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

Consolidated Financial Statements and
Supplemental Schedule
For the Years Ended August 31, 2018 and 2017
With Independent Auditor's Report

MITCHELL TITUS
ACHIEVING EXCELLENCE TOGETHER

W. K. KELLOGG FOUNDATION AND
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Consolidated Financial Statements and Supplemental Schedule
For the Years Ended August 31, 2018 and 2017

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2018, 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 4, 2018

W. K. KELLOGG FOUNDATION AND
W. K. KELLOGG FOUNDATION TRUST
Consolidated Statements of Financial Position
As of August 31, 2018 and 2017

	2018			2017		
	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	$ 104,908,736	$ 12,915,942	$ 91,992,794	$ 134,834,339	$ 19,512,306	$ 115,322,033
Kellogg Company common stock	4,733,246,650	-	4,733,246,650	4,446,818,115	-	4,446,818,115
Diversified investments	3,569,052,653	240,849,028	3,328,203,625	3,481,371,109	260,176,604	3,221,194,505
Mission-driven investments	69,959,999	69,959,999	-	63,108,531	63,108,531	-
Program-related investments	20,105,479	20,105,479	-	17,611,011	17,611,011	-
Accrued interest and dividends	38,919,316	1,326,802	37,592,514	38,086,406	328,241	37,758,165
Property and equipment	45,168,741	45,168,741	-	43,046,801	43,046,801	-
Other assets	2,442,582	933,850	1,508,732	1,830,596	476,605	1,353,991
Interest in irrevocable trusts	20,921,956	20,921,956	-	19,831,284	19,831,284	-
Total assets	$ 8,604,726,112	$ 412,181,797	$ 8,192,544,315	$ 8,246,538,192	$ 424,091,383	$ 7,822,446,809
LIABILITIES AND NET ASSETS						
Liabilities						
Accounts payable	$ 2,516,474	$ 2,516,474	$ -	$ 2,641,167	$ 2,641,167	$ -
Accrued liabilities	4,930,724	4,930,724	-	5,455,839	5,455,839	-
Grant commitments payable	281,336,074	281,336,074	-	273,894,604	273,894,604	-
Deferred federal excise tax liability	106,471,197	1,189,218	105,281,979	98,989,316	845,247	98,144,069
Postretirement liability	81,850,137	81,850,137	-	83,118,652	83,118,652	-
Total liabilities	477,104,606	371,822,627	105,281,979	464,099,578	365,955,509	98,144,069
Net assets						
Unrestricted	19,437,214	19,437,214	-	38,304,590	38,304,590	-
Temporarily restricted	8,108,184,292	20,921,956	8,087,262,336	7,744,134,024	19,831,284	7,724,302,740
Total net assets	8,127,621,506	40,359,170	8,087,262,336	7,782,438,614	58,135,874	7,724,302,740
Total liabilities and net assets	$ 8,604,726,112	$ 412,181,797	$ 8,192,544,315	$ 8,246,538,192	$ 424,091,383	$ 7,822,446,809

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, 2018 and 2017

	2018			2017		
	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*	$ -	$ 370,000,000	$ -	$ -	$ 387,000,000	$ -
Contributions from irrevocable trusts	330,345	330,345	-	250,117	250,117	-
Total contributions	330,345	370,330,345	-	250,117	387,250,117	-
Interest and dividends	168,399,398	5,018,839	163,380,559	164,324,022	5,452,583	158,871,439
Net realized and unrealized gains (losses) on investments, net of costs of earning income	604,392,905	24,237,219	580,155,686	(755,898,455)	25,434,986	(781,333,441)
Change in value in interest in irrevocable trusts	1,090,672	1,090,672	-	1,619,190	1,619,190	-
Net investment income (loss)	773,882,975	30,346,730	743,536,245	(589,955,243)	32,506,759	(622,462,002)
Total revenue and gains (losses)	774,213,320	400,677,075	743,536,245	(589,705,126)	419,756,876	(622,462,002)
EXPENSES						
Distributions to the W. K. Kellogg Foundation*	-	-	370,000,000	-	-	387,000,000
Grants	345,059,463	345,059,463	-	354,962,644	354,962,644	-
Program activities	11,214,665	11,214,665	-	19,070,140	19,070,140	-
General operations	63,970,676	63,970,676	-	67,614,999	67,614,999	-
Depreciation	2,749,297	2,749,297	-	2,757,728	2,757,728	-
Federal excise tax (benefit) provision and other						
Current	3,666,287	227,549	3,438,738	5,675,496	46,269	5,629,227
Deferred	7,481,882	343,971	7,137,911	(19,719,677)	446,080	(20,165,757)
Total expenses	434,142,270	423,565,621	380,576,649	430,361,330	444,897,860	372,463,470
Accumulated postretirement benefit gain	5,111,842	5,111,842	-	26,339,676	26,339,676	-
Total increase (decrease) in net assets	345,182,892	(17,776,704)	362,959,596	(993,726,780)	1,198,692	(994,925,472)
Net assets, at beginning of year	7,782,438,614	58,135,874	7,724,302,740	8,776,165,394	56,937,182	8,719,228,212
Net assets, at end of year	$ 8,127,621,506	$ 40,359,170	$ 8,087,262,336	$ 7,782,438,614	$ 58,135,874	$ 7,724,302,740
CHANGES IN NET ASSETS BY CATEGORY						
Decrease in unrestricted net assets	$ (18,867,376)	$ (18,867,376)	$ -	$ (420,498)	$ (420,498)	$ -
Increase (decrease) in temporarily restricted net assets	364,050,268	1,090,672	362,959,596	(993,306,282)	1,619,190	(994,925,472)
Total increase (decrease) in net assets	$ 345,182,892	$ (17,776,704)	$ 362,959,596	$ (993,726,780)	$ 1,198,692	$ (994,925,472)

*Intercompany contributions and distributions of $370,000,000 and $387,000,000 for the years ended August 31, 2018 and 2017, 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, 2018 and 2017

	2018			2017		
	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	$ 345,182,892	$ (17,776,704)	$ 362,959,596	$ (993,726,780)	$ 1,198,692	$ (994,925,472)
Adjustments to reconcile changes in net assets to cash flows used in operating activities						
Depreciation	2,749,297	2,749,297	-	2,757,728	2,757,728	-
Disposal of property and equipment	1,157,322	1,157,322	-	635,588	635,588	-
Net realized gains on long-term investments	(254,042,011)	(11,109,477)	(242,932,534)	(265,026,162)	(6,683,221)	(258,342,941)
Change in net unrealized (gains) losses on investments	(373,947,564)	(17,056,276)	(356,891,288)	985,960,425	(22,306,208)	1,008,266,633
Change in value in interest in irrevocable trusts	(1,090,672)	(1,090,672)	-	(1,619,190)	(1,619,190)	-
Adjustment for inherent contribution - program-related loans receivable and related amortization and unrealized loss	1,807,343	1,807,343	-	1,636,307	1,636,307	-
Provision for deferred excise tax	7,481,882	343,971	7,137,911	(19,719,677)	446,080	(20,165,757)
Change in operating assets and liabilities						
Accrued interest and dividends	(832,910)	(998,561)	165,651	(1,133,002)	(37,805)	(1,095,197)
Other assets	(611,986)	(457,245)	(154,741)	(1,121,503)	(44,749)	(1,076,754)
Accounts payable	(124,693)	(124,693)	-	260,784	260,784	-
Accrued liabilities	(525,115)	(525,115)	-	1,076,653	1,076,653	-
Grant commitments payable	7,441,470	7,441,470	-	12,497,907	12,497,907	-
Postretirement liability	(1,268,515)	(1,268,515)	-	(19,558,355)	(19,558,355)	-
Net cash used in operating activities	(266,623,260)	(36,907,855)	(229,715,405)	(297,079,277)	(29,739,789)	(267,339,488)
CASH FLOWS FROM INVESTING ACTIVITIES						
Purchase of investments	(601,143,578)	(10,016,303)	(591,127,275)	(1,638,356,601)	(172,792,583)	(1,465,564,018)
Proceeds from sale of investments	848,171,605	50,658,164	797,513,441	1,913,264,859	190,535,735	1,722,729,124
Decrease (increase) in collateral held under securities lending arrangement, net	-	-	-	295,375,024	-	295,375,024
Proceeds from payments on loan receivables	2,173,203	2,173,203	-	697,954	697,954	-
Disbursements for program-related investments	(6,475,014)	(6,475,014)	-	(7,067,387)	(7,067,387)	-
Acquisition of fixed assets	(6,028,559)	(6,028,559)	-	(2,949,072)	(2,949,072)	-
Net cash provided by investing activities	236,697,657	30,311,491	206,386,166	560,964,777	8,424,647	552,540,130
CASH FLOWS FROM FINANCING ACTIVITIES						
Repayment of cash collateral under securities lending arrangement, net	-	-	-	(295,375,024)	-	(295,375,024)
Net cash used in financing activities	-	-	-	(295,375,024)	-	(295,375,024)
Decrease in cash and cash equivalents	(29,925,603)	(6,596,364)	(23,329,239)	(31,489,524)	(21,315,142)	(10,174,382)
Cash and cash equivalents, beginning of year	134,834,339	19,512,306	115,322,033	166,323,863	40,827,448	125,496,415
Cash and cash equivalents, end of year	$ 104,908,736	$ 12,915,942	$ 91,992,794	$ 134,834,339	$ 19,512,306	$ 115,322,033

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 7–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 years ended August 31, 2018 and 2017, the Foundation entered into four and three new PRI investments, respectively.

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 1-2%. Repayment of the outstanding loan amounts is scheduled by the maturity dates, ranging from August 2019 to August 2032.

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, 2018 and 2017, 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 $4,252,110 and $4,030,595 at August 31, 2018 and 2017, 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 consolidated 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 consolidated 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, 2018 and 2017, the Foundation had conditional grants outstanding of $115,933,513 and $102,324,969, 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, 2018 and 2017.

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. On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the “Tax Act”). The Tax Act makes broad and complex changes to the U.S. tax code, including, but not limited to, (1) reducing the U.S. federal corporate tax rate from 35 percent to 21 percent; (2) eliminating the corporate alternative minimum tax (AMT) and changing how existing AMT credits can be realized; (3) changing rules related to uses and limitation of net operating loss carryforwards created in tax years beginning after December 31, 2017; and (4) adding a 21% excise tax on compensation in excess of $1 million paid to certain employees. The impact of the Tax Act on the Foundation and the Trust is not considered significant.

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 6–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 (Topic 820): 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 adoption of this pronouncement has removed, from the fair value hierarchy in Note 3, investment balances of $2,730,976,865 and $2,470,844,382 in 2018 and 2017, respectively. The Foundation and the Trust have included these investments as a reconciling line item so that the total investments presented in the fair value hierarchy is consistent with the amount presented in the consolidated statements of financial position. The guidance has been adopted as of September 1, 2017, and has been retrospectively applied for all comparative periods presented. ASU No. 2015-07 did not impact the accompanying consolidated statements of financial position or the consolidated statements of activities as of and for the years ended August 31, 2018, and August 31, 2017.

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

Adoption of Accounting Pronouncements *(continued)*

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. This ASU will impact the presentation of the consolidated financial statements and related disclosures when it is adopted.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. This guidance addresses how certain cash receipts and cash payments are presented and classified in the consolidated statements of cash flows. The guidance is effective for the Foundation and the Trust for the year ended August 31, 2020, with early adoption permitted. The Foundation and Trust are currently assessing the impact that this standard will have on the consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation: Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This update requires that the service component of net benefit costs be reported in the same line item as compensation costs arising from services rendered by the pertinent employees during the period. Other components of net benefit cost are to be reported in the statement of activities separately from the service cost component. This guidance is effective for the Foundation and the Trust for the fiscal year ended August 31, 2020, with early adoption permitted. The ASU will impact the presentation of net benefit costs in the consolidated statement of activities when it is adopted.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update intends to clarify the Scope and the Accounting Guidance for (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, *Not-for-Profit Entities*, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The guidance is effective for the Foundation and the Trust for the year ending August 31, 2020, as it relates to contributions received and the year ended August 31, 2021, as it relates to contributions made, with early adoption permitted. The Foundation and Trust are currently assessing the impact that this standard will have on the consolidated financial statements.

Reclassifications

Certain prior year amounts reported in the consolidated statements of financial position and activities were reclassified to conform to the current year presentation.

NOTE 3 INVESTMENTS AND FAIR VALUE

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 65,931,838 and 67,931,838 as of August 31, 2018 and 2017, 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 AND FAIR VALUE *(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. Investment expenses of $22,033,538 and $34,962,162 are netted against realized and unrealized gains for the years ended August 31, 2018 and 2017, respectively. 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.

NOTE 3 INVESTMENTS AND FAIR VALUE *(continued)*

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.

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 provide a net asset value (NAV) are considered to be recorded at management's best estimate at fair value. These securities are included in the fair value hierarchy table in the investments measured at net asset value line. Investments in this category generally include private fund investment structures and limited partnership interests.

NOTE 3 INVESTMENTS AND FAIR VALUE *(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, 2018 and 2017, respectively.

	2018			
	Total	**Level 1**	**Level 2**	**Level 3**
ASSETS				
Temporary investments	$ 133,374,157	$ 133,374,157	$ -	$ -
Kellogg Company common stock	4,733,246,650	4,733,246,650	-	-
Equities	680,578,422	680,578,422	-	-
Fixed-income securities	187,123,261	-	183,559,377	3,563,884
Private equities	10,845,412	-	-	10,845,412
Total fair value measurements	5,745,167,902	$ 5,547,199,229	$ 183,559,377	$ 14,409,296
Investments measured at net asset value	2,730,976,865			
Total investments and cash equivalents measured at fair value	$ 8,476,144,767			
Interests in irrevocable trusts	$ 20,921,956	$ -	$ -	$ 20,921,956

	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	-	-
Equities	740,943,589	740,943,589	-	-
Fixed-income securities	195,427,402	173,653,579	21,160,727	613,096
Real estate funds	36,963,313	36,963,313	-	-
Private equities	9,781,700	-	-	9,781,700
Total fair value measurements	5,475,755,468	$ 5,444,199,945	$ 21,160,727	$ 10,394,796
Investments measured at net asset value	2,470,844,382			
Total investments and cash equivalents measured at fair value	$ 7,946,599,850			
Interests in irrevocable trusts	$ 19,831,284	$ -	$ -	$ 19,831,284

NOTE 3 INVESTMENTS AND FAIR VALUE *(continued)*

There was a net receivable on unsettled trades of $33,398,101 and $84,017,665 as of August 31, 2018 and 2017, respectively. The net receivables are reported in diversified investments in the accompanying consolidated statements of financial position and are not included in the above table as the receivables are not measured at fair value.

	2018			
	Total	**Level 1**	**Level 2**	**Level 3**
FOREIGN HOLDINGS				
Equities	$ 91,698,731	$ 91,698,731	$ -	$ -
Fixed-income securities	3,877,835	-	3,877,835	-
Total fair value measurements	95,576,566	$ 91,698,731	$ 3,877,835	$ -
Investments measured at net asset value	815,895,329			
Total investments	$ 911,471,895			

	2017			
	Total	**Level 1**	**Level 2**	**Level 3**
FOREIGN HOLDINGS				
Equities	$ 167,289,459	$ 167,289,459	$ -	$ -
Fixed-income securities	4,728,785	-	4,728,785	-
Total fair value measurements	172,018,244	$ 167,289,459	$ 4,728,785	$ -
Investments measured at net asset value	805,386,156			
Total investments	$ 977,404,400			

The table below includes a roll-forward of the amounts for the Foundation and the Trust for the years ended August 31, 2018 and 2017, of Level 3 investments:

	2018	**2017**
Beginning balance	$ 10,394,796	$ 10,590,606
Additions and purchases	4,063,712	-
Sales and maturities	(49,212)	(195,810)
Ending balance	$ 14,409,296	$ 10,394,796

NOTE 3 INVESTMENTS AND FAIR VALUE *(continued)*

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, 2018 and 2017.

	2018		2017	
	Fair Value	Unfunded Commitments	Fair Value	Unfunded Commitments
Commingled funds[a]	$ 904,015,882	$ -	$ 987,742,252	$ -
Hedge funds[b]	887,629,927	-	640,147,109	-
Private equity funds[c]	799,932,523	455,744,768	693,195,084	465,318,049
Real estate funds[c]	139,398,533	139,854,273	149,759,937	67,560,880
Total	$ 2,730,976,865	$ 595,599,041	$ 2,470,844,382	$ 532,878,929

[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.

<u>Grant Commitments Payable</u>

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 $108,650,326 and $106,958,087 at August 31, 2018 and 2017, 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, 2018, are expected to be paid to grantees as follows: approximately $76,713,665 in fiscal 2020, $20,216,701 in fiscal 2021, and $11,719,960 in fiscal year 2022.

NOTE 4 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, 2018 and 2017, respectively. The current provision for the Trust for federal excise tax is based on a 1% rate for the fiscal years ended August 31, 2018 and 2017. The deferred provision is based on unrealized appreciation on investments at a 2% rate for both of the fiscal years ended August 31, 2018 and 2017. 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	
	2018	2017	2018	2017
Cash payments for federal excise taxes	$ 121,836	$ 1,697	$ 2,700,000	$ 4,700,000
Cash payments for federal UBI tax	$ 20,000	$ -	$ 1,000,000	$ 1,515,000

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	
	2018	2017
Grants	$ 341,259,217	$ 351,610,233
Program activities and general operations	76,271,446	82,602,445
Costs of earning income and excise tax	2,365,400	4,000,523
Total	$ 419,896,063	$ 438,213,201

* 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 2014 under federal, state, and local tax jurisdictions.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2018 and 2017, are summarized as follows:

	2018	2017
Land and land improvements	$ 18,960,183	$ 18,960,183
Buildings and building improvements	58,313,464	57,652,417
Equipment	5,675,264	5,174,275
Furniture and fixtures	9,709,268	9,129,886
Capitalized software costs	19,379,380	19,299,442
Work in process	4,207,203	1,157,322
	116,244,762	111,373,525
Accumulated depreciation	(71,076,021)	(68,326,724)
Total	$ 45,168,741	$ 43,046,801

NOTE 6 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 $3,084,550 and $3,094,626 in 2018 and 2017, 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 year ended August 31, 2018. The Foundation contributed $600,000 to the defined benefit retirement plan during the year ended August 31, 2017. 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 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, 2018 and 2017, 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 6 POSTRETIREMENT BENEFITS *(continued)*

The total postretirement benefits liability of $81,850,137 and $83,118,652 at August 31, 2018 and 2017, respectively, is comprised of the following components:

	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Benefit obligation–August 31	$ 8,088,276	$ 8,394,749	$ 80,981,584	$ 82,810,417
Fair value of plan assets–August 31	7,219,723	8,086,514	-	-
Unfunded status	$ (868,553)	$ (308,235)	$ (80,981,584)	$ (82,810,417)
Accrued benefit cost recognized in the consolidated statement of financial position	$ (868,553)	$ (308,235)	$ (80,981,584)	$ (82,810,417)
Accumulated benefit obligation	$ 3,266,883	$ 3,493,829		
Amounts not yet reflected in net periodic benefit costs				
Prior service cost	$ -	$ -	$ 217,938	$ 558,469
Accumulated loss	(706,176)	(219,636)	(5,739,799)	(11,678,712)
Total	$ (706,176)	$ (219,636)	$ (5,521,861)	$ (11,120,243)
Changes in amounts not yet reflected in net periodic benefit costs				
Net actuarial gain (loss)	$ (617,065)	$ 6,667,457	$ 5,678,555	$ 18,091,026
Amortization of prior service cost (credit)	-	-	(340,531)	(340,531)
Amortization of actuarial gain	130,525	503,101	260,358	1,418,623
Total	$ (486,540)	$ 7,170,558	$ 5,598,382	$ 19,169,118
Amortization amounts to be reflected in net periodic benefit costs for fiscal year 2019				
Prior service cost (credit)	$ -		$ (217,938)	
Total	$ -		$ (217,938)	
Benefit costs, employer contribution and benefits paid				
Benefit cost	$ 73,778	$ 945,443	$ 5,436,871	$ 8,070,730
Employer contribution	-	600,000	1,667,322	1,634,852
Benefits paid	1,500,214	847,248	1,667,322	1,634,852
Assumptions and dates used for disclosure				
Discount rate	4.16%	3.79%	4.16%	3.79%
Expected rate of return on plan assets	6.50%	6.50%	N/A	N/A
Rate of compensation increase	4.00%	4.00%	N/A	N/A
Measurement date	August 31	August 31	August 31	August 31
Assumptions used to determine expense				
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
Health care cost trend rate assumptions				
Initial trend rate assumption pre-/post-Medicare	N/A	N/A	7.14%/7.50%	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	2034

During fiscal year 2018, the Foundation changed its mortality assumption from the sex distinct RP2014 Generational White Collar tables projected with the MP2016 projection scale to the RP2014 Generational White Collar tables projected with the MP2017 projection scale.

NOTE 6 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, 2018:

Years Ending August 31	Pension	Post Retirement
2019	$ 519,567	$ 2,804,207
2020	376,613	2,978,603
2021	297,490	3,169,795
2022	331,709	3,291,643
2023	498,231	3,474,158
2024-2029	3,134,237	19,865,914

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 2018 and 2017.

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 7 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 $370,000,000 and $387,000,000 were recorded for the years ended August 31, 2018 and 2017, 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 $1,090,672 and $1,619,190 for the years ended August 31, 2018 and 2017, respectively, which represented the change in the fair value of the trusts to which the Foundation has irrevocable rights as beneficiary.

NOTE 8 SUBSEQUENT EVENTS

The Foundation and the Trust evaluated events and transactions occurring between September 1, 2018, and December 4, 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, 2018

This schedule represents an analysis of W. K. Kellogg Foundation gifts and Trust receipts at historical value from inception through August 31, 2018. 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