W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST

Consolidated Financial Statements and
Supplemental Schedule
For the Years Ended August 31, 2011 and 2010
With Report of Independent Auditors

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
August 31, 2011 and 2010

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REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
W. K. Kellogg Foundation and
W. K. Kellogg Foundation Trust

We have audited the accompanying consolidated statements of financial position of W. K. Kellogg Foundation (the Foundation) and W. K. Kellogg Foundation Trust (the Trust) as of August 31, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's and Trust's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Foundation's and the Trust's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's and the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation and the Trust at August 31, 2011 and 2010, and the consolidated changes in their net assets and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedule of gifts and receipts is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, accordingly we express no opinion on it.

Mitchell & Titus, LLP

November 23, 2011

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
Consolidated Statements of Financial Position
As of August 31, 2011 and 2010

	2011			2010		
	Consolidated	**W. K. Kellogg Foundation**	**W. K. Kellogg Foundation Trust**	**Consolidated**	**W. K. Kellogg Foundation**	**W. K. Kellogg Foundation Trust**
ASSETS						
Cash and cash equivalents	$ 243,708,957	$ 49,445,476	$ 194,263,481	$ 150,649,014	$ 28,582,750	$ 122,066,264
Kellogg company common stock—79,924,190 shares in 2011 and 83,874,190 shares in 2010	4,341,482,001	-	4,341,482,001	4,166,869,759	-	4,166,869,759
Diversified investments	2,743,107,366	281,167,359	2,461,940,007	2,540,937,758	281,759,629	2,259,178,129
Mission-driven investments	65,919,985	65,919,985	-	63,496,659	63,496,659	-
Program-related investment loans receivable	1,000,000	1,000,000	-	1,000,000	1,000,000	-
Collateral under securities lending and derivatives arrangements	112,123,918	-	112,123,918	175,622,677	-	175,622,677
Accrued interest and dividends	36,955,546	473,247	36,482,299	37,187,347	499,309	36,688,038
Net receivable on unsettled trades	45,753,417	-	45,753,417	-	-	-
Property and equipment	51,837,467	51,837,467	-	54,139,106	54,139,106	-
Other assets	1,965,439	1,965,439	-	1,110,258	1,110,258	-
Interest in irrevocable trusts	52,772,944	13,311,072	39,461,872	47,148,267	11,584,755	35,563,512
Total assets	$ 7,696,627,040	$ 465,120,045	$ 7,231,506,995	$ 7,238,160,845	$ 442,172,466	$ 6,795,988,379
LIABILITIES AND NET ASSET						
Liabilities						
Accounts payable	$ 4,830,060	$ 4,830,060	$ -	$ 3,559,046	$ 3,559,046	$ -
Accrued liabilities	7,330,269	7,330,269	-	7,978,723	7,978,723	-
Payable under securities lending and derivatives arrangements	112,123,918	-	112,123,918	175,622,677	-	175,622,677
Net trade settlement payables	932,674	932,674	-	1,669,665	1,555,971	113,694
Grant commitments payable	236,115,064	236,115,064	-	221,166,363	221,166,363	-
Deferred federal excise tax liability	93,375,762	586,160	92,789,602	86,451,279	327,475	86,123,804
Postretirement liability	66,419,658	66,419,658	-	60,282,603	60,282,603	-
Total liabilities	521,127,405	316,213,885	204,913,520	556,730,356	294,870,181	261,860,175
Net assets						
Unrestricted	135,595,088	135,595,088	-	135,717,530	135,717,530	-
Temporarily restricted	7,039,904,547	13,311,072	7,026,593,475	6,545,712,959	11,584,755	6,534,128,204
Total net assets	7,175,499,635	148,906,160	7,026,593,475	6,681,430,489	147,302,285	6,534,128,204
Total liabilities and net assets	$ 7,696,627,040	$ 465,120,045	$ 7,231,506,995	$ 7,238,160,845	$ 442,172,466	$ 6,795,988,379

The accompanying notes are an integral part of these consolidated financial statements.

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
Consolidated Statements of Activities
For the Years Ended August 31, 2011 and 2010

	2011			2010		
	Consolidated	W. K. Kellogg Foundation	W. K. Kellogg Foundation Trust	Consolidated	W. K. Kellogg Foundation	W. K. Kellogg Foundation Trust
REVENUES AND GAINS						
Contributions from W. K. Kellogg Foundation Trust*	$ -	$ 338,000,000	$ -	$ -	$ 313,000,000	$ -
Contributions from miscellaneous trusts	1,197,668	1,197,668	-	1,017,227	1,017,227	-
Total contributions	1,197,668	339,197,668	-	1,017,227	314,017,227	-
Interest income	13,359,593	3,788,770	9,570,823	14,535,935	2,876,438	11,659,497
Dividend income	148,600,541	2,068,956	146,531,585	137,524,511	1,652,059	135,872,452
Portfolio Income	33,465,299	3,023,789	30,441,510	27,698,866	2,861,030	24,837,836
Net realized gains on sales of investments	395,350,971	15,840,286	379,510,685	155,600,555	21,648,989	133,951,566
Change in unrealized gains/(losses) on investments	301,679,366	12,941,426	288,737,940	263,701,253	(3,932,499)	267,633,752
Less: Costs of earning income	(20,662,219)	(3,192,545)	(17,469,674)	(14,222,941)	(3,842,145)	(10,380,796)
Change in value in interest in irrevocable trusts	5,624,678	1,726,317	3,898,361	1,069,939	(795,007)	1,864,946
Net investment income	877,418,229	36,196,999	841,221,230	585,908,118	20,468,865	565,439,253
Refunds of prior year program payments	5,548,953	5,548,953	-	2,475,228	2,475,228	-
Total revenue and gains	884,164,850	380,943,620	841,221,230	589,400,573	336,961,320	565,439,253
EXPENSES						
Distributions to the W. K. Kellogg Foundation	-	-	338,000,000	-	-	313,000,000
Grants	306,511,063	306,511,063	-	343,010,338	343,010,338	-
Program activities	25,543,622	25,543,622	-	19,145,742	19,145,742	-
General operations	43,358,679	43,358,679	-	50,281,089	50,281,089	-
Depreciation	3,298,703	3,298,703	-	3,814,339	3,814,339	-
Federal excise tax provision						
Current	5,207,629	242,910	4,964,719	3,489,991	253,720	3,236,271
Deferred	6,049,925	258,685	5,791,240	3,070,584	(79,354)	3,149,938
Total expenses	389,969,621	379,213,662	348,755,959	422,812,083	416,425,874	319,386,209
Accumulated post-retirement benefit loss not yet reflected in net benefit costs	(126,083)	(126,083)	-	(10,748,834)	(10,748,834)	-
Total increase (decrease) in net assets	494,069,146	1,603,875	492,465,271	155,839,656	(90,213,388)	246,053,044
Net assets, at beginning of year	6,681,430,489	147,302,285	6,534,128,204	6,525,590,833	237,515,673	6,288,075,160
Net assets, at end of year	$ 7,175,499,635	$ 148,906,160	$ 7,026,593,475	$ 6,681,430,489	$ 147,302,285	$ 6,534,128,204
CHANGES IN NET ASSETS BY CATEGORY						
Increase (decrease) in unrestricted net assets	$ (122,442)	$ (122,442)	$ -	$ (89,418,381)	$ (89,418,381)	$ -
Increase (decrease) in temporarily restricted net assets	494,191,588	1,726,317	492,465,271	245,258,037	(795,007)	246,053,044
Total increase (decrease) in net assets	$ 494,069,146	$ 1,603,875	$ 492,465,271	$ 155,839,656	$ (90,213,388)	$ 246,053,044

*Intercompany contributions and distributions of $338,000,000 and $313,000,000 for the years ended August 31, 2011 and 2010, respectively, have been eliminated in the combined totals.

The accompanying notes are an integral part of these consolidated financial statements.

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
Consolidated Statements of Cash Flows
For the Years Ended August 31, 2011 and 2010

	2011			2010		
	Consolidated	**W. K. Kellogg Foundation**	**W. K. Kellogg Foundation Trust**	**Consolidated**	**W. K. Kellogg Foundation**	**W. K. Kellogg Foundation Trust**
CASH FLOWS FROM OPERATING ACTIVITIES						
Increase (decrease) in net assets	$ 494,069,146	$ 1,603,875	$ 492,465,271	$ 155,839,656	$ (90,213,388)	$ 246,053,044
Adjustments to reconcile changes in net assets to cash flows from operating activities						
Depreciation	3,298,703	3,298,703	-	3,814,339	3,814,339	-
Net realized gains on long-term investments	(395,350,971)	(15,840,286)	(379,510,685)	(155,600,555)	(21,648,989)	(133,951,566)
Change in net unrealized (gain) loss on investments	(301,679,366)	(12,941,426)	(288,737,940)	(263,701,253)	3,932,499	(267,633,752)
Change in deferred excise tax liability	6,924,483	258,685	6,665,798	3,500,836	(79,354)	3,580,190
Postretirement liability	6,137,055	6,137,055	-	14,834,470	14,834,470	-
Change in operating assets and liabilities						
Accrued interest and dividends	231,801	26,062	205,739	(1,446,601)	(342,380)	(1,104,221)
Other assets	(855,181)	(855,181)	-	8,717,171	816,160	7,901,011
Interest in irrevocable trusts	(5,624,677)	(1,726,317)	(3,898,360)	(1,069,939)	795,007	(1,864,946)
Accounts payable	1,271,014	1,271,014	-	606,013	606,013	-
Accrued liabilities	(648,454)	(648,454)	-	(695,782)	(268,433)	(427,349)
Grant commitments payable	14,948,701	14,948,701	-	72,998,671	72,998,671	-
Other liabilities	-	-	-	1,669,665	1,555,971	113,694
Net cash used in operating activities	(177,277,746)	(4,467,569)	(172,810,177)	(160,533,309)	(13,199,414)	(147,333,895)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(949,146,744)	(78,809,019)	(870,337,725)	(842,998,616)	(159,766,114)	(683,232,502)
Proceeds from sale of investments	1,220,481,497	105,136,378	1,115,345,119	792,342,758	141,285,552	651,057,206
Decrease (increase) in collateral held under securities lending arrangement, net	63,498,759	-	63,498,759	(86,747,538)	-	(86,747,538)
Acquisition of fixed assets	(997,064)	(997,064)	-	(1,682,673)	(1,682,673)	-
Net cash provided by (used in) investing activities	333,836,448	25,330,295	308,506,153	(139,086,069)	(20,163,235)	(118,922,834)
CASH FLOWS FROM FINANCING ACTIVITIES						
(Repayments) receipts of cash collateral under securities lending arrangement, net	(63,498,759)	-	(63,498,759)	86,747,538	-	86,747,538
Net cash (used in) provided by financing activities	(63,498,759)	-	(63,498,759)	86,747,538	-	86,747,538
Increase (decrease) in cash and cash equivalents	93,059,943	20,862,726	72,197,217	(212,871,840)	(33,362,649)	(179,509,191)
Cash and cash equivalents, beginning of year	150,649,014	28,582,750	122,066,264	363,520,854	61,945,399	301,575,455
Cash and cash equivalents, end of year	$ 243,708,957	$ 49,445,476	$ 194,263,481	$ 150,649,014	$ 28,582,750	$ 122,066,264

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 NATURE OF BUSINESS

W. K. Kellogg Foundation (the Foundation) and W. K. Kellogg Foundation Trust (the Trust) were established in 1930 and 1934, respectively, as private non-operating foundations. The Foundation supports children, families, and communities as they strengthen and create conditions that propel vulnerable children to achieve success as individuals and as contributors to the larger community and society. Grants are concentrated in the U.S. (with a priority in Michigan, Mississippi, and New Mexico); Latin America and the Caribbean; and the southern African countries of Botswana, Lesotho, Malawi, Mozambique, South Africa, Swaziland, and Zimbabwe.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for nonprofit organizations, which requires the Foundation and Trust to report information regarding their financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and Trust, of which the Foundation is the sole beneficiary. The Foundation and the Trust are under common control and common management. All material intercompany transactions and account balances have been eliminated in the consolidation of accounts.

Net Assets

Net assets are classified as follows:

Unrestricted: The assets are from unrestricted contributions and from other resources not subject to donor-imposed restrictions.

Temporarily restricted: The assets are from restricted contributions (temporary restrictions) whose donor-imposed restrictions have not been met due to actions of the Foundation or Trust and/or the passage of time. Once this occurs, changes in temporarily restricted net assets are reported in the statement of activities.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid securities with original maturities of 90 days or less at the date of acquisition.

Investments

The Foundation and the Trust report investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. See Note 3 for a discussion on valuation methodologies.

Portfolio income reported in the accompanying consolidated statements of activities represents commingled fund income, class action proceeds, and other miscellaneous investment income.

The net appreciation (depreciation) in the fair value of investments consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments. The net realized gain or loss on investments is the difference between the proceeds received and the costs of investments sold determined on an average cost basis. Unrealized appreciation (depreciation) in the fair value of investments is the difference between the fair value and the costs of investments. The average cost basis is used to determine cost for the Foundation. The first-in, first-out cost basis is used to determine cost for the Trust's marketable securities and the average cost basis is used to determine cost for the Trust's alternative investments. The sale and purchase of investments are recorded at the date of trade, which can result in either a net receivable or net payable on unsettled investment trades at the statement of financial position date.

Three major categories of investments are presented in the statement of financial position: Kellogg stock, Diversified Investments and Mission Driven Investments (MDI). MDI are those investments that advance the mission of the Foundation as described in Note 1. Diversified investments represent all investments other than Kellogg stock and MDI. MDI consist of 1.) cash and cash equivalents held in financial institutions that sponsor lending or other programs aligned with the Foundation's mission or that are located in geographic areas primarily served by the Foundation's programmatic activities and 2.) equity and debt investments in companies with products or services that are aligned with the Foundation's mission.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property and Equipment

Property and equipment are recorded at cost. Depreciation of property and equipment is generally computed on the straight-line basis over the estimated useful lives of the assets as follows:

Building	40 years
Equipment	10 years
Furniture and fixtures	7 years
Capitalized software	3 years

Building improvements are depreciated over the remaining life of the building.

Grants

Unconditional grants are recorded as an expense in the year in which they are committed. Conditional grants are recorded as an expense when the conditions have been met. As of August 31, 2011 and 2010, the Foundation had conditional grants outstanding of $19,109,029 and $24,967,666, respectively.

Guaranty

The Foundation entered into a guaranty agreement to support its grant-making programs. The Foundation will be obligated to perform under the guaranty by primarily making the required payments. The estimated fair value of the Foundation’s obligation is $350,000 at August 31, 2011, which was accrued for and included in accrued liabilities on the consolidated statements of financial position.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income, and expenses. Actual results could differ from those estimates.

Distribution of Trust Receipts

Under the Trust agreement, the Trust is required to distribute to the Foundation, at a minimum, its net interest income and dividends at least quarterly.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Tax Status

The Foundation and the Trust are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC), but are subject to a 2% (1% if certain criteria are met) federal excise tax on net investment income, including net realized gains, as defined by the IRC.

Pension and Other Postretirement Benefits Plan

Accounting Standards Codification (ASC) 715-20, *Compensation***—***Retirement Benefits*, requires the plan sponsor of pension and other postretirement benefits plans to recognize the funded status of the plans on the consolidated statement of financial position, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated statement of financial position, and provide additional disclosures. The Foundation accounts for its pension and postretirement benefits plans using the guidance in ASC 715-20.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation is subject to the provisions of ASC 820, *Fair Value Measurements and Disclosures*, which clarifies the definition of fair value for financial reporting, establishes a framework used to measure fair value, and enhances disclosure requirements for fair value measurements. In accordance with ASC 820, the Foundation and the Trust have categorized its financial instruments based on the priority of the valuation technique into a three-level fair value hierarchy. The valuation hierarchy is based on the observability of the inputs to the valuation of the asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The three levels are defined as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. This includes situations where there is little, if any, market activity for the asset or liability.

Where available, fair value is based on observable market prices or parameters or is derived from such prices or parameters using market standard models. These valuation models involve some level of estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity.

The availability of observable inputs can vary depending on the financial asset or liability and is affected by a wide variety of factors. To the extent that the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Foundation and the Trust in determining fair value is greatest for assets and liabilities classified in Level 3. In certain cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy in which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

Management is responsible for the valuation of all assets of the Foundation and the Trust. Any changes to the valuation methodology are reviewed by the Finance Committee or Board of Trustees for the Foundation and the Trust, respectively.

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy as described above. The valuation methodologies disclosed are general guidelines. The actual valuation methodology could vary from instrument to instrument to provide the most appropriate fair value measurement.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Cash Equivalents

Cash equivalents consist primarily of certificates of deposits. The fair value of certificates of deposits is estimated using third-party quotations. These deposits are categorized as Level 2 within the fair value hierarchy.

Common Stocks

Generally, the fair value of financial instruments listed on a securities exchange is determined by their last sales price or the official closing price on the date of which the value is being determined on the primary exchange on which such financial instruments are trading. The fair value for exchange-traded equity securities is determined in this manner, and they are generally classified as Level 1 securities within the fair value hierarchy. If a common stock is inactively traded and the fair value is determined using broker or dealer quotations, external pricing information, or alternative pricing sources with reasonable levels of price transparency, then this may result in the classification of the security as Level 2.

Mutual Funds

The Foundation holds investments in equity and fixed-income mutual funds. Mutual funds are valued based on stated market prices and at the net asset value of shares held by the Foundation at year end, which generally results in the classification of mutual funds as Level 1.

Debt Instruments

The fair value for debt instruments is determined by using broker or dealer quotations, external pricing providers, or alternative pricing sources with reasonable levels of price transparency. The Foundation and the Trust holdings include U.S. government agency debts and corporate bonds through the ownership of managed accounts with various financial institutions, which are generally classified as Level 2 within the fair value hierarchy. If a fixed income instrument is rarely quoted or the quotes or pricing sources are not deemed representative of the fair value of the security, other inputs and assumptions may be used in the valuation, which may result in the classification of the security as Level 3 within the fair value hierarchy.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Common Collective Trust and other Commingled Funds

Unlike mutual funds, commingled funds are not actively traded in a securities exchange. The fair value is stated at the value of the proportionate share of total fund net assets value. Underlying plan investments within these funds are stated at quoted market prices. These investments are generally classified as Level 2.

Limited Partnership and Venture Capital Funds

The Foundation and the Trust invest in limited partnership and venture capital funds. Management has approved procedures pursuant to the way in which the Foundation and the Trust value their investments in these investments at fair value, which ordinarily will be the amount equal to the pro rata interest in the net assets of limited partnership and venture capital funds' (net asset value), as such value is supplied by, or on behalf of, each investment from time to time, usually monthly and/or quarterly by the investment manager. These investments are generally classified as Level 3.

Hedge Funds

The Foundation and the Trust invest in multi-strategy, long/short, credit and distressed hedge funds. The investment in a hedge fund without a quoted market price is stated at the value of the Foundation's and the Trust's proportionate share of total fund net assets (net asset value). These investments are generally classified as Level 2 or Level 3, dependent on liquidity considerations and the Foundation's and Trust's ability to redeem its interests in the funds at net asset value at or near the Foundation's and the Trust's fiscal year end.

Valuations supplied by, or on behalf of, the limited partnership, venture capital funds, and hedge funds are typically estimates only, subject to subsequent revision by such partnerships or funds. Such valuations are generally net of management and performance incentive fees pursuant to the limited partnership, venture capital funds, and hedge funds operating agreements. The value of underlying investments is determined in accordance with policies established by each limited partnership, venture capital fund, and hedge fund, as described in each of their financial statements and offering memoranda. The Foundation and the Trust's investments in these funds are subject to the terms and conditions of the respective operating agreements and offering memoranda, as appropriate.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Hedge Funds *(continued)*

Management has designed ongoing due diligence procedures with respect to the Foundation's and the Trust's investments, which assist management in assessing the quality of information provided by, or on behalf of, each limited partnership, venture capital fund, or hedge fund and aid in determining whether such information continues to be reliable or whether further investigation is necessary. Such investigations, as applicable, may require management to forgo its normal reliance on the valuation supplied by, or on behalf of, such funds and to determine independently the fair value of the funds consistent with the valuation procedures. There is uncertainty in determining fair values of alternative investments, arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies, and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported in the accompanying consolidated statement of financial position may differ from the values that would have been used had a ready market for the alternative investment interests existed. Furthermore, there is a reasonable possibility that estimates will change by material amounts in the near term.

The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with the Foundation's and Trust's annual financial statement reporting.

Derivatives

The Foundation accounts for derivative financial instruments in accordance with ASC 815, *Derivatives and Hedging.* The Foundation recognizes all derivatives as either assets or liabilities measured at fair value. For accounting purposes, the derivatives do not have hedge designation and all gains and losses are reported in the net realized and unrealized gain/(loss) on investments on the consolidated statement of activities.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Derivatives *(continued)*

The Trust enters into derivative arrangements to manage downside risk as it relates to the Trust's equity exposure. The fair values, as of August 31, 2011 and 2010, respectively, of the derivative contracts entered into by the Trust were a liability and asset of approximately ($2,941,965) and $10,649,581, respectively. Under the derivative contracts, the Trust or the counterparty is required to post collateral to secure the obligations under the contracts. As of August 31, 2011 and 2010, respectively, the Trust has posted $444,298 and $10,080,000, respectively, of cash collateral to secure its obligations under the contracts. The collateral is included in "Collateral under securities lending agreements and derivatives arrangements" in the accompanying consolidated statements of financial position at August 31, 2011 and 2010. Derivatives are valued at market value based on broker-dealer prices, which result in Level 2 classification.

Due to collateral agreements with counterparties, the Trust's derivative investments risk of loss is limited to the initial premium and bears little counterparty risk.

Contributions Receivable from Irrevocable Trusts

The fair value of the Foundation's and Trust's interest in irrevocable trusts is based on the fair value of the underlying investments held by the trusts, which consist of cash, mutual funds, common stocks, and debt instruments.

Grant Commitments Payable

The fair value of grant commitments payable is determined at the time of award. The fair value of grants payable in more than one year, totaling approximately $131,600,000 and $129,300,000 at August 31, 2011 and 2010, respectively, are determined based on discounted cash flows analyses, utilizing an assumed rate of interest. It should be noted that no change in the present value discount was recognized during these years because such amounts were not deemed material.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following table sets forth by level assets and liabilities as of August 31, 2011 within the fair value hierarchy:

	W.K. Kellogg Foundation Fair Value Measurements on a Recurring Basis As of August 31, 2011			
Assets	**Total**	**Quoted Market Prices in Active Markets of Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents*	$ 67,042,462	$ 19,409,485	$ 47,632,977	$ -
Common stocks				
Healthcare and technology	7,681,711	7,681,711	-	-
Industrial goods	5,334,532	5,334,532	-	-
Transportation and energy	4,324,102	4,324,102	-	-
Consumer products	10,511,032	10,511,032	-	-
Real estate and financial services	3,838,515	3,838,515	-	-
Other	1,112,283	1,112,283	-	-
U.S. government debt securities	32,701,300	5,317,685	27,383,615	-
U.S. municipal debt securities	3,289,360	-	3,289,360	-
Corporate debt securities	17,833,697	-	17,833,697	-
Mutual funds	29,957,461	29,957,461		-
Commingled funds	77,238,275	-	77,238,275	-
Hedge funds	41,364,050	-	40,276,037	1,088,013
Real estate funds	25,991,198	-	-	25,991,198
Limited partnerships and venture capital funds	49,408,846	-	-	49,408,846
Total investments and cash equivalents*	$ 377,628,824	$ 87,486,806	$ 213,653,961	$ 76,488,057
Interests in irrevocable trusts	$ 13,311,072	$ -	$ -	$ 13,311,072

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following table sets forth by level assets and liabilities as of August 31, 2010 within the fair value hierarchy:

W.K. Kellogg Foundation Fair Value Measurements on a Recurring Basis
As of August 31, 2010

Assets	Total	Quoted Market Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents*	$ 51,242,895	$ 18,089,245	$ 33,153,650	$ -
Common stocks				
Healthcare and technology	5,536,073	5,536,073	-	-
Industrial goods	5,116,613	5,116,613	-	-
Transportation and energy	5,424,009	5,424,009	-	-
Consumer products	6,954,762	6,954,762	-	-
Real estate and financial services	2,243,982	2,243,982	-	-
Other	1,159,972	1,159,972	-	-
U.S. government debt securities	27,480,286	8,508,052	18,972,234	-
U.S. municipal debt securities	1,620,255	-	1,620,255	-
Corporate debt securities	20,717,806	-	20,717,806	-
Mutual funds	36,084,597	36,084,597	-	-
Commingled Funds	68,585,932	-	68,585,932	-
Hedge funds	48,856,266	-	36,718,755	12,137,511
Real estate funds	23,697,937	-	-	23,697,937
Limited partnerships and venture capital funds	57,632,999	-	-	57,632,999
Total investment and cash equivalents*	$ 362,354,384	$ 89,117,305	$ 179,768,632	$ 93,468,447
Interests in irrevocable trusts	$ 11,584,754	$ -	$ 11,584,754	$ -

* Total investments include diversified investments and MDI. A portion of MDI investments are included in cash and cash equivalents.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following table sets forth by level assets and liabilities as of August 31, 2011 within the fair value hierarchy:

W.K. Kellogg Foundation Trust Fair Value Measurements on a Recurring Basis
As of August 31, 2011

Assets	Total	Quoted Market Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 90,299,543	$ 37,566,196	$ 52,733,347	$ -
Common stocks				
Kellogg Common Stock	4,341,482,001	4,341,482,001	-	-
Healthcare and technology	84,633,916	84,633,916	-	-
Industrial goods	71,178,187	71,178,187	-	-
Transportation and energy	99,554,198	99,554,198	-	-
Consumer products	63,895,752	63,895,752	-	-
Real estate and financial services	47,646,885	47,646,885	-	-
Media services	12,976,242	12,976,242	-	-
Other	26,887,765	26,887,765	-	-
U.S. government debt securities	161,244,712	43,359,500	117,885,212	-
Foreign government debt securities	55,580,874	-	55,580,874	-
Corporate debts	53,977,697	-	53,977,697	-
Mutual funds	148,303,474	148,303,474	-	-
Commingled funds	782,360,001	-	782,360,001	-
Hedge funds	429,073,818	-	208,962,290	220,111,528
Real estate funds	110,643,083	-	-	110,643,083
Limited partnerships and venture capital funds	417,170,775	-	-	417,170,775
Total investment and cash equivalents*	$ 6,996,908,923	$ 4,977,484,116	$ 1,271,499,421	$ 747,925,386
Interests in irrevocable trusts	$ 39,461,872	$ -	$ -	$ 39,461,872

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following table sets forth by level assets and liabilities as of August 31, 2010 within the fair value hierarchy:

W.K. Kellogg Foundation Trust Fair Value Measurements on a Recurring Basis
As of August 31, 2010

Assets	Total	Quoted Market Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash Equivalents	$ 121,187,083	$ 41,091,825	$ 80,095,258	$ -
Common Stocks				
Kellogg Common Stock	4,166,869,759	4,166,869,759	-	-
Healthcare and technology	69,248,835	69,248,835	-	-
Industrial goods	68,292,953	68,292,953	-	-
Transportation and energy	50,109,726	50,109,726	-	-
Consumer products	86,793,865	86,793,865	-	-
Real estate and financial services	56,111,534	56,111,534	-	-
Media services	25,345,977	25,345,977	-	-
Other	13,013,251	13,013,251	-	-
U.S. government debt securities	84,877,726	41,953,358	42,924,368	-
Foreign government debt securities	76,243,453	-	76,243,453	-
Corporate debts	60,019,042	-	60,019,042	-
Mutual funds	84,984,924	84,984,924	-	-
Commingled funds	699,148,157	-	699,148,157	-
Hedge funds	357,888,274	-	164,623,275	193,264,999
Real estate funds	89,267,456	-	-	89,267,456
Limited partnerships and venture capital funds	427,183,375	-	-	427,183,375
Derivatives	10,649,581	-	10,649,581	-
Total investment and cash equivalents*	$ 6,547,234,971	$ 4,703,816,007	$ 1,133,703,134	$ 709,715,830
Interests in irrevocable trusts	$ 35,563,512	$ -	$ 35,563,512	$ -

* Total investments include diversified investments and MDI. A portion of MDI investments are included in cash and cash equivalents.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The table below includes a rollforward of amounts for financial assets classified by the Foundation and the Trust within Level 3 of the fair value hierarchy for the year ended August 31, 2011:

	Fair Value September 1, 2010	Net Transfer In/(Out) of Level 3	Purchases	Sales	Net Realized Gain/(Loss)	Change in Unrealized Gain/(Loss)	Fair Value August 31, 2011
W.K. Kellogg Foundation							
Hedge funds	$ 12,137,511	$ -	$ (900,077)	$ (11,101,010)	$ 6,984,769	$ (6,033,180)	$ 1,088,013
Real estate funds	23,697,937	-	1,993,942	(359,315)	988,552	(329,918)	25,991,198
Limited partnerships and venture capital funds	57,632,999	-	901,072	(16,891,323)	3,481,330	4,284,768	49,408,846
Total foundation	$ 93,468,447	$ -	$ 1,994,937	$ (28,351,648)	$ 11,454,651	$ (2,078,330)	$ 76,488,057
W.K. Kellogg Foundation Trust							
Hedge funds	$ 193,264,999	$ -	$ 80,768,590	$ (69,754,421)	$ 24,465,412	$ (8,633,052)	$ 220,111,528
Real estate funds	89,267,456	-	19,841,726	(5,194,711)	2,636,347	4,092,265	110,643,083
Limited partnerships and venture capital funds	427,183,375	581,646	55,377,510	(140,669,966)	20,166,353	54,531,857	417,170,775
Total trust	$ 709,715,830	$ 581,646	$ 155,987,826	$ (215,619,098)	$ 47,268,112	$ 49,991,070	$ 747,925,386

Additionally, the interests in irrevocable trusts were reclassified from level 2 in fiscal 2010 to level 3 in fiscal 2011 based on the nature of the assets and consistency with applicable accounting guidance.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The table below includes a rollforward of amounts for financial assets classified by the Foundation and the Trust within Level 3 of the fair value hierarchy for the year ended August 31, 2010:

	Fair Value September 1, 2009	Net Transfer* of Level 3	Purchases	Sales	Net Realized Gain/(Loss)	Change in Unrealized Gain/(Loss)	Fair Value August 31, 2010
W.K. Kellogg Foundation							
Commingled funds	$ 89,091,279	$ (89,091,279)	$ -	$ -	$ -	$ -	$ -
Hedge funds	62,352,721	(43,502,725)	-	(9,505,150)	7,546,620	(4,753,955)	12,137,511
Real estate funds	26,595,124	-	2,063,809	-	-	(4,960,996)	23,697,937
Limited partnerships and venture capital funds	36,595,096	(3,000)	19,363,044	(5,652,712)	810,836	6,519,735	57,632,999
Total foundation	$ 214,634,220	$ (132,597,004)	$ 21,426,853	$ (15,157,862)	$ 8,357,456	$ (3,195,216)	$ 93,468,447
W.K. Kellogg Foundation Trust							
Commingled funds	$ 628,142,378	$ (628,142,378)	$ -	$ -	$ -	$ -	$ -
Hedge funds	240,228,322	(157,583,720)	46,918,009	(2,758,936)	(101,733)	66,563,057	193,264,999
Real estate funds	98,049,477	-	11,125,141	(1,028,207)	73,489	(18,952,444)	89,267,456
Limited partnerships and venture capital funds	399,543,979	-	53,249,019	(39,001,111)	4,843,041	8,548,447	427,183,375
Total trust	$ 1,365,964,156	$ (785,726,098)	$ 111,292,169	$ (42,788,254)	$ 4,814,797	$ 56,159,060	$ 709,715,830

Additionally, the interests in irrevocable trusts were reclassified from level 2 in fiscal 2010 to level 3 in fiscal 2011 based on the nature of the assets and consistency with applicable accounting guidance.

*The Foundation and Trust reclassified commingled funds reported as Level 3 in the prior year to Level 2 based on the liquidity of the investments and the guidance in Accounting Standards Update 2009-12, *Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)* ("ASU 2009-12"). The fair values of these investments amounted to $89,091,279 and $628,142,378 for the Foundation and Trust, respectively, at August 31, 2009. These amounts are included in "Net transfers in and out of Level 3" in the table above. Also, pursuant to ASU 2009-12, the Foundation and Trust reclassified hedge funds reported as Level 3 in prior year to Level 2 based on the liquidity of the investments and the guidance in ASU 2009-12. The fair values of these investments amounted to $43,502,725 and $157,583,720 for the Foundation and Trust, respectively, at August 31, 2009.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The table below sets forth investment assets by the amount of time, including notice period and redemption period, in which the Foundation has the legal right to receive redemptions of its investments as of August 31, 2011. This table discloses the liquidity of the investments as of August 31, 2011. Liquidity of investments could change in the future due to changes in market conditions or other factors.

Assets	90 Days or Less	91 to 365 Days	>365 Days	Total	Estimated Remaining Life of Partnership (a)	Estimated Timing to Draw Down Commitments (a)
W. K. Kellogg Foundation						
Hedge funds	$ 40,276,037	$ 1,088,013		$ 41,364,050	N/A	N/A
Commingled funds	77,238,275	-	-	77,238,275	N/A	N/A
Private investments						
Equities (c)	-	-	43,366,025	43,366,025	1-10 years	2-10 years
Fixed income (b) (c)	-	-	6,042,821	6,042,821	1-10 years	2-10 years
Real estate	-	-	25,991,198	25,991,198	1-12 years	2-10 years
Total W. K. Kellogg Foundation	$ 117,514,312	$ 1,088,013	$ 75,400,044	$ 194,002,369		
W. K. Kellogg Foundation Trust						
Hedge funds	$ 208,962,290	$ 199,140,456	$ 20,971,072	$ 429,073,818	N/A	N/A
Commingled funds	782,360,001	-	-	782,360,001	N/A	N/A
Private investments						
Equities (c)	-	-	204,148,193	204,148,193	1-10 years	2-10 years
Fixed income (b) (c)	-	-	213,022,582	213,022,582	1-10 years	2-10 years
Real estate	-	-	110,643,083	110,643,083	1-12 years	2-10 years
Total W. K. Kellogg Foundation Trust	$ 991,322,291	$ 199,140,456	$ 548,784,930	$ 1,739,247,677		

(a) These estimates are made under the assumption of an orderly market environment and could be materially different should market conditions change.

(b) Includes allocation to distressed, mezzanine, and other debt instruments.

(c) Consists of investments in limited partnership and venture capital funds.

NOTE 3 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The Foundation and the Trust have remaining commitments for capital contributions to limited partnerships for its alternative investment arrangements. As of August 31, 2011 and 2010, the Trust has total unfunded capital commitments associated with its limited partnership and venture capital investments of $425,549,241 ($81,887,380 related to real estate and $343,661,861 related to private equity) and $263,698,665 ($54,736,114 related to real estate and $208,962,551 related to private equity), respectively. Similarly, the Foundation had total unfunded capital commitments of $6,227,575 ($400,000 related to real estate and $5,827,575 related to private equity) and $7,298,885 ($3,000,000 related to real estate and $4,298,885 related to private equity), at August 31, 2011 and 2010, respectively.

NOTE 4 SECURITIES LENDING

The Trust has entered into a securities lending arrangement with its custodian, whereby securities are loaned to various parties who then pay interest to the Trust for the periods the securities are borrowed. The custodian holds required collateral (typically valued at approximately 102%-105% of the fair value of the loaned securities), and the Trust has a written guaranty from the custodian, covering all uncollected securities loaned. As of August 31, 2011 and 2010, investments in securities with fair values of $109,146,727 and $160,140,305, respectively, were loaned. The value of the cash collateral of investments loaned was $111,679,620 and $165,542,677, at August 31, 2011 and 2010, respectively. The collateral amount has been reflected as an asset and a liability in the accompanying consolidated statements of financial position at August 31, 2011 and 2010.

The Trust maintains full ownership of these securities and no restrictions exist to limit their use by the Trust, because the borrower is required to return the same securities to the custodian.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2011 and 2010, are summarized as follows:

	2011	2010
Land and land improvements	$ 18,022,185	$ 18,022,186
Buildings and building improvements	55,998,140	55,656,136
Equipment	4,095,121	8,048,691
Furniture and fixtures	8,547,527	8,547,527
Capitalized software costs	12,601,977	12,733,467
Assets under construction	1,257,683	1,514,911
	100,522,633	104,522,918
Accumulated depreciation	(48,685,166)	(50,383,812)
Total	$ 51,837,467	$ 54,139,106

NOTE 6 INCOME TAXES

Current and deferred excise taxes for the years ended August 31, 2011 and 2010, were provided for as follows:

	2011	2010
Current tax rate	1%	1%
Deferred tax rate	2%	2%

Deferred excise tax amounts are based on cumulative unrealized appreciation on investments. The current and deferred tax portions of the excise tax provisions for the years ended August 31, 2011 and 2010, are as follows:

	Foundation		Trust	
	2011	2010	2011	2010
Current tax provision	$ 242,910	$ 253,720	$ 4,964,719	$ 3,236,272
Deferred tax provision (benefit)	258,685	(79,354)	5,791,240	3,149,938
Total federal excise provision	$ 501,595	$ 174,366	$ 10,755,959	$ 6,386,210

NOTE 6 INCOME TAXES *(continued)*

To ensure compliance with Internal Revenue Service guidelines, the Foundation continued to develop and manage internal budgets on the cash or modified cash basis. Cash expenditures for the fiscal years were as follows:

	August 31	
	2011	**2010**
Grants	$ 291,212,362	$ 270,011,667
Program activities and general operations	64,435,134	66,262,282
Costs of earning income and excise tax	3,392,966	3,930,812
Total	$ 359,040,462	$ 340,204,760

NOTE 7 CREDIT FACILITY

The Trust entered into unsecured committed credit facility agreements with banks totaling $200 million, with interest on outstanding borrowings charged at the 30-day LIBOR rate plus an additional stated number of basis points. There were no outstanding borrowings as of August 31, 2011 and 2010.

NOTE 8 POST-RETIREMENT BENEFITS

The Foundation has defined contribution and defined benefit retirement plans covering all full-time employees. The Foundation funded and charged to expense contributions of $1,733,926 and $1,712,432 in 2011 and 2010, respectively, related to the defined contribution plan. The defined benefit pension plan is funded in amounts sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended. The Foundation contributed $750,000 and $5,250,000 to the defined benefit pension plan during 2011 and 2010, respectively. The Foundation anticipates contributing approximately $750,000 during 2012. The Foundation provides postretirement medical and life insurance benefits (“other benefits”) to all employees who meet eligibility requirements.

NOTE 8 POST-RETIREMENT BENEFITS *(continued)*

	Pension Benefits		Other Benefits	
	2011	**2010**	**2011**	**2010**
Benefit obligation—August 31	$ 9,905,583	$ 9,728,356	$ 66,419,658	$ 60,282,603
Fair value of plan assets—August 31	6,228,881	4,843,090	-	-
Funded status	$ (3,676,702)	$ (4,885,266)	$ (66,419,658)	$ (60,282,603)
Accrued benefit cost recognized in the consolidated statement of financial position	$ (3,676,702)	$ (4,885,266)	$ (66,419,658)	$ (60,282,603)
Accumulated benefit obligation	$ 5,593,155	$ 4,770,694		

The pension plan's assets consist of mutual funds and are considered Level 1 assets in accordance with ASC 820.

Amounts not yet reflected in net periodic benefit cost as of August 31, 2011 and 2010, are as follows.

	2011		
	Combined Benefits	**Pension Benefits**	**Other Benefits**
Prior service cost	$ 2,568,170	$ (33,485)	$ 2,601,655
Accumulated loss	(34,238,953)	(5,186,640)	(29,052,313)
Total	$ (31,670,783)	$ (5,220,125)	$ (26,450,658)

	2010		
	Combined Benefits	**Pension Benefits**	**Other Benefits**
Prior service cost	$ 2,900,278	$ (41,908)	$ 2,942,186
Accumulated loss	(34,444,978)	(6,892,137)	(27,552,841)
Total	$ (31,544,700)	$ (6,934,045)	$ (24,610,655)

NOTE 8 POST-RETIREMENT BENEFITS *(continued)*

Changes in amounts not yet reflected in net periodic benefit costs for the year ended August 31, 2011 are as follows:

	Combined Benefits	Pension Benefits	Other Benefits
Net actuarial gain (losses)	$ (2,385,400)	$ 1,288,645	$ (3,674,045)
Amortization of prior service cost	(332,108)	8,423	(340,531)
Amortization of actuarial gain/(loss)	2,591,425	416,852	2,174,573
Total	$ (126,083)	$ 1,713,920	$ (1,840,003)

Changes in amounts not yet reflected in net periodic benefit costs for the year ended August 31, 2010 are as follows:

	Combined Benefits	Pension Benefits	Other Benefits
Net actuarial gain (losses)	$ (16,007,340)	$ (4,871,453)	$ (11,135,887)
Adjustments to acturial gain/loss	4,448,071	4,448,071	-
Adjustment to prior service cost	(331,558)	8,973	(340,531)
Amortization of prior service cost	(332,108)	8,423	(340,531)
Amortization of actuarial gain/(loss)	1,474,101	473,077	1,001,024
Total	$ (10,748,834)	$ 67,091	$ (10,815,925)

Amortization amounts to be reflected in net periodic benefit costs in 2012 are as follows:

	Combined Benefits	Pension Benefits	Other Benefits
Prior service cost	$ (332,108)	$ 8,423	$ (340,531)
Accumulated loss	1,857,305	298,866	1,558,439
Total	$ 1,525,197	$ 307,289	$ 1,217,908

NOTE 8 POST-RETIREMENT BENEFITS *(continued)*

	Pension Benefits		Other Benefits	
	2011	**2010**	**2011**	**2010**
Assumptions and Dates Used for Disclosure				
Discount rate	5.15 %	5.24 %	5.15 %	5.24 %
Expected return on plan assets	8.00 %	8.00 %	N/A	N/A
Rate of compensation increase	4.50 %	4.50 %	N/A	N/A
Measurement date	August 31	August 31	August 31	August 31
Assumptions Used to Determine Expense				
Discount rate	5.24 %	6 %	5.24 %	6 %
Expected return on plan assets	8.00 %	8.00 %	N/A	N/A
Rate of compensation increase	4.50 %	4.50 %	N/A	N/A
Health care cost trend rate assumptions				
Initial trend rate pre-Medicare	N/A	N/A	7.67 %	7.96 %
Initial trend rate post-Medicare	N/A	N/A	7.85	8.21
Ultimate trend rate	N/A	N/A	4.50	5.00
Year ultimate trend is reached pre-Medicare	N/A	N/A	2029	2021
Year ultimate trend is reached post-Medicare	N/A	N/A	2029	2021

N/A–Not applicable.

Benefit cost, employer contributions, and benefits paid for each of the plans were as follows:

	Pension Benefits		Other Benefits	
	2011	**2010**	**2011**	**2010**
Benefit cost	$ 1,255,356	$ 6,054,491	$ 6,428,903	$ 5,765,183
Employer contribution	750,000	5,250,000	2,131,851	1,406,106
Benefit paid	161,078	7,108,830	2,131,851	1,406,106

We have evaluated the impact of Patient Protection and Affordable Care Act and the Reconciliation Act on the financial statements and have determined that the Acts have no significant impact as of the statement of financial position date.

NOTE 8 POST-RETIREMENT BENEFITS *(continued)*

On September 18, 2009, the Foundation offered an early retirement package to qualified employees based on certain criteria, outlined in two voluntary incentive program packages.

The pension plan curtailment and settlement costs recognized as part of the benefit cost for the year ended August 31, 2010 were $8,973 and $4,701,779, respectively. Additionally, the post-retirement medical plan recognized a special termination benefit charge as part of the benefit cost of $1,050,139 in 2010.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the defined pension plan:

Years Ending August 31	Amount
2012	$ 1,122,965
2013	390,305
2014	416,648
2015	243,924
2016	202,893
2017-2021	1,542,233

The expected benefits to be paid are based on the same assumptions used to measure the Foundation's benefit obligation at August 31, 2011, and include estimated future benefit service.

The following benefit payments, related to postretirement, medical, and life insurance benefits, are expected to be paid as follows:

Years Ending August 31	Amount
2012	$ 2,403,744
2013	2,517,500
2014	2,655,554
2015	2,824,541
2016	3,023,818
2017-2021	18,024,538

NOTE 8 POST-RETIREMENT BENEFITS *(continued)*

Investment Policy

The funds for the pension plan are managed by the Vanguard Group and are invested in the Vanguard Balanced Index Fund Investor Shares. The Vanguard Group states that its investment strategy for this fund is as follows:

- The fund’s assets are divided between indexed portfolios of stocks (60%) and bonds (40%). The fund’s equity segment intends to match the performance of the MSCI U.S. Broad Index and Wilshire 5000 Equity Index. The fund’s bond segment attempts to match the performance of the Barclays Capital U.S. Aggregate Bond Index.

- Since it’s not practical or cost effective to own every stock and bond in the two indices, the fund owns a large sample of securities in each. The samples are chosen to match key characteristics of the indices (such as company size and dividend yield for stocks and credit quality, maturity, and yield for bonds).

Basis Used to Determine the Overall Expected Return on Plan Assets

To develop the expected long-term rate of return on assets assumption, the Foundation considered the historical returns and the future expectations for returns for each asset class in the fund, as well as its target asset allocation. This resulted in the selection of the 8.0% long-term rate of return on assets assumption for 2011 and 2010.

NOTE 9 INTEREST IN IRREVOCABLE TRUSTS

The Trust has irrevocable rights as the beneficiary to one remaining trust that had a fair value of $39,461,872 and $35,563,512 at August 31, 2011 and 2010, respectively.

The Foundation has irrevocable rights as the beneficiary of three restricted trusts that have a consolidated fair value of $13,311,072 and $11,584,754 at August 31, 2011 and 2010, respectively. The change in the fair values of the irrevocable trusts is related to the change in the fair values of investments held by the trusts.

NOTE 10 TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of the Trust include all net assets, which are restricted until released to the Foundation. Releases from restrictions of $338,000,000 and $313,000,000 were recorded for the years ended August 31, 2011 and 2010, respectively.

Temporarily restricted net assets of the Foundation consist of contributions receivable from irrevocable trusts, which are restricted until such assets are received. Temporarily restricted net assets of the Foundation increased $1,726,317 for the year ended August 31, 2011, and decreased $795,007 for the year ended August 31, 2010, which represents the change in the fair value of the trusts to which the Foundation has irrevocable rights as beneficiary.

NOTE 11 CONCENTRATION OF CREDIT RISK

Deposits held with banks may exceed the amount insured by the Federal Depository Insurance Corporation on such accounts. The Foundation's and Trust's management monitors the balances to limit the exposure to risk.

The Foundation and Trust are potentially subject to market risk resulting from its concentration of investments in Kellogg's stocks.

NOTE 12 RISK AND UNCERTAINITIES

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term. Such changes could materially affect the amounts reported in the financial statements. The Foundation's and Trust's management monitors the exposure to such risk.

Contributions are made to the employee benefit plans based on the present value of accumulated plan benefits which are based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimation and assumption processes, it is at least reasonably possible that changes in these estimates and assumptions in the near term could materially affect the amounts reported and disclosed in the financial statements.

NOTE 13 SUBSEQUENT EVENTS

The Foundation and the Trust evaluated events and transactions occurring between September 1, 2011 and November 23, 2011, which is the date that the consolidated financial statements were available to be issued for disclosure and recognition in the consolidated financial statements.

SUPPLEMENTAL SCHEDULE

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
Supplemental Schedule of Gifts and Receipts
From Inception through August 31, 2011

This schedule represents an analysis of W. K. Kellogg Foundation gifts and Trust receipts at historical value from inception through August 31, 2011. The Foundation and the Trust were established in 1930 and 1934, respectively. No gifts or receipts were received during the year ended August 31, 2011.

ASSETS STATED AT ESTIMATED VALUES AT DATES RECEIVED	
Gifts from founder and his estate	$ 8,449,738
Distribution from W. K. Kellogg Foundation Trust:	
Kellogg Company preferred stock	7,541,625
Securities received under terms of founder's will and W. K. Kellogg Distribution Trust	4,109,252
	$ 11,650,877
GIFTS FROM OTHERS	
Pomona Ranch and Gull Lake Estate contributed by US government	$ 1,077,562
Assets contributed by Fellowship Corporation	203,207
Gift from Morris estate	3,231,208
Gift from Tuttle estate	677,568
Miscellaneous gifts	208,108
	$ 5,397,653
ASSETS ACQUIRED THROUGH DISSOLUTION OF TRUSTS	
W. K. Kellogg Foundation Trust at Old Merchants National Bank and Trust Company	$ 514,861
Boys' Club Trust	181,076
Gull Lake Estate Trust	358,538
Palm Springs Trust	60,910
Karl H. Kellogg Trust	108,654
Chapin-Rhodes-Beldon Trust	229,020
Belden-Chapin Trust	143,138
Bernhard Peterson Trust	33,029
Clara Way Trusts	380,370
Williamson Trusts	1,389,816
W. K. Kellogg Northwestern Mutual Insurance Trust	523,413
J.H. Williamson Trust	258,401
Glenn A. Cross Trust	4,353,834
	8,535,060
	$ 34,033,328