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

Consolidated Financial Statements and
Supplemental Schedule
For the Years Ended August 31, 2016 and 2015
With Independent Auditor's Report

MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
Consolidated Financial Statements and Supplemental Schedule
August 31, 2016 and 2015

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MITCHELL TITUS

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees and Senior Management 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, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from 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 consolidated 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.

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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 as of August 31, 2016 and 2015, and the consolidated changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

Our audits were 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 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 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 of America. 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

December 7, 2016

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

Consolidated Statements of Financial Position
As of August 31, 2016 and 2015

	2016			2015		
	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	$ 166,323,863	$ 40,827,448	$ 125,496,415	$ 189,199,632	$ 27,730,084	$ 161,469,548
Kellogg Company common stock	5,621,042,160	-	5,621,042,160	4,664,401,313	-	4,664,401,313
Diversified investments	3,300,008,582	242,848,757	3,057,159,825	3,222,148,261	249,939,764	2,972,208,497
Mission-driven investments	69,095,040	69,095,040	-	67,504,576	67,504,576	-
Program-related investment loans receivable	12,877,885	12,877,885	-	9,319,654	9,319,654	-
Collateral under securities lending and derivative agreements	295,375,024	-	295,375,024	192,508,024	-	192,508,024
Accrued interest and dividends	36,953,404	290,436	36,662,968	36,399,919	271,158	36,128,761
Net receivable on unsettled trades	95,061	95,061	-	28,545	-	28,545
Property and equipment	43,491,045	43,491,045	-	46,482,920	46,482,920	-
Other assets	709,093	431,856	277,237	1,584,544	164,332	1,420,212
Interest in irrevocable trusts	18,212,094	18,212,094	-	17,578,219	17,578,219	-
Total assets	$ 9,564,183,251	$ 428,169,622	$ 9,136,013,629	$8,447,155,607	$ 418,990,707	$ 8,028,164,900
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	$ 2,380,383	$ 2,380,383	$ -	$ 3,599,107	$ 3,599,107	$ -
Accrued liabilities	4,379,186	4,379,186	-	5,253,268	5,253,268	-
Payable under securities lending and derivative agreements	295,375,024	-	295,375,024	192,508,024	-	192,508,024
Net trade settlement payables	3,100,567	-	3,100,567	548,183	548,183	-
Grant commitments payable	261,396,697	261,396,697	-	195,488,029	195,488,029	-
Deferred federal excise tax liability	118,708,993	399,167	118,309,826	99,100,193	238,356	98,861,837
Postretirement liability	102,677,007	102,677,007	-	89,911,939	89,911,939	-
Total liabilities	788,017,857	371,232,440	416,785,417	586,408,743	295,038,882	291,369,861
Net assets						
Unrestricted	38,725,088	38,725,088	-	106,373,606	106,373,606	-
Temporarily restricted	8,737,440,306	18,212,094	8,719,228,212	7,754,373,258	17,578,219	7,736,795,039
Total net assets	8,776,165,394	56,937,182	8,719,228,212	7,860,746,864	123,951,825	7,736,795,039
Total liabilities and net assets	$9,564,183,251	$ 428,169,622	$9,136,013,629	$8,447,155,607	$ 418,990,707	$8,028,164,900

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, 2016 and 2015

	2016			2015		
	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*	$ -	$ 390,000,000	$ -	$ -	$ 367,000,000	$ -
Contributions from irrevocable trusts	231,367	231,367	-	297,236	297,236	-
Total contributions	231,367	390,231,367	-	297,236	367,297,236	-
Interest income	5,877,663	1,615,858	4,261,805	5,515,880	1,681,936	3,833,944
Dividend income	159,198,827	3,698,987	155,499,840	155,116,241	2,328,808	152,787,433
Net realized gains on sales of investments	300,530,192	6,213,223	294,316,969	252,158,485	14,003,098	238,155,387
Change in unrealized gains (losses) on investments	980,087,718	8,040,832	972,046,886	(206,675,485)	(30,750,627)	(175,924,858)
Less: Costs of earning income	(32,863,555)	(2,684,435)	(30,179,120)	(34,161,707)	(4,088,973)	(30,072,734)
Change in value in interest in irrevocable trusts	633,875	633,875	-	(1,312,025)	(1,312,025)	-
Net investment income (loss)	1,413,464,720	17,518,340	1,395,946,380	170,641,389	(18,137,783)	188,779,172
Refunds of prior-year program payments	1,033,045	1,033,045	-	1,761,947	1,761,947	-
Total revenue and gains	1,414,729,132	408,782,752	1,395,946,380	172,700,572	350,921,400	188,779,172
EXPENSES						
Distributions to the W. K. Kellogg Foundation*	-	-	390,000,000	-	-	367,000,000
Grants	384,758,609	384,758,609	-	268,064,563	268,064,563	-
Program activities	18,605,456	18,605,456	-	24,781,242	24,781,242	-
General operations	63,692,672	63,692,672	-	55,981,439	55,981,439	-
Depreciation	3,404,252	3,404,252	-	3,692,953	3,692,953	-
Federal excise tax provision and other						
Current	4,099,270	34,052	4,065,218	5,258,188	148,198	5,109,990
Deferred	19,608,800	160,811	19,447,989	(4,140,114)	(615,087)	(3,525,027)
Total expenses	494,169,059	470,655,852	413,513,207	353,638,271	352,053,308	368,584,963
Accumulated postretirement benefit loss not yet reflected in net benefit costs	(5,141,543)	(5,141,543)	-	(4,737,669)	(4,737,669)	-
Total increase (decrease) in net assets	915,418,530	(67,014,643)	982,433,173	(185,675,368)	(5,869,577)	(179,805,791)
Net assets, at beginning of year	7,860,746,864	123,951,825	7,736,795,039	8,046,422,232	129,821,402	7,916,600,830
Net assets, at end of year	$8,776,165,394	$ 56,937,182	$8,719,228,212	$7,860,746,864	$ 123,951,825	$7,736,795,039
CHANGES IN NET ASSETS BY CATEGORY						
Decrease in unrestricted net assets	$ (67,648,518)	$ (67,648,518)	$ -	$ (4,557,552)	$ (4,557,552)	$ -
Increase (decrease) in temporarily restricted net assets	983,067,048	633,875	982,433,173	(181,117,816)	(1,312,025)	(179,805,791)
Total increase (decrease) in net assets	$ 915,418,530	$ (67,014,643)	$ 982,433,173	$ (185,675,368)	$ (5,869,577)	$ (179,805,791)

*Intercompany contributions and distributions of $390,000,000 and $367,000,000 for the years ended August 31, 2016 and 2015, 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, 2016 and 2015

	2016			2015		
	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	$ 915,418,530	$ (67,014,643)	$ 982,433,173	$ (185,675,368)	$ (5,869,577)	$ (179,805,791)
Adjustments to reconcile changes in net assets to cash flows used in operating activities						
Depreciation	3,404,252	3,404,252	-	3,692,953	3,692,953	-
Disposal of property and equipment	883,222	883,222	-	-	-	-
Net realized gains on long-term investments	(300,530,192)	(6,213,223)	(294,316,969)	(252,158,485)	(14,003,098)	(238,155,387)
Change in net unrealized (gains) losses on investments	(980,087,718)	(8,040,832)	(972,046,886)	206,675,485	30,750,627	175,924,858
Change in value in interest in irrevocable trusts	(633,875)	(633,875)	-	1,312,025	1,312,025	-
Adjustment for inherent contribution - program-related loans receivable and related amortization	(1,204,992)	(1,204,992)	-	3,676,525	3,676,525	-
Provision for deferred excise tax	19,608,800	160,811	19,447,989	(4,140,114)	(615,087)	(3,525,027)
Change in operating assets and liabilities						
Accrued interest and dividends	(553,485)	(19,278)	(534,207)	256,837	124,683	132,154
Other assets	875,451	(267,524)	1,142,975	2,783,463	1,288,147	1,495,316
Accounts payable	(1,218,724)	(1,218,724)	-	(2,380,362)	(2,380,362)	-
Accrued liabilities	(874,082)	(874,082)	-	2,291,682	2,291,682	-
Grant commitments payable	65,908,668	65,908,668	-	(33,323,556)	(33,323,556)	-
Postretirement liability	12,765,068	12,765,068	-	9,908,860	9,908,860	-
Net cash used in operating activities	(266,239,077)	(2,365,152)	(263,873,925)	(247,080,055)	(3,146,178)	(243,933,877)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(1,890,579,755)	(428,847,632)	(1,461,732,124)	(2,308,925,498)	(230,524,816)	(2,078,400,682)
Proceeds from sale of investments	2,137,591,901	447,958,986	1,689,632,916	2,541,346,206	217,529,452	2,323,816,754
Increase in collateral held under securities lending arrangement, net	(102,867,000)	-	(102,867,000)	(38,742,756)	-	(38,742,756)
Proceeds from payments on loan receivables	646,761	646,761	-	503,821	503,821	-
Disbursements for program-related investments	(3,000,000)	(3,000,000)	-	(4,000,000)	(4,000,000)	-
Acquisition of fixed assets	(1,295,599)	(1,295,599)	-	(1,839,373)	(1,839,373)	-
Net cash provided by (used in) investing activities	140,496,308	15,462,516	125,033,792	188,342,400	(18,330,916)	206,673,316
CASH FLOWS FROM FINANCING ACTIVITIES						
Receipts of cash collateral under securities lending arrangement, net	102,867,000	-	102,867,000	38,742,756	-	38,742,756
Net cash provided by financing activities	102,867,000	-	102,867,000	38,742,756	-	38,742,756
Decrease (increase) in cash and cash equivalents	(22,875,769)	13,097,364	(35,973,133)	(19,994,899)	(21,477,094)	1,482,195
Cash and cash equivalents, beginning of year	189,199,632	27,730,084	161,469,548	209,194,531	49,207,178	159,987,353
Cash and cash equivalents, end of year	$ 166,323,863	$ 40,827,448	$ 125,496,415	$ 189,199,632	$ 27,730,084	$ 161,469,548

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 and expense, respectively, in the period received/made. 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 the Trust board members in common with the Foundation, 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.

Program-Related Investments

The Foundation makes program-related investments (PRIs) in the form of loans that support its grant-making programs in the U.S. and Latin America. Interest rates generally are 1% and principal is scheduled to be paid in full to the Foundation by the maturity dates, ranging from August 2019 to August 2025.

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

Program-Related Investments *(continued)*

The Foundation reports the loans receivable net of a discount reflecting an inherent contribution when the loans are made due to the below-market rate of interest. Loans receivable are reported net of a discount of $2,471,533 and $3,676,525 at August 31, 2016 and 2015, respectively.

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, 2016 and 2015, 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.

Interest in Irrevocable Trusts

The Foundation has irrevocable rights as the beneficiary to two remaining trusts and reports the fair value of its interest in irrevocable trusts on the statement of financial position. The change in value in interest in irrevocable trusts is the gains or losses of the investments held in these trusts reported on the statement of activities.

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

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, 2016 and 2015, the Foundation had conditional grants outstanding of $75,487,418 and $38,133,712, respectively.

Line of Credit

The Trust has entered into an unsecured, committed credit facility agreement 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, 2016 and 2015.

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. The Foundation and the Trust may generate income through certain alternative investments and, therefore, may be subject to unrelated business income tax.

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 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Adoption of Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Fair Value Measurement: Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share*. The new guidance removes, from the fair value hierarchy, investments for which the practical expedient is used to measure fair value at net asset value (NAV). Instead, an entity is required to include those investments as a reconciling line item so that the total fair value amount of investments in the disclosure is consistent with the amount on the balance sheet. The guidance is effective for the Foundation and the Trust beginning after December 15, 2016, with retrospective application required for all comparative periods presented. At this time, the Foundation and the Trust are evaluating the implications of ASU No. 2015-07 and its effects on the disclosures in the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, which changes how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU requires an amended presentation and disclosures to help not-for-profit organizations provide more relevant information about their resources and changes in those resources. The amendments are effective for the Foundation's and Trust's fiscal year ending August 31, 2019, with early adoption permitted. This ASU will impact the presentation of the consolidated financial statements and related disclosures when it is adopted.

Reclassification

Certain prior-year amounts reported in the accompanying consolidated statements of financial position and cash flows 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 for 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.

NOTE 3 INVESTMENTS *(continued)*

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 90 days 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 and fixed-income securities, 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 68,374,190 and 70,374,190 as of August 31, 2016 and 2015, 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 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 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 NAVs 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.

NOTE 3 INVESTMENTS *(continued)*

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.

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 realized gain or losses.

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. As of August 31, 2016 and 2015, the derivative contract assets at fair value are as follows:

	2016	2015
Derivative contracts assets	$ 6,193,586	$ 5,653,990

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 (consisting of cash and cash equivalents and U.S. government debt 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, 2016 and 2015, investments in securities with fair values of $289,181,437and $186,854,035, respectively, were loaned. The value of the collateral of investments loaned was $295,375,024 and $192,508,024 at August 31, 2016 and 2015, respectively. The collateral amount has been reflected as an asset and a liability in the accompanying consolidated statements of financial position at August 31, 2016 and 2015. As of August 31, 2016, investments loaned with a fair value of $197,394,272 were collateralized with cash and cash equivalents valued at $201,712,182 and investments loaned with a fair value of $91,787,165 were collateralized with U.S. government debt securities valued at $93,662,842. As of August 31, 2015, investments loaned with a fair value of $184,903,121 were collateralized with cash and cash equivalents valued at $190,517,906 and investments loaned with a fair value of $1,950,914 were collateralized with U.S. government debt valued at $1,990,118.

NOTE 3 INVESTMENTS *(continued)*

Securities Lending *(continued)*

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 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, 2016 and 2015, respectively.

	2016			
	Total	Level 1	Level 2	Level 3
ASSETS				
Temporary investments	$ 47,971,018	$ 31,913,897	$ 16,057,121	$ -
Kellogg Company common stock	5,621,042,160	5,621,042,160	-	-
Public equities, including mutual funds	764,469,752	763,177,132	1,292,620	-
Fixed-income securities	355,148,589	210,814,228	143,525,455	808,906
Commingled funds	840,252,998	-	820,062,247	20,190,751
Hedge funds	699,986,996	-	107,558,865	592,428,131
Private equity funds	638,845,775	-	-	638,845,775
Real estate funds	166,268,893	6,717,235	-	159,551,658
Total investments	$ 9,133,986,181	$ 6,633,664,652	$ 1,088,496,308	$ 1,411,825,221
Interests in irrevocable trusts	$ 18,212,094	$ -	$ -	$ 18,212,094

	2015			
	Total	Level 1	Level 2	Level 3
ASSETS				
Temporary investments	$ 77,549,764	$ 46,131,088	$ 31,418,676	$ -
Kellogg Company common stock	4,664,401,313	4,664,401,313	-	-
Public equities, including mutual funds	661,646,893	660,571,443	1,075,450	-
Fixed-income securities	300,163,722	155,996,399	143,295,223	872,100
Commingled funds	951,418,228	-	921,298,776	30,119,452
Hedge funds	678,396,051	-	120,128,327	558,267,724
Private equity funds	606,555,924	-	-	606,555,924
Real estate funds	180,821,010	-	-	180,821,010
Total investments	$ 8,120,952,905	$ 5,527,100,243	$ 1,217,216,452	$ 1,376,636,210
Interests in irrevocable trusts	$ 17,578,219	$ -	$ -	$ 17,578,219

	2016			
	Total	Level 1	Level 2	Level 3
FOREIGN HOLDINGS				
(included in investments)				
Public equities, including mutual funds	$ 168,952,170	$ 168,952,170	$ -	$ -
Fixed-income securities	13,066,627	-	13,066,627	-
Hedge funds	25,211,538	-	-	25,211,538
Private equity funds	82,770,504	-	-	82,770,504
Real estate funds	24,596,408	-	-	24,596,408
Total investments	$ 314,597,247	$ 168,952,170	$ 13,066,627	$ 132,578,450

	2015			
	Total	Level 1	Level 2	Level 3
FOREIGN HOLDINGS				
(included in investments)				
Public equities, including mutual funds	$ 153,626,905	$ 153,626,905	$ -	$ -
Fixed-income securities	17,546,313	-	17,546,313	-
Hedge funds	28,491,321	-	-	28,491,321
Private equity funds	76,303,324	-	-	76,303,324
Real estate funds	20,921,238	-	-	20,921,238
Total investments	$ 296,889,101	$ 153,626,905	$ 17,546,313	$ 125,715,883

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

The table below includes a roll-forward of the amounts for the Foundation and the Trust for the years ended August 31, 2016 and 2015, of Level 3 investments:

	2016	2015
Beginning balance	$ 1,376,636,210	$ 1,308,579,532
Purchases	381,291,987	564,647,079
Sales	(386,537,151)	(559,503,396)
Net realized gain on investments	78,761,476	42,746,875
Net change in unrealized (loss) gain of investments sold	(1,933,045)	36,367,518
Net change in unrealized loss of investments held	(36,394,256)	(16,201,398)
Ending balance	$ 1,411,825,221	$ 1,376,636,210

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 table summarizes the investment strategy types of the funds as of the years ended August 31, 2016 and 2015.

	2016		2015	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Commingled funds[a]	$ 840,252,998	$ -	$ 951,418,228	$ -
Hedge funds[b]	699,986,996	-	678,396,051	-
Private equity funds[c]	638,845,774	397,430,693	606,555,924	351,414,739
Real estate funds[c]	166,268,893	108,039,393	180,821,010	108,810,013
Total	$ 2,345,354,661	$ 505,470,086	$ 2,417,191,213	$ 460,224,752

[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" reported within Level 3 of the ASC 820 hierarchy are liquidated through distributions generated upon the sale of the underlying investments. The liquidation period can range from 2-10 years. The Private equity funds and Real estate funds categories include 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 $100,859,737 and $73,308,000 at August 31, 2016 and 2015, 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 as the Foundation asserts the fair value approximates the recorded value and the adjustment was deemed not material. Total grants commitments payable in more than one year at August 31, 2016, are expected to be paid to grantees as follows: approximately $82,431,622 in fiscal 2018, $16,632,393 in fiscal 2019, and $1,795,722 in fiscal year 2020 and 2021.

NOTE 5 INCOME TAXES AND SUPPLEMENTAL CASH FLOW INFORMATION

The current provision for the Foundation for federal excise tax is based on a 1% rate for the fiscal years ended August 31, 2016 and 2015, respectively. The current provision for the Trust for federal excise tax is based on a 1% rate for the fiscal years ended August 31, 2016 and 2015. The deferred provision is based on unrealized appreciation on investments at a 2% rate for both of the fiscal years ended August 31, 2016 and 2015. Certain income defined as unrelated business taxable income by the code may be subject to tax at ordinary rates and is included in the current tax provision. The current and deferred tax provisions are reflected in the accompanying consolidated statements of activities.

Cash flows associated with taxes are as follows:

	Foundation		Trust	
	2016	2015	2016	2015
Cash payments for federal excise taxes	$ 190,000	$ -	$ 3,200,000	$ 3,700,000
Cash payments for federal UBI tax	$ -	$ -	$ 220,451	$ -

NOTE 5 INCOME TAXES AND SUPPLEMENTAL CASH FLOW INFORMATION *(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	
	2016	**2015**
Grants	$ 321,558,603	$ 301,712,284
Program activities and general operations	77,149,719	78,112,209
Costs of earning income and excise tax	2,684,435	4,577,061
Total	$ 401,392,757 *	$ 384,401,554

* 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 2012 under federal, state, and local tax jurisdictions.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2016 and 2015 are summarized as follows:

	2016	**2015**
Land and land improvements	$ 18,839,544	$ 18,798,206
Buildings and building improvements	56,995,734	56,882,782
Equipment	4,870,957	4,591,605
Furniture and fixtures	9,068,228	9,062,755
Capitalized software costs	18,649,990	18,175,638
Work in process	635,588	1,136,679
	109,060,041	108,647,665
Accumulated depreciation	(65,568,996)	(62,164,745)
Total	$ 43,491,045	$ 46,482,920

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 $2,706,994 and $2,788,331 in 2016 and 2015, 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. No contributions were made to the defined benefit retirement plan during the years ended August 31, 2016 and 2015. 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 does not anticipate making a contribution during the plan year ending August 31, 2017. 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. The postretirement medical and life insurance plan was closed to employees hired after June 1, 2012, and the plan formula was changed for prospective benefit accruals beginning September 1, 2012. At August 31, 2016 and 2015, the benefit obligation for the postretirement medical and life insurance benefits plan reflects the projected cost of excise taxes to be imposed under the Affordable Care Act.

The total postretirement benefits liability of $102,677,007 and $89,911,939 at August 31, 2016 and 2015, respectively, is comprised of the following components:

NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

	Pension Benefits		Other Benefits	
	2016	**2015**	**2016**	**2015**
Benefit obligation–August 31	$ 14,737,301	$ 9,403,875	$ 95,543,657	$ 88,329,842
Fair value of plan assets–August 31	7,603,951	7,821,778	-	-
Unfunded status	$ (7,133,350)	$ (1,582,097)	$ (95,543,657)	$ (88,329,842)
Accrued benefit cost recognized in the consolidated statement of financial position	$ (7,133,350)	$ (1,582,097)	$ (95,543,657)	$ (88,329,842)
Accumulated benefit obligation	$ 5,998,639	$ 5,850,024		
Amounts not yet reflected in net periodic benefit costs and changes in such amounts				
Prior service cost (credit)	$ -	$ -	$ 899,000	$ 1,239,531
Accumulated loss	(7,390,194)	(2,515,382)	(31,188,361)	(31,262,161)
Total	$ (7,390,194)	$ (2,515,382)	(30,289,361)	(30,022,630)
Net actuarial gain (loss)	$ (5,457,614)	$ (1,243,012)	$ (1,493,869)	$ (4,476,666)
Amortization of prior service cost (credit)	-	8,216	(340,531)	(340,531)
Amortization of actuarial gain	582,802	34,217	1,567,669	1,280,107
Total	$ (4,874,812)	$ (1,200,579)	(266,731)	(3,537,090)
Amortization amounts to be reflected in net periodic benefit costs for fiscal year 2017				
Prior service cost (credit)	$ -		$ (340,531)	
Accumulated loss	503,101		1,418,623	
Total	$ 503,101		$ 1,078,092	
Benefit costs, employer contribution and benefits paid				
Benefit cost	$ 574,405	$ (116,891)	$ 8,523,066	$ 7,148,668
Employer contribution	-	-	1,575,982	2,358,995
Benefits paid	928,345	355,907	1,575,982	2,358,995
Assumptions and dates used for disclosure				
Discount rate	3.59%	4.46%	3.59%	4.46%
Expected rate of return on plan assets	6.50%	6.50%	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	4.46%	4.09%	4.46%	4.09%
Expected rate of return on plan assets	6.50%	6.50%	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	7.14%/7.90%	7.15%/7.14%
Ultimate trend rate	N/A	N/A	4.50%	4.50%
Year trend rate is reached pre-/post-Medicare	N/A	N/A	—	—

On October 8, 2015, the Society of Actuaries (SOA) released an updated mortality improvement scale, MP2015, to incorporate more recent historical mortality improvement data that had become available since the development of the previous scale. During 2015, the Foundation changed its mortality assumption from the RP2000 White Collar tables projected forward with scale AA with 21-year projection period to the sex distinct RP2014 Generational White Collar tables projected with MP2015 projection scale.

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, 2016:

Years Ending August 31	Pension	Post Retirement
2017	$ 1,133,259	$ 2,542,740
2018	266,147	2,758,415
2019	1,010,421	2,939,004
2020	563,762	3,117,700
2021	280,664	3,334,209
2022-2027	6,689,728	19,469,526

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 6.50% long-term rate of return on plan assets assumption for each of 2016 and 2015.

NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

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 $390,000,000 and $367,000,000 were recorded for the years ended August 31, 2016 and 2015, 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 $633,875 and decreased by $1,312,025 for the years ended August 31, 2016 and 2015, respectively, 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, 2016 and December 7, 2016, 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, 2016

This schedule represents an analysis of W. K. Kellogg Foundation gifts and Trust receipts at historical value from inception through August 31, 2016. The Foundation and the Trust were established in 1930 and 1934, respectively.

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	
Carrie Staines Trust	52,463,328	
		60,998,388
		$ 86,496,656