, including property and equipment and real estate held for investment, 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 except for certain impairments of real estate held for investment as disclosed in Note 2.

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

1) Significant Accounting Policies (Continued)

is issued and is shown net of expenses. Following issuance, the value of a loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans.

Forward Sale Commitments

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

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

Call and Put Option Derivatives

The Company uses a strategy of selling “out of the money” call options on its equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company uses the strategy of selling put options as a means of generating cash or purchasing equity securities at lower than current market prices. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the fair value of the option. The liability for options is adjusted to fair value at each reporting date. In the event a call option is exercised, the Company sells the equity security at a favorable price enhanced by the value of the option that was sold. If the option expires unexercised, the Company recognizes a gain from the expired 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 treated as a normal equity security in the Company’s portfolio. The net changes in the fair value of call and put options are shown in current earnings as a component of gains (losses) on investments and other assets. Call and put options are shown in other liabilities and accrued expenses on the 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. As a practical expedient, 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

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1) Significant Accounting Policies (Continued)

is made, if necessary, and the amount is classified as real estate held for investment. The Company will rent the properties until it is deemed desirable to sell them.

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

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

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

Residential — Secured by family dwelling units. These loans are secured by first and second mortgages on the unit. The borrower's ability to repay is sensitive to the life events and general economic condition of the region. Where loan to values exceed 80%, the loan is generally guaranteed by private mortgage insurance, FHA or VA.

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, which are deemed a reasonable equivalent for GAAP. 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%.

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1) Significant Accounting Policies (Continued)

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.

Participating Insurance

Participating business constituted 2% of insurance in force for the years ended 2021 and 2020. 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 performance obligations are fulfilled (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 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 to the Company.

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1) Significant Accounting Policies (Continued)

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, 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 performance obligations remaining.

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.

Other Intangibles

Other intangibles are recognized apart from goodwill whenever an acquired intangible asset arises from contractual or other legal rights, or whenever it is capable of being separated or divided from the acquired entity and sold, transferred, licensed, rented, or exchanged, either individually or in combination with a related contract, asset, or liability. The Company engages a third-party valuation firm to analyze the value of the intangible assets that result from significant acquisitions. The value of the intangible assets that result from these acquisitions are included in Other Assets and are determined using the income approach, relying on a relief from the royalty method.

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1) Significant Accounting Policies (Continued)

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 income tax expense.

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 concentration risk regarding available for sale debt securities, 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 Issued But Not Yet Adopted

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

ASU No. 2018-12: “Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts” — Issued in August 2018, ASU 2018-12 is intended to improve the timeliness of recognizing changes in the liability for future policy benefits on traditional long-duration contracts by requiring that assumptions be updated after contract inception and by modifying the rate used to discount future cash flows. The ASU will improve the accounting for certain market-based options or guarantees associated with deposit or account balance contracts, simplify amortization of deferred acquisition costs while improving and expanding required disclosures. In November 2020, the FASB issued an update to ASU No. 2018-12 that made the ASU effective for the Company on January 1, 2025. The Company has made progress in the implementation of the new standard, including the involvement of actuaries, accountants, and systems specialists. However, the Company has not yet estimated the impact the new guidance will have on the consolidated financial statements.

The Company has reviewed other recent accounting pronouncements and has determined that they will not significantly impact the Company’s results of operations or financial position.

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Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

2) Investments

The Company's investments as of December 31, 2021 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2021:</u>				
Fixed maturity securities, available for sale, at estimated fair value:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 22,307,736	\$ 578,567	\$ -	\$ 22,886,303
Obligations of states and political subdivisions	4,649,917	212,803	(1,989)	4,860,731
Corporate securities including public utilities	174,711,061	21,791,370	(353,668)	196,148,763
Mortgage-backed securities	34,365,382	905,159	(161,332)	35,109,209
Redeemable preferred stock	269,214	13,383	-	282,597
Total fixed maturity securities available for sale	<u>\$ 236,303,310</u>	<u>\$ 23,501,282</u>	<u>\$ (516,989)</u>	<u>\$ 259,287,603</u>
Equity securities at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 8,275,772	\$ 3,626,444	\$ (305,802)	\$ 11,596,414
Total equity securities at estimated fair value	<u>\$ 8,275,772</u>	<u>\$ 3,626,444</u>	<u>\$ (305,802)</u>	<u>\$ 11,596,414</u>
Mortgage loans held for investment at amortized cost:				
Residential	\$ 53,533,712			
Residential construction	175,117,783			
Commercial	51,683,022			
Less: Unamortized deferred loan fees, net	(918,586)			
Less: Allowance for loan losses	(1,699,902)			
Less: Net discounts	(409,983)			
Total mortgage loans held for investment	<u>\$ 277,306,046</u>			
Real estate held for investment - net of accumulated depreciation:				
Residential	\$ 41,972,462			
Commercial	155,393,335			
Total real estate held for investment	<u>\$ 197,365,797</u>			
Real estate held for sale:				
Residential	\$ 1,190,602			
Commercial	2,540,698			
Total real estate held for sale	<u>\$ 3,731,300</u>			
Other investments and policy loans at amortized cost:				
Policy loans	\$ 13,478,214			
Insurance assignments	48,632,808			
Federal Home Loan Bank stock (1)	2,547,100			
Other investments	4,983,251			
Less: Allowance for doubtful accounts	(1,686,218)			
Total policy loans and other investments	<u>\$ 67,955,155</u>			
Accrued investment income	<u>\$ 6,313,012</u>			
Total investments	<u>\$ 823,555,327</u>			

(1) Includes \$905,700 of Membership stock and \$1,641,400 of Activity stock due to short-term advances and letters of credit.

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Notes to Consolidated Financial Statements
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2) Investments (Continued)

The Company's investments as of December 31, 2020 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2020:</u>				
Fixed maturity securities, available for sale, at estimated fair value:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 42,381,805	\$ 1,358,562	\$ -	\$ 43,740,367
Obligations of states and political subdivisions	5,383,762	312,214	(1,261)	5,694,715
Corporate securities including public utilities	186,067,912	27,216,496	(681,478)	212,602,930
Mortgage-backed securities	31,047,791	1,565,377	(267,106)	32,346,062
Redeemable preferred stock	269,214	3,391	-	272,605
Total fixed maturity securities available for sale	<u>\$ 265,150,484</u>	<u>\$ 30,456,040</u>	<u>\$ (949,845)</u>	<u>\$ 294,656,679</u>
Equity securities at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 9,698,490	\$ 2,376,156	\$ (750,407)	\$ 11,324,239
Total equity securities at estimated fair value	<u>\$ 9,698,490</u>	<u>\$ 2,376,156</u>	<u>\$ (750,407)</u>	<u>\$ 11,324,239</u>
Mortgage loans held for investment at amortized cost:				
Residential	\$ 95,822,448			
Residential construction	111,111,777			
Commercial	46,836,866			
Less: Unamortized deferred loan fees, net	(1,161,132)			
Less: Allowance for loan losses	(2,005,127)			
Less: Net discounts	(1,260,896)			
Total mortgage loans held for investment	<u>\$ 249,343,936</u>			
Real estate held for investment - net of accumulated depreciation:				
Residential	\$ 24,843,743			
Commercial	106,840,710			
Total real estate held for investment	<u>\$ 131,684,453</u>			
Real estate held for sale:				
Residential	\$ 3,478,254			
Commercial	4,400,553			
Total real estate held for sale	<u>\$ 7,878,807</u>			
Other investments and policy loans at amortized cost:				
Policy loans	\$ 14,171,589			
Insurance assignments	53,231,131			
Federal Home Loan Bank stock (1)	2,506,600			
Other investments	5,432,816			
Less: Allowance for doubtful accounts	(1,645,475)			
Total policy loans and other investments	<u>\$ 73,696,661</u>			
Accrued investment income	<u>\$ 5,360,523</u>			
Total investments	<u>\$ 773,945,298</u>			

(1) Includes \$866,900 of Membership stock and \$1,639,700 of Activity stock due to short-term advances and letters of credit.

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2) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturities securities that were carried at estimated fair value at December 31, 2021 and at December 31, 2020. The unrealized losses were primarily related to interest rate fluctuations and uncertainties relating to COVID-19. 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		Unrealized Losses for More than Twelve Months		Total Unrealized Loss	Fair Value
		Fair Value		Fair Value		
<u>At December 31, 2021</u>						
Obligations of States and Political Subdivisions	\$ 1,989	\$ 548,715	\$ -	\$ -	\$ 1,989	\$ 548,715
Corporate Securities	73,507	4,638,750	280,161	3,771,813	353,668	8,410,563
Mortgage and other asset-backed securities	72,952	7,934,760	88,380	1,582,804	161,332	9,517,564
Total unrealized losses	<u>\$ 148,448</u>	<u>\$ 13,122,225</u>	<u>\$ 368,541</u>	<u>\$ 5,354,617</u>	<u>\$ 516,989</u>	<u>\$ 18,476,842</u>
<u>At December 31, 2020</u>						
Obligations of States and Political Subdivisions	\$ 1,261	\$ 206,812	\$ -	\$ -	\$ 1,261	\$ 206,812
Corporate Securities	242,596	9,919,298	438,882	2,593,026	681,478	12,512,324
Mortgage and other asset-backed securities	266,522	3,455,574	584	51,961	267,106	3,507,535
Total unrealized losses	<u>\$ 510,379</u>	<u>\$ 13,581,684</u>	<u>\$ 439,466</u>	<u>\$ 2,644,987</u>	<u>\$ 949,845</u>	<u>\$ 16,226,671</u>

There were 55 securities with fair value of 97.3% of amortized cost at December 31, 2021. There were 63 securities with fair value of 94.7% of amortized cost at December 31, 2020. Credit losses of \$39,502 and \$370,975 have been recognized for the years ended December 31, 2021 and 2020, respectively.

On a quarterly basis, the Company evaluates its fixed maturity securities classified as available for sale. 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, unless current market or recent company news could lead to a credit downgrade. 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.

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.

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2) Investments (Continued)

The following table presents a rollforward of the Company's cumulative other than temporary credit impairments (“OTTI”) recognized in earnings on fixed maturity securities available for sale.

	2021	2020
Balance of credit-related OTTI at January 1	\$ 370,975	\$ -
Additions for credit impairments recognized on:		
Securities not previously impaired	39,502	370,975
Securities previously impaired	-	-
Reductions for credit impairments previously recognized on:		
Securities that matured or were sold during the period (realized)	(145,500)	-
Securities due to an increase in expected cash flows	-	-
Balance of credit-related OTTI at December 31	\$ 264,977	\$ 370,975

The following table presents the amortized cost and estimated fair value of fixed maturity securities available for sale at December 31, 2021, by contractual maturity. 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
Due in 1 year	\$ 68,966	\$ 70,024
Due in 2-5 years	62,958,696	65,605,915
Due in 5-10 years	70,740,783	77,346,448
Due in more than 10 years	67,900,269	80,873,410
Mortgage-backed securities	34,365,382	35,109,209
Redeemable preferred stock	269,214	282,597
Total	\$ 236,303,310	\$ 259,287,603

The Company is a member of the Federal Home Loan Bank of Des Moines and Dallas (“FHLB”). The Company pledged a total of \$28,993,126, at estimated fair value, of fixed maturity securities with the FHLB at December 31, 2021. These securities are used as collateral on any cash borrowings from the FHLB. As of December 31, 2021, the Company owed \$-0- to the FHLB and its estimated maximum borrowing capacity was \$27,054,347.

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2) Investments (Continued)

Investment Related Earnings

The following tables presents the net realized gains and losses from sales, calls, and maturities, unrealized gains and losses on equity securities, and other than temporary impairments from investments and other assets.

	Years Ended December 31	
	2021	2020
Fixed maturity securities available for sale:		
Gross realized gains	\$ 984,740	\$ 445,749
Gross realized losses	(139,728)	(77,546)
Other than temporary impairments	(39,502)	(370,975)
Equity securities:		
Gains on securities sold	390,597	74,836
Unrealized gains on securities held at the end of the period	2,732,130	1,125,304
Other assets:		
Gross realized gains	4,786,535	2,342,418
Gross realized losses	(2,489,140)	(1,984,911)
Total	\$ 6,225,632	\$ 1,554,875

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.

Information regarding sales of fixed maturity securities available for sale is presented as follows.

	Years Ended December 31	
	2021	2020
Proceeds from sales	\$ 2,896,351	\$ 5,477,438
Gross realized gains	208,698	358,236
Gross realized losses	(4,046)	(21,137)

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Notes to Consolidated Financial Statements
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2) Investments (Continued)

Major categories of net investment income were as follows:

	<u>Years Ended December 31</u>	
	<u>2021</u>	<u>2020</u>
Fixed maturity securities available for sale	\$ 10,769,979	\$ 12,233,394
Equity securities	446,337	642,433
Mortgage loans held for investment	28,758,614	25,672,746
Real estate held for investment and sale	12,334,989	11,945,401
Policy loans	940,890	1,025,179
Insurance assignments	19,062,052	17,837,578
Other investments	131,145	126,013
Cash and cash equivalents	235,470	426,623
Gross investment income	<u>72,679,476</u>	<u>69,909,367</u>
Investment expenses	<u>(14,414,793)</u>	<u>(13,579,564)</u>
Net investment income	<u>\$ 58,264,683</u>	<u>\$ 56,329,803</u>

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of \$1,472,295 and \$676,313 for the years ended December 31, 2021 and 2020, respectively.

Net investment income on real estate consists primarily of rental revenue.

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

Securities on deposit for regulatory authorities as required by law amounted to \$10,168,853 and \$9,684,409 at December 31, 2021 and 2020, respectively. The restricted securities are included in various assets under investments on the accompanying consolidated balance sheets.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses) at December 31, 2021, other than investments issued or guaranteed by the United States Government.

Real Estate Held for Investment and Held for Sale

The Company strategically deploys 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 and held for sale pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

Commercial Real Estate Held for Investment and Held for Sale

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

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2) Investments (Continued)

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 assets that provide operational efficiencies.

The Company currently owns and operates 11 commercial properties in 5 states. These properties include office buildings, flex office space, and includes the redevelopment and expansion of its corporate campus (“Center53”) 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.

The aggregated net ending balance of commercial real estate that serves as collateral for bank loans was \$134,251,205 and \$71,517,902 as of December 31, 2021 and 2020, respectively. The associated bank loan carrying values totaled \$85,663,148 and \$46,153,283 as of December 31, 2021 and 2020, respectively.

During the years ended December 31, 2021 and 2020, the Company recorded impairment losses on commercial real estate held for sale of \$2,028,378 and \$897,980, respectively. These impairment losses relate to a funeral home and an office building held by the life insurance segment. The funeral home was subsequently sold. Impairment losses are included in gains (losses) on investments and other assets on the consolidated statements of earnings.

The Company’s commercial real estate held for investment is summarized as follows:

	Net Ending Balance		Total Square Footage	
	December 31		December 31	
	2021	2020	2021	2020
Utah (1)	\$ 150,105,948	\$100,927,528	675,920	379,066
Louisiana	2,426,612	2,998,684	31,778	84,841
Mississippi	2,860,775	2,914,498	19,694	21,521
	<u>\$ 155,393,335</u>	<u>\$106,840,710</u>	<u>727,392</u>	<u>485,428</u>

(1) Includes Center53 phase 1 and phase 2

The Company’s commercial real estate held for sale is summarized as follows:

	Net Ending Balance		Total Square Footage	
	December 31		December 31	
	2021	2020	2021	2020
Kansas	\$ 2,000,000	\$ 4,000,000	222,679	222,679
Louisiana	389,145	-	2,872	-
Mississippi (1)	151,553	151,553	-	12,300
Texas (2)		249,000	-	-
	<u>\$ 2,540,698</u>	<u>\$ 4,400,553</u>	<u>225,551</u>	<u>234,979</u>

(1) Approximately 93 acres of undeveloped land, in 2021, the existing building was removed

(2) Improved commercial pad

These properties are all actively being marketed with the assistance of commercial real estate brokers in the markets

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2) Investments (Continued)

where the properties are located. The Company expects these properties to sell within the coming 12 months.

Residential Real Estate Held for Investment and Held for Sale

The Company owns a small portfolio of residential homes primarily as a result of loan foreclosures. The Company has the option to sell them or to continue to hold them for cash flow and acceptable returns. The Company also invests in residential subdivision land developments.

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.

During the years ended December 31, 2021 and 2020, the Company recorded impairment losses on residential real estate held for sale of \$-0- and \$43,394, respectively. These impairment losses are included in gains (losses) on investments and other assets on the consolidated statements of earnings.

The net ending balance of foreclosed residential real estate included in residential real estate held for investment or sale is \$1,190,602 and \$4,327,079 as of December 31, 2021 and 2020, respectively.

The Company’s residential real estate held for investment is summarized as follows:

	Net Ending Balance	
	December 31	
	2021	2020
Utah (1)	\$ 41,686,281	\$ 24,557,562
Washington (2)	286,181	286,181
	\$ 41,972,462	\$ 24,843,743

(1) Including subdivision land developments

(2) Improved residential lots

The following table presents additional information regarding the Company’s subdivision land developments in Utah.

	December 31	
	2021	2020
Lots available for sale	67	36
Lots to be developed	548	350
Ending Balance	\$ 41,479,434	\$ 23,777,478

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2) Investments (Continued)

The Company's residential real estate held for sale is summarized as follows:

	Net Ending Balance	
	December 31	
	2021	2020
Nevada	\$ 979,640	\$ 979,640
Texas	200,962	-
Ohio	10,000	10,000
Florida	-	744,322
Utah	-	1,744,292
	\$ 1,190,602	\$ 3,478,254

These properties are all actively being marketed with the assistance of residential real estate brokers in the markets where the properties are located. The Company expects these properties to sell within the coming 12 months.

Real Estate Owned and Occupied by the Company

The primary business units of the Company occupy a portion of the commercial real estate owned by the Company. As of December 31, 2021, real estate owned and occupied by the Company is summarized as follows:

<u>Location</u>	<u>Business Segment</u>	<u>Approximate Square Footage</u>	<u>Square Footage Occupied by the Company</u>
433 West Ascension Way, Salt Lake City, UT - Center53 Phase 2	Corporate Offices, Life Insurance, Cemetery/Mortuary Operations, and Mortgage Operations and Sales	221,000	50%
1044 River Oaks Dr., Flowood, MS	Life Insurance Operations	19,694	28%
1818 Marshall Street, Shreveport, LA (1)	Life Insurance Operations	12,274	100%
909 Foisy Street, Alexandria, LA (1)	Life Insurance Sales	8,059	100%
812 Sheppard Street, Minden, LA (1)	Life Insurance Sales	1,560	100%
1550 N 3rd Street, Jena, LA (1)	Life Insurance Sales	1,737	100%

(1) 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 nine months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At

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2) Investments (Continued)

December 31, 2021, the Company had 70%, 7%, 5%, 4%, 4% and 2% of its mortgage loans from borrowers located in the states of Utah, Florida, California, Texas, Nevada and Arizona, respectively. At December 31, 2020, the Company had 57%, 13%, 9%, 4%, 3% and 3% of its mortgage loans from borrowers located in the states of Utah, Florida, Texas, California, Nevada and Arizona, respectively.

The Company establishes a valuation allowance for credit losses in its mortgage loans held for investment portfolio. The following table presents the valuation allowance for loan losses as a contra-asset account.

	Commercial	Residential	Residential Construction	Total
December 31, 2021				
Allowance for credit losses:				
Beginning balance	\$ 187,129	\$ 1,774,796	\$ 43,202	\$ 2,005,127
Charge-offs	-	-	-	-
Provision	-	(305,225)	-	(305,225)
Ending balance	<u>\$ 187,129</u>	<u>\$ 1,469,571</u>	<u>\$ 43,202</u>	<u>\$ 1,699,902</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 105,384</u>	<u>\$ -</u>	<u>\$ 105,384</u>
Ending balance: collectively evaluated for impairment	<u>\$ 187,129</u>	<u>\$ 1,364,187</u>	<u>\$ 43,202</u>	<u>\$ 1,594,518</u>
Mortgage loans:				
Ending balance	<u>\$ 51,683,022</u>	<u>\$ 53,533,712</u>	<u>\$ 175,117,783</u>	<u>\$ 280,334,517</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,723,372</u>	<u>\$ 2,548,656</u>	<u>\$ -</u>	<u>\$ 4,272,028</u>
Ending balance: collectively evaluated for impairment	<u>\$ 49,959,650</u>	<u>\$ 50,985,056</u>	<u>\$ 175,117,783</u>	<u>\$ 276,062,489</u>
December 31, 2020				
Allowance for credit losses:				
Beginning balance	\$ 187,129	\$ 1,222,706	\$ 43,202	\$ 1,453,037
Charge-offs	-	-	-	-
Provision	-	552,090	-	552,090
Ending balance	<u>\$ 187,129</u>	<u>\$ 1,774,796</u>	<u>\$ 43,202</u>	<u>\$ 2,005,127</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 219,905</u>	<u>\$ -</u>	<u>\$ 219,905</u>
Ending balance: collectively evaluated for impairment	<u>\$ 187,129</u>	<u>\$ 1,554,891</u>	<u>\$ 43,202</u>	<u>\$ 1,785,222</u>
Mortgage loans:				
Ending balance	<u>\$ 46,836,866</u>	<u>\$ 111,111,777</u>	<u>\$ 95,822,448</u>	<u>\$ 253,771,091</u>
Ending balance: individually evaluated for impairment	<u>\$ 2,148,827</u>	<u>\$ 7,932,680</u>	<u>\$ 200,963</u>	<u>\$ 10,282,470</u>
Ending balance: collectively evaluated for impairment	<u>\$ 44,688,039</u>	<u>\$ 103,179,097</u>	<u>\$ 95,621,485</u>	<u>\$ 243,488,621</u>

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2) Investments (Continued)

The following table presents the aging of mortgage loans held for investment.

	Commercial	Residential	Residential Construction	Total
December 31, 2021				
30-59 Days Past Due	\$ -	\$ 3,117,826	\$ 1,363,127	\$ 4,480,953
60-89 Days Past Due	100,204	580,815	-	681,019
Greater Than 90 Days (1)	1,723,372	2,052,062	-	3,775,434
In Process of Foreclosure (1)	-	496,594	-	496,594
Total Past Due	1,823,576	6,247,297	1,363,127	9,434,000
Current	49,859,446	47,286,415	173,754,656	270,900,517
Total Mortgage Loans	51,683,022	53,533,712	175,117,783	280,334,517
Allowance for Loan Losses	(187,129)	(1,469,571)	(43,202)	(1,699,902)
Unamortized deferred loan fees, net	(36,813)	(498,600)	(383,173)	(918,586)
Unamortized discounts, net	(240,614)	(169,369)	-	(409,983)
Net Mortgage Loans	\$ 51,218,466	\$ 51,396,172	\$ 174,691,408	\$ 277,306,046
December 31, 2020				
30-59 Days Past Due	\$ 233,200	\$ 5,866,505	\$ 127,191	\$ 6,226,896
60-89 Days Past Due	812,780	2,048,148	-	2,860,928
Greater Than 90 Days (1)	2,148,827	5,669,583	-	7,818,410
In Process of Foreclosure (1)	-	2,263,097	200,963	2,464,060
Total Past Due	3,194,807	15,847,333	328,154	19,370,294
Current	43,642,059	79,975,115	110,783,623	234,400,797
Total Mortgage Loans	46,836,866	95,822,448	111,111,777	253,771,091
Allowance for Loan Losses	(187,129)	(1,774,796)	(43,202)	(2,005,127)
Unamortized deferred loan fees, net	(32,557)	(909,864)	(218,711)	(1,161,132)
Unamortized discounts, net	(880,721)	(380,175)	-	(1,260,896)
Net Mortgage Loans	\$ 45,736,459	\$ 92,757,613	\$ 110,849,864	\$ 249,343,936

(1) Interest income is not 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 are summarized as follows:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>December 31, 2021</u>					
With no related allowance recorded:					
Commercial	\$ 1,723,372	\$ 1,723,372	\$ -	\$ 1,053,865	\$ -
Residential	1,591,368	1,591,368	-	2,731,421	-
Residential construction	-	-	-	100,481	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	957,288	957,288	105,384	726,449	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ 1,723,372	\$ 1,723,372	\$ -	\$ 1,053,865	\$ -
Residential	2,548,656	2,548,656	105,384	3,457,870	-
Residential construction	-	-	-	100,481	-
<u>December 31, 2020</u>					
With no related allowance recorded:					
Commercial	\$ 2,148,827	\$ 2,148,827	\$ -	\$ 1,866,819	\$ -
Residential	6,415,419	6,415,419	-	5,010,078	-
Residential construction	200,963	200,963	-	555,278	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	1,517,261	1,517,261	219,905	1,182,368	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ 2,148,827	\$ 2,148,827	\$ -	\$ 1,866,819	\$ -
Residential	7,932,680	7,932,680	219,905	6,192,446	-
Residential construction	200,963	200,963	-	555,278	-

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 are summarized as follows:

	Commercial		Residential		Residential Construction		Total	
	December 31		December 31		December 31		December 31	
	2021	2020	2021	2020	2021	2020	2021	2020
Performing	\$ 49,959,650	\$ 44,688,039	\$ 50,985,056	\$ 87,889,768	\$ 175,117,783	\$ 110,910,814	\$ 276,062,489	\$ 243,488,621
Non-performing	1,723,372	2,148,827	2,548,656	7,932,680	-	200,963	4,272,028	10,282,470
Total	<u>\$ 51,683,022</u>	<u>\$ 46,836,866</u>	<u>\$ 53,533,712</u>	<u>\$ 95,822,448</u>	<u>\$ 175,117,783</u>	<u>\$ 111,111,777</u>	<u>\$ 280,334,517</u>	<u>\$ 253,771,091</u>

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 approximately \$236,000 and \$491,000 as of December 31, 2021 and 2020, respectively.

Principal Amounts Due

The following table presents the amortized cost and contractual payments on mortgage loans held for investment by category as of December 31, 2021. 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	\$ 53,533,712	\$ 7,451,252	\$ 6,031,628	\$ 40,050,832
Residential Construction	175,117,783	145,711,262	29,406,521	-
Commercial	<u>51,683,022</u>	<u>17,007,282</u>	<u>25,761,914</u>	<u>8,913,826</u>
Total	<u>\$ 280,334,517</u>	<u>\$ 170,169,796</u>	<u>\$ 61,200,063</u>	<u>\$ 48,964,658</u>

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3) Loans Held for Sale

The Company elected the fair value option for loans held for sale. Changes in the fair value of the loans are included in mortgage fee income. 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. See Note 17 of the Notes to Consolidated Financial Statements for additional disclosures regarding loans held for sale.

The following table presents the aggregate fair value and the aggregate unpaid principal balance of loans held for sale.

	December 31	
	2021	2020
Aggregate fair value	\$ 302,776,827	\$ 422,772,418
Unpaid principal balance	294,481,503	406,407,323
Unrealized gain	8,295,324	16,365,095

Mortgage Fee Income

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

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

	Years Ended December 31	
	2021	2020
Loan fees	\$ 37,723,433	\$ 43,432,532
Interest income	9,385,469	10,628,581
Secondary gains	230,417,029	231,759,342
Change in fair value of loan commitments	(3,113,095)	7,637,377
Change in fair value of loans held for sale	(8,783,376)	10,413,492
Provision for loan loss reserve	(2,211,230)	(4,938,214)
Mortgage fee income	<u>\$ 263,418,230</u>	<u>\$ 298,933,110</u>

Loan Loss Reserve

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

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3) Loans Held for Sale (Continued)

The loan loss reserve, which is included in other liabilities and accrued expenses, is summarized as follows:

	December 31	
	2021	2020
Balance, beginning of period	\$ 20,583,618	\$ 4,046,288
Provision for current loan originations (1)	2,211,230	4,938,214
Additional provision for loan loss reserve	-	16,506,030
Charge-offs, net of recaptured amounts	(20,347,709)	(4,906,914)
Balance, at December 31	\$ 2,447,139	\$ 20,583,618

(1) Included in Mortgage fee income

The Company maintains reserves for estimated losses on current production volumes. For the year ended December 31, 2021, \$2,211,230 in reserves were added at a rate of 3.9 basis points per loan, the equivalent of \$390 per \$1,000,000 in loans originated. This is a decrease over the year ended December 31, 2020, when \$4,938,214 in reserves were added at a rate of 8.9 basis points per loan originated, the equivalent of \$890 per \$1,000,000 in loans originated. The Company also increased its loan loss reserve for the year ended December 31, 2020 by an additional \$16,506,030 to account for changes in estimates specific to settlements of loan losses. See Note 10 for additional information regarding mortgage loan loss settlements. The unique nature of COVID-19 creates significant difficulty for forecasting potential future losses. The Company will continue to monitor data and economic conditions in order to maintain adequate loss reserves on current production. Thus, the Company believes that the final loan loss reserve as of December 31, 2021, represents its best estimate for adequate loss reserves on loans sold.

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4) Receivables

Receivables consist of the following:

	December 31	
	2021	2020
Trade contracts	\$ 5,298,636	\$ 4,119,988
Receivables from sales agents	2,360,807	2,677,774
Other	12,457,398	5,786,827
Total receivables	20,116,841	12,584,589
Allowance for doubtful accounts	(1,800,725)	(1,685,382)
Net receivables	\$ 18,316,116	\$ 10,899,207

5) Value of Business Acquired, Intangible Assets and Goodwill

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

	December 31	
	2021	2020
Balance at beginning of year	\$ 8,955,249	\$ 9,876,647
Value of business acquired	586,840	-
Imputed interest at 7% included in earnings	613,028	670,565
Amortization included in earnings	(1,728,157)	(1,457,390)
Shadow amortization included in other comprehensive income	(5,528)	(134,573)
Net amortization	(1,120,657)	(921,398)
Balance at end of year	\$ 8,421,432	\$ 8,955,249

Presuming no additional acquisitions, net amortization charged to income is expected to approximate \$1,059,000, \$972,000, \$893,000, \$810,000, and \$753,000 for the years 2022 through 2027. Actual amortization may vary based on changes in assumptions or experience. As of December 31, 2021, value of business acquired is being amortized over a weighted average life of 5.9 years.

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5) Value of Business Acquired, Intangible Assets and Goodwill (Continued)

The carrying value of the Company's intangible assets were as follows which is included in other assets:

	Useful Life	December 31	
		2021	2020
Intangible asset - trade name (1)	15 years	\$ 2,100,000	\$ -
Intangible asset - customer lists	15 years	890,000	890,000
Intangible asset - trade name (2)	15 years	610,000	610,000
Intangible assets - other (1)	15 years	210,000	-
Less accumulated amortization		(297,333)	(197,334)
Balance at end of year		<u>\$ 3,512,667</u>	<u>\$ 1,302,666</u>

(1) See Note 20 regarding the acquisition of Rivera Funerals, Cremations and Memorial Gardens

(2) Kilpatrick Life

Information regarding goodwill by segment was as follows:

	Life Insurance	Cemetery/ Mortuary	Total
Balance at January 1, 2020:			
Goodwill	\$2,765,570	\$ 754,018	\$3,519,588
Accumulated impairment	-	-	-
Total goodwill, net	<u>2,765,570</u>	<u>754,018</u>	<u>3,519,588</u>
Acquisition	-	-	-
Balance at December 31, 2020:			
Goodwill	2,765,570	754,018	3,519,588
Accumulated impairment	-	-	-
Total goodwill, net	<u>2,765,570</u>	<u>754,018</u>	<u>3,519,588</u>
Acquisition	-	1,734,195 (1)	1,734,195
Balance at December 31, 2021:			
Goodwill	2,765,570	2,488,213	5,253,783
Accumulated impairment	-	-	-
Total goodwill, net	<u>\$2,765,570</u>	<u>\$ 2,488,213</u>	<u>\$5,253,783</u>

(1) See Note 20 regarding the acquisition of Rivera Funerals, Cremations and Memorial Gardens and Holbrook Mortuary

Goodwill is not amortized but is tested annually for impairment. The annual impairment tests resulted in no impairment of goodwill for the years ended December 31, 2021 and 2020.

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6) Property and Equipment

Property and equipment is summarized below:

	December 31	
	2021	2020
Land and buildings	\$ 16,532,593	\$ 11,972,802
Furniture and equipment	24,799,115	19,679,682
	41,331,708	31,652,484
Less accumulated depreciation	(19,814,110)	(19,179,139)
Total	\$ 21,517,598	\$ 12,473,345

Depreciation expense for the years ended December 31, 2021 and 2020 was \$1,935,613 and \$2,078,738, respectively. During 2021, the Company reclassified a building with a gross building cost of \$3,640,755 with its associated accumulated depreciation of \$532,074 from property and equipment to real estate held for investment. During 2020, the Company demolished a building with a gross building cost of \$1,723,000 with its associated accumulated depreciation (net book value of \$-0-) and transferred land with a cost of \$1,516,700 to real estate held for investment to make way for phase 2 of the redevelopment and expansion of Center53. See Note 20 for additional information regarding property and equipment acquired through acquisitions.

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7) Bank and Other Loans Payable

Bank and other loans payable are summarized as follows:

	December 31	
	2021	2020
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, paid in full December 2021.	-	633,890
Prime rate note payable in monthly installments of \$75,108 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due December 2024.	2,481,878	3,257,113
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 \$3,103,000, due September 2025.	1,825,608	1,861,920
4.00% variable with LIBOR at a 1% floor and a spread at 3% rate construction loan collateralized by real property with a book value of approximately \$64,730,000, due March 2024.	34,547,181	-
2.5% above the monthly LIBOR rate plus 1/16th of the monthly LIBOR rate construction loan payable in monthly principal payments of \$113,000 plus interest, collateralized by real property with a book value of approximately \$49,118,000, paid in full March 2021.	-	35,091,364
3.30% fixed note payable in monthly installments of \$179,562 including principal and interest, collateralized by real property with a book value of approximately \$49,118,000, due April 2051.	40,090,359	-
4.7865% fixed interest only note payable in monthly installments, collateralized by real property with a book value of approximately \$17,301,000, due June 2028.	9,200,000	9,200,000
1 month LIBOR rate plus 2.1% loan purchase agreement with a warehouse line availability of \$100,000,000, matures June 2022.	66,305,025	116,598,834
1 month LIBOR rate plus 2% loan purchase agreement with a warehouse line availability of \$100,000,000, matures August 2022.	50,555,909	68,766,572
1 month LIBOR rate plus 2.15% loan purchase agreement with a warehouse line availability of \$75,000,000, matures May 2022.	43,196,986	60,715,374
1 month LIBOR rate plus 2.0% loan purchase agreement with a warehouse line availability of \$100,000,000, matures June 2022.	1,764,386	-
1 month LIBOR rate plus 2.5% loan purchase agreement with a warehouse line availability of \$5,000,000, matured August 2021.	-	317,582
Other short-term borrowings (1)	1,250,000	1,250,000
Finance lease liabilities	62,767	104,951
Other loans payable	6,828	26,768
Total bank and other loans	251,286,927	297,824,368
Less current installments	164,747,672	284,250,996
Bank and other loans, excluding current installments	<u>\$ 86,539,255</u>	<u>\$ 13,573,372</u>

(1) Revolving Line of Credit

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7) Bank and Other Loans Payable (Continued)

Sources of Liquidity

Federal Home Loan Bank Membership

The Federal Home Loan Banks (“the FHLBs”) are a group of cooperatives that lending institutions use to finance housing and economic development in local communities. The Company is a member of the FHLB based in Des Moines, Iowa and based in Dallas, Texas. As a member of the FHLB, the Company is required to maintain a minimum investment in capital stock of the FHLB and may pledge collateral to the bank for advances of funds to be used in its operations.

Federal Home Loan Bank of Des Moines

At December 31, 2021, the amount available for borrowings from the FHLB of Des Moines was approximately \$19,259,722, compared with \$39,102,336 at December 31, 2020. United States Treasury fixed maturity securities with an estimated fair value of \$20,244,900 at December 31, 2021 have been pledged at the FHLB of Des Moines as collateral for current and potential borrowings compared with \$40,729,400 at December 31, 2020. At December 31, 2021 and 2020, the Company had no outstanding FHLB borrowings. At December 31, 2021, the Company’s total investment in FHLB stock was \$826,800 compared with \$786,300 at December 31, 2020. The Company’s increased investment in FHLB stock was a result of its increase in short-term FHLB borrowings during 2021. At December 31, 2021, the Company was contingently liable under a standby letter of credit aggregating \$443,758, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's captive insurance program.

Federal Home Loan Bank of Dallas

At December 31, 2021, the amount available for borrowings from the FHLB of Dallas was approximately \$7,794,625, compared with \$-0- at December 31, 2020. Mortgage-Backed fixed maturity securities with an estimated fair value of \$8,774,352 at December 31, 2021 have been pledged at the FHLB of Dallas as collateral for current and potential borrowings compared with \$-0- at December 31, 2020. At December 31, 2021 and 2020, the Company had no outstanding FHLB borrowings. At December 31, 2021, the Company’s total investment in FHLB stock was \$1,720,300 compared with \$1,720,300 at December 31, 2020.

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%, secured by the capital stock of Security National Life and maturing December 31, 2022, renewable annually. At December 31, 2021, the Company was contingently liable under standby letters of credit aggregating \$941,711, to be used as collateral for residential subdivision land developments. The 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 letters of credit. As of December 31, 2021, 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% maturing December 31, 2022. As of December 31, 2021, there was \$1,250,000 outstanding under the revolving line-of-credit.

Debt Covenants for Mortgage Warehouse Lines of Credit

The Company, through its subsidiary SecurityNational Mortgage, has a \$100,000,000 line of credit with Wells Fargo Bank N.A. The agreement charges interest at the 1-Month LIBOR rate plus 2.1% and matures on June 9,

SECURITY NATIONAL FINANCIAL CORPORATION
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7) Bank and Other Loans Payable (Continued)

2022. SecurityNational Mortgage is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, the ratio of indebtedness to adjusted tangible net worth, and the liquidity overhead coverage ratio, and a quarterly gross profit of at least \$1.00.

The Company, through its subsidiary SecurityNational Mortgage, has 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. The agreement charges interest at the 1-Month LIBOR rate plus 2% and matures on August 9, 2022. The Company is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, and minimum combined pre-tax income (excluding any changes in the fair value of mortgage servicing rights) of at least \$1.00 on a rolling four-quarter basis.

The Company through its subsidiary SecurityNational Mortgage, has a line of credit with Comerica Bank. This agreement with the bank allows SecurityNational Mortgage to borrow up to \$75,000,000 for the sole purpose of funding mortgage loans. The agreement charges interest at the 1-Month LIBOR rate plus 2.15% and matures on May 27, 2022. The Company is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, and minimum combined pre-tax income (excluding any changes in the fair value of mortgage servicing rights) of at least \$1.00 on a rolling twelve months.

The Company through its subsidiary SecurityNational Mortgage, has a line of credit with U.S Bank. This agreement with the bank allows SecurityNational Mortgage to borrow up to \$100,000,000 for the sole purpose of funding mortgage loans. The agreement charges interest at the 1-Month LIBOR rate plus 2.0% and matures on June 4, 2022. The Company is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, and minimum combined pre-tax income (excluding any changes in the fair value of mortgage servicing rights) of at least \$1.00 on a rolling twelve months.

The agreements for warehouse lines include cross default provisions in that a covenant violation under one agreement constitutes a covenant violation under the other agreement. As of December 31, 2021, the Company was in compliance with all debt covenants.

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

2022	\$ 164,747,672
2023	1,745,541
2024	36,333,278
2025	2,512,683
2026	735,981
Thereafter	45,211,772
Total	<u>\$ 251,286,927</u>

Interest expense in 2021 and 2020 was \$7,127,516 and \$8,578,810, respectively. Interest paid in 2021 and 2020 was \$7,290,867 and \$8,385,270, 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	
	2021	2020
Cash and cash equivalents	\$ 1,059,519	\$ 402,913
Fixed maturity securities, available for sale, at estimated fair value	784,765	747,767
Equity securities, at estimated fair value	3,302,480	2,062,303
Participating interests in residential construction mortgage loans held for investment with Security National Life	1,823,533	1,468,600
Real estate held for investment	865,424	1,731,584
Total cemetery perpetual care trust investments	<u>7,835,721</u>	<u>6,413,167</u>
Cemetery perpetual care obligation	<u>(4,915,285)</u>	<u>(4,087,704)</u>
Trust investments in excess of trust obligations	<u>\$ 2,920,436</u>	<u>\$ 2,325,463</u>

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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 maintain its medical benefit fund without change from the prior 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	
	2021	2020
Cash and cash equivalents (1)	\$ 9,000,293	\$ 8,842,744
Fixed maturity securities, available for sale, at estimated fair value	1,601,688	1,473,637
Equity securities, at estimated fair value	3,603,822	2,515,778
Participating interests in mortgage loans held for investment with Security National Life	2,732,319	3,317,877
Total	\$ 16,938,122	\$ 16,150,036

(1) Including cash and cash equivalents of \$7,869,295 and \$8,524,99 as of December 31, 2021 and 2020, respectively, for the life insurance and mortgage segments.

A surplus note receivable in the amount of \$4,000,000 at December 31, 2021 and 2020, 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 is summarized as follows:

	December 31	
	2021	2020
Current	\$ (1,558,687)	\$ 2,595,877
Deferred	32,594,783	22,662,923
Total	<u>\$ 31,036,096</u>	<u>\$ 25,258,800</u>

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

	December 31	
	2021	2020
Assets		
Future policy benefits	\$ (13,015,255)	\$ (12,657,045)
Loan loss reserve	(636,256)	(5,352,942)
Unearned premium	(642,755)	(699,011)
Net operating loss	(898,029)	(334,085)
Deferred compensation	(2,750,406)	(2,833,298)
Deposit obligations	(635,878)	(610,041)
Other	(1,712,895)	(1,269,533)
Less: Valuation allowance	882,535	961,920
Total deferred tax assets	<u>(19,408,939)</u>	<u>(22,794,035)</u>
Liabilities		
Deferred policy acquisition costs	17,166,200	16,430,001
Basis difference in property, equipment and real estate	9,247,242	5,312,787
Value of business acquired	1,768,501	1,880,602
Deferred gains	15,598,360	12,124,226
Trusts	1,064,387	1,064,387
Tax on unrealized appreciation	7,159,032	8,644,955
Total deferred tax liabilities	<u>52,003,722</u>	<u>45,456,958</u>
Net deferred tax liability	<u>\$ 32,594,783</u>	<u>\$ 22,662,923</u>

The valuation allowance relates to differences between recorded deferred tax assets and liabilities and ultimate anticipated realization.

SECURITY NATIONAL FINANCIAL CORPORATION
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Notes to Consolidated Financial Statements
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9) Income Taxes (Continued)

The Company's income tax expense is summarized as follows:

	December 31	
	2021	2020
Current		
Federal	\$ 629,921	\$ 10,678,612
State	343,428	2,320,233
	973,349	12,998,845
Deferred		
Federal	9,832,556	2,677,943
State	1,475,880	176,726
	11,308,436	2,854,669
Total	\$ 12,281,785	\$ 15,853,514

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

	December 31	
	2021	2020
Computed expense at statutory rate	\$ 10,878,163	\$ 15,004,527
State tax expense, net of federal tax benefit	1,437,255	1,972,598
Change in valuation allowance	(79,385)	(1,477,474)
Other, net	45,752	353,863
Income tax expense	\$ 12,281,785	\$ 15,853,514

The Company's overall effective tax rate for the years ended December 31, 2021 and 2020 was 23.7% and 22.2% respectively. The Company's effective tax rates differ from the U.S. federal statutory rate of 21% partially due to its provision for state income taxes and a decrease to the valuation allowance. The increase in the effective tax rate when compared to the prior year is partially due to a smaller decrease to the valuation allowance in the current period when compared to the prior period year.

At December 31, 2021, the Company had no significant unrecognized tax benefits. As of December 31, 2021, 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 2018 through 2021 are subject to examination by taxing authorities.

Net Operating Losses and Tax Credit Carryforwards:

<u>Year of Expiration</u>	
2022	\$ -
2023	-
2024	-
2025	-
2026	-
Thereafter up through 2037	1,237,784
Indefinite carryforwards	2,742,661
	\$ 3,980,445

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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 2021 and 2020. 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 \$129,000,000 and approximately \$96,000,000 at December 31, 2021 and 2020, respectively. See Financial Statement Schedule IV for information regarding premiums for direct business, reinsurance assumed and reinsurance ceded.

Mortgage Loan Loss Settlements

Future loan losses can be extremely difficult to estimate. However, the Company believes that its reserve methodology and its current practice of property preservation allow it to estimate potential losses on loans sold. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2021 and 2020, the balances were \$2,447,000 and \$20,584,000, respectively. The Company believes that the loan loss reserve as of December 31, 2021, represents its best estimate for adequate loss reserves on loans sold.

Mortgage Loan Loss Litigation

Settlement Agreement and Mutual Release with Lehman Brothers Holdings Inc.

From 2004 to early 2008, SecurityNational Mortgage Company (“SecurityNational Mortgage”), a wholly owned subsidiary of the Company, originated “limited documentation” or “reduced documentation” loans which were sold to certain affiliates of Lehman Brothers Holdings Inc. (“Lehman Holdings”). Certain of these loans became the subject of disputes between SecurityNational Mortgage and Lehman Holdings and certain Lehman Holdings affiliates. Lehman Holdings filed a Petition for Relief under Chapter 11 of the United States Bankruptcy Code in 2008. In May of 2011, SecurityNational Mortgage filed a complaint in U.S. District Court against certain Lehman Holdings affiliates. In June of 2011, Lehman Holdings filed a complaint in Federal District Court against SecurityNational Mortgage, both the complaint filed in May 2011 and that filed in June 2011 were later resolved. In 2016, certain other pending loan disputes between SecurityNational Mortgage and Lehman Holdings became the subject of an unsuccessful, non-binding alternate dispute resolution mediation proceeding.

Thereafter, in 2016, Lehman Holdings filed an adversary proceeding complaint against approximately 150 mortgage loan originators, including SecurityNational Mortgage, in the U.S. Bankruptcy Court of the Southern District of New York, which included seeking damages relating to the alleged obligations of the defendants under indemnification provisions of 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. The complaint was later amended with the latest amended complaint filed against SecurityNational Mortgage on December 27, 2016, seeking damages to be determined at trial, including interest, attorneys’ fees and costs. This complaint involved approximately 135 mortgage loans, there being millions of dollars allegedly in dispute. These claims against SecurityNational Mortgage were asserted as a result of Lehman Holdings’ earlier settlements with the Federal National Mortgage Association (“Fannie Mae”) and the Federal Home Loan Corporation (“Freddie Mac”).

In 2018, Lehman Holdings filed a separate adversary proceeding complaint against SecurityNational Mortgage. This adversary proceeding allegedly involved approximately 577 mortgage loans relative to private securitization trusts (“RMBS Loans”) and millions of dollars in damages. Thereafter, Lehman Holdings made a filing that effectively reduced the number of RMBS Loans to 248. This proceeding was in addition to the above-referenced proceeding involving the Fannie Mae and Freddie Mac mortgage loans. As with the above-referenced proceeding, damages were sought including interest, costs, and attorneys’ fees.

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10) Reinsurance, Commitments and Contingencies (Continued)

SecurityNational Mortgage, as well as other defendants, have been involved in written discovery, and production of documents relative to the cases, and the filing of motions. The deposition phase of the cases was yet to begin, as well as the later expert witness phase. Those phases would require substantial expenditures of legal fees and costs.

On February 1, 2021, SecurityNational Mortgage executed a settlement agreement with Lehman Holdings in relation to these two adversary proceedings wherein all mortgage loan related claims were resolved, thereby ending all liabilities asserted by Lehman Holdings and conclusively ending all proceedings between SecurityNational Mortgage and Lehman Holdings. The full amount of SecurityNational Mortgage's settlement payment was accounted for in the Company's loan loss reserve as of December 31, 2020 and was paid during the first quarter 2021.

Non-Cancelable Leases

The Company leases office space and equipment under various non-cancelable agreements. See Note 24 regarding leases.

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, 2021, the Company's commitments were approximately \$329,903,000, for these loans of which \$179,674,000 had been funded. The Company advances funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees and interest for these loans and the interest rate is generally fixed 5.50% to 8.00% per annum. Maturities range between six and eighteen months.

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

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

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

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11) Retirement Plans

The Company and its subsidiaries had 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, 2021 and 2020. On November 25, 2019, the Company distributed a notice of intent to terminate the ESOP Plan to all current plan participants. The Company also filed Form 5310 application for determination for terminating plan, with the IRS on December 6, 2019. As of the 4th quarter of 2020, the Company began to distribute the ESOP Plan assets to participants that had made a distribution election. The Company received approval of its application from the IRS and distributed all the remaining ESOP Plan assets to the participants during 2021.

The Company has three 401(k) savings plans covering all eligible employees 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 \$19,500 and \$19,500 for the years 2021 and 2020, respectively or the statutory limits. Beginning in January 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, 2021 and 2020 was \$2,820,315 and \$1,690,568, respectively under the “Safe Harbor” plan.

In 2001, the Company’s Board of Directors adopted a Non-Qualified Deferred Compensation Plan, and this plan was amended in 2005. 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 2021 and 2020.

Effective December 4, 2018, the Board members approved a motion to extend the Chief Executive Officer’s employment agreement, dated December 4, 2012, for an additional four-year term ending December 2022. In the event of disability, the Chief Executive Officer’s salary would be continued for up to five years at 75% of its current level of compensation. In the event of a sale or merger of the Company and the Chief Executive Officer is not retained in his current position, the Company would be obligated to continue paying the Chief Executive Officer’s current compensation and benefits for seven years following the merger or sale. The agreement further provides that the Chief Executive Officer 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 level of compensation. In the event that the Chief Executive Officer dies prior to receiving all retirement benefits thereunder, the remaining benefits are to be paid to his heirs. The Company expensed \$900,000 and \$900,000 during the years ended December 31, 2021 and 2020, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued was \$7,556,363 and \$6,656,363 as of December 31, 2021 and 2020, respectively.

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11) Retirement Plans (Continued)

The Company, through its wholly owned subsidiary, SecurityNational Mortgage, also has an employment agreement with its former Vice President of Mortgage Operations and President of SecurityNational Mortgage, who retired from the Company on December 31, 2015. Under the terms of the employment agreement, this individual is entitled to receive retirement benefits from the Company for a period of ten years in an amount equal to 50% of his 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 the event that this individual dies prior to receiving all of his retirement benefits under his employment agreement, the remaining benefits will be made to his heirs. The company paid \$133,843 and \$133,843 in retirement compensation to this individual during the years ended December 31, 2021 and 2020, respectively. The liability accrued was \$535,370 and \$669,212 as of December 31, 2021 and 2020, 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) and deferred compensation plans.

Stockholders of both Class A and Class C common stock have received 5% stock dividends in the years 1990 through 2019, a 7.5% stock dividend in the year 2020, and a 5% stock dividend in the year 2021, as authorized by the Company's Board of Directors.

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.

	<u>Class A</u>	<u>Class C</u>
Outstanding shares at December 31, 2019	<u>16,107,779</u>	<u>2,500,887</u>
Exercise of stock options	68,970	130,820
Stock dividends	405,210	61,720
Conversion of Class C to Class A	13,824	(13,824)
Outstanding shares at December 31, 2020	<u>16,595,783</u>	<u>2,679,603</u>
Exercise of stock options	160,282	104,656
Stock dividends	837,410	131,553
Conversion of Class C to Class A	49,247	(49,247)
Outstanding shares at December 31, 2021	<u>17,642,722</u>	<u>2,866,565</u>

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12) Capital Stock (Continued)

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:

	Years Ended December 31	
	2021	2020
Numerator:		
Net earnings	\$ 39,518,990	\$ 55,596,613
Denominator:		
Denominator for basic earnings per share-weighted-average shares	20,154,878	19,788,984
Effect of dilutive securities		
Employee stock options	774,206	465,423
Dilutive potential common shares	774,206	465,423
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions	20,929,084	20,254,407
Basic earnings per share	\$1.96	\$2.81
Diluted earnings per share	\$1.89	\$2.74

For the years ended December 31, 2021 and 2020, there were 50,000 and -0- 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 two fixed option plans (the “2013 Plan” and the “2014 Director Plan”). Compensation expense for options issued of \$118,384 and \$358,878 has been recognized under these plans for the years ended December 31, 2021 and 2020, respectively, and is included in personnel expenses on the consolidated statements of earnings. As of December 31, 2021, the total unrecognized compensation expense related to the options issued was \$875,735, 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.

Grant Date	Plan	Weighted- Average Fair Value of Each Option	Assumptions				
			Expected Dividend Yield (1)	Underlying stock FMV	Weighted- Average Volatility	Weighted- Average Risk-Free Interest Rate	Weighted- Average Expected Life (years)
December 3, 2021	All Plans	\$ 2.99	5%	\$ 8.62	36.50%	1.15%	5.31
March 27, 2020	All Plans	\$ 0.65	5%	\$ 3.76	32.29%	1.64%	4.82

(1) Stock dividend

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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 January 1, 2020	1,086,053	\$ 4.20	594,132	\$ 5.10
Adjustment for the effect of stock dividends	27,968		19,354	
Granted	77,000		180,000	
Exercised	(116,487)		(130,820)	
Cancelled	(1,671)		-	
Outstanding at December 31, 2020	1,072,863	\$ 4.12	662,666	\$ 4.50
Adjustment for the effect of stock dividends	47,594		33,136	
Granted	89,500		230,000	
Exercised	(183,935)		(104,656)	
Cancelled	(1,671)		-	
Outstanding at December 31, 2021	1,024,351	\$ 4.61	821,146	\$ 5.48
Exercisable at end of year	934,851	\$ 4.23	591,146	\$ 4.26
Available options for future grant	232,376		16,689	
Weighted average contractual term of options outstanding at December 31, 2021	4.54 years		7.24 years	
Weighted average contractual term of options exercisable at December 31, 2021	4.03 years		6.62 years	
Aggregated intrinsic value of options outstanding at December 31, 2021 (1)	\$4,700,708		\$3,009,168	
Aggregated intrinsic value of options exercisable at December 31, 2021 (1)	\$4,648,798		\$2,918,768	

(1) The Company used a stock price of \$9.20 as of December 31, 2021 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, 2021 and 2020 was \$1,153,417 and \$663,901, 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.

The states in which the Company's life insurance subsidiaries are domiciled require the preparation of 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:

	Statutory Net Income		Statutory Capital and Surplus	
	Years Ended December 31		December 31	
	2021	2020	2021	2020
Amounts by insurance subsidiary:				
Security National Life Insurance Company	\$ 5,552,116	\$ 6,054,764	\$ 57,424,808	\$ 53,089,185
Kilpatrick Life Insurance Company	1,312,718	1,574,128	15,566,231	15,177,996
First Guaranty Insurance Company	624,550	790,221	7,734,357	7,045,644
Memorial Insurance Company of America	37	55	-	1,088,034
Southern Security Life Insurance Company, Inc.	275	183	1,578,225	1,581,647
Trans-Western Life Insurance Company	(2,089)	(1,527)	508,547	510,636
Total	<u>\$ 7,487,607</u>	<u>\$ 8,417,824</u>	<u>\$ 82,812,168</u>	<u>\$ 78,493,142</u>

The Utah, 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 each have a ratio that is greater than the first level of regulatory action as of December 31, 2021.

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, that exceed minimum statutory capital requirements. Additional requirements must be met depending on the state, and payments of such amounts as dividends are subject to approval by regulatory authorities.

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14) Statutory Financial Information and Dividend Limitations (Continued)

Under the Utah Insurance Code, Security National Life Insurance Company is permitted to pay stockholder dividends, or otherwise make distributions, to the Company subject to certain limitations. Security National Life Insurance Company must ensure that its surplus held for policyholders is reasonable in relation to its outstanding liabilities and adequate to its financial needs after payment of any such dividend or distribution. Furthermore, where any dividend or distribution, together with all other dividends and distributions made within the preceding 12 months, exceeds the lesser of (i) 10% of its surplus held for policyholders as of the next preceding December 31; or (ii) its net gain from operations, not including realized capital gains, for the 12-month period ending the next preceding December 31, such dividend or distribution constitutes “extraordinary” under Utah law and Security National Life Insurance Company would be required to file notice of its intention to declare such a dividend or make such a distribution with the Utah Commissioner and the Utah Commissioner must either approve the distribution or dividend or not disapprove the dividend or distribution within 30 days’ of the notice filing. Based on Security National Life Insurance Company’s surplus held for policyholders and net gain from operations as of December 31, 2021, the maximum aggregate amount of dividends and distributions that it could pay or make in 2022 and which would not constitute an “extraordinary” dividend or distribution under Utah law, and would therefore not require notice and approval or lack of disapproval from the Utah Commissioner, would be approximately \$5,054,000.

Under the Louisiana Insurance Code, First Guaranty Insurance Company and Kilpatrick Life Insurance Company are permitted to pay stockholder dividends, or otherwise make distributions, to the Company subject to certain limitations. First Guaranty Insurance Company and Kilpatrick Life Insurance Company must ensure that its surplus held for policyholders is reasonable in relation to its outstanding liabilities and adequate to its financial needs after payment of any such dividend or distribution. Furthermore, where any dividend or distribution, together with all other dividends and distributions made within the preceding 12 months, exceeds the lesser of (i) 10% of its surplus held for policyholders as of the next preceding December 31; or (ii) its net gain from operations, not including realized capital gains, for the 12-month period ending the next preceding December 31, such dividend or distribution constitutes “extraordinary” under Louisiana law and First Guaranty Insurance Company and Kilpatrick Life Insurance Company would be required to file notice of its intention to declare such a dividend or make such a distribution with the Louisiana Commissioner and the Louisiana Commissioner must either approve the distribution or dividend or not disapprove the dividend or distribution within 30 days’ of the notice filing. Based on First Guaranty Insurance Company’s and Kilpatrick Life Insurance Company’s surplus held for policyholders and net gain from operations as of December 31, 2021, the maximum aggregate amount of dividends and distributions that it could pay or make in 2022 and which would not constitute an “extraordinary” dividend or distribution under Louisiana law, and would therefore not require notice and approval or lack of disapproval from the Louisiana Commissioner, would be approximately \$605,000 for First Guaranty Insurance Company and \$950,000 for Kilpatrick Life Insurance Company.

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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)

	Year Ended December 31, 2021				Consolidated
	Life Insurance	Cemetery/ Mortuary	Mortgage	Intercompany Eliminations	
Revenues:					
From external sources:					
Revenue from customers	\$ 100,254,573	\$ 23,997,313	\$ 263,418,230	-	\$ 387,670,116
Net investment income	56,091,725	1,653,940	519,018	-	58,264,683
Gains on investments and other assets	4,554,528	1,511,965	198,641	-	6,265,134
Other than temporary impairments	(39,502)	-	-	-	(39,502)
Other revenues	2,152,531	100,255	16,282,325	-	18,535,111
Intersegment revenues:					
Net investment income	7,569,875	314,001	599,115	(8,482,991)	-
Total revenues	<u>170,583,730</u>	<u>27,577,474</u>	<u>281,017,329</u>	<u>(8,482,991)</u>	<u>470,695,542</u>
Expenses:					
Death, surrenders and other policy benefits	67,218,455	-	-	-	67,218,455
Increase in future policy benefits	26,263,312	-	-	-	26,263,312
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	15,611,374	531,596	-	-	16,142,970
Selling, general and administrative expenses:					
Commissions	3,514,498	1,917,899	112,854,072	-	118,286,469
Personnel	25,009,096	6,850,617	68,880,448	-	100,740,161
Advertising	1,160,640	570,924	4,894,854	-	6,626,418
Rent and rent related	733,726	109,318	6,399,243	-	7,242,287
Depreciation on property and equipment	806,543	479,005	650,065	-	1,935,613
Provision for loan loss reserve	-	-	-	-	-
Cost related to funding mortgage loans	-	-	10,541,570	-	10,541,570
Intersegment	497,113	113,062	671,107	(1,281,282)	-
Other	12,075,374	5,224,178	35,766,430	-	53,065,982
Interest expense:					
Intersegment	392,003	97,195	6,712,511	(7,201,709)	-
Other	2,328,868	54,620	4,744,028	-	7,127,516
Costs of goods and services sold-mortuaries and cemeteries	-	3,704,014	-	-	3,704,014
Total benefits and expenses	<u>155,611,002</u>	<u>19,652,428</u>	<u>252,114,328</u>	<u>(8,482,991)</u>	<u>418,894,767</u>
Earnings before income taxes	<u>\$ 14,972,728</u>	<u>\$ 7,925,046</u>	<u>\$ 28,903,001</u>	<u>\$ -</u>	<u>\$ 51,800,775</u>
Income tax benefit (expense)	<u>(2,943,715)</u>	<u>(1,975,787)</u>	<u>(7,362,283)</u>	<u>-</u>	<u>(12,281,785)</u>
Net earnings	<u>\$ 12,029,013</u>	<u>\$ 5,949,259</u>	<u>\$ 21,540,718</u>	<u>\$ -</u>	<u>\$ 39,518,990</u>
Identifiable assets	<u>\$ 1,236,406,557</u>	<u>\$ 73,432,116</u>	<u>\$ 328,600,841</u>	<u>\$ (96,099,992)</u>	<u>\$ 1,542,339,522</u>
Goodwill	<u>\$ 2,765,570</u>	<u>\$ 2,488,213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,253,783</u>

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15) Business Segment Information (Continued)

	Year Ended December 31, 2020				Consolidated
	Life Insurance	Cemetery/ Mortuary	Mortgage	Intercompany Eliminations	
Revenues:					
From external sources:					
Revenue from customers	\$ 93,020,617	\$ 20,307,435	\$ 298,933,110	\$ -	\$ 412,261,162
Net investment income	54,811,486	807,695	710,622	-	56,329,803
Gains on investments and other assets	2,088,541	(162,652)	(39)	-	1,925,850
Other than temporary impairments	(370,975)	-	-	-	(370,975)
Other revenues	1,491,585	94,349	9,731,548	-	11,317,482
Intersegment revenues:					
Net investment income	8,022,503	351,505	716,240	(9,090,248)	-
Total revenues	<u>159,063,757</u>	<u>21,398,332</u>	<u>310,091,481</u>	<u>(9,090,248)</u>	<u>481,463,322</u>
Expenses:					
Death, surrenders and other policy benefits	62,841,360	-	-	-	62,841,360
Increase in future policy benefits	23,568,650	-	-	-	23,568,650
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	13,618,204	689,221	-	-	14,307,425
Selling, general and administrative expenses:					
Commissions	4,149,241	1,506,320	118,770,736	-	124,426,297
Personnel	25,449,100	5,669,367	53,871,504	-	84,989,971
Advertising	614,114	391,836	4,374,946	-	5,380,896
Rent and rent related	861,602	89,253	5,922,706	-	6,873,561
Depreciation on property and equipment	843,335	488,570	746,833	-	2,078,738
Provision for loan loss reserve	-	-	16,506,030	-	16,506,030
Cost related to funding mortgage loans	-	-	9,877,700	-	9,877,700
Intersegment	621,161	142,999	580,976	(1,345,136)	-
Other	11,808,818	4,417,805	31,104,479	-	47,331,102
Interest expense:					
Intersegment	410,024	152,175	7,182,913	(7,745,112)	-
Other	2,354,760	198,968	6,025,082	-	8,578,810
Costs of goods and services sold-mortuaries and cemeteries	-	3,252,655	-	-	3,252,655
Total benefits and expenses	<u>147,140,369</u>	<u>16,999,169</u>	<u>254,963,905</u>	<u>(9,090,248)</u>	<u>410,013,195</u>
Earnings before income taxes	<u>\$ 11,923,388</u>	<u>\$ 4,399,163</u>	<u>\$ 55,127,576</u>	<u>\$ -</u>	<u>\$ 71,450,127</u>
Income tax benefit (expense)	<u>(1,433,901)</u>	<u>(1,009,137)</u>	<u>(13,410,476)</u>	<u>-</u>	<u>(15,853,514)</u>
Net earnings	<u>\$ 10,489,487</u>	<u>\$ 3,390,026</u>	<u>\$ 41,717,100</u>	<u>\$ -</u>	<u>\$ 55,596,613</u>
Identifiable assets	<u>\$ 1,171,158,235</u>	<u>\$ 56,335,498</u>	<u>\$ 408,325,196</u>	<u>\$ (90,398,039)</u>	<u>\$ 1,545,420,890</u>
Goodwill	<u>\$ 2,765,570</u>	<u>\$ 754,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,519,588</u>

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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, 2021.

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:

Fixed Maturity Securities Available for Sale: 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 (considered Level 3 investments), are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments.

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

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

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17) Fair Value of Financial Instruments (Continued)

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

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

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.

The items shown under Level 3 are valued as follows:

Loan Commitments and Forward Sale Commitments: The Company's mortgage segment enters into loan commitments with potential borrowers and forward sale commitments to sell loans to third-party investors. The Company also uses a hedging strategy for these transactions. A loan commitment binds the Company to lend funds to a qualified borrower at a specified interest rate and within a specified period of time, generally up to 30 days after issuance of the loan commitment. Loan commitments are defined to be derivatives under GAAP and are recognized at fair value on the consolidated balance sheets with changes in their fair values recorded in current earnings.

The Company estimates the fair value of a loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted MBS prices, estimates of the fair value of mortgage servicing rights, and an estimate of the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the loan commitment is issued. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates and other factors from the Company's recent historical data are used to estimate the quantity and value of mortgage loans that will fund within the terms of the commitments.

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

Impaired 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 real estate held for investment, the Company uses 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

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17) Fair Value of Financial Instruments (Continued)

value of the net rental income over seven years. The Company also considers area comparable properties and property condition when determining fair value.

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

Mortgage Servicing Rights: The Company initially recognizes 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 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, 2021.

	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				
Fixed maturity securities available for sale	\$ 259,287,603	\$ -	\$ 257,264,255	\$ 2,023,348
Equity securities	11,596,414	11,596,414	-	-
Loans held for sale	302,776,827	-	-	302,776,827
Restricted assets (1)	1,601,688	-	1,601,688	-
Restricted assets (2)	3,603,822	3,603,822	-	-
Cemetery perpetual care trust investments (1)	784,765	-	784,765	-
Cemetery perpetual care trust investments (2)	3,302,480	3,302,480	-	-
Derivatives - loan commitments (3)	8,563,410	-	-	8,563,410
Total assets accounted for at fair value on a recurring basis	<u>\$ 591,517,009</u>	<u>\$ 18,502,716</u>	<u>\$ 259,650,708</u>	<u>\$ 313,363,585</u>
Liabilities accounted for at fair value on a recurring basis				
Derivatives - call options (4)	\$ (50,936)	\$ (50,936)	\$ -	\$ -
Derivatives - put options (4)	(4,493)	(4,493)	-	-
Derivatives - loan commitments (4)	(1,547,895)	-	-	(1,547,895)
Total liabilities accounted for at fair value on a recurring basis	<u>\$ (1,603,324)</u>	<u>\$ (55,429)</u>	<u>\$ -</u>	<u>\$ (1,547,895)</u>

(1) Fixed maturity securities available for sale

(2) Equity securities

(3) Included in other assets on the consolidated balance sheets

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

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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, 2020.

	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				
Fixed maturity securities available for sale	\$ 294,656,679	\$ -	\$ 292,455,504	\$ 2,201,175
Equity securities	11,324,239	11,324,239	-	-
Loans held for sale	422,772,418	-	-	422,772,418
Restricted assets (1)	1,473,637	-	1,473,637	-
Restricted assets (2)	2,515,778	2,515,778	-	-
Cemetery perpetual care trust investments (1)	747,767	-	747,767	-
Cemetery perpetual care trust investments (2)	2,062,303	2,062,303	-	-
Derivatives - loan commitments (3)	12,592,672	-	-	12,592,672
Total assets accounted for at fair value on a recurring basis	<u>\$ 748,145,493</u>	<u>\$ 15,902,320</u>	<u>\$ 294,676,908</u>	<u>\$ 437,566,265</u>
Liabilities accounted for at fair value on a recurring basis				
Derivatives - call options (4)	\$ (43,097)	\$ (43,097)	\$ -	\$ -
Derivatives - loan commitments (4)	(2,464,062)	-	-	(2,464,062)
Total liabilities accounted for at fair value on a recurring basis	<u>\$ (2,507,159)</u>	<u>\$ (43,097)</u>	<u>\$ -</u>	<u>\$ (2,464,062)</u>

(1) Fixed maturity securities available for sale

(2) Equity securities

(3) Included in other assets on the consolidated balance sheets

(4) 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, 2021, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at 12/31/2021	Valuation Technique	Significant Unobservable Input(s)	Range of Inputs		Weighted Average
				Minimum Value	Maximum Value	
Loans held for sale	\$ 302,776,827	Market approach	Investor contract pricing as a percentage of unpaid principal balance	95.0%	109.0%	103.0%
Derivatives - loan commitments (net)	7,015,515	Market approach	Pull-through rate	66.0%	95.0%	81.0%
			Initial-Value	N/A	N/A	N/A
			Servicing	0 bps	148 bps	61 bps
Fixed maturity securities available for sale	2,023,348	Broker quotes	Pricing quotes	\$ 96.87	\$ 111.11	\$ 106.73

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17) Fair Value of Financial Instruments (Continued)

For Level 3 assets and liabilities measured at fair value on a recurring basis as of December 31, 2020, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at 12/31/2020	Valuation Technique	Significant Unobservable Input(s)	Range of Inputs		Weighted Average
				Minimum Value	Maximum Value	
Loans held for sale	\$ 422,772,418	Market approach	Investor contract pricing as a percentage of unpaid principal balance	99.0%	110.0%	104.0%
Derivatives - loan commitments (net)	10,128,610	Market approach	Pull-through rate Initial-Value Servicing	52.0% N/A 0 bps	92.0% N/A 184 bps	81.0% N/A 58 bps
Fixed maturity securities available for sale	2,201,175	Broker quotes	Pricing quotes	\$ 90.83	\$ 119.33	\$ 113.47

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

	Net Derivatives Loan Commitments	Loans Held for Sale	Fixed Maturity Securities Available for Sale
Balance - December 31, 2020	\$ 10,128,610	\$ 422,772,418	\$ 2,201,175
Originations/purchases	-	5,611,189,587	-
Sales, maturities and paydowns	-	(5,900,076,766)	(45,700)
Transfer to mortgage loans held for investment	-	(201,951)	-
Total gains (losses):			
Included in earnings	(3,113,095) (1)	169,093,539 (1)	3,674
Included in other comprehensive income	-	-	(135,801)
Balance - December 31, 2021	<u>\$ 7,015,515</u>	<u>\$ 302,776,827</u>	<u>\$ 2,023,348</u>

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

(2) As a component of net investment income on the consolidated statements of earnings

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

	Net Derivatives Loan Commitments	Loans Held for Sale	Fixed Maturity Securities Available for Sale
Balance - December 31, 2019	\$ 2,491,233	\$ 213,457,632	\$ 3,216,382
Originations/purchases	-	5,627,013,749	-
Sales, maturities and paydowns	-	(5,600,045,285)	(1,042,400)
Transfer to mortgage loans held for investment	-	(16,960,549)	-
Total gains (losses):			
Included in earnings	7,637,377 (1)	199,306,871 (1)	3,408
Included in other comprehensive income	-	-	23,785
Balance - December 31, 2020	<u>\$ 10,128,610</u>	<u>\$ 422,772,418</u>	<u>\$ 2,201,175</u>

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

(2) As a component of net investment income on the consolidated statements of earnings

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17) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2021.

	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	\$ 851,903	\$ -	\$ -	\$ 851,903
Impaired real estate held for sale	2,000,000	-	-	2,000,000
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 2,851,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,851,903</u>

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, 2020.

	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	\$ 1,297,356	\$ -	\$ -	\$ 1,297,356
Impaired real estate held for sale	4,249,000	-	-	4,249,000
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 5,546,356</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,546,356</u>

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17) Fair Value of Financial Instruments (Continued)

Fair Value of Financial Instruments Carried at Other Than Fair Value

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

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at December 31, 2021 and 2020.

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, 2021:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans held for investment					
Residential	\$ 51,396,172	\$ -	\$ -	\$ 55,159,167	\$ 55,159,167
Residential construction	174,691,408	-	-	174,691,408	174,691,408
Commercial	51,218,466	-	-	51,008,709	51,008,709
Mortgage loans held for investment, net	\$ 277,306,046	\$ -	\$ -	\$ 280,859,284	\$ 280,859,284
Policy loans	13,478,214	-	-	13,478,214	13,478,214
Insurance assignments, net (1)	46,946,590	-	-	46,946,590	46,946,590
Restricted assets (2)	2,732,320	-	-	2,732,320	2,732,320
Cemetery perpetual care trust investments (2)	1,823,533	-	-	1,823,533	1,823,533
Mortgage servicing rights, net	53,060,455	-	-	68,811,809	68,811,809
Liabilities					
Bank and other loans payable	\$ (251,286,927)	\$ -	\$ -	\$ (251,286,927)	\$ (251,286,927)
Policyholder account balances (3)	(42,939,055)	-	-	(35,855,934)	(35,855,934)
Future policy benefits - annuities (3)	(107,992,830)	-	-	(116,215,717)	(116,215,717)

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

(2) Mortgage loans held for investment

(3) 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, 2020:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans held for investment					
Residential	\$ 92,757,613	\$ -	\$ -	\$ 100,384,283	\$ 100,384,283
Residential construction	110,849,864	-	-	110,849,864	110,849,864
Commercial	<u>45,736,459</u>	-	-	<u>45,259,425</u>	<u>45,259,425</u>
Mortgage loans held for investment, net	\$ 249,343,936	\$ -	\$ -	\$ 256,493,572	\$ 256,493,572
Policy loans	14,171,589	-	-	14,171,589	14,171,589
Insurance assignments, net (1)	51,585,656	-	-	51,585,656	51,585,656
Restricted assets (2)	3,317,877	-	-	3,317,877	3,317,877
Cemetery perpetual care trust investments (2)	1,468,600	-	-	1,468,600	1,468,600
Mortgage servicing rights, net	35,210,516	-	-	38,702,358	38,702,358
Liabilities					
Bank and other loans payable	\$ (297,824,368)	\$ -	\$ -	\$ (297,824,368)	\$ (297,824,368)
Policyholder account balances (3)	(44,026,809)	-	-	(42,220,725)	(42,220,725)
Future policy benefits - annuities (3)	(106,522,113)	-	-	(112,354,186)	(112,354,186)

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

(2) Mortgage loans held for investment

(3) 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:

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 payments and discounting them using current interest rates from single family mortgages) and considering pricing of similar loans that were sold recently.

Residential Construction — These loans are primarily short in maturity. Accordingly, the estimated fair value is determined to be the carrying value.

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

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

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17) Fair Value of Financial Instruments (Continued)

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	
	2021	2020
Unrealized gains on fixed maturity securities available for sale	\$ (7,323,241)	\$ 12,016,464
Amounts reclassified into net earnings	805,510	(2,772)
Net unrealized gains before taxes	(6,517,731)	12,013,692
Tax expense	1,368,721	(2,522,876)
Net	(5,149,010)	9,490,816
Unrealized gains on restricted assets (1)	(23,250)	41,225
Tax expense	5,792	(10,269)
Net	(17,458)	30,956
Unrealized gains on cemetery perpetual care trust investments (1)	(11,114)	(6,817)
Tax expense	2,769	1,698
Net	(8,345)	(5,119)
Unrealized gains for foreign currency translations adjustments	2,835	(46)
Tax expense	(707)	12
Net	2,128	(34)
Other comprehensive income changes	<u>\$ (5,172,685)</u>	<u>\$ 9,516,619</u>

(1) Fixed maturity securities available for sale

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18) Accumulated Other Comprehensive Income (Continued)

The following is the accumulated balances of other comprehensive income as of December 31, 2021:

	Beginning Balance December 31, 2020	Change for the period	Ending Balance December 31, 2021
Unrealized gains (losses) on fixed maturity securities available for sale	\$ 23,170,275	\$ (5,149,010)	\$ 18,021,265
Unrealized gains (losses) on restricted assets (1)	57,650	(17,458)	40,192
Unrealized gains (losses) on cemetery perpetual care trust investments (1)	17,336	(8,345)	8,991
Foreign currency translation adjustments	(2,128)	2,128	-
<u>Other comprehensive income</u>	<u>\$ 23,243,133</u>	<u>\$ (5,172,685)</u>	<u>\$ 18,070,448</u>

(1) Fixed maturity securities available for sale

The following is the accumulated balances of other comprehensive income as of December 31, 2020:

	Beginning Balance December 31, 2019	Change for the period	Ending Balance December 31, 2020
Unrealized gains on fixed maturity securities available for sale	\$ 13,679,459	\$ 9,490,816	\$ 23,170,275
Unrealized gains on restricted assets (1)	26,694	30,956	57,650
Unrealized gains (losses) on cemetery perpetual care trust investments (1)	22,455	(5,119)	17,336
Foreign currency translation adjustments	(2,094)	(34)	(2,128)
<u>Other comprehensive income</u>	<u>\$ 13,726,514</u>	<u>\$ 9,516,619</u>	<u>\$ 23,243,133</u>

(1) Fixed maturity securities available for sale

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19) Derivative Instruments

The following table shows the fair value and notional amounts of derivative instruments.

	Balance Sheet Location	December 31, 2021			December 31, 2020		
		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	\$862,568,967	\$ 8,563,410	\$1,547,895	\$ 659,245,038	\$12,592,672	\$ 2,464,062
Call options	Other liabilities	982,500	--	50,936	1,873,200	--	43,097
Put options	Other liabilities	362,900	--	4,493	--	--	--
Total		<u>\$863,914,367</u>	<u>\$ 8,563,410</u>	<u>\$1,603,324</u>	<u>\$ 661,118,238</u>	<u>\$12,592,672</u>	<u>\$ 2,507,159</u>

The following table presents the gains (losses) on derivatives. 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.

Derivative	Classification	Years ended December 31	
		2021	2020
Loan commitments	Mortgage fee income	<u>\$ (3,113,095)</u>	<u>\$ 7,637,377</u>
Call and put options	Gains on investments and other assets	<u>\$ 160,410</u>	<u>\$ 272,758</u>

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20) Acquisitions

Rivera Funerals, Cremations and Memorial Gardens

On December 21, 2021, the Company, through its wholly-owned subsidiary, Memorial Estates Inc., completed a business combination transaction with Rivera Funerals, Cremations and Memorial Gardens. The mortuaries and cemetery are located in New Mexico.

Under the terms of the transaction, as set forth in the Asset Purchase Agreement, dated December 21, 2021, Memorial Estates Inc. paid a net purchase price of \$10,693,395 for the business and assets of Rivera Funerals, Cremations and Memorial Gardens, subject to holdback amounts held by Memorial Estates, Inc. in the total amount of \$1,120,000. Pursuant to the Asset Purchase Agreement, Memorial Estates, Inc. is to use \$70,000 of the holdback amount to pay, perform and discharge when due, trade accounts payable of Rivera Funerals, Cremations and Memorial Gardens to third parties that remained unpaid. Unapplied portions of the remaining \$1,050,000 holdback amount are to be released and paid by Memorial Estates Inc. in annual payments of up to \$105,000 each, beginning on the first anniversary date of the closing date and continuing thereafter on the anniversary dates of the closing date.

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

Restricted assets (1)	\$ 618,006
Property and equipment (2)	6,255,836
Cemetery land and improvements	658,280
Goodwill	1,338,763
Other (3)	<u>2,440,516</u>
Total assets acquired	<u>11,311,401</u>
Cemetery perpetual care obligation	(618,006)
Other liabilities - holdback	<u>(1,120,000)</u>
Total liabilities assumed	<u>(1,738,006)</u>
Fair value of net assets acquired/consideration paid	<u><u>\$ 9,573,395</u></u>

(1) Includes \$39,000 of cash and \$579,006 of fixed maturity securities, available for sale, at estimated fair value which is a Level 2 asset in the fair value hierarchy

(2) At estimated fair value which is a Level 3 asset in the fair value hierarchy

(3) Including \$2,310,000 of intangible assets

Rivera Funerals, Cremations and Memorial Gardens revenues and net earnings since the date of acquisition for the year ended December 31, 2021 were \$137,386 and \$14,892, respectively.

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20) Acquisitions (Continued)

Holbrook Mortuary

On December 28, 2021, the Company, through its wholly-owned subsidiary, Memorial Mortuary Inc., completed a business combination transaction with Holbrook Mortuary located in Salt Lake City, Utah.

Under the terms of the transaction, as set forth in the Asset Purchase Agreement, dated December 28, 2021, Memorial Mortuary Inc. paid a net purchase price of \$3,051,747 for the business and assets of Holbrook Mortuary.

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

Property and equipment (1)	\$ 2,641,210
Goodwill	395,432
Other	<u>15,105</u>
Total assets acquired	<u>3,051,747</u>
Fair value of net assets acquired/consideration paid	<u>\$ 3,051,747</u>

(1) At estimated fair value which is a Level 3 asset in the fair value hierarchy

Holbrook Mortuary's revenues and net loss since the date of acquisition for the year ended December 31, 2021 were \$-0- and \$(98,531), respectively.

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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.

	December 31	
	2021	2020
Amortized cost:		
Balance before valuation allowance at beginning of year	\$ 35,210,516	\$ 17,155,529
MSR additions resulting from loan sales	32,701,819	29,896,465
Amortization (1)	(14,851,880)	(11,841,478)
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance before valuation allowance at year end	\$ 53,060,455	\$ 35,210,516
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	\$ 53,060,455	\$ 35,210,516
Estimated fair value of MSRs at year end	\$ 68,811,809	\$ 38,702,358

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

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, 2021 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
2022	\$ 7,341,097
2023	6,020,240
2024	5,263,053
2025	4,583,231
2026	4,008,838
Thereafter	25,843,996
Total	\$ 53,060,455

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21) Mortgage Servicing Rights (Continued)

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

	Years Ended December 31	
	2021	2020
Contractual servicing fees	\$ 15,471,307	\$ 8,940,612
Late fees	321,337	305,962
Total	\$ 15,792,644	\$ 9,246,574

The following is a summary of the unpaid principal balances (“UPB”) of the servicing portfolio.

	December 31	
	2021	2020
Servicing UPB	\$ 7,060,536,350	\$ 5,070,287,864

The following key assumptions were used in determining MSR value.

	Prepayment Speeds	Average Life(Years)	Discount Rate
December 31, 2021	11.60	6.64	9.50
December 31, 2020	15.60	5.30	9.50

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22) Future Policy Benefits and Unpaid Claims

The Company reports future policy benefits and unpaid claims pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

The following table provides information regarding future policy benefits and unpaid claims and the related receivable from reinsurers.

	December 31	
	2021	2020
Life	\$ 698,366,477	\$674,230,463
Annuities	107,992,830	109,522,112
Policyholder account balances	42,939,055	44,026,809
Accident and health	629,302	651,140
Other policyholder funds	4,352,217	4,354,746
Reported but unpaid claims	4,887,934	8,689,723
Incurred but not reported claims	4,106,878	3,315,094
Gross future policy benefits and unpaid claims	<u>\$ 863,274,693</u>	<u>\$844,790,087</u>
<u>Receivable from reinsurers</u>		
Life	10,482,428	10,841,567
Annuities	4,082,877	4,047,301
Accident and health	88,474	90,231
Reported but unpaid claims	177,829	571,057
Incurred but not reported claims	19,000	19,000
Total receivable from reinsurers	<u>14,850,608</u>	<u>15,569,156</u>
Net future policy benefits and unpaid claims	<u>\$ 848,424,085</u>	<u>\$829,220,931</u>

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23) Revenues from Contracts with Customers

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

Contracts with Customers

Information about Performance Obligations and Contract Balances

The Company's cemetery and mortuary segment sells a variety of goods and services to customers in both at-need and pre-need situations. Due to the timing of the fulfillment of the obligation, revenue is deferred until that obligation is fulfilled. The total contract liability for future obligations is included in deferred pre-need cemetery and mortuary contract revenues on the consolidated balance sheets and, as of December 31, 2021 and 2020, the balances were \$14,508,022 and \$13,080,179, respectively.

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

Pre-need Merchandise and Service Revenue: All pre-need merchandise and service revenue is deferred and the funds are placed in trust until the need arises, the merchandise is received or the service is performed. The trust is then relieved, and the revenue and commissions are recognized. As of December 31, 2021 and 2020, the balances were \$13,722,348 and \$12,545,753, respectively.

At-need Specialty Merchandise Revenue: At-need specialty merchandise revenue consists of customizable merchandise ordered from a manufacturer such as markers and bases. When specialty merchandise is ordered, it can take time to manufacture and deliver the product. Revenue is deferred until the at-need merchandise is received. As of December 31, 2021 and 2020, the balances were \$785,674 and \$534,426, respectively. Deferred revenue for at-need specialty revenue is not placed in trust.

Deferred Pre-need Land Revenue: Deferred pre-need revenue and corresponding commissions are deferred until 10% of the funds are received from the customer through regular monthly payments. As of December 31, 2021 and 2020, the balances were \$-0- and \$-0-, respectively. Deferred pre-need land revenue is not placed in trust.

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

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23) Revenues from Contracts with Customers (Continued)

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

	Contract Balances		
	Receivables (1)	Contract Asset	Contract Liability
Opening (1/1/2021)	\$ 4,119,988	\$ -	\$ 13,080,179
Closing (12/31/2021)	5,298,636	-	14,508,022
Increase/(decrease)	1,178,648	-	1,427,843

	Contract Balances		
	Receivables (1)	Contract Asset	Contract Liability
Opening (1/1/2020)	\$ 2,778,879	\$ -	\$ 12,607,978
Closing (12/31/2020)	4,119,988	-	13,080,179
Increase/(decrease)	1,341,109	-	472,201

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

The following table disaggregates the opening and closing balances of the Company's contract balances.

	Contract Balances	
	Contract Asset	Contract Liability
Pre-need merchandise and services	\$ -	\$ 12,545,753
At-need specialty merchandise	-	534,426
Pre-need land sales	-	-
Opening (1/1/2021)	\$ -	\$ 13,080,179

Pre-need merchandise and services	\$ -	\$ 13,722,348
At-need specialty merchandise	-	785,674
Pre-need land sales	-	-
Closing (12/31/2021)	\$ -	\$ 14,508,022

	Contract Balances	
	Contract Asset	Contract Liability
Pre-need merchandise and services	\$ -	\$ 12,325,437
At-need specialty merchandise	-	282,541
Pre-need land sales	-	-
Opening (1/1/2020)	\$ -	\$ 12,607,978

Pre-need merchandise and services	\$ -	\$ 12,545,753
At-need specialty merchandise	-	534,426
Pre-need land sales	-	-
Closing (12/31/2020)	\$ -	\$ 13,080,179

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Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

23) Revenues from Contracts with Customers (Continued)

The amount of revenue recognized for the years ended December 31, 2021 and 2020 that was included in the opening contract liability balance was \$4,528,646 and \$4,359,709, respectively.

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

Disaggregation of Revenue

The following table disaggregates revenue for the Company's cemetery and mortuary contracts.

	Years Ended December 31	
	2021	2020
<u>Major goods/service lines</u>		
At-need	\$ 16,220,541	\$ 15,212,822
Pre-need	7,776,772	5,094,613
	\$ 23,997,313	\$ 20,307,435
<u>Timing of Revenue Recognition</u>		
Goods transferred at a point in time	\$ 16,793,439	\$ 13,438,592
Services transferred at a point in time	7,203,874	6,868,843
	\$ 23,997,313	\$ 20,307,435

Significant Judgments and Estimates

The Company's cemetery and mortuary segment recognizes revenue on future performance obligations when goods are delivered and when services are performed and is not determined by the terms or payments of the contract as long as any good or service is paid in full prior to delivery. Prices are determined based on the market at the time a contract is created. Goods or services are not partially completed. There are no significant judgements, estimations or allocation methods when revenue should be recognized.

Practical Expedients

The Company has not elected to use any of the practical expedients under ASC 606.

Contract Costs

The Company's cemetery and mortuary segment defers certain costs associated with obtaining a contract on future obligations.

Pre-need Merchandise and Service Revenue: Pre-need merchandise and service revenues are deferred until the goods or services are delivered. Recognition can be years until the obligations are satisfied. Commissions and other costs are capitalized and deferred until the obligation is satisfied. Other costs include rent on pre-need offices and training rooms, and call center costs. Costs that are allocated based on a percentage include family service advisor compensation, bonuses, utilities and supplies that are all used to procure a pre-need sale.

At-need Specialty Merchandise Revenue: At-need specialty merchandise is ordered from a third-party manufacturer. Generally, at-need specialty merchandise is ordered and received within 90 days of order. These orders are also

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23) Revenues from Contracts with Customers (Continued)

short-term in nature and are deferred until the product is received from the manufacturer and the obligation is satisfied.

Deferred Pre-need Land Revenue: Revenue is recognized on pre-need land sales when the customer has paid at least 10% toward the land price. In cases, where customers pay less than 10%, the revenue and associated commissions are deferred until such time when 10% of the contract price is received.

The following table disaggregates contract costs that are included in deferred policy and pre-need contract acquisition costs on the consolidated balances sheets.

	Years Ended December 31	
	2021	2020
Pre-need merchandise and services	\$ 3,688,579	\$ 3,601,638
At-need specialty merchandise	29,688	5,302
Pre-need land sales	-	-
	\$ 3,718,267	\$ 3,606,940

24) Leases

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. The Company determines if a contract is a lease at the inception of the contract. At the commencement date of a lease, the Company measures the lease liability at the present value of the lease payments over the lease term, discounted using the discount rate for the lease. The Company uses the rate implicit in the lease, if available, otherwise the Company uses its incremental borrowing rate. Also, at the commencement date of a lease, the Company measures the cost of the related right-of-use asset which consists of the amount of the initial measurement of the lease liability, any lease payments made to the lessor at or before the commencement date, minus any lease incentives received and any initial direct costs incurred by the Company.

Information about the Nature of Leases and Subleases

The Company leases office space and equipment from third-parties under various non-cancelable agreements. The Company has operating leases for office space for its segments in areas where it conducts business. The Company subleases some of this office space. The Company also has finance leases for certain equipment, such as copy machines and postage machines. The Company does not have any lease agreements with variable lease payments. The Company has not included any options to extend or terminate leases in the recognition of the right-of-use assets or lease liabilities because of the uncertainty that they will be exercised. No residual value guarantees have been provided to the Company. The Company does not have any restrictions or covenants imposed by leases.

Leases that have not Commenced

The Company does not have any leases that have not commenced that create significant rights or obligations for the Company.

Related Party Lease Transactions

The Company does not have any related party lease transactions that require disclosure as of December 31, 2021.

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Years Ended December 31, 2021 and 2020

24) Leases (Continued)

Short-term Leases

The Company made an accounting policy election not to apply the recognition requirements of ASC 842 to short-term leases, which are leases that, at the commencement date, have a lease term of 12 months or less and do not include an option to purchase the underlying assets that the lessee is reasonably certain to exercise.

Significant Judgments and Assumptions

The Company does not use any significant judgments or assumptions regarding the determination of whether a contract contains a lease; the allocation of the consideration in a contract between lease and nonlease components; or the determination of the discount rates for the leases. The following table presents the Company's total lease cost recognized in earnings, amounts capitalized as right-of-use assets and cash flows from lease transactions.

	Years Ended December 31	
	2021	2020
Lease Cost		
Finance lease cost:		
Amortization of right-of-use assets (1)	\$ 41,925	\$ 58,576
Interest on lease liabilities (2)	4,713	7,341
Operating lease cost (3)	4,896,315	5,408,737
Short-term lease cost (3)(4)	167,551	222,311
Sublease income (3)	(275,038)	(394,758)
Total lease cost	\$ 4,835,466	\$ 5,302,207
Other Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 4,697,819	\$ 5,293,901
Operating cash flows from finance leases	4,713	7,341
Financing cash flows from finance leases	42,184	56,982
Right-of-use assets obtained in exchange for lease liabilities:		
Operating leases	\$ 5,216,048	\$ 5,631,193
Finance leases	-	8,494
Weighted-average remaining lease term (in years)		
Finance leases	2.07	2.74
Operating leases	6.04	5.40
Weighted-average discount rate		
Finance leases	5.74%	5.59%
Operating leases	4.14%	4.87%

(1) Included in Depreciation on property and equipment on the consolidated statements of earnings

(2) Included in Interest expense on the consolidated statements of earnings

(3) Included in Rent and rent related expenses on the consolidated statements of earnings

(4) Includes leases with a term of 12 months or less

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Notes to Consolidated Financial Statements
Years Ended December 31, 2021 and 2020

24) Leases (Continued)

The following table presents the maturity analysis of the Company's lease liabilities.

	<u>Finance Leases</u>	<u>Operating Leases</u>
Lease payments due in:		
2022	\$ 34,458	\$ 4,109,174
2023	27,220	3,340,343
2024	4,354	2,707,152
2025	692	1,809,667
2026	-	1,414,296
Thereafter	-	2,449,017
Total undiscounted lease payments	<u>66,724</u>	<u>15,829,649</u>
Less: Discount on cash flows	<u>(3,957)</u>	<u>(2,889,958)</u>
Present value of lease liabilities	<u>\$ 62,767</u>	<u>\$ 12,939,691</u>

The following table presents the Company's right-of-use assets and lease liabilities.

	<u>Balance Sheet Location</u>	<u>Year Ended December 31</u>	
		2021	2020
<u>Operating Leases</u>			
Right-of-use assets	Other assets	\$ 12,483,638	\$ 11,663,245
Lease liabilities	Other liabilities and accrued expenses	\$ 12,939,691	\$ 11,921,884
<u>Finance Leases</u>			
Right-of-use assets		\$ 235,867	\$ 254,276
Accumulated amortization		<u>(177,660)</u>	<u>(154,144)</u>
Right-of-use assets, net	Property and equipment, net	<u>\$ 58,207</u>	<u>\$ 100,132</u>
Lease liabilities	Bank and other loans payable	\$ 62,767	\$ 104,951

The Company is also a lessor and has operating lease agreements with various tenants that lease its commercial and residential properties. See Note 2 for information about the Company's real estate held for investment

SECURITY NATIONAL FINANCIAL CORPORATION
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Market for the Registrant’s Common Stock, Related Stockholder Matters, and Issuer Purchases of Equity Securities

The Company’s Class A common stock trades on The Nasdaq Global Select Market under the symbol “SNFCA.” As of March 22, 2022, the closing stock price of the Class A common stock was \$10.08 per share. As of March 22, 2022, there were 1,881 registered stockholders of record of the Company’s Class A common stock and 49 registered stockholders of record of the Company’s Class C common stock. Because many of the Company’s shares of Class A common stock are held by brokers and other institutions on behalf of the stockholders, the Company is unable to estimate the total number of stockholders represented by these record holders.

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, 2020:

<u>Period (Calendar Year)</u>	<u>Price Range (1)</u>	
	<u>High</u>	<u>Low</u>
2020		
First Quarter	\$5.81	\$3.49
Second Quarter	\$6.97	\$3.82
Third Quarter	\$6.65	\$5.29
Fourth Quarter	\$8.49	\$6.11
2021		
First Quarter	\$10.04	\$8.08
Second Quarter	\$9.12	\$7.41
Third Quarter	\$9.30	\$8.06
Fourth Quarter	\$9.63	\$8.20
2022		
First Quarter (through March 22, 2022)	\$10.25	\$8.96

(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. The Company has paid a 5% stock dividend on Class A and Class C common stock each year from 1990 through 2019, a 7.5% stock dividend for year 2020, and a 5.0% stock dividend for year 2021.

In September 2018, the Board of Directors of the Company approved a Stock Repurchase Plan that authorized the repurchase of 300,000 shares of the Company’s Class A Common Stock in the open market. The Company amended the Stock Repurchase Plan on December 4, 2020. The amendment authorized the repurchase of a total of 1,000,000 shares of the Company’s Class A Common Stock in the open market. Any repurchased shares of Class A common stock are to be held as treasury shares to be used as the Company’s employer matching contribution to the Employee 401(k) Retirement Savings Plan and for shares held in the Deferred Compensation Plan. The following table shows

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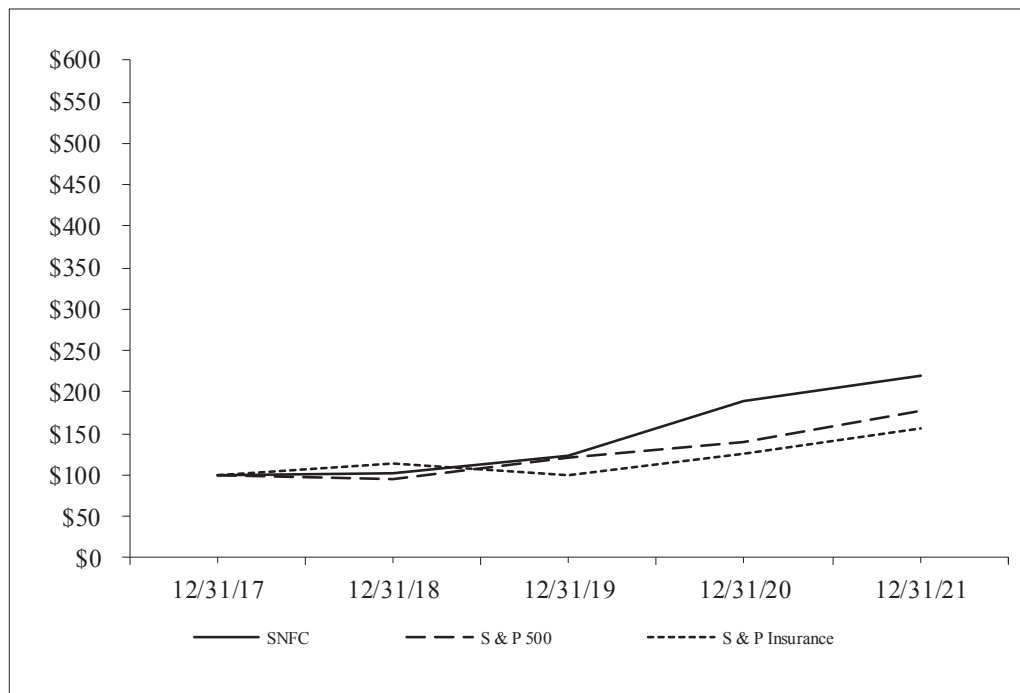
Market for the Registrant’s Common Stock, Related Stockholder Matters, and Issuer Purchases of Equity Securities (Continued)

the Company’s repurchase activity of its common stock during the three months ended December 31, 2021 under its Stock Repurchase Plan.

Period	(a) Total Number of Class A Shares Purchased	(b) Average Price Paid per Class A Share	(c) Total Number of Class A Shares Purchased as Part of Publicly Announced Plan or Program	(d) Maximum Number of Class A Shares that May Yet Be Purchased Under the Plan or Program
10/1/2021-10/31/2021	20,829	\$ 8.36	-	669,923
11/1/2021-11/30/2021	65,109	\$ 9.20	-	604,814
12/1/2021-12/31/2021	48,429	\$ 8.81	-	556,385
Total	134,367	\$ 8.80	-	556,385

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, 2017 through December 31, 2021. 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, 2017 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.



	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21
SNFC	100	103	123	189	219
S & P 500	100	94	121	140	178
S & P Insurance	100	114	99	125	156

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Market for the Registrant's Common Stock, Related Stockholder Matters, and Issuer Purchases of Equity Securities (Continued)

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.

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Family of Companies



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