KANSAS CITY LIFE INSURANCE CO
Form 10-Q
April 29, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011 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 2-40764

KANSAS CITY LIFE INSURANCE COMPANY

(Exact name of registrant as specified in its charter)

Missouri	44-0308260
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3520 Broadway, Kansas City, Missouri	64111-2565
(Address of principal executive offices)	(Zip Code)

816-753-7000

Registrant s telephone number, including area code

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 a 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 x Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

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

Common Stock, $1.25 par	11,467,319 shares
Class	Outstanding March 31, 2011

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Part I. Financial Information

Item 1. Financial Statements

Amounts in thousands, except share data, or as otherwise noted

Kansas City Life Insurance Company

Consolidated Balance Sheets

	March 31 2011	December 31 2010
	(Unaudited)	
ASSETS		
Investments:		
Fixed maturity securities available for sale, at fair value	$ 2,651,664	$ 2,648,888
Equity securities available for sale, at fair value	39,179	38,321
Mortgage loans	554,772	559,167
Real estate	121,074	119,909
Policy loans	82,909	84,281
Short-term investments	23,230	15,713
Other investments	4,742	5,009
Total investments	3,477,570	3,471,288
Cash	4,842	5,445
Accrued investment income	39,136	35,742
Deferred acquisition costs	192,475	192,943
Reinsurance receivables	189,343	187,123
Property and equipment	23,374	23,514
Other assets	76,113	78,018
Separate account assets	351,401	339,029
Total assets	$ 4,354,254	$ 4,333,102
LIABILITIES		
Future policy benefits	$ 880,311	$ 884,380
Policyholder account balances	2,068,609	2,065,878
Policy and contract claims	48,058	43,866
Other policyholder funds	147,069	145,560
Other liabilities	177,530	174,917
Separate account liabilities	351,401	339,029
Total liabilities	3,672,978	3,653,630
STOCKHOLDERS EQUITY		
Common stock, par value $1.25 per share		
Authorized 36,000,000 shares, issued 18,496,680 shares	23,121	23,121
Additional paid in capital	41,089	41,085

Retained earnings	768,821	767,126
Accumulated other comprehensive income	7,909	7,807
Treasury stock, at cost (2011 - 7,029,361 shares; 2010 - 7,029,575 shares)	(159,664)	(159,667)
Total stockholders equity	681,276	679,472
Total liabilities and stockholders equity	$ 4,354,254	$ 4,333,102

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Consolidated Statements of Income

	Quarter Ended March 31 2011	2010
	(Unaudited)	
REVENUES		
Insurance revenues:		
Premiums, net	$ 33,625	$ 34,983
Contract charges	26,234	26,674
Total insurance revenues	59,859	61,657
Investment revenues:		
Net investment income	45,391	43,304
Realized investment gains, excluding impairment losses	1,012	1,323
Net impairment losses recognized in earnings:		
Total other-than-temporary impairment losses	(269)	(1,591)
Portion of impairment losses recognized in other comprehensive income	58	5
Net impairment losses recognized in earnings	(211)	(1,586)
Total investment revenues	46,192	43,041
Other revenues	2,408	2,384
Total revenues	108,459	107,082
BENEFITS AND EXPENSES		
Policyholder benefits	45,274	47,786
Interest credited to policyholder account balances	20,481	21,200
Amortization of deferred acquisition costs	9,584	8,947
Operating expenses	25,865	26,182
Total benefits and expenses	101,204	104,115
Income before income tax expense	7,255	2,967
Income tax expense	2,464	2,004
NET INCOME	$ 4,791	$ 963
Comprehensive income, net of taxes:		
Change in net unrealized gains on securities available for sale	$ 102	$ 15,756
Other comprehensive income	102	15,756
COMPREHENSIVE INCOME	$ 4,893	$ 16,719

Basic and diluted earnings per share:		
Net income	$ 0.42	$ 0.08

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Consolidated Statement of Stockholders Equity

	Quarter Ended March 31, 2011 (Unaudited)
COMMON STOCK, beginning and end of period	$ 23,121
ADDITIONAL PAID IN CAPITAL	
Beginning of period	41,085
Excess of proceeds over cost of treasury stock sold	4
End of period	41,089
RETAINED EARNINGS	
Beginning of period	767,126
Net income	4,791
Stockholder dividends of $0.27 per share	(3,096)
End of period	768,821
ACCUMULATED OTHER COMPREHENSIVE INCOME, net of taxes	
Beginning of period	7,807
Other comprehensive income	102
End of period	7,909
TREASURY STOCK, at cost	
Beginning of period	(159,667)
Cost of 15 shares acquired	-
Cost of 229 shares sold	3
End of period	(159,664)
TOTAL STOCKHOLDERS EQUITY	$ 681,276

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Consolidated Statements of Cash Flows

	Quarter Ended March 31	
	2011	2010
	(Unaudited)	
OPERATING ACTIVITIES		
Net income	$ 4,791	$ 963
Adjustments to reconcile net income to net cash used by operating activities:		
Amortization of investment premium	939	394
Depreciation	645	561
Acquisition costs capitalized	(8,743)	(7,725)
Amortization of deferred acquisition costs	9,584	8,947
Realized investment (gains) losses	(801)	263
Changes in assets and liabilities:		
Reinsurance receivables	(2,220)	(4,008)
Future policy benefits	(2,962)	4,313
Policyholder account balances	(8,329)	(5,724)
Income taxes payable and deferred	1,577	5,846
Other, net	3,992	(3,888)
Net cash used	(1,527)	(58)
INVESTING ACTIVITIES		
Purchases of investments:		
Fixed maturity securities	(78,118)	(108,969)
Equity securities	(1,030)	(475)
Mortgage loans	(15,472)	(6,911)
Real estate	(2,900)	(2,112)
Policy loans	(3,450)	(4,326)
Sales of investments:		
Fixed maturity securities	10,143	12,729
Equity securities	201	-
Net sales (purchases) of short-term investments	(7,517)	31,934
Maturities and principal paydowns of investments:		
Fixed maturity securities	64,114	65,301
Mortgage loans	19,864	8,004
Policy loans	4,822	5,015
Net disposition of property and equipment	40	113
Net cash provided (used)	(9,303)	303

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Consolidated Statements of Cash Flows (Continued)

	Quarter Ended March 31	
	2011	2010
	(Unaudited)	
FINANCING ACTIVITIES		
Deposits on policyholder account balances	$ 57,464	$ 53,728
Withdrawals from policyholder account balances	(46,015)	(52,059)
Net transfers from separate accounts	871	800
Change in other deposits	996	3,340
Cash dividends to stockholders	(3,096)	(3,111)
Net disposition (acquisition) of treasury stock	7	(2,115)
Net cash provided	10,227	583
Increase (decrease) in cash	(603)	828
Cash at beginning of year	5,445	4,981
Cash at end of period	$ 4,842	$ 5,809

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Significant Accounting Policies

Basis of Presentation

The unaudited interim consolidated financial statements and the accompanying notes to these unaudited interim consolidated financial statements of Kansas City Life Insurance Company include the accounts of the consolidated entity (the Company), which primarily consists of three life insurance companies. Kansas City Life Insurance Company (Kansas City Life) is the parent company. Sunset Life Insurance Company of America (Sunset Life) and Old American Insurance Company (Old American) are wholly-owned subsidiaries.

The unaudited interim consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America (GAAP) for interim financial reporting and with the instructions to Form 10-Q and Regulations S-K, S-X, and other applicable regulations. Accordingly, they do not include all of the disclosures required by GAAP for complete financial statements. As such, these unaudited interim consolidated financial statements should be read in conjunction with the Company s 2010 Form 10-K as filed with the Securities and Exchange Commission. Management believes that the disclosures are adequate to make the information presented not misleading, and all normal and recurring adjustments necessary to present fairly the financial position at March 31, 2011 and the results of operations for all periods presented have been made. The results of operations for any interim period are not necessarily indicative of the Company s operating results for a full year.

Significant intercompany transactions have been eliminated in consolidation and certain immaterial reclassifications have been made to the prior period results to conform with the current period s presentation.

The preparation of the unaudited interim consolidated financial statements requires management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the unaudited interim consolidated financial statements, and the reported amounts of revenue and expenses during the period. These estimates are inherently subject to change and actual results could differ from these estimates.

Significant Accounting Policies

No significant updates or changes to these policies occurred during the quarter ended March 31, 2011.

For a full discussion of these significant accounting policies, please refer to the Company s 2010 Form 10-K.

2. New Accounting Pronouncements and Other Regulatory Activity

For a full discussion of new accounting pronouncements and other regulatory activity and their impact of the Company, please refer to the Company s 2010 Form 10-K.

No new accounting standards, updates of existing standards or other regulatory activity were issued during the quarter ended March 31, 2011 that were pertinent to the Company.

3. Fair Value Measurements

Fair Values Hierarchy

Determination of Fair Value

Under U.S. GAAP, fair value represents the price that would be received to sell an asset (exit price) or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is the Company s policy to maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. Accordingly, the Company utilizes a primary independent third-party pricing service to determine the majority of its fair values on investment securities available for sale.

The Company reviews prices received from service providers for unusual fluctuations but generally accepts the price identified from the primary pricing service. However, if the primary pricing service does not provide a price, the Company pursues external pricing from brokers. Generally, the Company pursues and utilizes only one broker quote per security. In

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

doing so, the Company solicits only brokers which have previously demonstrated knowledge and experience of the subject security. If a broker price is not available, the Company determines a fair value through various valuation techniques that include discounted cash flows, spread-based models or similar techniques, depending upon the specific security to be priced. These techniques are primarily applied to private placement securities. The Company utilizes available market information, wherever possible, to identify inputs into the fair value determination, primarily including prices and spreads on comparable securities.

The Company performs an analysis on the prices received from the third-party security pricing service and independent brokers to ensure that the prices represent a reasonable estimate of the fair value. The Company corroborates and validates the primary pricing source through a variety of procedures that include but are not limited to comparison to broker quotes, where possible, alternative third-party pricing services, and comparison of prices to actual trades for specific securities where observable data exists. In addition, the Company analyzes the primary third-party pricing service s methodologies and related inputs and also evaluates the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy.

Fair value measurements for assets and liabilities where there exists limited or no observable market data are calculated using the Company s own estimates, based on current interest rates, credit spreads, liquidity premium or discount, the economic and competitive environment, unique characteristics of the asset or liability and other pertinent factors. Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique. Further, changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

The Company s own estimates of fair value are derived in a number of ways, including but not limited to: 1) pricing provided by brokers, where the price indicates reliability as to value; 2) fair values of comparable securities incorporating a spread adjustment for maturity differences, collateralization, credit quality, liquidity, and other items, if applicable; 3) discounted cash flow models and margin spreads; 4) bond yield curves; 5) observable market prices and exchange transaction information not provided by external pricing services; and 6) statement values provided to the Company by fund managers.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value but for which fair value is disclosed.

Assets

Securities Available for Sale

Fixed maturities and equity securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are determined as described in the preceding paragraphs.

Short-Term Financial Assets

Short-term financial assets include cash and other short-term investments and are carried at historical cost. The carrying amount is a reasonable estimate of the fair value because of the relatively short time between the purchase of the instrument and its expected repayment or maturity.

Loans

The Company does not record loans at fair value. As such, valuation techniques discussed herein for loans are primarily for estimating fair value for purpose of disclosure.

Fair values of mortgage loans on real estate properties are calculated by discounting contractual cash flows, using discount rates based on current industry pricing or the Company s estimate of an appropriate risk-adjusted discount rate for loans of similar size, type, remaining maturity, likelihood of prepayment and repricing characteristics.

The Company also has loans made to policyholders. These loans cannot exceed the cash surrender value of the policy. Carrying value of policy loans approximates fair value.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

Liabilities

Investment-Type Liabilities Included in Policyholder Account Balances and Other Policyholder Funds

Fair values for liabilities under investment-type insurance contracts are based upon account value. The fair values of investment-type insurance contracts included with policyholder account balances for fixed deferred annuities and other policyholder funds for supplementary contracts without life contingencies are estimated to be their cash surrender values. The fair values of deposits with no stated maturity are equal to the amount payable on demand at the measurement date.

Guaranteed Minimum Withdrawal Benefits (GMWB)

The Company offers a GMWB rider that can be added to new or existing variable annuity contracts. The rider provides an enhanced withdrawal benefit that guarantees a stream of income payments to an owner or annuitant, regardless of the contract account value. Fair value for GMWB rider contracts is a Level 3 valuation, as it is based on models which utilize significant unobservable inputs. These models require actuarial and financial market assumptions, which reflect the assumptions market participants would use in pricing the contract, including adjustments for volatility, risk and issuer non-performance.

Notes Payable

The Company had no borrowings at March 31, 2011 or December 31, 2010.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

Categories Reported at Fair Value

The following tables present categories reported at fair value on a recurring basis.

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 11,473	$ 116,319	$ 3,934	$ 131,726
Federal agencies [1]	-	25,854	-	25,854
Federal agency issued residential mortgage-backed securities [1]	-	131,960	-	131,960
Subtotal	11,473	274,133	3,934	289,540
Corporate obligations:				
Industrial	-	407,569	26,180	433,749
Energy	-	161,511	2,230	163,741
Communications and technology	-	195,855	-	195,855
Financial	-	347,494	2,745	350,239
Consumer	-	420,382	24,758	445,140
Public utilities	-	312,907	-	312,907
Subtotal	-	1,845,718	55,913	1,901,631
Corporate private-labeled residential mortgage-backed securities	-	190,691	-	190,691
Municipal securities	-	146,706	5,157	151,863
Other	-	103,028	-	103,028
Redeemable preferred stocks	14,911	-	-	14,911
Fixed maturity securities	26,384	2,560,276	65,004	2,651,664
Equity securities	3,901	34,208	1,070	39,179
Total	$ 30,285	$ 2,594,484	$ 66,074	$ 2,690,843
Percent of total	1%	96%	3%	100%
Liabilities:				
Other policyholder funds				
Guaranteed minimum withdrawal benefits	$ -	$ -	$ (2,931)	$ (2,931)
Total	$ -	$ -	$ (2,931)	$ (2,931)

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Assets:				
U.S. Treasury securities and obligations of U.S. Government	$ 11,544	$ 119,624	$ 3,974	$ 135,142
Federal agencies [1]	-	26,095	-	26,095
Federal agency issued residential mortgage-backed securities [1]	-	138,056	-	138,056
Subtotal	11,544	283,775	3,974	299,293
Corporate obligations:				
Industrial	-	430,283	2,235	432,518
Energy	-	176,220	2,291	178,511
Communications and technology	-	172,946	-	172,946
Financial	-	347,884	2,775	350,659
Consumer	-	408,592	21,912	430,504
Public utilities	-	324,800	-	324,800
Subtotal	-	1,860,725	29,213	1,889,938
Corporate private-labeled residential mortgage-backed securities	-	195,055	-	195,055
Municipal securities	-	146,083	5,748	151,831
Other	-	81,136	16,866	98,002
Redeemable preferred stocks	14,769	-	-	14,769
Fixed maturity securities	26,313	2,566,774	55,801	2,648,888
Equity securities	3,871	33,270	1,180	38,321
Total	$ 30,184	$ 2,600,044	$ 56,981	$ 2,687,209
Percent of total	1%	97%	2%	100%
Liabilities:				
Other policyholder funds				
Guaranteed minimum withdrawal benefits	$ -	$ -	$ (2,799)	$ (2,799)
Total	$ -	$ -	$ (2,799)	$ (2,799)

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table presents the fair value of fixed maturities and equity securities available for sale by pricing source and fair value hierarchy level.

	March 31, 2011			
	Level 1	Level 2	Level 3	Total
Fixed maturities available for sale:				
Priced from external pricing service	$ 26,384	$ 2,513,595	$ -	$ 2,539,979
Priced from independent brokers	-	46,681	-	46,681
Priced from internal matrices and calculations	-	-	65,004	65,004
Subtotal	26,384	2,560,276	65,004	2,651,664
Equity securities available for sale:				
Priced from external pricing service	3,901	7,033	-	10,934
Priced from independent brokers	-	-	-	-
Priced from internal matrices and calculations	-	27,175	1,070	28,245
Subtotal	3,901	34,208	1,070	39,179
Total	$ 30,285	$ 2,594,484	$ 66,074	$ 2,690,843
Percent of total	1%	96%	3%	100%

	December 31, 2010			
	Level 1	Level 2	Level 3	Total
Fixed maturities available for sale:				
Priced from external pricing service	$ 26,313	$ 2,537,287	$ -	$ 2,563,600
Priced from independent brokers	-	29,487	-	29,487
Priced from internal matrices and calculations	-	-	55,801	55,801
Subtotal	26,313	2,566,774	55,801	2,648,888
Equity securities available for sale:				
Priced from external pricing service	3,871	7,125	-	10,996
Priced from independent brokers	-	-	-	-
Priced from internal matrices and calculations	-	26,145	1,180	27,325
Subtotal	3,871	33,270	1,180	38,321
Total	$ 30,184	$ 2,600,044	$ 56,981	$ 2,687,209
Percent of total	1%	97%	2%	100%

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The changes in Level 1 assets measured at fair value on a recurring basis for the first quarter ended March 31, 2011 and year ended December 31, 2010 are summarized below. The Company did not have any debt issuances in either period presented.

	Quarter Ended March 31, 2011		
	Assets		
	Fixed maturities available for sale	Equity securities available for sale	Total
Beginning balance	$ 26,313	$ 3,871	$ 30,184
Included in earnings	(1)	-	(1)
Included in other comprehensive income	72	30	102
Purchases, sales and other dispositions:			
Purchases	-	-	-
Sales	-	-	-
Other dipositions	-	-	-
Transfers into Level 1	-	-	-
Transfers out of Level 1	-	-	-
Ending balance	$ 26,384	$ 3,901	$ 30,285
Net unrealized gains	$ 72	$ 30	$ 102

	Year Ended December 31, 2010		
	Assets		
	Fixed maturities available for sale	Equity securities available for sale	Total
Beginning balance	$ 23,540	$ 3,400	$ 26,940
Included in earnings	(5)	-	(5)
Included in other comprehensive income (loss)	1,335	298	1,633
Purchases and dispositions	145	173	318
Net transfers in	1,298	-	1,298
Ending balance	$ 26,313	$ 3,871	$ 30,184
Net unrealized gains	$ 1,469	$ 298	$ 1,767

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The changes in Level 2 assets measured at fair value on a recurring basis for the first quarter ended March 31, 2011 and year ended December 31, 2010 are summarized below. The Company did not have any debt issuances in either period presented.

	Quarter Ended March 31, 2011		
	Assets		
	Fixed maturities available for sale	Equity securities available for sale	Total
Beginning balance	$ 2,566,774	$ 33,270	$ 2,600,044
Included in earnings	598	-	598
Included in other comprehensive income	(314)	(92)	(406)
Purchases, sales and other dispositions:			
Purchases	77,324	1,030	78,354
Sales	(1,003)	-	(1,003)
Other dipositions	(70,470)	-	(70,470)
Transfers into Level 2	16,866	-	16,866
Transfers out of Level 2	(29,499)	-	(29,499)
Ending balance	$ 2,560,276	$ 34,208	$ 2,594,484
Net unrealized gains (losses)	$ 133	$ (92)	$ 41

	Year Ended December 31, 2010		
	Assets		
	Fixed maturities available for sale	Equity securities available for sale	Total
Beginning balance	$ 2,393,258	$ 32,439	$ 2,425,697
Included in earnings	254	2	256
Included in other comprehensive income (loss)	107,131	116	107,247
Purchases and dispositions	72,999	713	73,712
Net transfers out	(6,868)	-	(6,868)
Ending balance	$ 2,566,774	$ 33,270	$ 2,600,044
Net unrealized gains	$ 103,635	$ 189	$ 103,824

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the first quarter ended March 31, 2011 and year ended December 31, 2010 are summarized below:

	Quarter Ended March 31, 2011			
	Assets			Liabilities
	Fixed maturities available for sale	Equity securities available for sale	Total	GMWB
Beginning balance	$ 55,801	$ 1,180	$ 56,981	$ (2,799)
Included in earnings	(10)	91	81	(211)
Included in other comprehensive income	(720)	(1)	(721)	-
Purchases, issuances, sales and other dispositions:				
Purchases	-	-	-	-
Issuances	-	-	-	1
Sales	-	-	-	-
Other dipositions	(2,700)	(200)	(2,900)	78
Transfers into Level 3	29,499	-	29,499	-
Transfers out of Level 3	(16,866)	-	(16,866)	-
Ending balance	$ 65,004	$ 1,070	$ 66,074	$ (2,931)
Net unrealized gains (losses)	$ (720)	$ 52	$ (668)	

	Year Ended December 31, 2010			
	Assets			Liabilities
	Fixed maturities available for sale	Equity securities available for sale	Total	GMWB
Beginning balance	$ 52,474	$ 1,037	$ 53,511	$ (1,642)
Included in earnings	(4)	-	(4)	(1,217)
Included in other comprehensive income (loss)	920	143	1,063	-
Purchases and dispositions	(3,159)	-	(3,159)	60
Net transfers in	5,570	-	5,570	-
Ending balance	$ 55,801	$ 1,180	$ 56,981	$ (2,799)
Net unrealized gains	$ 922	$ 143	$ 1,065	

The Company did not exclude any realized or unrealized gains or losses on items transferred into Level 3. Depending upon the availability of Level 1 or Level 2 pricing, specific securities may transfer into or out of Level 3.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The table below is a summary of fair value estimates as of March 31, 2010 and December 31, 2010 for financial instruments. The Company has not included assets and liabilities that are not financial instruments in this disclosure. The total of the fair value calculations presented do not represent, and should not be construed to represent, the underlying value of the Company.

	March 31, 2011		December 31, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets:				
Investments:				
Fixed maturities available for sale	$ 2,651,664	$ 2,651,664	$ 2,648,888	$ 2,648,888
Equity securities available for sale	39,179	39,179	38,321	38,321
Mortgage loans	554,772	592,445	559,167	593,418
Policy loans	82,909	82,909	84,281	84,281
Cash and short-term investments	28,072	28,072	21,158	21,158
Separate account assets	351,401	351,401	339,029	339,029
Liabilities:				
Individual and group annuities	1,045,183	1,024,528	1,037,331	1,017,135
Supplementary contracts without life contingencies	57,432	55,801	58,012	56,514
Separate account liabilities	351,401	351,401	339,029	339,029

4. Investments

Contractual Maturities

The following table provides the distribution of maturities for fixed maturity securities available for sale as of March 31, 2011. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	March 31, 2011	
	Amortized Cost	Fair Value
Due in one year or less	$ 77,577	$ 79,301
Due after one year through five years	586,412	619,851
Due after five years through ten years	944,382	1,004,026
Due after ten years	506,372	512,580
Securities with variable principal payments	414,855	420,995
Redeemable preferred stocks	14,866	14,911
	$ 2,544,464	$ 2,651,664

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

Realized Gains (Losses)

The following table provides detail concerning realized investment gains and losses by asset class for the first quarters ended March 31, 2011 and 2010.

	Quarter Ended March 31	
	2011	2010
Gross gains resulting from:		
Sales of investment securities	$ 311	$ 1,003
Investment securities called and other	863	298
Total gross gains	1,174	1,301
Gross losses resulting from:		
Investment securities called and other	(54)	(88)
Mortgage loans	(3)	-
Total gross losses	(57)	(88)
Amortization of DAC and VOBA	(105)	110
Net realized investment gains, exluding impairment losses	1,012	1,323
Net impairment losses recognized in earnings:		
Total other-than-temporary impairment losses	(269)	(1,591)
Portion of loss recognized in other comprehensive income	58	5
Net impairment losses recognized in earnings	(211)	(1,586)
Realized investment gains (losses)	$ 801	$ (263)

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides amortized cost and fair value of securities by asset class at March 31, 2011.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 126,178	$ 5,945	$ 397	$ 131,726
Federal agencies [1]	24,127	1,727	-	25,854
Federal agency issued residential mortgage-backed securities [1]	122,853	9,111	4	131,960
Subtotal	273,158	16,783	401	289,540
Corporate obligations:				
Industrial	411,501	25,175	2,927	433,749
Energy	149,925	14,022	206	163,741
Communications and technology	187,562	9,025	732	195,855
Financial	338,326	15,201	3,288	350,239
Consumer	420,372	27,372	2,604	445,140
Public utilities	291,171	24,650	2,914	312,907
Subtotal	1,798,857	115,445	12,671	1,901,631
Corporate private-labeled residential mortgage-backed securities	198,601	2,030	9,940	190,691
Municipal securities	152,645	1,566	2,348	151,863
Other	106,337	5,146	8,455	103,028
Redeemable preferred stocks	14,866	360	315	14,911
Fixed maturity securities	2,544,464	141,330	34,130	2,651,664
Equity securities	37,214	2,081	116	39,179
Total	$ 2,581,678	$ 143,411	$ 34,246	$ 2,690,843

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides amortized cost and fair value of securities by asset class as of December 31, 2010.

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities and obligations of U.S. Government	$ 128,280	$ 7,180	$ 318	$ 135,142
Federal agencies [1]	24,144	1,951	-	26,095
Federal agency issued residential mortgage-backed securities [1]	128,318	9,740	2	138,056
Subtotal	280,742	18,871	320	299,293
Corporate obligations:				
Industrial	409,193	26,255	2,930	432,518
Energy	163,237	15,498	224	178,511
Communications and technology	164,499	9,243	796	172,946
Financial	341,520	14,161	5,022	350,659
Consumer	404,152	28,725	2,373	430,504
Public utilities	298,626	27,640	1,466	324,800
Subtotal	1,781,227	121,522	12,811	1,889,938
Corporate private-labeled residential mortgage-backed securities	209,529	2,352	16,826	195,055
Municipal securities	153,813	1,319	3,301	151,831
Other	100,548	5,193	7,739	98,002
Redeemable preferred stocks	14,866	343	440	14,769
Fixed maturity securities	2,540,725	149,600	41,437	2,648,888
Equity securities	36,293	2,165	137	38,321
Total	$ 2,577,018	$ 151,765	$ 41,574	$ 2,687,209

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

Proceeds From Sales of Investment Securities

The table below provides information regarding sales of fixed maturity securities, excluding maturities and calls, for the quarters ended March 31.

	2011	2010
Proceeds	$ 10,143	$ 12,729
Gross realized gains	311	1,004
Gross realized losses	-	-

Unrealized Losses on Investments

The Company reviews all security investments, with particular attention given to those having unrealized losses. Further, the Company specifically assesses all investments with greater than 10% declines in fair value below amortized cost and, in general, monitors all security investments as to ongoing risk. These risks are fundamentally evaluated through both a qualitative and quantitative analysis of the issuer. The Company also prepares a formal review document no less often than quarterly of all investments where fair value is less than 80% of amortized cost for six months or more and selected investments that have changed significantly from a previous period and that have a decline in fair value greater than 10% of amortized cost.

The Company has a policy and process in place to identify securities that could potentially have an impairment that is other-than-temporary. This process involves monitoring market events and other items that could impact issuers. The evaluation includes but is not limited to such factors as the issuer s stated intent and ability to make all principal and interest payments when due, near-term business prospects, cash flow and liquidity, credit ratings, business climate, management changes and litigation and government actions. This process also involves monitoring several factors, including late payments, downgrades by rating agencies, key financial ratios, financial statements, revenue forecasts, asset quality and cash flow projections, as indicators of credit issues.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The Company considers relevant facts and circumstances in evaluating whether the impairment of a security is other-than-temporary. Relevant facts and circumstances considered are described in the Valuation of Investments section of Note 1 Nature of Operations and Significant Accounting Policies of the Company s 2010 Form 10-K.

To the extent the Company determines that a fixed maturity security is deemed to be other-than-temporarily impaired, the portion of the impairment that is deemed to be due to credit is charged to the Consolidated Statements of Income and the cost basis of the underlying investment is reduced. The portion of such impairment that is determined to be non-credit-related is deducted from net realized loss in the Consolidated Statements of Income and reflected in other comprehensive income and accumulated other comprehensive income, which is a component of stockholders equity in the Consolidated Balance Sheets.

There are a number of significant risks and uncertainties inherent in the process of monitoring impairments, determining if an impairment is other-than-temporary and determining the portion of an other-than-temporary impairment that is due to credit. These risks and uncertainties are described in the Valuation of Investments Section of Note 1 of the Company s 2010 Form 10-K.

Once a security is determined to have met certain of the criteria for consideration as being other-than-temporarily impaired, further information is gathered and evaluated pertaining to the particular security. If the security is an unsecured obligation, the additional research is a top-down approach with particular emphasis on the likelihood of the issuer to meet the contractual terms of the obligation. If the security is secured by an asset or guaranteed by another party, the value of the underlying secured asset or the financial ability of the third-party guarantor is evaluated as a secondary source of repayment. Such research is based upon a top-down approach, narrowing to the specific estimates of value and cash flow of the underlying secured asset or guarantor. If the security is a collateralized obligation, such as a mortgage-backed or other asset-backed instrument, research is also conducted to obtain and analyze the performance of the collateral relative to expectations at the time of acquisition and with regard to projections for the future. Such analyses are based upon historical results, trends, comparisons to collateral performance of similar securities and analyses performed by third parties. This information is used to develop projected cash flows that are compared to the amortized cost of the security.

If a determination is made that an unsecured security, secured security or security with a guaranty of payment by a third-party is other-than-temporarily impaired, an estimate is developed of the portion of such impairment that is due to credit. The estimate of the portion of impairment due to credit is based upon a comparison of ratings and maturity horizon for the security and relative historical default probabilities from one or more nationally recognized rating organizations. When appropriate for any given security, sector or period in the business cycle, the historical default probability is adjusted to reflect periods or situations of distress by adding to the default probability increments of standard deviations from mean historical results. The credit impairment analysis is supplemented by estimates of potential recovery values for the specific security, including the potential impact of the value of any secured assets, in the event of default. This information is used to determine the Company s best estimate, derived from probability-weighted cash flows.

The Company has exposure to the municipal bond market. The Company s investments in municipal bonds present unique considerations in evaluating other-than-temporary impairments. Judgments regarding whether a municipal debt security is other-than-temporarily impaired include analyzing a number of rather unique characteristics pertaining to the issuer. Municipalities possess unique powers, along with special legal standing and protections. These powers include the sovereign power to tax, access to one-time revenue sources, capacity to issue or restructure debt and the ability to shift spending to other authorities. In addition, state governments often provide secondary support to local governments in times of financial stress and the federal government has also provided assistance to state governments.

The evaluation of loan-backed and similar asset-backed securities, particularly including residential mortgage-backed securities, with significant indications of potential other-than-temporary impairment requires considerable use of estimates and judgment. Specifically, the Company performs discounted future cash flow projections on these securities to evaluate whether the value of the investment is expected to be fully realized. Projections of expected future cash flows are based upon considerations of the performance of the actual underlying assets, including historical delinquencies, defaults, severity of losses incurred, and prepayments, along with the Company s estimates of future results for these factors. The Company s estimates of future results are based upon actual historical performance of the underlying assets relative to historical, current and expected general economic conditions, specific conditions related to the underlying assets, industry data, and other factors that are believed to be relevant. If the present value of the projected expected future cash flows are determined to be below the Company s carrying value, the Company recognizes an other-than-temporary impairment on the portion of the

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited)   Continued

carrying value that exceeds the projected expected future cash flows. To the extent that the loan-backed or other asset-backed securities remain high quality investments and do not otherwise demonstrate characteristics of impairment, the Company performs other initial evaluations to determine whether other-than-temporary cash flow evaluations need to be performed.

The discounted future cash flow calculation typically becomes the primary determinant of whether any portion and to what extent an unrealized loss is due to credit on loan-backed and similar asset-backed securities with significant indications of potential other-than-temporary impairment. Such indications typically include below investment grade ratings and significant unrealized losses for an extended period of time, among other factors. The Company identified 13 and 12 non-U.S. Agency mortgage-backed securities that had such indications as of March 31, 2011 and December 31, 2010, respectively. Discounted future cash flow analysis was performed for each of these securities to determine if any portion of the impairment was due to credit and deemed to be other-than-temporary. The discount rate used in calculating the present value of future cash flows was the investment yield at the time of purchase for each security. The initial default rates were assumed to remain constant over a 24-month time frame and grade down thereafter, reflecting the general perspective of a more stabilized residential housing environment in the future.

For loan-backed and similar asset-backed securities, the determination of any amount of impairment that is due to credit is based upon the present value of projected future cash flows being less than the amortized cost of the security, this amount is recognized as a realized loss in the Company s Consolidated Statements of Income and the carrying value of the security is written down by the same amount. The portion of an impairment that is determined not to be due to credit is recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets.

As part of the required accounting for unrealized gains and losses, the Company also adjusts the DAC and VOBA assets to recognize the adjustment to those assets as if the unrealized gains and losses from securities classified as available-for-sale actually had been realized.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time as of March 31, 2011.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 9,669	$ 366	$ 2,194	$ 31	$ 11,863	$ 397
Federal agency issued residential mortgage-backed securities [1]	393	3	281	1	674	4
Subtotal	10,062	369	2,475	32	12,537	401
Corporate obligations:						
Industrial	82,502	2,780	2,977	147	85,479	2,927
Energy	6,674	206	-	-	6,674	206
Communications and technology	49,644	732	-	-	49,644	732
Financial	25,137	504	34,373	2,784	59,510	3,288
Consumer	77,843	1,716	7,085	888	84,928	2,604
Public utilities	21,935	1,850	10,931	1,064	32,866	2,914
Total corporate obligations	263,735	7,788	55,366	4,883	319,101	12,671
Corporate private-labeled residential mortgage-backed securities	17,839	218	98,371	9,722	116,210	9,940
Municipal securities	66,816	1,883	7,425	465	74,241	2,348
Other	5,424	137	52,385	8,318	57,809	8,455
Redeemable preferred stocks	625	1	4,450	314	5,075	315
Fixed maturity securities	364,501	10,396	220,472	23,734	584,973	34,130
Equity securities	-	-	2,055	116	2,055	116
Total	$ 364,501	$ 10,396	$ 222,527	$ 23,850	$ 587,028	$ 34,246

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides information regarding fixed maturity and equity security investments available for sale with unrealized losses by length of time as of December 31, 2010.

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury securities and obligations of U.S. Government	$ 7,663	$ 286	$ 2,206	$ 32	$ 9,869	$ 318
Federal agency issued residential mortgage-backed securities [1]	16	1	281	1	297	2
Subtotal	7,679	287	2,487	33	10,166	320
Corporate obligations:						
Industrial	76,795	2,825	3,023	105	79,818	2,930
Energy	7,848	224	-	-	7,848	224
Communications and technology	38,762	796	-	-	38,762	796
Financial	50,744	900	38,170	4,122	88,914	5,022
Consumer	67,690	1,444	14,931	929	82,621	2,373
Public utilities	24,165	1,204	4,394	262	28,559	1,466
Total corporate obligations	266,004	7,393	60,518	5,418	326,522	12,811
Corporate private-labeled residential mortgage-backed securities	-	-	96,581	16,826	96,581	16,826
Municipal securities	81,799	2,537	7,145	764	88,944	3,301
Other	5,379	182	54,488	7,557	59,867	7,739
Redeemable preferred stocks	618	8	4,333	432	4,951	440
Fixed maturity securities	361,479	10,407	225,552	31,030	587,031	41,437
Equity securities	-	-	2,034	137	2,034	137
Total	$ 361,479	$ 10,407	$ 227,586	$ 31,167	$ 589,065	$ 41,574

[1] Federal agency securities are not backed by the full faith and credit of the U.S. Government.

Gross unrealized losses on fixed maturity and equity security investments attributable to securities having gross unrealized losses of 12 months or longer was $23.9 million at March 31, 2011, a decrease from $31.2 million at December 31, 2010. The largest component of this decrease was from the corporate private-labeled residential mortgage-backed securities category, which decreased $7.1 million during the first quarter of 2011.

In addition, the Company also considers as part of its monitoring and evaluation process the length of time the fair value of a security is below amortized cost. At March 31, 2011, the Company had unrealized losses on its investment portfolio for fixed maturities and equity securities as follows:

124 security issues representing 71% of the issues with unrealized losses, including 95% being rated as investment grade, were below cost for less than one year;
14 security issues representing 8% of the issues with unrealized losses, including 57% being rated as investment grade, were below cost for one year or more and less than three years; and
37 security issues representing 21% of the issues with unrealized losses, including 57% being rated as investment grade, were below cost for three years or more.

At December 31, 2010, the Company had unrealized losses on its investment portfolio for fixed maturities and equity securities as follows:

130 security issues representing 69% of the issues with unrealized losses, including 94% being rated as investment grade, were below cost for less than one year;
18 security issues representing 10% of the issues with unrealized losses, including 56% being rated as investment grade, were below cost for one year or more and less than three years; and
39 security issues representing 21% of the issues with unrealized losses, including 49% being rated as investment grade, were below cost for three years or more.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table provides the distribution of maturities for fixed maturity securities available for sale with unrealized losses as of March 31, 2011. Expected maturities may differ from these contractual maturities since borrowers may have the right to call or prepay obligations.

	March 31, 2011	
	Fair Value	Gross Unrealized Losses
Fixed maturity security securities available for sale:		
Due in one year or less	$ 28	$ -
Due after one year through five years	65,704	1,335
Due after five years through ten years	203,456	7,224
Due after ten years	193,821	15,312
Total	463,009	23,871
Securities with variable principal payments	116,889	9,944
Redeemable preferred stocks	5,075	315
Total	$ 584,973	$ 34,130

The following table provides a reconciliation of credit losses recognized in earnings on fixed maturity securities held by the Company for which a portion of the other-than-temporary loss was recognized in accumulated other comprehensive income as of March 31, 2011.

Credit losses on securities held at beginning of period in accumulated other comprehensive income	$ 11,567
Additions for credit losses not previously recognized in other-than-temporary impairment	-
Additions for increases in the credit loss for which an other-than-temporary impairment previously was recognized and there was no intent to sell the security before recovery of its amortized cost basis	211
Reductions for securities sold during the period (realized)	-
Reductions for securities previously recognized in other comprehensive income because of intent to sell the security before recovery of its amortized cost basis	-
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(4)
Credit losses on securities held at the end of period in accumulated other comprehensive income	$ 11,774

Mortgage Loans

The Company invests on an ongoing basis in commercial mortgage loans that are secured by real estate. The Company had 16% of its invested assets in commercial mortgage loans as of March 31, 2011 and December 31, 2010. In addition to the subject collateral underlying the mortgage, the Company typically requires some amount of recourse from borrowers as another potential source of repayment. The recourse requirement is determined as part of the underwriting requirements of each loan. The Company added 13 new loans to the portfolio during the first three months of 2011, and 100% of these loans had some amount of recourse requirement. The average loan to value ratio for the overall portfolio was

48% and 49% at March 31, 2011 and December 31, 2010, respectively, based upon the underwriting and appraisal of value at the time the loan was originated or acquired.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table summarizes the amount of mortgage loans held by the Company at March 31, 2011, segregated by year of origination.

	Carrying Amount	% of Total
Prior to 2002	$ 46,827	9%
2003	46,228	8%
2004	38,474	7%
2005	61,333	11%
2006	49,308	9%
2007	40,618	7%
2008	45,583	8%
2009	56,389	10%
2010	153,468	28%
2011	19,954	4%
Allowance for loss	(3,410)	(1%)
Total	$ 554,772	100%

The tables below identify mortgage loans by geographic location and property type as of March 31, 2011 and December 31, 2010.

	March 31 2011 Carrying Amount	December 31 2010 Carrying Amount
Geographic region:		
Pacific	$ 130,661	$ 134,892
West north central	125,711	122,228
West south central	108,516	106,093
Mountain	71,807	72,871
South atlantic	49,563	50,454
East north central	26,719	30,905
Middle atlantic	22,642	22,975
East south central	22,563	22,159
Allowance for loss	(3,410)	(3,410)
Total	$ 554,772	$ 559,167
Property type:		
Industrial	$ 253,701	$ 263,621
Office	226,390	227,772
Medical	35,961	35,223
Other	42,130	35,961
Allowance for loss	(3,410)	(3,410)

Total	$	554,772	$	559,167

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table identifies the concentration of mortgage loans by state greater than 5% as of March 31, 2011 and December 31, 2010.

	March 31 2011		December 31 2010	
	Carrying Amount	% of Total	Carrying Amount	% of Total
California	$ 112,134	20%	$ 115,766	21%
Texas	87,576	16%	81,903	15%
Minnesota	55,808	10%	56,537	10%
Florida	28,430	5%	28,770	5%
All others	274,234	50%	279,601	50%
Allowance for loss	(3,410)	(1%)	(3,410)	(1%)
Total	$ 554,772	100%	$ 559,167	100%

The table below identifies the carrying amount of mortgage loans by maturity as of March 31, 2011.

	March 31 2011
Mortgage loans by maturity:	
Due in one year or less	$ 24,692
Due after one year through five years	170,178
Due after five years through ten years	226,665
Due after ten years	136,647
Allowance for loss	(3,410)
Total	$ 554,772

The Company may refinance commercial mortgage loans prior to contractual maturity as a means of originating new loans that meet the Company s underwriting and pricing parameters. The Company refinanced loans with outstanding balances of $7.8 million and $0.7 million during the first quarters of 2011 and 2010, respectively.

In the normal course of business, the Company commits to fund commercial mortgage loans generally up to 120 days in advance. The Company had commitments to originate mortgage loans of $14.4 million at March 31, 2011 with fixed interest rates ranging from 5.00% to 6.625%. These commitments generally have fixed expiration dates. A small percentage of commitments expire due to the borrower s failure to deliver the requirements of the commitment by the expiration date. In these cases, the Company may retain the commitment fee.

In December 2009, a construction-to-permanent loan in the amount of $16.0 million was executed. In the second quarter of 2010, the Company issued a second construction-to-permanent loan in the amount of $1.8 million. At March 31, 2011, $15.9 million had been disbursed for the two construction loans, with an unfunded amount of $1.9 million. Both projects are scheduled for completion of construction by mid-2011. In addition, during the first quarter of 2011, the Company issued a third construction-to-permanent loan in the amount of $2.8 million. Upon completion of construction and fulfillment of occupancy requirements, the loans will convert to long-term, fixed rate permanent loans.

5. Financing Receivables

The Company has financing receivables as defined in Accounting Standards Update No. 2010-20 Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.

The Company has several categories of receivables, not all of which meet the definition of a financing receivable as defined under the guidance. The Company has both long-term receivables and short-term receivables which might otherwise meet the definition, except that short-term receivables are specifically excluded under the guidance. To qualify as a financing receivable, a receivable must have both a specific maturity date, either on demand or on a fixed or determinable date, and it must be recognized as an asset in the Company s statement of financial position. In addition, certain investments in mortgage loans and policy loans were evaluated to determine whether they meet the definition of a financing receivable.

Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The table below identifies the Company s financing receivables by classification amount as of March 31, 2011 and December 31, 2010.

	March 31 2011	December 31 2010
Receivables:		
Agent receivables, net (allowance $1,303; $644 - 2010)	$ 2,430	$ 2,677
Investment-related financing receivables:		
Mortgage loans, net (allowance $3,410; $3,410 - 2010)	554,772	559,167
Total financing receivables	$ 557,202	$ 561,844

Agent Receivables

The Company has agent receivables which are classified as financing receivables and which are reduced by an allowance for doubtful accounts. These receivables are long-term in nature, are trade receivables with the Company s sales force, contain specifically agreed contracts and are specifically assessed as to the collectability of each receivable. The Company s gross agent receivables totaled $3.7 million at March 31, 2011 and the Company maintained an allowance for doubtful accounts totaling $1.3 million. Gross agent receivables totaled $3.3 million with an allowance for doubtful accounts of $0.6 million at December 31, 2010. The Company has two types of agent receivables included in this category as follows:

- Agent specific loans. At March 31, 2011, these loans totaled $0.2 million with a minimal allowance for doubtful accounts. At December 31, 2010, agent specific loans totaled $0.3 million and also had a minimal allowance for doubtful accounts.
- Various agent commission advances and other commission receivables. Gross agent receivables in this category totaled $3.5 million, and the Company maintained an allowance for doubtful accounts of $1.3 million at March 31, 2011. Gross agent receivables totaled $3.0 million and the allowance for doubtful accounts was $0.6 million at December 31, 2010.

Mortgage Loans

The Company considers its mortgage loan portfolio to be long-term financing receivables. Mortgage loans are stated at cost, net of allowance for potential future losses. Mortgage loan interest income is recognized on an accrual basis with any premium or discount amortized over the life of the loan. Prepayment and late fees are recorded on the date of collection. Loans in foreclosure, loans considered impaired or loans past due 90 days or more are placed on a non-accrual status.

If a mortgage loan is determined to be on non-accrual status, the mortgage loan does not accrue any revenue into the Consolidated Statements of Income. The loan is independently monitored and evaluated as to potential impairment or foreclosure. This evaluation includes assessing the probability of receiving future cash flows, along with consideration of many of the factors described below. If delinquent payments are made and the loan is brought current, then the Company returns the loan to active status and accrues income accordingly.

Generally, the Company considers its mortgage loans to be a portfolio segment. The Company considers its primary class to be property type. The Company primarily uses loan-to-value as its credit risk quality indicator but also monitors additional secondary risk factors, such as geographic distribution both on a regional and specific state basis. The mortgage loan portfolio segment is presented by property-type in a table in this section. In addition, geographic distributions for both regional and significant state concentrations are also presented. These measures are also supplemented with various other analytics to provide additional information concerning mortgage loans and management s assessment of financing receivables.

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Kansas City Life Insurance Company

Notes to Consolidated Financial Statements (Unaudited) Continued

The following table presents an aging schedule for delinquent payments for both principal and interest as of March 31, 2011 and December 31, 2010, by class.

		Amount of Payments Past Due			
March 31, 2011	Carrying Value	30-59 Days	60-89 Days	90+ Days	Total
Industrial	$ -	$ -	$ -	$ -	$ -
Medical	-	-	-	-	-
Office	2,187	22	-	-	22
Other	-	-	-	-	-
Total	$ 2,187	$ 22	$ -	$ -	$ 22
December 31, 2010					
Industrial	$ 1,187	$ 11	$ -	$ -	$ 11
Medical	-	-	-	-	-
Office	2,219	22	-	-	22
Other	-	-	-	-	-
Total	$ 3,406				