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

**Consolidated Financial Statements and**
**Supplemental Schedule**
**For the Years Ended August 31, 2012 and 2011**
**With Report of Independent Auditors**

**W. K. KELLOGG FOUNDATION AND**
**W. K. KELLOGG FOUNDATION TRUST**
**Consolidated Financial Statements and Supplemental Schedule**
August 31, 2012 and 2011

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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, 2012 and 2011, 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 the 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 or 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, 2012 and 2011, 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 30, 2012

**W. K. KELLOGG FOUNDATION AND**
**W. K. KELLOGG FOUNDATION TRUST**
Consolidated Statements of Financial Position
As of August 31

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **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 | $ 289,366,261 | $ 37,505,284 | $ 251,860,977 | $ 243,708,957 | $ 49,445,476 | $ 194,263,481 |
| Kellogg company common stock | 3,894,062,664 | - | 3,894,062,664 | 4,341,482,001 | - | 4,341,482,001 |
| Diversified investments | 2,728,439,405 | 260,208,698 | 2,468,230,707 | 2,743,107,366 | 281,167,359 | 2,461,940,007 |
| Mission-driven investments | 65,672,272 | 65,672,272 | - | 65,919,985 | 65,919,985 | - |
| Program-related investment loans receivable | 8,500,000 | 8,500,000 | - | 1,000,000 | 1,000,000 | - |
| Collateral under securities lending and derivative agreements | 115,735,013 | - | 115,735,013 | 112,123,918 | - | 112,123,918 |
| Accrued interest and dividends | 36,373,744 | 528,433 | 35,845,311 | 36,955,546 | 473,247 | 36,482,299 |
| Net receivable on unsettled trades | 7,482,085 | - | 7,482,085 | 45,753,417 | - | 45,753,417 |
| Property and equipment | 51,746,175 | 51,746,175 | - | 51,837,467 | 51,837,467 | - |
| Other assets | 3,672,643 | 3,672,643 | - | 1,965,439 | 1,965,439 | - |
| Interest in irrevocable trusts | 55,812,852 | 14,448,070 | 41,364,782 | 52,772,944 | 13,311,072 | 39,461,872 |
| Total assets | $ 7,256,863,114 | $ 442,281,575 | $ 6,814,581,539 | $ 7,696,627,040 | $ 465,120,045 | $ 7,231,506,995 |
| **LIABILITIES AND NET ASSET** | | | | | | |
| *Liabilities* | | | | | | |
| Accounts payable | $ 7,735,592 | $ 7,735,592 | $ - | $ 4,830,060 | $ 4,830,060 | $ - |
| Accrued liabilities | 10,688,522 | 10,135,162 | 553,360 | 8,417,079 | 7,330,269 | 1,086,810 |
| Payable under securities lending and derivative agreements | 115,735,013 | - | 115,735,013 | 112,123,918 | - | 112,123,918 |
| Net trade settlement payables | 520,529 | 520,529 | - | 932,674 | 932,674 | - |
| Grant commitments payable | 299,426,285 | 299,426,285 | - | 236,115,064 | 236,115,064 | - |
| Deferred federal excise tax liability | 81,286,588 | 501,947 | 80,784,641 | 92,288,952 | 586,160 | 91,702,792 |
| Postretirement liability | 84,661,875 | 84,661,875 | - | 66,419,658 | 66,419,658 | - |
| Total liabilities | 600,054,404 | 402,981,390 | 197,073,014 | 521,127,405 | 316,213,885 | 204,913,520 |
| *Net assets* | | | | | | |
| Unrestricted | 24,852,115 | 24,852,115 | - | 135,595,088 | 135,595,088 | - |
| Temporarily restricted | 6,631,956,595 | 14,448,070 | 6,617,508,525 | 7,039,904,547 | 13,311,072 | 7,026,593,475 |
| Total net assets | 6,656,808,710 | 39,300,185 | 6,617,508,525 | 7,175,499,635 | 148,906,160 | 7,026,593,475 |
| **Total liabilities and net assets** | $ 7,256,863,114 | $ 442,281,575 | $ 6,814,581,539 | $ 7,696,627,040 | $ 465,120,045 | $ 7,231,506,995 |

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

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | **Consolidated** | **W. K. Kellogg Foundation** | **W. K. Kellogg Foundation Trust** | **Consolidated** | **W. K. Kellogg Foundation** | **W. K. Kellogg Foundation Trust** |
| **REVENUES AND GAINS (LOSSES)** | | | | | | |
| Contributions from W. K. Kellogg Foundation Trust* | $ - | $ 330,000,000 | $ - | $ - | $ 338,000,000 | $ - |
| Contributions from irrevocable trusts | 1,572,188 | 1,572,188 | - | 1,197,668 | 1,197,668 | - |
| Total contributions | 1,572,188 | 331,572,188 | - | 1,197,668 | 339,197,668 | - |
| Interest income | 10,566,038 | 3,296,714 | 7,269,324 | 13,359,593 | 3,788,770 | 9,570,823 |
| Dividend income | 151,352,753 | 2,031,778 | 149,320,975 | 148,600,541 | 2,068,956 | 146,531,585 |
| Portfolio income | 39,872,083 | 3,961,657 | 35,910,426 | 33,465,299 | 3,023,789 | 30,441,510 |
| Net realized gains on sales of investments | 297,089,159 | 12,358,229 | 284,730,930 | 395,350,971 | 15,840,286 | 379,510,685 |
| Change in unrealized gains/(losses) on investments | (549,414,911) | (4,176,639) | (545,238,272) | 301,679,366 | 12,941,426 | 288,737,940 |
| *Less:* Costs of earning income | (25,057,659) | (5,309,939) | (19,747,720) | (20,662,219) | (3,192,545) | (17,469,674) |
| Change in value in interest in irrevocable trusts | 3,039,908 | 1,136,998 | 1,902,910 | 5,624,678 | 1,726,317 | 3,898,361 |
| Net investment income (loss) | (72,552,629) | 13,298,798 | (85,851,427) | 877,418,229 | 36,196,999 | 841,221,230 |
| Refunds of prior year program payments | 6,194,414 | 6,194,414 | - | 5,548,953 | 5,548,953 | - |
| Total revenue and gains (losses) | (64,786,027) | 351,065,400 | (85,851,427) | 884,164,850 | 380,943,620 | 841,221,230 |
| **EXPENSES** | | | | | | |
| Distributions to the W. K. Kellogg Foundation* | - | - | 330,000,000 | - | - | 338,000,000 |
| Grants | 359,799,293 | 359,799,293 | - | 306,511,063 | 306,511,063 | - |
| Program activities | 36,403,932 | 36,403,932 | - | 25,543,622 | 25,543,622 | - |
| General operations | 45,572,659 | 45,572,659 | - | 43,358,679 | 43,358,679 | - |
| Depreciation | 2,969,747 | 2,969,747 | - | 3,298,703 | 3,298,703 | - |
| *Federal excise tax provision (benefit)* | | | | | | |
| Current | 4,425,546 | 273,872 | 4,151,674 | 5,207,629 | 242,910 | 4,964,719 |
| Deferred | (11,002,364) | (84,213) | (10,918,151) | 6,049,925 | 258,685 | 5,791,240 |
| Total expenses | 438,168,813 | 444,935,290 | 323,233,523 | 389,969,621 | 379,213,662 | 348,755,959 |
| Accumulated postretirement benefit loss not yet reflected in net benefit costs | (15,736,085) | (15,736,085) | - | (126,083) | (126,083) | - |
| Total (decrease) increase in net assets | (518,690,925) | (109,605,975) | (409,084,950) | 494,069,146 | 1,603,875 | 492,465,271 |
| Net assets, at beginning of year | 7,175,499,635 | 148,906,160 | 7,026,593,475 | 6,681,430,489 | 147,302,285 | 6,534,128,204 |
| **Net assets, at end of year** | $ 6,656,808,710 | $ 39,300,185 | $ 6,617,508,525 | $ 7,175,499,635 | $ 148,906,160 | $ 7,026,593,475 |
| **CHANGES IN NET ASSETS BY CATEGORY** | | | | | | |
| Decrease in unrestricted net assets | $ (110,742,973) | $ (110,742,973) | $ - | $ (122,442) | $ (122,442) | $ - |
| (Decrease) increase in temporarily restricted net assets | (407,947,952) | 1,136,998 | (409,084,950) | 494,191,588 | 1,726,317 | 492,465,271 |
| **Total (decrease) increase in net assets** | $ (518,690,925) | $ (109,605,975) | $ (409,084,950) | $ 494,069,146 | $ 1,603,875 | $ 492,465,271 |

*Intercompany contributions and distributions of $330,000,000 and $338,000,000 for the years ended August 31, 2012 and 2011, 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

| | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|
| | 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** | | | | | | |
| (Decrease) increase in net assets | $ (518,690,925) | $ (109,605,975) | $ (409,084,950) | $ 494,069,146 | $ 1,603,875 | $ 492,465,271 |
| *Adjustments to reconcile changes in net assets to cash flows from operating activities* | | | | | | |
| Depreciation | 2,969,747 | 2,969,747 | - | 3,298,703 | 3,298,703 | - |
| Net realized gains on long-term investments | (297,089,159) | (12,358,229) | (284,730,930) | (395,350,971) | (15,840,286) | (379,510,685) |
| Change in net unrealized (gain) loss on investments | 549,414,911 | 4,176,639 | 545,238,272 | (301,679,366) | (12,941,426) | (288,737,940) |
| Change in deferred excise tax liability | (11,002,364) | (84,213) | (10,918,151) | 6,049,925 | 258,685 | 5,791,240 |
| Postretirement liability | 18,242,217 | 18,242,217 | - | 6,137,055 | 6,137,055 | - |
| *Change in operating assets and liabilities* | | | | | | |
| Accrued interest and dividends | 581,802 | (55,186) | 636,988 | 231,801 | 26,062 | 205,739 |
| Other assets | (1,707,204) | (1,707,204) | - | (855,181) | (855,181) | - |
| Interest in irrevocable trusts | (3,039,908) | (1,136,998) | (1,902,910) | (5,624,677) | (1,726,317) | (3,898,360) |
| Accounts payable | 2,905,532 | 2,905,532 | - | 1,271,014 | 1,271,014 | - |
| Accrued liabilities | 2,271,443 | 2,804,893 | (533,450) | 226,104 | (648,454) | 874,558 |
| Grant commitments payable | 63,311,221 | 63,311,221 | - | 14,948,701 | 14,948,701 | - |
| Net cash used in operating activities | (191,832,687) | (30,537,556) | (161,295,131) | (177,277,746) | (4,467,569) | (172,810,177) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | | |
| Purchase of investments | (833,786,432) | (120,593,971) | (713,192,461) | (949,146,744) | (78,809,019) | (870,337,725) |
| Proceeds from sale of investments | 1,081,654,879 | 149,569,791 | 932,085,088 | 1,220,481,497 | 105,136,378 | 1,115,345,119 |
| (Increase) decrease in collateral held under securities lending arrangement, net | (3,611,095) | - | (3,611,095) | 63,498,759 | - | 63,498,759 |
| Disbursements for program-related investments | (7,500,000) | (7,500,000) | - | - | - | - |
| Acquisition of fixed assets | (2,878,456) | (2,878,456) | - | (997,064) | (997,064) | - |
| Net cash provided by investing activities | 233,878,896 | 18,597,364 | 215,281,532 | 333,836,448 | 25,330,295 | 308,506,153 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | | |
| Receipts (repayments) of cash collateral under securities lending arrangement, net | 3,611,095 | - | 3,611,095 | (63,498,759) | - | (63,498,759) |
| Net cash provided by (used in) financing activities | 3,611,095 | - | 3,611,095 | (63,498,759) | - | (63,498,759) |
| Increase (decrease) in cash and cash equivalents | 45,657,304 | (11,940,192) | 57,597,496 | 93,059,943 | 20,862,726 | 72,197,217 |
| Cash and cash equivalents, beginning of year | 243,708,957 | 49,445,476 | 194,263,481 | 150,649,014 | 28,582,750 | 122,066,264 |
| **Cash and cash equivalents, end of year** | $ 289,366,261 | $ 37,505,284 | $ 251,860,977 | $ 243,708,957 | $ 49,445,476 | $ 194,263,481 |

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 by breakfast pioneer Will Keith Kellogg. The Foundation is guided by the belief that all children should have an equal opportunity to thrive. To achieve this goal, it works with communities to create conditions for vulnerable children to realize their full potential in school, work and life.

The Foundation is based in Battle Creek, Michigan and works throughout the United States and internationally, as well as with sovereign tribes. Special emphasis is paid to priority places where there are high concentrations of poverty and where children face significant barriers to success. The Foundation's priority places in the United States are in Michigan, Mississippi, New Mexico and New Orleans; and internationally, are in Mexico and Haiti.

## NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The financial statements and accompanying notes have been prepared using the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

The Foundation and the Trust recognize contributions as revenue in the period received. Contributions, net assets, and changes therein are classified and reported based on the existence or absence of donor-imposed restrictions. (Please refer to Note 8 Temporarily Restricted Net Assets for additional information.)

### Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and the 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 were eliminated in the consolidation of accounts.

## 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.

Program-Related Investments (PRIs)

The Foundation makes program-related investments and loan guarantees that support its grant-making programs in the U.S. and Latin America. Total loans outstanding were $8,500,000 and $1,000,000, with unfunded commitments of $1,000,000 and $0 at August 31, 2012 and 2011, respectively. Interest rates generally are 1% and principal is scheduled to be paid in full to the Foundation by the maturity dates, ranging from September 2014 to June 2021. The Foundation records a reserve for potentially uncollectible loans based on an analysis of historical experience, quarterly, and annual financial reports received and its ability to meet financial covenants. Management has reviewed all PRIs for the years ended August 31, 2012 and 2011, and no loss reserve has been recorded. Any costs of making loans are expensed as incurred.

Investments

The Foundation and the Trust report investments at fair value. Investment securities are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in values could affect the amounts reported in the accompanying consolidated financial statements

Three major categories of investments are presented in the consolidated statement of financial position: Kellogg Company common stock, diversified investments, and mission-driven investments (MDIs).

Diversified investments represent investments in public equity securities, fixed income debt securities, mutual funds, commingled funds, hedge funds, real estate funds, and private equity funds.

MDIs consist of temporary investments (see Note 3 for description), fixed income securities, and private equity investments. MDIs focus on providing both social and financial returns closely aligned with the Foundation's program elements, approaches, and geographic areas of focus described in Note 1.

## 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.

Interest in Irrevocable Trusts

The Foundation and the Trust have irrevocable rights as the beneficiary to three remaining trusts. 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.

Grants

Unconditional grants are recorded as an expense in the year they are committed. Conditional grants are recorded as an expense when the conditions have been met. As of August 31, 2012 and 2011, the Foundation had conditional grants outstanding of $23,067,599 and $19,109,029, respectively.

Guaranty

In August 2011, the Foundation entered into a guaranty agreement to support its grant-making programs, whereby it will be obligated to perform under the guaranty by primarily making the required payments. The estimated fair value of the Foundation's obligation was $350,000 at August 31, 2011, which was accrued for and included in accrued liabilities on the consolidated statements of financial position. The estimated fair value of the obligation at August 31, 2012 is $0.

Line of Credit

The Trust entered into unsecured committed credit facility agreements with banks that totaled $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, 2012 and 2011.

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

Use of Estimates

The preparation of financial statements in conformity with U.S. 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. As funds are distributed from the Trust to the Foundation, net assets are released from restriction.

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

The Foundation recognizes the funded status of the pension and other postretirement benefit plans on the consolidated statement of financial position, measures the fair value of plan assets and benefit obligations as of the date of the fiscal year-end consolidated statement of financial position, and provides additional disclosures in Note 7 – Postretirement Benefits.

Accounting Pronouncements Adopted

In July 2010, the Financial Accounting Standards Board (FASB) issued updated guidance that requires enhanced disclosures related to the allowance for credit losses and the credit quality of an entity’s financing receivable portfolio. The disclosures as of the end of a reporting period are effective for annual reporting periods ending on or after December 15, 2011. The Foundation adopted this guidance, effective August 31, 2012.

Reclassifications

Certain prior-year amounts reported in the consolidated statements of financial position and cash flows and in Note 4 were reclassified to conform to the current-year presentation.

## NOTE 3 INVESTMENTS

The investment goal of the Foundation and the Trust is to maintain or grow its spending power in real (inflation adjusted) terms with risk at a level appropriate to the Foundation's programmatic spending and objectives. The Foundation and the Trust diversify investments among various financial instruments and asset categories by using multiple investment strategies. The financial assets of the Foundation and the Trust are managed by a select group of investment managers and held in custody by a major commercial bank, except for assets invested with private equities, hedge funds, and commingled funds that have separate arrangements appropriate to their legal structure.

Temporary investments consist of cash and equivalents, demand deposits, and short-term investment funds maintained at commercial banks. These investments are held as part of the Foundation's and the Trust's long-term investment strategy. Temporary investments are considered highly liquid instruments with maturities of three months or less at the time of purchase. The Foundation and the Trust maintain its cash and cash equivalents with high-quality financial institutions and such amounts may exceed Federal Deposit Insurance Corporation limits.

Public equity securities, fixed income securities, and mutual funds, which include stocks and bonds that are listed on national securities exchanges, quoted on the NASDAQ or on the over-the-counter market, are valued at the last reported sale price, or in the absence of a recorded sale, at the most recent bid price at the reporting date. These securities include U.S. and foreign government debt and corporate bonds. The Foundation's and the Trust's investments in corporate and government bonds are exposed to issuer credit risk until these bonds are sold or mature. Futures, forwards, and options, which are traded on exchanges, are valued at the last reported sale price or at the most recent bid price if they are traded over-the-counter.

The Trust is invested in Kellogg Company common stock. The number of shares held by the Trust was 76,881,790 and 79,924,190 as of August 31, 2012 and 2011, respectively. The Foundation and the Trust are potentially subject to market risk, resulting from its concentration in Kellogg Company common stock.

Commingled, hedge, real estate, and private equity funds are valued based on net asset values (NAV) reported by the investment manager, which are generally calculated based on the last reported sale price of the underlying assets held by such funds. These funds are typically structured as limited partnerships and limited liability companies.

**NOTE 3 INVESTMENTS** *(continued)*

Since there is no readily available market for investments in limited partnerships and limited liability companies, such investments are stated at fair value as estimated in an inactive market. These investments include securities of companies that may not be immediately liquid, such as private debt and private equity securities and real estate or other assets. The August 31 valuations of these investments are based upon values provided by the investment managers, based on guidelines established with those investment managers and in consideration of other factors related to the Foundation's and the Trust's interests in these investments.

The Foundation and the Trust obtain and consider the audited financial statements of such investees when evaluating the overall reasonableness of carrying value. The financial statements of the investees are audited annually by independent auditors, although the fiscal year end for the investees does not coincide with the Foundation's and the Trust's fiscal year end. The Foundation and the Trust utilize practical expedient methodology in compliance with U.S. GAAP and use net asset values reported in the manager statements to estimate fair value. The Foundation and the Trust believe this method provides a reasonable estimate of fair value. However, the recorded value may differ from market value had a readily available market existed for such investments.

Investment transactions are recorded on the trade date. Realized gains or losses recognized upon sales and withdrawals and unrealized appreciation (depreciation) resulting from market fluctuations are recognized when they occur and are computed using the specific identification method. Dividend and interest income are accrued when earned. Gains on distributions from private equity funds, which may be received in cash or securities, are reflected in investment income as realized gains and losses.

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

Assets and liabilities denominated in foreign currencies at year end are translated into U.S. dollars based upon exchange rates as of August 31, with any resulting adjustment included in net unrealized gains and losses in investments. Transactions in foreign currencies during the year are translated into U.S. dollars at the exchange rate prevailing on the transaction date and recorded as portfolio income.

**NOTE 3 INVESTMENTS** *(continued)*

Derivatives

The Foundation and the Trust recognize 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. The Trust enters into derivative arrangements to manage a variety of market risks as it relates to the Trust's equity exposure. 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, 2012 and 2011, the collateral included in the accompanying consolidated statements of financial position as "Collateral/payable under securities lending and derivative agreements" at fair market value, as follows.

| | 2012 | 2011 |
|---|---|---|
| Derivative contracts assets (liability) | $ 2,953,926 | $ (2,941,965) |
| Cash collateral held | 257 | 444,298 |

The derivatives contracts are considered Level 2 assets in accordance with Accounting Standards Codification (ASC) 820, as described in Note 4.

Securities Lending

The Trust entered into a securities lending arrangement with its custodian, whereby securities are loaned to various parties who pay interest to the Trust for the periods the securities are borrowed. The custodian holds required collateral (typically valued at approximately 102% to 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, 2012 and 2011, investments in securities with fair values of $112,780,830 and $109,146,727, respectively, were loaned. The value of the cash collateral of investments loaned was $115,734,756 and $111,679,620 at August 31, 2012 and 2011, respectively. The collateral amount has been reflected as an asset and a liability in the accompanying consolidated statements of financial position at August 31, 2012 and 2011.

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

## NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS

ASC 820, *Fair Value Measurements and Disclosures*, establishes a fair value disclosure framework that prioritizes and ranks the level of observable inputs used in measuring investments at fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

*Level 1*: Inputs based on quoted prices for identical assets or liabilities in an active market that the Foundation and the Trust can access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. A quoted price in an active market usually provides the most reliable evidence of fair value and is generally used without adjustment if available. This classification includes public equities, mutual funds, and other fixed income securities with observable market prices.

*Level 2*: Inputs that are observable either directly or indirectly but are not Level 1 inputs. Level 2 inputs include quoted prices for similar instruments, broker quotes, or observable inputs that directly impact value such as interest rates, prepayment speeds, and credit risk. Pricing inputs, including broker quotes, are generally those other than exchange quoted prices in active markets, and fair values are determined through the use of models or other valuation methodologies. For investments in funds where there is an ability to redeem such investments at the NAV per share (or its equivalent) at the measurement date or in the near term, the fair value of the investment is generally categorized as Level 2.

*Level 3*: Inputs that are unobservable. Level 3 inputs are generally used in situations where there is little, if any, market activity for the investment. These inputs into the determination of fair value require significant management judgment or estimation. Due to the inherent uncertainty of these estimates, these values may differ significantly from the values that would have been used had a ready market for these investments existed. Investments that are included in this category generally include private fund investment structures and limited partnership interests where there is an inability to redeem such investments at the NAV per share (or its equivalent) at the measurement date or in the near term.

## NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following tables present the Foundation's investments carried on the consolidated statements of financial position, by level within the valuation hierarchy, as of August 31, 2012 and 2011, respectively.

| | 2012 | | | |
|---|---|---|---|---|
| **Assets** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Temporary investments | $ 54,459,963 | $ 17,765,015 | $ 36,694,948 | $ - |
| Public equities | 58,026,859 | 58,026,859 | - | - |
| Mutual funds | 16,638,870 | 16,638,870 | - | - |
| Fixed income securities | 70,767,431 | 12,428,906 | 58,338,525 | - |
| Commingled funds | 36,219,180 | - | 36,219,180 | - |
| Hedge funds | 42,122,863 | - | 40,672,042 | 1,450,821 |
| Private equity funds | 51,537,241 | - | - | 51,537,241 |
| Real estate funds | 25,000,137 | - | - | 25,000,137 |
| Total investments | $354,772,544 | $104,859,650 | $171,924,695 | $ 77,988,199 |
| Interests in irrevocable trusts | $ 14,448,070 | $ - | $ - | $ 14,448,070 |

| | 2011 | | | |
|---|---|---|---|---|
| **Assets** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Temporary investments | $ 67,042,462 | $ 19,409,485 | $ 47,632,977 | $ - |
| Public equities | 32,802,175 | 32,802,175 | - | - |
| Mutual funds | 29,957,461 | 29,957,461 | - | - |
| Fixed income securities | 53,824,357 | 5,602,484 | 48,221,873 | - |
| Commingled funds | 77,238,275 | - | 77,238,275 | - |
| Hedge funds | 41,364,050 | - | 40,276,037 | 1,088,013 |
| Private equity funds | 49,408,846 | - | - | 49,408,846 |
| Real estate funds | 25,991,198 | - | - | 25,991,198 |
| Total investments | $377,628,824 | $ 87,771,605 | $213,369,162 | $ 76,488,057 |
| Interests in irrevocable trusts | $ 13,311,072 | $ - | $ - | $ 13,311,072 |

As of August 31, 2012, the Foundation invested $18,785,118 in foreign holdings. The fair market value of the aforementioned foreign holdings consisted of the following: $3,852,510 in Level 1 public equities; $9,478,130 in Level 2 fixed income securities; and $5,454,478 in Level 3 private equity funds.

## NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The following tables present the Trust's investments carried on the consolidated statements of financial position, by level within the valuation hierarchy, as of August 31, 2012 and 2011, respectively.

| | 2012 | | | |
|---|---|---|---|---|
| **Assets** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Temporary investments | $ 214,231,197 | $ 70,116,340 | $ 144,114,857 | $ - |
| Kellogg Company common stock | 3,894,062,664 | 3,894,062,664 | - | - |
| Public equities | 385,542,226 | 385,542,226 | - | - |
| Mutual funds | 80,868,908 | 80,868,908 | - | - |
| Fixed income securities | 207,589,884 | 33,930,836 | 173,659,048 | - |
| Commingled funds | 796,378,295 | - | 796,378,295 | - |
| Hedge funds | 464,190,575 | - | 214,387,477 | 249,803,098 |
| Private equity funds | 452,469,265 | - | - | 452,469,265 |
| Real estate funds | 118,153,154 | - | - | 118,153,154 |
| Total investments | $ 6,613,486,168 | $ 4,464,520,974 | $ 1,328,539,677 | $ 820,425,517 |
| Interests in irrevocable trusts | $ 41,364,782 | $ - | $ - | $ 41,364,782 |

| | 2011 | | | |
|---|---|---|---|---|
| **Assets** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Temporary investments | $ 90,299,543 | $ 37,566,196 | $ 52,733,347 | $ - |
| Kellogg Company common stock | 4,341,482,001 | 4,341,482,001 | - | - |
| Public equities | 406,772,945 | 406,772,945 | - | - |
| Mutual funds | 148,303,474 | 148,303,474 | - | - |
| Fixed income securities | 270,803,283 | 43,359,500 | 227,443,783 | - |
| Commingled funds | 782,360,001 | - | 782,360,001 | - |
| Hedge funds | 429,073,818 | - | 208,962,290 | 220,111,528 |
| Private equity funds | 417,170,775 | - | - | 417,170,775 |
| Real estate funds | 110,643,083 | - | - | 110,643,083 |
| Total investments | $ 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 |

As of August 31, 2012, the Trust invested $264,972,796 in foreign holdings. The fair market value of the aforementioned foreign holdings consisted of the following: $120,717,565 in Level 1 public securities; $71,689,301 in Level 2 fixed income securities, $62,010,710 in Level 3 private equity funds and $10,555,220 in Level 3 real estate funds.

The table below includes a roll forward of the amounts for the Foundation and the Trust for the years ended August 31, 2012 and 2011 of Level 3 investments:

## NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

| | Foundation | Trust |
|---|---|---|
| **Balance at August 31, 2010** | $ 93,468,447 | $ 709,715,830 |
| Purchases | 1,994,937 | 155,987,826 |
| Sales | (28,351,648) | (215,619,098) |
| Net realized gain on investments | 11,454,651 | 47,268,112 |
| Net change in unrealized gain (loss) on investments | (2,078,330) | 49,991,070 |
| Transfers in/(out) of Level 3 | - | 581,646 |
| **Balance at August 31, 2011** | $ 76,488,057 | $ 747,925,386 |
| Purchases | 17,689,588 | 290,623,963 |
| Sales | (18,199,512) | (219,348,600) |
| Net realized gain on investments | 3,536,540 | 85,584,141 |
| Net change in unrealized gain/(loss) of investments sold | (2,241,091) | (90,767,926) |
| Net change in unrealized gain/(loss) of investments held | 714,617 | 6,408,553 |
| **Balance at August 31, 2012** | $ 77,988,199 | $ 820,425,517 |

The Foundation and the Trust invest in commingled funds and alternative investments, which are structured as partnerships, limited liability companies, and offshore investment funds. The following tables summarize the investment strategy types of the funds as of the years ended August 31, 2012 and 2011.

| | 2012 | | 2011 | |
|---|---|---|---|---|
| **W. K. Kellogg Foundation** | **Fair Value** | **Unfunded Commitments** | **Fair Value** | **Unfunded Commitments** |
| Commingled funds[(c)] | $ 36,219,180 | $ - | $ 77,238,275 | $ - |
| Hedge funds[(a)] | 42,122,863 | - | 41,364,050 | - |
| Private equity funds[(b)] | 51,537,241 | 16,450,703 | 49,408,846 | 5,827,575 |
| Real estate funds[(b)] | 25,000,137 | 2,648,521 | 25,991,198 | 400,000 |
| Total | $ 154,879,421 | $ 19,099,224 | $ 194,002,369 | $ 6,227,575 |

| **W. K. Kellogg Foundation Trust** | **Fair Value** | **Unfunded Commitments** | **Fair Value** | **Unfunded Commitments** |
|---|---|---|---|---|
| Commingled funds[(c)] | $ 796,378,295 | $ - | $ 782,360,001 | $ - |
| Hedge funds[(a)] | 464,190,575 | - | 429,073,818 | - |
| Private equity funds[(b)] | 452,469,265 | 307,328,317 | 417,170,775 | 343,661,861 |
| Real estate funds[(b)] | 118,153,154 | 91,532,673 | 110,643,083 | 81,887,380 |
| Total | $ 1,831,191,289 | $ 398,860,990 | $ 1,739,247,677 | $ 425,549,241 |

[(a)]The redemption frequency of “Hedge funds” can be quarterly semi-annually, annually, or multi-year with a notice of redemption ranging from 30-180 days.
[(b)]Private equity funds” and “Real estate funds” are liquidated through distributions generated upon the sale of the underlying investments. The liquidation period can range from 2-10 years.
[(c)]Commingled funds are highly liquid and can be redeemed within short-term periods of time.

## NOTE 4 FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

Grant Commitments Payable

The fair value of grant commitments payable is determined at the time of award. The fair values of grants payable in more than one year, which totaled approximately $138,200,000 and $131,600,000 at August 31, 2012 and 2011, respectively, were evaluated based on discounted cash flows analyses, utilizing an assumed risk free rate of interest. It should be noted that no change in the present value discount was recognized during these years because the Foundation asserts fair value approximated the recorded value and the adjustment was deemed not material.

## NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2012 and 2011 are summarized as follows:

| | 2012 | 2011 |
|---|---|---|
| Land and land improvements | $ 18,575,911 | $ 18,022,185 |
| Buildings and building improvements | 56,030,727 | 55,998,140 |
| Equipment | 3,835,903 | 4,095,121 |
| Furniture and fixtures | 8,663,408 | 8,547,527 |
| Capitalized software costs | 14,366,373 | 12,601,977 |
| Assets under construction | 1,628,502 | 1,257,683 |
| | 103,100,823 | 100,522,633 |
| Accumulated depreciation | (51,354,648) | (48,685,166) |
| **Total** | $ 51,746,175 | $ 51,837,467 |

## NOTE 6 INCOME TAXES

Current and deferred excise taxes for the years ended August 31, 2012 and 2011 were provided as follows:

| | 2012 | 2011 |
|---|---|---|
| Current excise tax rate | 1% | 1% |
| Deferred excise 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, 2012 and 2011 are as follows:

| | Foundation | | Trust | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Current tax provision | $ 273,872 | $ 242,910 | $ 4,151,674 | $ 4,964,719 |
| Deferred tax provision (benefit) | (84,213) | 258,685 | (10,918,151) | 5,791,240 |
| Total Federal excise provision (benefit) | $ 189,659 | $ 501,595 | $ (6,766,477) | $ 10,755,959 |
| Cash payments for Federal excise taxes | $ 249,600 | $ 278,848 | $ 4,780,000 | $ 4,308,000 |

To ensure compliance with Internal Revenue Service (IRS) 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 | |
|---|---|---|
| | 2012 | 2011 |
| Grants | $ 304,338,072 | $ 291,212,362 |
| Program activities and general operations | 72,264,835 | 64,435,134 |
| Costs of earning income and excise tax | 5,559,539 | 3,392,966 |
| **Total** | $ 382,162,446 | $ 359,040,462 |

## NOTE 6 INCOME TAXES *(continued)*

Management evaluated all tax positions and concluded that the Foundation and the Trust have no uncertain tax positions that require recognition in the accompanying consolidated financial statements or further disclosure in the notes to the consolidated financial statements. The Foundation and the Trust file annual informational returns with the IRS and state and local tax authorities. The entities are subject to audits by taxing jurisdictions; however, no audits for any periods are currently in progress. Management believes that the entities are no longer subject to audits for years prior to 2008 under Federal, state, and local tax jurisdictions.

## NOTE 7 POSTRETIREMENT 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 $1,699,657 and $1,733,926 in 2012 and 2011, 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 $750,000 to the defined benefit pension plan during 2012 and 2011, respectively. The pension plan was closed to employees hired after June 1, 2012 and the plan formula was changed for prospective benefit accruals beginning September 1, 2012. The Foundation anticipates contributing approximately $350,000 during 2012. It also provides postretirement medical and life insurance benefits (“other benefits”) to all employees who meet eligibility requirements. At August 31, 2012, the benefit obligation for the postretirement medical and life insurance benefits plan was increased to reflect the projected cost of excise taxes to be imposed by new health care reform legislation.

## NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Benefit obligation—August 31 | $ 12,482,062 | $ 9,905,583 | $ 84,661,875 | $ 66,419,658 |
| Fair value of plan assets—August 31 | 6,612,007 | 6,228,881 | - | - |
| Unfunded status | $ (5,870,055) | $ (3,676,702) | $ (84,661,875) | $ (66,419,658) |
| Accrued benefit cost recognized in the consolidated statement of financial position | $ (5,870,055) | $ (3,676,702) | $ (84,661,875) | $ (66,419,658) |
| Accumulated benefit obligation | $ 6,320,253 | $ 5,593,155 | | |

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

Amounts not yet reflected in net periodic benefit cost as of August 31, 2012 and 2011 are as follows:

| | 2012 | | |
|---|---|---|---|
| | Combined Benefits | Pension Benefits | Other Benefits |
| Prior service cost (credit) | $ 2,236,062 | $ (25,062) | $ 2,261,124 |
| Accumulated loss | (49,642,930) | (6,560,116) | (43,082,814) |
| Total | $ (47,406,868) | $ (6,585,178) | $ (40,821,690) |

| | 2011 | | |
|---|---|---|---|
| | Combined Benefits | Pension Benefits | Other Benefits |
| Prior service cost (credit) | $ 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) |

**NOTE 7 POSTRETIREMENT BENEFITS** *(continued)*

Changes in amounts not yet reflected in net periodic benefit costs for the years ended August 31, 2012 and 2011 are as follows:

| | 2012 | | |
|---|---|---|---|
| | **Combined Benefits** | **Pension Benefits** | **Other Benefits** |
| Net actuarial loss | $ (17,860,016) | $ (2,271,076) | $ (15,588,940) |
| Amortization of prior service cost (credit) | (332,108) | 8,423 | (340,531) |
| Amortization of actuarial gain | 2,456,039 | 897,600 | 1,558,439 |
| Total | $ (15,736,085) | $ (1,365,053) | $ (14,371,032) |

| | 2011 | | |
|---|---|---|---|
| | **Combined Benefits** | **Pension Benefits** | **Other Benefits** |
| Net actuarial gain (losses) | $ (2,385,400) | $ 1,288,645 | $ (3,674,045) |
| Adjustment to prior service cost (credit) | (332,108) | 8,423 | (340,531) |
| Amortization of actuarial gain | 2,591,425 | 416,852 | 2,174,573 |
| Total | $ (126,083) | $ 1,713,920 | $ (1,840,003) |

Amortization amounts to be reflected in net periodic benefit costs in 2013 are as follows:

| | 2012 | | |
|---|---|---|---|
| | **Combined Benefits** | **Pension Benefits** | **Other Benefits** |
| Prior service cost (credit) | $ (332,108) | $ 8,423 | $ (340,531) |
| Accumulated loss | 2,703,507 | 388,014 | 2,315,493 |
| Total | $ 2,371,399 | $ 396,437 | $ 1,974,962 |

## NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| **Assumptions and dates used for disclosure** | | | | |
| Discount rate | 3.78 % | 5.15 % | 3.78 % | 5.15 % |
| 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 | 5.15 % | 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 |
| *Health care cost trend rate assumptions* | | | | |
| Initial trend rate pre-Medicare | N/A | N/A | 7.70 % | 7.67 % |
| Initial trend rate post-Medicare | N/A | N/A | 7.67 | 7.85 |
| Ultimate trend rate | N/A | N/A | 4.50 | 4.50 |
| Year ultimate trend is reached pre-Medicare | N/A | N/A | 2029 | 2029 |
| Year ultimate trend is reached post-Medicare | N/A | N/A | 2029 | 2029 |

N/A–Not applicable.

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

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | **2012** | **2011** | **2012** | **2011** |
| Benefit cost | $ 1,578,300 | $ 1,255,356 | $ 6,156,062 | $ 6,428,903 |
| Employer contributions | 750,000 | 750,000 | 2,284,877 | 2,131,851 |
| Benefits paid | 1,139,223 | 161,078 | 2,284,877 | 2,131,851 |

**NOTE 7 POSTRETIREMENT BENEFITS** *(continued)*

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 |
|---|---|
| 2013 | $ 558,625 |
| 2014 | 546,284 |
| 2015 | 475,950 |
| 2016 | 297,116 |
| 2017 | 233,459 |
| 2018-2022 | 4,044,667 |

The expected benefits to be paid are based on the same assumptions used to measure the Foundation's benefit obligation at August 31, 2012 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 |
|---|---|
| 2013 | $ 2,368,145 |
| 2014 | 2,502,520 |
| 2015 | 2,668,823 |
| 2016 | 2,862,260 |
| 2017 | 3,008,791 |
| 2018-2022 | 18,152,254 |

## NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

Investment Policy

The Vanguard Group manages and invests the funds for the pension plan in the Vanguard Balanced Index Fund Investor Shares. Its investment strategy for this fund is stated 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 is not practical or cost effective to own every stock and bond in both indices, the fund owns a large sample of securities in each index. 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 plan 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 strategy resulted in the selection of the 8.0% long-term rate of return on plan assets assumption for 2012 and 2011.

Risks and Uncertainties

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 consolidated financial statements.

## NOTE 8 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 $330,000,000 and $338,000,000 were recorded for the years ended August 31, 2012 and 2011, respectively. Donor restrictions are deemed satisfied at the time the Trust makes a contribution to the Foundation.

Temporarily restricted net assets of the Foundation consist of contributions receivable from irrevocable trusts, which are restricted until such assets are received. The Foundation's temporarily restricted net assets increased $1,136,998 for the year ended August 31, 2012, and increased $1,726,317 for the year ended August 31, 2011, which represented the change in the fair value of the trusts to which the Foundation has irrevocable rights as beneficiary.

## NOTE 9 SUBSEQUENT EVENTS

The Foundation and the Trust evaluated events and transactions occurring between September 1, 2012 and November 30, 2012, which is the date that the consolidated financial statements were available to be issued, for disclosure and recognition purposes.

# SUPPLEMENTAL SCHEDULE

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

Supplemental Schedule of Gifts and Receipts
From Inception through August 31, 2012

This schedule represents an analysis of W. K. Kellogg Foundation gifts and Trust receipts at historical value from inception through August 31, 2012. The Foundation and the Trust were established in 1930 and 1934, respectively. No gifts or receipts were received during the year ended August 31, 2012.

| | | |
|---|---|---|
| **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 U.S. 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 |