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

Consolidated Financial Statements and
Supplemental Schedule
For the Years Ended August 31, 2013 and 2012
With Report of Independent Auditors

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August 31, 2013 and 2012

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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 financial statements of W. K. Kellogg Foundation (the Foundation) and W. K. Kellogg Foundation Trust (the Trust), which comprise the consolidated statements of financial position as of August 31, 2013 and 2012, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Foundation and the Trust at August 31, 2013 and 2012, 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of gifts and receipts is presented for purposes of additional analysis and is not a required part of the 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mitchell & Titus, LLP

November 22, 2013

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

	2013			2012		
	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	$ 288,413,946	$ 37,217,224	$ 251,196,722	$ 289,366,261	$ 37,505,284	$ 251,860,977
Kellogg Company common stock	4,497,044,075	-	4,497,044,075	3,894,062,664	-	3,894,062,664
Diversified investments	2,967,844,172	246,104,944	2,721,739,228	2,728,439,405	260,208,698	2,468,230,707
Mission-driven investments	67,018,228	67,018,228	-	65,672,272	65,672,272	-
Program-related investment loans receivable	9,500,000	9,500,000	-	8,500,000	8,500,000	-
Collateral under securities lending and derivative agreements	173,788,977	-	173,788,977	115,735,013	-	115,735,013
Accrued interest and dividends	35,687,279	468,954	35,218,325	36,373,744	528,433	35,845,311
Net receivable on unsettled trades	179,519	-	179,519	7,482,085	-	7,482,085
Property and equipment	51,469,333	51,469,333	-	51,746,175	51,746,175	-
Other assets	2,492,611	832,759	1,659,852	3,672,643	3,672,643	-
Interest in irrevocable trusts	61,853,965	15,906,002	45,947,963	55,812,852	14,448,070	41,364,782
Total assets	$ 8,155,292,105	$ 428,517,444	$ 7,726,774,661	$ 7,256,863,114	$ 442,281,575	$ 6,814,581,539
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	$ 6,678,376	$ 6,678,376	$ -	$ 7,735,592	$ 7,735,592	$ -
Accrued liabilities	4,422,045	4,422,045	-	10,688,522	10,135,162	553,360
Payable under securities lending and derivative agreements	173,788,977	-	173,788,977	115,735,013	-	115,735,013
Net trade settlement payables	2,891	2,891	-	520,529	520,529	-
Grant commitments payable	213,089,889	213,089,889	-	299,426,285	299,426,285	-
Deferred federal excise tax liability	95,286,893	533,377	94,753,516	81,286,588	501,947	80,784,641
Postretirement liability	72,493,596	72,493,596	-	84,661,875	84,661,875	-
Total liabilities	565,762,667	297,220,174	268,542,493	600,054,404	402,981,390	197,073,014
Net assets						
Unrestricted	115,391,268	115,391,268	-	24,852,115	24,852,115	-
Temporarily restricted	7,474,138,170	15,906,002	7,458,232,168	6,631,956,595	14,448,070	6,617,508,525
Total net assets	7,589,529,438	131,297,270	7,458,232,168	6,656,808,710	39,300,185	6,617,508,525
Total liabilities and net assets	$ 8,155,292,105	$ 428,517,444	$ 7,726,774,661	$ 7,256,863,114	$ 442,281,575	$ 6,814,581,539

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

	2013			2012		
	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*	$ -	$ 300,000,000	$ -	$ -	$ 330,000,000	$ -
Contributions from irrevocable trusts	1,057,426	1,057,426	-	1,572,188	1,572,188	-
Total contributions	1,057,426	301,057,426	-	1,572,188	331,572,188	-
Interest income	10,040,243	4,030,187	6,010,056	10,566,038	3,296,714	7,269,324
Dividend income	149,892,983	1,895,908	147,997,075	151,352,753	2,031,778	149,320,975
Portfolio income	57,933,444	4,376,899	53,556,545	39,872,083	3,961,657	35,910,426
Net realized gains on sales of investments	283,873,926	9,156,924	274,717,002	297,089,159	12,358,229	284,730,930
Change in unrealized gains/(losses) on investments	700,110,400	1,550,718	698,559,682	(549,414,911)	(4,176,639)	(545,238,272)
Less: Costs of earning income	(24,973,329)	(3,410,311)	(21,563,018)	(25,057,659)	(5,309,939)	(19,747,720)
Change in value in interest in irrevocable trusts	6,041,114	1,457,932	4,583,182	3,039,908	1,136,998	1,902,910
Net investment income (loss)	1,182,918,781	19,058,257	1,163,860,524	(72,552,629)	13,298,798	(85,851,427)
Refunds of prior year program payments	8,934,800	8,934,800	-	6,194,414	6,194,414	-
Total revenue and gains (losses)	1,192,911,007	329,050,483	1,163,860,524	(64,786,027)	351,065,400	(85,851,427)
EXPENSES						
Distributions to the W. K. Kellogg Foundation*	-	-	300,000,000	-	-	330,000,000
Grants	171,562,252	171,562,252	-	359,799,293	359,799,293	-
Program activities	34,664,171	34,664,171	-	36,403,932	36,403,932	-
General operations	49,266,900	49,266,900	-	45,572,659	45,572,659	-
Depreciation	3,285,743	3,285,743	-	2,969,747	2,969,747	-
Federal excise tax provision (benefit)						
Current	9,291,372	123,366	9,168,006	4,425,546	273,872	4,151,674
Deferred	14,000,304	31,429	13,968,875	(11,002,364)	(84,213)	(10,918,151)
Total expenses	282,070,742	258,933,861	323,136,881	438,168,813	444,935,290	323,233,523
Accumulated postretirement benefit gain (loss) not yet reflected in net benefit costs	21,880,463	21,880,463	-	(15,736,085)	(15,736,085)	-
Total increase (decrease) in net assets	932,720,728	91,997,085	840,723,643	(518,690,925)	(109,605,975)	(409,084,950)
Net assets, at beginning of year	6,656,808,710	39,300,185	6,617,508,525	7,175,499,635	148,906,160	7,026,593,475
Net assets, at end of year	$ 7,589,529,438	$ 131,297,270	$ 7,458,232,168	$ 6,656,808,710	$ 39,300,185	$ 6,617,508,525
CHANGES IN NET ASSETS BY CATEGORY						
Increase (decrease) in unrestricted net assets	$ 90,539,153	$ 90,539,153	$ -	$ (110,742,973)	$ (110,742,973)	$ -
Increase (decrease) in temporarily restricted net assets	842,181,575	1,457,932	840,723,643	(407,947,952)	1,136,998	(409,084,950)
Total Increase/(decrease) in net assets	$ 932,720,728	$ 91,997,085	$ 840,723,643	$ (518,690,925)	$ (109,605,975)	$ (409,084,950)

*Intercompany contributions and distributions of $300,000,000 and $330,000,000 for the years ended August 31, 2013 and 2012, respectively, have been eliminated in the consolidated 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

	2013			2012		
	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	$ 932,720,728	$ 91,997,085	$ 840,723,643	$ (518,690,925)	$ (109,605,975)	$ (409,084,950)
Adjustments to reconcile changes in net assets to cash flows from operating activities						
Depreciation	3,285,743	3,285,743	-	2,969,747	2,969,747	-
Net realized gains on long-term investments	(283,873,926)	(9,156,924)	(274,717,002)	(297,089,159)	(12,358,229)	(284,730,930)
Change in net unrealized (gain) loss on investments	(700,110,400)	(1,550,718)	(698,559,682)	549,414,911	4,176,639	545,238,272
Change in value in interest in irrevocable trusts	(6,041,113)	(1,457,932)	(4,583,181)	(3,039,908)	(1,136,998)	(1,902,910)
Change in deferred excise tax liability	14,000,305	31,430	13,968,875	(11,002,364)	(84,213)	(10,918,151)
Postretirement liability	(12,168,279)	(12,168,279)	-	18,242,217	18,242,217	-
Change in operating assets and liabilities						
Accrued interest and dividends	686,465	59,479	626,986	581,802	(55,186)	636,988
Other assets	1,180,032	2,839,884	(1,659,852)	(1,707,204)	(1,707,204)	-
Accounts payable	(1,057,216)	(1,057,216)	-	2,905,532	2,905,532	-
Accrued liabilities	(6,266,477)	(5,713,117)	(553,360)	2,271,443	2,804,893	(533,450)
Grant commitments payable	(86,336,396)	(86,336,396)	-	63,311,221	63,311,221	-
Net cash used in operating activities	(143,980,534)	(19,226,961)	(124,753,573)	(191,832,687)	(30,537,556)	(161,295,131)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(1,238,834,115)	(268,602,406)	(970,231,709)	(833,786,432)	(120,593,971)	(713,192,461)
Proceeds from sale of investments	1,385,871,235	291,550,208	1,094,321,027	1,081,654,879	149,569,791	932,085,088
Increase in collateral held under securities lending arrangement, net	(58,053,964)	-	(58,053,964)	(3,611,095)	-	(3,611,095)
Disbursements for program-related investments	(1,000,000)	(1,000,000)	-	(7,500,000)	(7,500,000)	-
Acquisition of fixed assets	(3,008,901)	(3,008,901)	-	(2,878,456)	(2,878,456)	-
Net cash provided by investing activities	84,974,255	18,938,901	66,035,354	233,878,896	18,597,364	215,281,532
CASH FLOWS FROM FINANCING ACTIVITIES						
Receipts of cash collateral under securities lending arrangement, net	58,053,964	-	58,053,964	3,611,095	-	3,611,095
Net cash provided by financing activities	58,053,964	-	58,053,964	3,611,095	-	3,611,095
Decrease (increase) in cash and cash equivalents	(952,315)	(288,060)	(664,255)	45,657,304	(11,940,192)	57,597,496
Cash and cash equivalents, beginning of year	289,366,261	37,505,284	251,860,977	243,708,957	49,445,476	194,263,481
Cash and cash equivalents, end of year	$ 288,413,946	$ 37,217,224	$ 251,196,722	$ 289,366,261	$ 37,505,284	$ 251,860,977

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

NOTE 1 NATURE OF BUSINESS

W. K. Kellogg Foundation (the Foundation) was established in 1930 as a Michigan nonprofit corporation functioning as a private grant-making foundation. The W. K. Kellogg Foundation Trust (the Trust) was established in 1931 as a charitable trust under Michigan law and subsequently restated in 1934. Both entities were established 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, 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 have separate boards, with the majority of board members in common, and are under common management. All material intercompany transactions and account balances were eliminated in the consolidation of accounts.

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.

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

Program-Related Investments

The Foundation makes program-related investments (PRIs) and loan guarantees that support its grant-making programs in the U.S. and Latin America. Total loans outstanding were $9,500,000 and $8,500,000, with unfunded commitments of $0 and $1,000,000, at August 31, 2013 and 2012, respectively. There are no outstanding loan guarantees at August 31, 2013. Interest rates generally are 1% and principal is scheduled to be paid in full to the Foundation by the maturity dates, ranging from May 2014 to June 2021. The Foundation records a reserve for potentially uncollectible loans based on a quarterly analysis of historical experience and annual financial reports received from investees and the investees ability to meet financial covenants. Management has reviewed all PRIs for the years ended August 31, 2013 and 2012, 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–Investments 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 as described in Note 1–Nature of Business.

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 that range from 3-40 years.

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

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, 2013 and 2012, the Foundation had conditional grants outstanding of $22,304,591 and $23,067,599, respectively.

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, 2013 and 2012.

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.

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

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.

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 their 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 74,074,190 and 76,881,790 as of August 31, 2013 and 2012, respectively. The Foundation and the Trust are potentially subject to market risk, resulting from its concentration in Kellogg Company common stock.

NOTE 3 INVESTMENTS *(continued)*

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.

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 fair 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 on 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, 2013 and 2012, the collateral included in the accompanying consolidated statements of financial position as "Collateral/payable under securities lending and derivative agreements" at fair value, is as follows:

	2013	2012
Derivative contracts assets	$ 4,320,250	$ 2,953,926
Cash collateral held	-	257

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

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, 2013 and 2012, investments in securities with fair values of $169,468,728 and $112,780,830, respectively, were loaned. The value of the collateral of investments loaned was $173,788,977 and $115,734,756 at August 31, 2013 and 2012, respectively. The collateral amount has been reflected as an asset and a liability in the accompanying consolidated statements of financial position at August 31, 2013 and 2012.

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 fair value of investments carried on the consolidated statements of financial position, by level within the valuation hierarchy, as of August 31, 2013 and 2012, respectively.

	2013			
Assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Temporary investments	$ 183,433,215	$ 49,819,363	$ 133,613,852	$ -
Kellogg Company common stock	4,497,044,075	4,497,044,075	-	-
Public equities	496,777,516	496,777,516	-	-
Mutual funds	92,576,634	92,576,634	-	-
Fixed-income securities	300,602,863	73,223,287	227,379,576	-
Commingled funds	938,607,270	-	938,607,270	-
Hedge funds	568,021,786	-	221,753,395	346,268,391
Private equity funds	560,436,371	-	-	560,436,371
Real estate funds	174,389,113	-	-	174,389,113
Total investments	$ 7,811,888,843	$ 5,209,440,875	$ 1,521,354,093	$ 1,081,093,875
Interests in irrevocable trusts	$ 61,853,965	$ -	$ -	$ 61,853,965

	2012			
Assets	**Total**	**Level 1**	**Level 2**	**Level 3**
Temporary investments	$ 268,691,160	$ 87,881,355	$ 180,809,805	$ -
Kellogg Company common stock	3,894,062,664	3,894,062,664	-	-
Public equities	443,569,085	443,569,085	-	-
Mutual funds	97,507,778	97,507,778	-	-
Fixed-income securities	278,357,315	46,359,742	231,997,573	-
Commingled funds	832,597,475	-	832,597,475	-
Hedge funds	506,313,438	-	255,059,519	251,253,919
Private equity funds	504,006,506	-	-	504,006,506
Real estate funds	143,153,291	-	-	143,153,291
Total investments	$ 6,968,258,712	$ 4,569,380,624	$ 1,500,464,372	$ 898,413,716
Interests in irrevocable trusts	$ 55,812,852	$ -	$ -	$ 55,812,852

Foreign holdings	2013			
(included in investments)	**Total**	**Level 1**	**Level 2**	**Level 3**
Temporary investments	$ 4,985,313	$ -	$ 4,985,313	$ -
Public equities	204,769,058	204,769,058	-	-
Mutual funds	91,393,167	91,393,167	-	-
Fixed-income securities	22,539,941	433,957	22,105,984	-
Hedge funds	33,841,244	-	-	33,841,244
Private equity funds	76,088,856	-	-	76,088,856
Real estate funds	11,698,887	-	-	11,698,887
Total investments	$ 445,316,466	$ 296,596,182	$ 27,091,297	$ 121,628,987

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

The table below includes a rollforward of the amounts for the Foundation and the Trust for the years ended August 31, 2012 and 2013 of Level 3 investments:

	Consolidated
Balance at August 31, 2011	$ 824,413,443
Purchases	308,313,551
Sales	(237,548,112)
Net realized gain on investments	89,120,681
Net change in unrealized gain/(loss) of investments sold	(93,009,017)
Net change in unrealized gain/(loss) of investments held	7,123,170
Balance at August 31, 2012	$ 898,413,716
Purchases	313,077,448
Sales	(207,311,804)
Net realized gain on investments	50,235,901
Net change in unrealized gain/(loss) of investments sold	(3,158,002)
Net change in unrealized gain/(loss) of investments held	29,836,616
Balance at August 31, 2013	$ 1,081,093,875

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, 2013 and 2012.

	2013		2012	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Commingled funds[a]	$ 938,607,270	$ -	$ 832,597,475	$ -
Hedge funds[b]	568,021,786	-	506,313,438	-
Private equity funds[c]	560,436,371	364,863,953	504,006,506	323,779,020
Real estate funds[c]	174,389,113	38,671,310	143,153,291	94,181,194
Total	$ 2,241,454,540	$ 403,535,263	$ 1,986,070,710	$ 417,960,214

[a] "Commingled funds" are highly liquid and can be redeemed within short-term periods of time.
[b] 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. This category includes hedge funds that invest using different strategies, such as long/short equity, credit focused, multi-strategy, arbitrage and other means.
[c] "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. This category includes private funds that invest globally in public and private companies across several industries.

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 $77,400,000 and $138,200,000 at August 31, 2013 and 2012, 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 that the fair value approximated the recorded value and the adjustment was deemed not material.

NOTE 5 INCOME TAXES

The current provision for the Foundation for federal excise tax is based on a 1% rate for the fiscal years ended August 31, 2013 and 2012, respectively. The current provision for the Trust for federal excise tax is based on a 2% rate for the fiscal year ended August 31, 2013 and a 1% rate for the fiscal year ended August 31, 2012. The deferred provision is based on cumulative unrealized appreciation on investments at a 2% rate for both of the fiscal years ended August 31, 2013 and 2012.

The current and deferred tax portions of the excise tax provisions for the years ended August 31, 2013 and 2012 are as follows:

	Foundation		Trust	
	2013	2012	2013	2012
Current tax provision	$ 123,366	$ 273,872	$ 9,168,006	$ 4,151,674
Deferred tax provision (benefit)	31,429	(84,213)	13,968,875	(10,918,151)
Total federal excise provision (benefit)	$ 154,795	$ 189,659	$23,136,881	$ (6,766,477)
Cash payments for federal excise taxes	$ 127,000	$ 249,600	$10,540,000	$ 4,780,000

NOTE 5 INCOME TAXES *(continued)*

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

	August 31	
	2013	**2012**
Grants	$ 258,898,647	$ 304,447,871
Program activities and general operations	82,066,492	77,464,747
Costs of earning income and excise tax	3,537,222	5,559,539
Total	$ 344,502,361 *	$ 387,472,157

* Amounts presented are based on preliminary tax preparation. As the return is finalized, the listed amounts may be subject to change.

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 2009 under Federal, state, and local tax jurisdictions.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2013 and 2012 are summarized as follows:

	2013	**2012**
Land and land improvements	$ 18,612,729	$ 18,575,911
Buildings and building improvements	56,534,639	56,030,727
Equipment	3,985,702	3,835,903
Furniture and fixtures	8,966,161	8,663,408
Capitalized software costs	14,793,886	14,366,372
Assets under construction	3,216,607	1,628,502
	106,109,724	103,100,823
Accumulated depreciation	(54,640,391)	(51,354,648)
Total	$ 51,469,333	$ 51,746,175

NOTE 7 POSTRETIREMENT BENEFITS

The Foundation has defined contribution and defined benefit retirement plans covering full-time employees. The Foundation funded and charged to expense contributions of $2,257,397 and $1,699,657 in 2013 and 2012, respectively, related to the defined contribution plan.

The defined benefit retirement 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 $700,000 and $750,000 to the defined benefit retirement plan during 2013 and 2012, respectively. The defined benefit retirement 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 $300,000 for the year ended August 31, 2014. The pension plan's assets consist of mutual funds that are considered Level 1 assets in accordance with ASC 820. The Foundation also provides postretirement medical and life insurance benefits (Other Benefits) to employees who meet eligibility requirements. At August 31, 2013 and 2012, the benefit obligation for the postretirement medical and life insurance benefits plan reflects the projected cost of excise taxes to be imposed by new health care reform legislation.

NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

	Pension Benefits		Other Benefits	
	2013	**2012**	**2013**	**2012**
Benefit obligation–August 31	$ 9,052,948	$ 12,482,062	$ 72,493,596	$ 84,661,875
Fair value of plan assets–August 31	7,291,948	6,612,007	-	-
Unfunded status	$ (1,761,000)	$ (5,870,055)	$ (72,493,596)	$ (84,661,875)
Accrued benefit cost recognized in the consolidated statement of financial position	$ (1,761,000)	$ (5,870,055)	$ (72,493,596)	$ (84,661,875)
Accumulated benefit obligation	$ 4,041,186	$ 6,320,253		
Amounts not yet reflected in net periodic benefit costs and changes in such amounts:				
Prior service cost (credit)	$ (16,639)	$ (25,062)	$ 1,920,593	$ 2,261,124
Accumulated loss	(2,394,547)	(6,560,116)	(25,035,812)	(43,082,814)
Total	$ (2,411,186)	$ (6,585,178)	$ (23,115,219)	$ (40,821,690)
Net actuarial gain (loss)	$ 3,709,201	$ (2,271,076)	$ 15,731,509	$ (15,588,940)
Amortization of prior service cost (credit)	8,423	8,423	(340,531)	(340,531)
Amortization of actuarial gain	456,368	897,600	2,315,493	1,558,439
Total	$ 4,173,992	$ (1,365,053)	$ 17,706,471	$ (14,371,032)
Amortization amounts to be reflected in net periodic benefit costs for fiscal year 2014:				
Prior service cost (credit)	$ 8,423		$ (340,531)	
Accumulated loss	111,388		1,215,752	
Total	$ 119,811		$ 875,221	
Benefit costs, employer contribution and benefits paid:				
Benefit cost	$ 764,937	$ 1,578,300	$ 7,782,053	$ 6,156,062
Employer contribution	700,000	750,000	2,243,861	2,284,877
Benefits paid	679,249	1,139,223	2,243,861	2,284,877
Assumptions and dates used for disclosure:				
Discount rate	4.77%	3.78%	4.77%	3.78%
Expected rate of 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	3.78%	5.15%	3.78%	5.15%
Expected rate of 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 assumption pre-/post-Medicare	N/A	N/A	7.51%/7.49%	7.70%/7.67%
Ultimate trend rate	N/A	N/A	4.50%	4.50%

NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the defined benefit retirement plan and the postretirement medical plan based on the same assumptions used to measure the Foundation's benefit obligation at August 31, 2013:

Years Ending August 31	Pension	Post-Retirement
2014	$ 418,175	$ 2,475,868
2015	398,405	2,641,819
2016	208,940	2,824,862
2017	160,148	2,972,115
2018	239,542	3,178,048
2019-2023	3,769,540	18,654,576

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 2013 and 2012.

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 $300,000,000 and $330,000,000 were recorded for the years ended August 31, 2013 and 2012, 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 by $1,457,932 for the year ended August 31, 2013, and increased by $1,136,998 for the year ended August 31, 2012, 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, 2013 and November 22, 2013, 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, 2013

This schedule represents an analysis of W. K. Kellogg Foundation gifts and Trust receipts at historical value from inception through August 31, 2013. The Foundation and the Trust were established in 1930 and 1934, respectively. No gifts or receipts were received during the year ended August 31, 2013.

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