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

Consolidated Financial Statements and
Supplemental Schedule
For the Years Ended August 31, 2017 and 2016
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
For the Years Ended August 31, 2017 and 2016

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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, 2017 and 2016, 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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MITCHELL TITUS

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, 2017 and 2016, 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 from inception through August 31, 2017 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

January 10, 2018

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
Consolidated Statements of Financial Position
As of August 31, 2017 and 2016

	2017			2016		
	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	$ 134,834,339	$ 19,512,306	$ 115,322,033	$ 166,323,863	$ 40,827,448	$ 125,496,415
Kellogg Company common stock	4,446,818,115	-	4,446,818,115	5,621,042,160	-	5,621,042,160
Diversified investments	3,397,353,444	260,061,478	3,137,291,966	3,300,008,582	242,848,757	3,057,159,825
Mission-driven investments	63,108,531	63,108,531	-	69,095,040	69,095,040	-
Program-related investments	17,611,011	17,611,011	-	12,877,885	12,877,885	-
Collateral under securities lending and derivative agreements	-	-	-	295,375,024	-	295,375,024
Accrued interest and dividends	38,086,406	328,241	37,758,165	36,953,404	290,436	36,662,968
Net receivable on unsettled trades	84,017,665	115,126	83,902,539	95,061	95,061	-
Property and equipment	43,046,801	43,046,801	-	43,491,045	43,491,045	-
Other assets	1,830,596	476,605	1,353,991	709,093	431,856	277,237
Interest in irrevocable trusts	19,831,284	19,831,284	-	18,212,094	18,212,094	-
Total assets	$ 8,246,538,192	$ 424,091,383	$ 7,822,446,809	$ 9,564,183,251	$ 428,169,622	$ 9,136,013,629
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	$ 2,641,167	$ 2,641,167	$ -	$ 2,380,383	$ 2,380,383	$ -
Accrued liabilities	5,455,839	5,455,839	-	4,379,186	4,379,186	-
Payable under securities lending and derivative agreements	-	-	-	295,375,024	-	295,375,024
Net trade settlement payables	-	-	-	3,100,567	-	3,100,567
Grant commitments payable	273,894,604	273,894,604	-	261,396,697	261,396,697	-
Deferred federal excise tax liability	98,989,316	845,247	98,144,069	118,708,993	399,167	118,309,826
Postretirement liability	83,118,652	83,118,652	-	102,677,007	102,677,007	-
Total liabilities	464,099,578	365,955,509	98,144,069	788,017,857	371,232,440	416,785,417
Net assets						
Unrestricted	38,304,590	38,304,590	-	38,725,088	38,725,088	-
Temporarily restricted	7,744,134,024	19,831,284	7,724,302,740	8,737,440,306	18,212,094	8,719,228,212
Total net assets	7,782,438,614	58,135,874	7,724,302,740	8,776,165,394	56,937,182	8,719,228,212
Total liabilities and net assets	$ 8,246,538,192	$ 424,091,383	$ 7,822,446,809	$ 9,564,183,251	$ 428,169,622	$ 9,136,013,629

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, 2017 and 2016

	2017			2016		
	Consolidated	W. K. Kellogg Foundation	W. K. Kellogg Foundation Trust	Consolidated	W. K. Kellogg Foundation	W. K. Kellogg Foundation Trust
REVENUE AND GAINS (LOSSES)						
Contributions from W. K. Kellogg Foundation Trust*	$ -	$ 387,000,000	$ -	$ -	$ 390,000,000	$ -
Contributions from irrevocable trusts	250,117	250,117	-	231,367	231,367	-
Total contributions	250,117	387,250,117	-	231,367	390,231,367	-
Interest income	4,724,396	1,639,666	3,084,730	5,877,663	1,615,858	4,261,805
Dividend income	159,599,626	3,812,917	155,786,709	159,198,827	3,698,987	155,499,840
Net realized gains on sales of investments	265,026,162	6,683,221	258,342,941	300,530,192	6,213,223	294,316,969
Change in unrealized gains (losses) on investments	(985,960,425)	22,306,208	(1,008,266,633)	980,087,718	8,040,832	972,046,886
Less: Costs of earning income	(34,964,192)	(3,554,443)	(31,409,749)	(32,863,555)	(2,684,435)	(30,179,120)
Change in value in interest in irrevocable trusts	1,619,190	1,619,190	-	633,875	633,875	-
Net investment income (loss)	(589,955,243)	32,506,759	(622,462,002)	1,413,464,720	17,518,340	1,395,946,380
Refunds of prior-year program payments	2,078,109	2,078,109	-	1,033,045	1,033,045	-
Total revenue and gains (losses)	(587,627,017)	421,834,985	(622,462,002)	1,414,729,132	408,782,752	1,395,946,380
EXPENSES						
Distributions to the W. K. Kellogg Foundation*	-	-	387,000,000	-	-	390,000,000
Grants	357,040,753	357,040,753	-	384,758,609	384,758,609	-
Program activities	19,070,140	19,070,140	-	18,605,456	18,605,456	-
General operations	67,614,999	67,614,999	-	63,692,672	63,692,672	-
Depreciation	2,757,728	2,757,728	-	3,404,252	3,404,252	-
Federal excise tax (benefit) provision and other						
Current	5,675,496	46,269	5,629,227	4,099,270	34,052	4,065,218
Deferred	(19,719,677)	446,080	(20,165,757)	19,608,800	160,811	19,447,989
Total expenses	432,439,439	446,975,969	372,463,470	494,169,059	470,655,852	413,513,207
Accumulated postretirement benefit gain (loss) not yet reflected in net benefit costs	26,339,676	26,339,676	-	(5,141,543)	(5,141,543)	-
Total increase (decrease) in net assets	(993,726,780)	1,198,692	(994,925,472)	915,418,530	(67,014,643)	982,433,173
Net assets, at beginning of year	8,776,165,394	56,937,182	8,719,228,212	7,860,746,864	123,951,825	7,736,795,039
Net assets, at end of year	$ 7,782,438,614	$ 58,135,874	$ 7,724,302,740	$ 8,776,165,394	$ 56,937,182	$ 8,719,228,212
CHANGES IN NET ASSETS BY CATEGORY						
Decrease in unrestricted net assets	$ (420,498)	$ (420,498)	$ -	$ (67,648,518)	$ (67,648,518)	$ -
Increase (decrease) in temporarily restricted net assets	(993,306,282)	1,619,190	(994,925,472)	983,067,048	633,875	982,433,173
Total increase (decrease) in net assets	$ (993,726,780)	$ 1,198,692	$ (994,925,472)	$ 915,418,530	$ (67,014,643)	$ 982,433,173

*Intercompany contributions and distributions of $387,000,000 and $390,000,000 for the years ended August 31, 2017 and 2016, 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, 2017 and 2016

	2017			2016		
	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	$ (993,726,780)	$ 1,198,692	$ (994,925,472)	$ 915,418,530	$ (67,014,643)	$ 982,433,173
Adjustments to reconcile changes in net assets to cash flows used in operating activities						
Depreciation	2,757,728	2,757,728	-	3,404,252	3,404,252	-
Disposal of property and equipment	635,588	635,588	-	883,222	883,222	-
Net realized gains on long-term investments	(265,026,162)	(6,683,221)	(258,342,941)	(300,530,192)	(6,213,223)	(294,316,969)
Change in net unrealized (gains) losses on investments	985,960,425	(22,306,208)	1,008,266,633	(980,087,718)	(8,040,832)	(972,046,886)
Change in value in interest in irrevocable trusts	(1,619,190)	(1,619,190)	-	(633,875)	(633,875)	-
Adjustment for inherent contribution - program-related loans receivable and related amortization	1,636,307	1,636,307	-	(1,204,992)	(1,204,992)	-
Provision for deferred excise tax	(19,719,677)	446,080	(20,165,757)	19,608,800	160,811	19,447,989
Change in operating assets and liabilities						
Accrued interest and dividends	(1,133,002)	(37,805)	(1,095,197)	(553,485)	(19,278)	(534,207)
Other assets	(1,121,503)	(44,749)	(1,076,754)	875,451	(267,524)	1,142,975
Accounts payable	260,784	260,784	-	(1,218,724)	(1,218,724)	-
Accrued liabilities	1,076,653	1,076,653	-	(874,082)	(874,082)	-
Grant commitments payable	12,497,907	12,497,907	-	65,908,668	65,908,668	-
Postretirement liability	(19,558,355)	(19,558,355)	-	12,765,068	12,765,068	-
Net cash used in operating activities	(297,079,277)	(29,739,789)	(267,339,488)	(266,239,077)	(2,365,152)	(263,873,925)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(1,638,356,601)	(172,792,583)	(1,465,564,018)	(1,890,579,756)	(428,847,632)	(1,461,732,124)
Proceeds from sale of investments	1,913,264,859	190,535,735	1,722,729,124	2,137,591,902	447,958,986	1,689,632,916
Decrease (increase) in collateral held under securities lending arrangement, net	295,375,024	-	295,375,024	(102,867,000)	-	(102,867,000)
Proceeds from payments on loan receivables	697,954	697,954	-	646,761	646,761	-
Disbursements for program-related investments	(7,067,387)	(7,067,387)	-	(3,000,000)	(3,000,000)	-
Acquisition of fixed assets	(2,949,072)	(2,949,072)	-	(1,295,599)	(1,295,599)	-
Net cash provided by investing activities	560,964,777	8,424,647	552,540,130	140,496,308	15,462,516	125,033,792
CASH FLOWS FROM FINANCING ACTIVITIES						
(Repayment) receipts of cash collateral under securities lending arrangement, net	(295,375,024)	-	(295,375,024)	102,867,000	-	102,867,000
Net cash (used in) provided by financing activities	(295,375,024)	-	(295,375,024)	102,867,000	-	102,867,000
(Decrease) increase in cash and cash equivalents	(31,489,524)	(21,315,142)	(10,174,382)	(22,875,769)	13,097,364	(35,973,133)
Cash and cash equivalents, beginning of year	166,323,863	40,827,448	125,496,415	189,199,632	27,730,084	161,469,548
Cash and cash equivalents, end of year	$ 134,834,339	$ 19,512,306	$ 115,322,033	$ 166,323,863	$ 40,827,448	$ 125,496,415

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 consolidated 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.

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

Program-Related Investments

The Foundation makes program-related investments (PRIs) to other organizations in the U.S. and Latin America. PRIs are strategic investments, beyond grants, made by the Foundation for the specific objective of furthering the Foundation's charitable purpose. These investments are comprised of primarily loans and equity investments. The production of income is not the primary driver of a PRI. For the fiscal year ended August 31, 2017, the Foundation entered into three new PRI investments.

The Foundation's loan portfolio includes loans invested in not-for-profit and private sector entities. These investments enable partner organizations to support the Foundation mission, which is accomplished through an increase in the percentage of healthy, educated children, ages 0-8, living in economically secure families. The partners use community-led strategies to ensure equitable outcomes for children of all races/ethnicities. Interest payments are due on the outstanding loan amounts generally at interest rates of 1%. Repayment of the outstanding loan amounts is scheduled by the maturity dates, ranging from August 2019 to August 2027.

Loan PRIs consist of loans outstanding bearing a below-market interest rate. Loans are measured at fair value at inception to determine if a contribution element exists. Loans are recorded on a net basis to reflect a discount on loan receivable (if a contribution element exists) or a reasonable loss reserve. The loss reserve is reviewed on an annual basis and adjusted if collectability risk has significantly changed based on the Foundation's understanding of the borrower's financial health and/or payment history. Management has reviewed all PRIs for the years ended August 31, 2017 and 2016, and no loss reserve has been recorded. Any costs of making loans are expensed as incurred.

Loans receivable are reported net of a discount of $4,030,595 and $2,471,533 at August 31, 2017 and 2016, respectively.

Equity PRIs include investments in equity funds. Equity investments are recorded at fair value. To arrive at the fair value, the Foundation obtains regular valuations from the investees, as well as audited financial statements. The Foundation records unrealized gains or losses throughout the life of the investments and realized gains or losses upon liquidation or sale.

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).

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

Investments *(continued)*

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.

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, 2017 and 2016, the Foundation had conditional grants outstanding of $102,324,969 and $75,487,418, 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, 2017 and 2016.

Use of Estimates

The preparation of consolidated 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.

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

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.

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 in the fiscal year ending August 31, 2018, 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.

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.

Temporary investments consist of cash and cash 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 67,931,838 and 68,374,190 as of August 31, 2017 and 2016, 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 the 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.

NOTE 3 INVESTMENTS *(continued)*

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.

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 are 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, 2017 and 2016, the derivative contract assets at fair value are as follows:

	2017	**2016**
Derivative contracts assets	$ -	$ 6,193,586

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.

NOTE 3 INVESTMENTS *(continued)*

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. Prior to August 31, 2017, the Trust closed the securities lending arrangement with the Bank of New York Mellon. As of August 31, 2016, investments in securities with fair values of $289,181,437 were loaned. The value of the collateral of investments loaned was $295,375,024 at August 31, 2016. The collateral amount has been reflected as an asset and a liability in the accompanying consolidated statements of financial position at August 31, 2016. As of August 31, 2017, there were no securities loaned or related collateral held.

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.

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

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, 2017 and 2016, respectively.

	2017			
	Total	**Level 1**	**Level 2**	**Level 3**
ASSETS				
Temporary investments	$ 45,821,349	$ 45,821,349	$ -	$ -
Kellogg Company common stock	4,446,818,115	4,446,818,115	-	-
Public equities, including mutual funds	740,943,589	739,403,572	1,540,017	-
Fixed-income securities	195,427,402	173,653,579	21,160,727	613,096
Commingled funds	987,742,253	-	898,179,080	89,563,173
Hedge funds	640,147,110	-	64,662,834	575,484,276
Private equity funds	702,976,783	-	-	702,976,783
Real estate funds	186,723,250	36,963,313	-	149,759,937
Total investments	$ 7,946,599,851	$ 5,442,659,928	$ 985,542,658	$ 1,518,397,265
Interests in irrevocable trusts	$ 19,831,284	$ -	$ -	$ 19,831,284

	2016			
	Total	**Level 1**	**Level 2**	**Level 3**
ASSETS				
Temporary investments	$ 47,971,018	$ 32,445,291	$ 15,525,727	$ -
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	$ 6,634,196,046	$ 1,087,964,914	$ 1,411,825,221
Interests in irrevocable trusts	$ 18,212,094	$ -	$ -	$ 18,212,094

	2017			
	Total	**Level 1**	**Level 2**	**Level 3**
FOREIGN HOLDINGS				
(included in investments)				
Public equities, including mutual funds	$ 167,289,459	$ 167,289,459	$ -	$ -
Fixed-income securities	4,728,785	-	4,728,785	-
Hedge funds	-	-	-	-
Private equity funds	114,046,031	-	-	114,046,031
Real estate funds	27,048,202	-	-	27,048,202
Total investments	$ 313,112,477	$ 167,289,459	$ 4,728,785	$ 141,094,233

	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

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
Notes to Consolidated Financial Statements
For the Years Ended August 31, 2017 and 2016

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, 2017 and 2016, of Level 3 investments:

	2016	2015
Beginning balance	$ 1,411,825,221	$ 1,376,636,210
Purchases	388,581,653	381,291,987
Sales	(448,867,966)	(386,537,151)
Net realized gain on investments	80,502,713	78,761,476
Net change in unrealized (loss) gain of investments sold	100,714,851	(1,933,045)
Net change in unrealized loss of investments held	(14,359,207)	(36,394,256)
Ending balance	$ 1,518,397,265	$ 1,411,825,221

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, 2017 and 2016.

	2017		2016	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Commingled funds[(a)]	$ 987,742,253	$ -	$ 840,252,998	$ -
Hedge funds[(b)]	640,147,110	-	699,986,996	-
Private equity funds[(c)]	702,976,783	465,318,049	638,845,774	397,430,693
Real estate funds[(c)]	186,723,250	67,560,880	166,268,893	108,039,393
Total	$ 2,517,589,396	$ 532,878,929	$ 2,345,354,661	$ 505,470,086

(a) “Commingled funds” are highly liquid and the majority of these funds 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 $106,958,087 and $100,859,737 at August 31, 2017 and 2016, 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 to be immaterial. Total grant commitments payable in more than one year at August 31, 2017, are expected to be paid to grantees as follows: approximately $83,886,718 in fiscal 2018, $18,249,272 in fiscal 2019, and $4,822,097 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, 2017 and 2016, respectively. The current provision for the Trust for federal excise tax is based on a 1% rate for the fiscal years ended August 31, 2017 and 2016. The deferred provision is based on unrealized appreciation on investments at a 2% rate for both of the fiscal years ended August 31, 2017 and 2016. 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	
	2017	**2016**	**2017**	**2016**
Cash payments for federal excise taxes	$ 1,697	$ 190,000	$ 4,700,000	$ 3,200,000
Cash payments for federal UBI tax	$ -	$ -	$ 1,515,000	$ 220,451

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	
	2017	**2016**
Grants	$ 351,610,233	$ 321,558,603
Program activities and general operations	82,602,445	77,149,719
Costs of earning income and excise tax	4,000,523	2,684,435
Total	$ 438,213,201	$ 401,392,757 *

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

NOTE 5 INCOME TAXES AND SUPPLEMENTAL CASH FLOW INFORMATION *(continued)*

Management evaluated all tax positions and concluded that the Foundation and the Trust have no uncertain tax positions that require recognition in the accompanying consolidated financial statements or further disclosure in the notes to the consolidated financial statements. The Foundation and the Trust file annual informational returns with the IRS and state and local tax authorities. The entities are subject to audits by taxing jurisdictions; however, no audits for any periods are currently in progress. Management believes that the entities are no longer subject to audits for years prior to 2013 under federal, state, and local tax jurisdictions.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2017 and 2016 are summarized as follows:

	2017	2016
Land and land improvements	$ 18,960,183	$ 18,839,544
Buildings and building improvements	57,652,417	56,995,734
Equipment	5,174,275	4,870,957
Furniture and fixtures	9,129,886	9,068,228
Capitalized software costs	19,299,442	18,649,990
Work in process	1,157,322	635,588
	111,373,525	109,060,041
Accumulated depreciation	(68,326,724)	(65,568,996)
Total	$ 43,046,801	$ 43,491,045

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 $3,094,626 and $2,706,994 in 2017 and 2016, 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 $600,000 to the defined benefit retirement plan during the year ended August 31, 2017. No contributions were made to the defined benefit retirement plan during the year ended August 31, 2016. 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, 2018. The pension plan's assets consist of mutual funds that are considered Level 1 assets in accordance with ASC 820.

NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

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, 2017 and 2016, 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.

NOTE 7 POSTRETIREMENT BENEFITS *(continued)*

The total postretirement benefits liability of $83,118,652 and $102,677,007 at August 31, 2017 and 2016, respectively, is comprised of the following components:

	Pension Benefits		Other Benefits	
	2017	2016	2017	2016
Benefit obligation–August 31	$ 8,394,749	$ 14,737,301	$ 82,810,417	$ 95,543,657
Fair value of plan assets–August 31	8,086,514	7,603,951	-	-
Unfunded status	$ (308,235)	$ (7,133,350)	$ (82,810,417)	$ (95,543,657)
Accrued benefit cost recognized in the consolidated statement of financial position	$ (308,235)	$ (7,133,350)	$ (82,810,417)	$ (95,543,657)
Accumulated benefit obligation	$ 3,493,829	$ 5,998,639		
Amounts not yet reflected in net periodic benefit costs and changes in such amounts				
Prior service cost	$ -	$ -	$ 558,469	$ 899,000
Accumulated loss	(219,636)	(7,390,194)	(11,678,712)	(31,188,361)
Total	$ (219,636)	$ (7,390,194)	(11,120,243)	(30,289,361)
Net actuarial gain (loss)	$ 6,667,457	$ (5,457,614)	$ 18,091,026	$ (1,493,869)
Amortization of prior service cost (credit)	-	-	(340,531)	(340,531)
Amortization of actuarial gain	503,101	582,802	1,418,623	1,567,669
Total	$ 7,170,558	$ (4,874,812)	19,169,118	(266,731)
Amortization amounts to be reflected in net periodic benefit costs for fiscal year 2018				
Prior service cost (credit)	$ -		$ (340,531)	
Accumulated loss	-		260,358	
Total	$ -		$ (80,173)	
Benefit costs, employer contribution and benefits paid				
Benefit cost	$ 945,443	$ 574,405	$ 8,070,730	$ 8,523,066
Employer contribution	600,000	-	1,634,852	1,575,982
Benefits paid	847,248	928,345	1,634,852	1,575,982
Assumptions and dates used for disclosure				
Discount rate	3.79%	3.59%	3.79%	3.59%
Expected rate of return on plan assets	6.50%	6.50%	N/A	N/A
Rate of compensation increase	4.00%	4.50%	N/A	N/A
Measurement date	August 31	August 31	August 31	August 31
Assumptions used to determine expense				
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
Health care cost trend rate assumptions				
Initial trend rate assumption pre-/post-Medicare	N/A	N/A	7.14%/7.90%	7.14%/7.90%
Ultimate trend rate	N/A	N/A	4.50%	4.50%
Year trend rate is reached pre-/post-Medicare	N/A	N/A	2034	2029

N/A—Not applicable.

During 2016, the Foundation changed its mortality assumption from the sex distinct RP2014 Generational White Collar tables projected with the MP2015 projection scale to the RP2014 Generational White Collar tables projected with the MP2016 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, 2017:

Years Ending August 31	Pension	Post Retirement
2018	$ 621,915	$ 2,614,315
2019	597,063	2,782,068
2020	654,291	2,961,274
2021	439,148	3,168,255
2022	325,382	3,290,585
2023-2028	3,055,759	19,145,393

Investment Policy

The Foundation's Retirement Plan Committee (RPC) oversees and monitors the pension plan investment policy with technical expertise provided by the Fund Evaluation Group. To realize the plan's expected rate of return and be within an actuarial tolerance range based on asset allocation, pension plan assets are split (80%/20%) between the Vanguard Total World Stock Index Fund Institutional Shares (VTWIX) and the Western Asset Core Plus Bond Fund (WACPX), respectively, with accounts held at and reported by The Vanguard Group. VTWIX equity fund tracks the performance of a benchmark index that measures the investment return for large-, mid-, and small-capitalization global stocks. WACPX bond fund mainly focuses on a high-quality, U.S. domestic core fixed-income portfolio that may be enhanced with an allocation to high-yield, non-U.S. and emerging market debt. The asset allocation was selected to maximize the return as pension plan cash flow requirements may be met by the Foundation's operating budget, as needed.

Basis Used to Determine the Overall Expected Rate of 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 2017 and 2016.

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 $387,000,000 and $390,000,000 were recorded for the years ended August 31, 2017 and 2016, 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 $1,619,190 and $633,875 for the years ended August 31, 2017 and 2016, 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, 2017 and January 10, 2018, 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, 2017

This schedule represents an analysis of W. K. Kellogg Foundation gifts and Trust receipts at historical value from inception through August 31, 2017. 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