

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

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

FORM 10-Q

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

For the quarter ended March 31, 2014, or

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

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-09341

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

UTAH  
(State or other jurisdiction of incorporation or  
organization)

87-0345941  
(I.R.S. Employer Identification No.)

5300 South 360 West, Suite 250, Salt Lake City, Utah  
(Address of principal executive offices)

84123  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

|  |   |
|--|---|
| Class A Common Stock, \$2.00 par value | 11,844,677                                      |
| Title of Class                         | Number of Shares Outstanding as of May 14, 2014 |
| Class C Common Stock, \$.20 par value  | 13,294,792                                      |
| Title of Class                         | Number of Shares Outstanding as of May 14, 2014 |

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q

QUARTER ENDED MARCH 31, 2014

TABLE OF CONTENTS

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



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

Part I - Financial Information

Item 1. Financial Statements.

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.



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

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

See accompanying notes to condensed consolidated financial statements.

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

|                                     | Class A<br>Common<br>Stock | Class C<br>Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Retained<br>Earnings | Treasury<br>Stock | Total        |
|-------------------------------------|----------------------------|----------------------------|----------------------------------|---|----------------------|-------------------|--------------|
| Balance at<br>December 31,<br>2012  | \$21,687,152               | \$2,194,820                | \$21,262,140                     | \$ 1,934,359  | \$35,114,072         | \$(2,380,434)     | \$79,812,109 |
| Net earnings                        | -                          | -                          | -                                | -   | 2,033,266            | -                 | 2,033,266    |
| Other<br>comprehensive<br>loss      | -                          | -                          | -                                | (375,426 )  | -                    | -                 | (375,426 )   |
| Grant of stock<br>options           | -                          | -                          | 52,969                           | -   | -                    | -                 | 52,969       |
| Exercise of<br>stock options        | 204,206                    | 86,677                     | (74,155 )                        | -   | -                    | -                 | 216,728      |
| Sale of treasury<br>stock           | -                          | -                          | 63,986                           | -   | -                    | 19,727            | 83,713       |
| Conversion<br>Class C to Class<br>A | 1,818                      | (1,819 )                   | 1                                | -   | -                    | -                 | -            |
| Balance at<br>March 31, 2013        | \$21,893,176               | \$2,279,678                | \$21,304,941                     | \$ 1,558,933  | \$37,147,338         | \$(2,360,707)     | \$81,823,359 |
| Balance at<br>December 31,<br>2013  | \$23,614,574               | \$2,660,382                | \$23,215,875                     | \$ 1,218,396  | \$39,666,587         | \$(2,624,625)     | \$87,751,189 |
| Net earnings                        | -                          | -                          | -                                | -   | 138,848              | -                 | 138,848      |
| Other<br>comprehensive<br>income    | -                          | -                          | -                                | 316,135   | -                    | -                 | 316,135      |
| Grant of stock<br>options           | -                          | -                          | 64,325                           | -   | -                    | -                 | 64,325       |
| Exercise of<br>stock options        | 69,910                     | -                          | (19,611 )                        | -   | -                    | -                 | 50,299       |
| Sale of treasury<br>stock           | -                          | -                          | 76,478                           | -   | -                    | 105,327           | 181,805      |
| Dividends                           | 3,446                      | (1 )                       | 4,910                            | -   | (8,355 )             | -                 | -            |
| Conversion<br>Class C to Class      | 1,424                      | (1,423 )                   | (1 )                             | -   | -                    | -                 | -            |

A

Balance at

|                |              |             |              |             |              |               |              |
|----------------|--------------|-------------|--------------|-------------|--------------|---------------|--------------|
| March 31, 2014 | \$23,689,354 | \$2,658,958 | \$23,341,976 | \$1,534,531 | \$39,797,080 | \$(2,519,298) | \$88,502,601 |
|----------------|--------------|-------------|--------------|-------------|--------------|---------------|--------------|

See accompanying notes to condensed consolidated financial statements.

7

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

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

See accompanying notes to condensed consolidated financial statements.

8

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

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2013, included in the Company's Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate and construction loans held for investment, those used in determining loan loss reserve, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

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

2) Recent Accounting Pronouncements

ASU No. 2014-04: "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force) - In January 2014, ASU No. 2014-04 amended ASC Topic 310, "Receivables" to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and is not expected to have a significant impact on the Company's results of operations or financial position.

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

## 3) Investments

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

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

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

estimated fair value

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

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

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

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

Policy and other loans at amortized cost:

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

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

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



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

## 3) Investments (Continued)

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

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

|                    | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value |
|--------------------|-------------------|------------------------------|-------------------------------|-------------------------|
| December 31, 2013: |                   |                              |                               |                         |

Equity securities available for sale at estimated fair value: