



St. Mark's Cathedral Parish and Subsidiary

**Consolidated Financial Statements
and Supplemental Information
(A Review)
Years Ended December 31, 2019 and 2018**

St. Mark's Cathedral Parish and Subsidiary

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and Supplemental Information
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St. Mark's Cathedral Parish and Subsidiary

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Independent Accountant's Review Report

To the Vestry
St. Mark's Cathedral Parish
Seattle, Washington

We have reviewed the accompanying consolidated financial statements of St. Mark's Cathedral Parish and Subsidiary (collectively, the "Organization"), which comprise the consolidated statement of financial position as of December 31, 2019, and the related consolidated statements of activities, functional expenses, changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of management of the Organization. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility for the Consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.



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Supplemental Information

The accompanying supplemental information included on pages 27 and 28 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management of the Organization and was derived from, and relates directly to, the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental information has been subjected to the review procedures applied in our review of the basic consolidated financial statements. We are not aware of any material modifications that should be made to the supplemental information. We have not audited the supplemental information and do not express an opinion on such information.

Other Matter - Prior-Period Summarized Comparative Information

The summarized comparative information of St. Mark's Cathedral Parish and Subsidiary as of and for the year ended December 31, 2018, was derived from the consolidated financial statements reviewed by Peterson Sullivan LLP ("PS"), whose partners and professional staff joined BDO USA, LLP as of November 1, 2019, and has subsequently ceased operations. PS's report dated May 28, 2019, stated that, based on their procedures, they are not aware of any material modifications that should be made to the consolidated financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

BDO USA, LLP

August 13, 2020

Consolidated Financial Statements

St. Mark's Cathedral Parish and Subsidiary

Consolidated Statement of Financial Position (With Comparative Totals for 2018)

December 31,	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 845,893	\$ 793,303
Investments	508,065	505,948
Inventory and other assets		15,559
Cash and investments held for capital campaign	1,338,515	1,556,777
Total Current Assets	2,692,473	2,871,587
Endowment investments	2,147,975	1,845,012
Property and equipment, net	18,737,849	19,654,464
Beneficial interest in Foundation	1,472,888	1,273,256
Beneficial interest in perpetual trust	872,812	741,691
Total Assets	\$ 25,923,997	\$ 26,386,010
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 34,168	\$ 34,247
Accrued expenses	762,906	1,158,801
Deferred revenue	24,866	34,549
Current portion of long-term debt	395,815	156,635
Total Current Liabilities	1,217,755	1,384,232
Long-term debt, net of current portion	1,308,090	2,124,714
Fair value of interest rate swap agreement	31,868	39,070
Total Liabilities	2,557,713	3,548,016
Net Assets		
Without donor restrictions:		
Undesignated	14,672,393	14,953,904
Vestry-designated	1,108,906	653,195
Noncontrolling interest in St. Mark's Properties LLC	2,972,815	3,036,175
Total without donor restrictions	18,754,114	18,643,274
With donor restrictions	4,612,170	4,194,720
Total Net Assets	23,366,284	22,837,994
Total Liabilities and Net Assets	\$ 25,923,997	\$ 26,386,010

See accompanying independent accountant's review report and notes to consolidated financial statements.

St. Mark's Cathedral Parish and Subsidiary

Consolidated Statement of Activities (With Comparative Totals for 2018)

Years Ended December 31,	2019		2019 Total	2018 Total
	Without Donor Restrictions	With Donor Restrictions		
Operating Activities				
Support and Revenue				
Pledges and plate contributions	\$ 1,981,109	\$ 107,282	\$ 2,088,391	\$ 2,223,816
Rental revenue	560,326	-	560,326	544,001
Shop revenue	15,522	-	15,522	71,342
Diocesan support	57,861	-	57,861	68,134
In-kind contributions	171,930	-	171,930	228,590
Investment return	328,965	84,691	413,656	(17,344)
Hodges endowment distributions	19,104	-	19,104	17,715
St. Mark's Cathedral Foundation contribution	52,609	-	52,609	72,247
Other support and revenue	137,409	-	137,409	118,092
Net assets released from restrictions	105,276	(105,276)	-	-
Total Support and Revenue	3,430,111	86,697	3,516,808	3,326,593
Operating Expenses				
Cathedral programs	2,496,505	-	2,496,505	2,345,685
Management and general	659,547	-	659,547	741,775
Fundraising	215,808	-	215,808	166,465
Total Operating Expenses	3,371,860	-	3,371,860	3,253,925
Change in Net Assets from Operating Activities	58,251	86,697	144,948	72,668
Non-Operating Activities				
Contributions restricted for capital campaign	-	214,408	214,408	237,256
Capital campaign expenses	(753)	-	(753)	(1,500)
Change in fair value of interest rate swap agreement	7,202	-	7,202	29,394
Change in fair value of beneficial interest in Foundation	-	199,632	199,632	(80,862)
Change in fair value of beneficial interest in perpetual trust	-	131,121	131,121	(33,627)
St. Mark's Properties LLC expenses	(168,268)	-	(168,268)	(211,892)
Net assets released from restrictions	214,408	(214,408)	-	-
Change in Net Assets from Non-Operating Activities	52,589	330,753	383,342	(61,231)
Change in Net Assets, including noncontrolling interest	110,840	417,450	528,290	11,437
Noncontrolling interest in net losses of St. Mark's Properties LLC	63,360	-	63,360	78,446
Change in Net Assets, excluding noncontrolling interest	\$ 174,200	\$ 417,450	\$ 591,650	\$ 89,883

See accompanying independent accountant's review report and notes to consolidated financial statements.

St. Mark's Cathedral Parish and Subsidiary

Consolidated Statement of Functional Expenses (With Comparative Totals for 2018)

<i>Years Ended December 31,</i>	2019				2018 Total
	Cathedral Programs	Management and General	Fundraising	Total	
Salaries and benefits	\$ 1,023,666	\$ 139,016	\$ 101,103	\$ 1,263,785	\$ 1,244,295
Depreciation	353,258	78,502	58,876	490,636	418,799
Diocesan assessments	213,722	8,999	2,250	224,971	269,716
In-kind expenses	49,860	122,070	-	171,930	228,590
St. Mark's Properties LLC expenses (including interest expense of \$42,669)	-	168,268	-	168,268	211,892
Conference, training, and travel	27,204	4,065	-	31,269	201,792
Utilities	149,749	24,378	-	174,127	182,235
Repairs and maintenance	174,809	49,305	-	224,114	138,034
Professional fees	55,005	137,367	753	193,125	134,074
Supplies	123,102	20,276	1,448	144,826	97,727
Dues, fees, and licenses	6,326	35,850	-	42,176	54,394
Cathedral shop non-personnel	18,876	-	-	18,876	51,960
Insurance	49,822	2,622	-	52,444	50,799
Printing and postage	12,090	1,511	3,190	16,791	29,270
Interest	-	7,069	-	7,069	29,084
Equipment rental	775	194	-	969	26,660
Miscellaneous	124,161	25,621	46,545	196,327	24,944
Mission disbursements	17,623	-	-	17,623	23,906
Contributions and discretionary	73,121	-	-	73,121	23,345
Hospitality	13,167	1,788	1,300	16,255	14,273
Telephone	10,169	914	343	11,426	10,028
Capital campaign expenses	-	-	753	753	1,500
Total Expenses Including Non-Operating Expenses	2,496,505	827,815	216,561	3,540,881	3,467,317
Capital campaign expenses	-	-	(753)	(753)	(1,500)
St. Mark's Properties LLC expenses	-	(168,268)	-	(168,268)	(211,892)
Total Operating Expenses	\$ 2,496,505	\$ 659,547	\$ 215,808	\$ 3,371,860	\$ 3,253,925

See accompanying independent accountant's review report and notes to consolidated financial statements.

St. Mark's Cathedral Parish and Subsidiary

Consolidated Statement of Changes in Net Assets (With Comparative Totals for 2018)

<i>Years Ended December 31,</i>	2019					2018 Total
	Without Donor Restrictions			With Donor Restrictions	Total	
	Unrestricted	Noncontrolling Interest	Total			
Net Assets, beginning of year	\$ 15,607,099	\$ 3,036,175	\$ 18,643,274	\$ 4,194,720	\$ 22,837,994	\$ 22,826,557
Change in net assets from operating and non-operating activities	174,200	(63,360)	110,840	417,450	528,290	11,437
Net Assets, end of year	\$ 15,781,299	\$ 2,972,815	\$ 18,754,114	\$ 4,612,170	\$ 23,366,284	\$ 22,837,994

See accompanying independent accountant's review report and notes to consolidated financial statements.

St. Mark's Cathedral Parish and Subsidiary

Consolidated Statement of Cash Flows (With Comparative Totals for 2018)

<i>Years Ended December 31,</i>	2019	2018
Cash Flows from Operating Activities		
Change in net assets excluding noncontrolling interest	\$ 591,650	\$ 89,883
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Noncontrolling interest in net losses of St. Mark's Properties LLC	(63,360)	(78,446)
Depreciation	629,543	557,705
Contributions restricted for capital campaign	(214,408)	(237,256)
Net loss (gain) on investments	(368,687)	82,050
Change in fair value of interest rate swap agreement	(7,202)	(29,394)
Change in fair value of beneficial interest in Foundation	(199,632)	80,862
Change in fair value of beneficial interest in perpetual trust	(131,121)	33,627
Changes in operating assets and liabilities:		
Inventory and other assets	15,559	12,513
Accounts payable	(79)	(10,002)
Accrued expenses	(4,563)	7,032
Deferred revenue	(9,683)	14,450
Net Cash Flows from Operating Activities	238,017	523,024
Cash Flows from (for) Investing Activities		
Transfers from (for) investments held for capital campaign	74,171	(941,478)
Purchase of property and equipment	(104,260)	(990,464)
Purchase of investments	(735)	(501,145)
Proceeds from sale of investments	64,342	325,115
Net Cash Flows from (for) Investing Activities	33,518	(2,107,972)
Cash Flows from (for) Financing Activities		
Cash contributions restricted for capital campaign	214,408	237,256
Payments on long-term debt	(577,444)	(490,061)
Proceeds from issuance of long-term debt	-	1,000,000
Net Cash Flows from (for) Financing Activities	(363,036)	747,195
Net Change in Cash, Cash Equivalents, and Restricted Cash	(91,501)	(837,753)
Cash, cash equivalents, and restricted cash, beginning of year	1,354,003	2,191,756
Cash, cash equivalents, and restricted cash, end of year	\$ 1,262,502	\$ 1,354,003
Supplemental Disclosure		
Cash paid for interest	\$ 92,540	\$ 56,554
Reduction of property and equipment and accrued expenses for dispute resolution	\$ 391,332	\$ -
Cash, Cash Equivalents, and Restricted Cash, as presented on the Statements of Financial Position		
Cash and cash equivalents	\$ 845,893	\$ 793,303
Cash restricted for the capital campaign	416,609	560,700
	\$ 1,262,502	\$ 1,354,003

See accompanying independent accountant's review report and notes to consolidated financial statements.

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

St. Mark's Cathedral Parish (the "Cathedral") is the bishop's seat for the Diocese of Olympia. The Cathedral is a religious, not-for-profit corporation organized in 1889 to offer its members from the greater Seattle area a place of worship and to further the goals and purposes of the Episcopal Church. The Cathedral's activities serve the parish, the Diocese of Olympia (the Episcopal Church in Western Washington), and the greater community, spiritually, in mission, and in outreach.

St. Mark's Properties LLC (the "LLC") was formed in 2003 to purchase the St. Nicholas property. The Cathedral contributed \$1,725,000 and a \$2,459,738 note payable due to the LLC for a 49.5% ownership interest in the LLC. The note was refinanced during 2007 with a new loan maturing in January 2023. The other member of the LLC contributed cash of approximately \$4,275,000 for its 50.5% interest in the LLC. Effective January 6, 2003, the LLC adopted an operating agreement and elected the Cathedral as the LLC Manager. The agreement requires the Cathedral to make additional capital contributions as may be required to pay operating costs of the LLC not funded out of the capital and earnings of the LLC. The LLC is reported on a consolidated basis with the Cathedral due to the Cathedral's control over the LLC as its managing member.

The Cathedral Foundation for the Diocese of Olympia (the "Foundation") is a separate tax-exempt organization established to raise and develop endowment funds dedicated to the preservation and improvement of the Cathedral's facilities. In accordance with the bylaws of the Foundation, the Foundation's board must include at least five directors connected with the Cathedral, and one third of the voting board members must be appointed by the Cathedral's Vestry; however, the Foundation is controlled by a Board that is independent of the Cathedral.

In September 2014, the Cathedral officially launched a capital campaign to preserve and renew the Cathedral. The goal is to raise sufficient funds to renovate and enhance the Cathedral, including cladding the exterior cathedral walls in limestone, replacing the nave windows with energy-efficient models, improving the east entrance, and adding an elevator. Construction was completed in 2018.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Cathedral and the LLC; collectively, these entities are referred to as "the Organization" in these consolidated statements. All significant inter-entity transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from the estimated amounts.

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to two classes of net assets: without donor restrictions and with donor restrictions.

The Organization records grants and contributions received depending on the existence and/or nature of any donor restrictions. Restricted contributions are required to be reported as restricted support and are then reclassified to net assets without donor restrictions when the restrictions are met.

Vestry-Designated Net Assets

The Vestry has designated certain net assets without donor restrictions for use at its discretion relating to the following as of December 31:

	2019	2018
Dorothea Taylor endowment	\$ 414,542	\$ 201,386
St. Mark's endowment	694,364	451,809
Total Vestry-Designated, net assets	\$ 1,108,906	\$ 653,195

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St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following at December 31:

	2019	2018
Net Assets With Perpetual Donor Restrictions		
Beneficial interest in Foundation	\$ 1,081,039	\$ 1,081,039
Deanery	899,199	899,198
Beneficial interest in perpetual trust	872,812	741,691
Endowment funds (see Note 10):		
Century II endowment for mission, music, arts, and spiritual growth	194,164	194,164
Dorothea Taylor endowment (general support)	154,262	154,263
St. Mark's endowment (general support)	138,189	138,189
Other endowments (general support)	68,036	63,865
Church in the World endowments (program support)	20,515	20,515
	3,428,216	3,292,924
Net Assets With Donor Restrictions from Purpose		
Beneficial interest in Foundation	391,850	192,217
Accumulated endowment earnings (see Note 10):		
Building improvements and maintenance	41,255	34,236
Century II endowment proceeds - mission, music, arts, and spiritual growth	597,912	535,970
Other Cathedral programs	49,825	34,097
	1,080,842	796,520
Net Assets With Donor Restrictions from Future Periods	103,112	105,276
	\$ 4,612,170	\$ 4,194,720

Fair Value Measurements

Fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. There are three levels that prioritize the inputs used in measuring fair value as follows:

- **Level 1:** Observable market inputs such as quoted prices (unadjusted) in active markets for identical assets or liabilities;
- **Level 2:** Observable market inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- **Level 3:** Unobservable inputs where there is little or no market data, which require the reporting entity to develop its own assumptions.

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and money market funds. On occasion, the Organization has amounts deposited with financial institutions in excess of federally insured limits.

Investments

Investments are stated at fair value using Level 1 inputs in the fair value hierarchy (in this case, quoted prices in active markets). As of December 31, 2019 and 2018, substantially all investments were invested in an ultra-short bond fund.

Inventory

Inventory consists primarily of jewelry, gifts, food, compact discs, and books and is recorded at the lower of cost or net realizable value. Sales of merchandise are included in shop revenue. The cost of sales is included in cathedral shop non-personnel expense.

Cash and Investments Held for Capital Campaign

The Organization has set aside cash, money market funds, common stocks, exchange-traded funds, and bond funds to be used for the capital campaign. Assets held for the capital campaign are as follows as of December 31:

	2019	2018
Cash and equivalents	\$ 416,609	\$ 560,700
Ultra-short bond funds (Level 1)	921,906	996,077
	\$ 1,338,515	\$ 1,556,777

Endowment Investments

Investments at December 31, 2019 and 2018, totaling \$2,147,975 and \$1,845,012, respectively, consist primarily of funds held at the James F. Hodges Diocesan Investment Fund (the "DIF") and are valued at fair value using the net asset value ("NAV") as a practical expedient. The NAV is based on the fair value of the underlying assets, less any liabilities, then divided by the number of outstanding units. Investments held in the DIF are redeemable at the authorization of the Vestry, and there are no unfunded commitments.

Unrealized gains and losses on all investments are reported in the consolidated statement of activities.

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Property and Equipment

Property and equipment are recorded at cost, if purchased, or at fair value at date of receipt, if donated. The Organization's policy is to capitalize assets with a cost greater than \$5,000 and a useful life greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Beneficial Interest in Foundation

The fair value of the beneficial interest in the Foundation is valued at fair value and is determined by the Cathedral's proportionate share of the Foundation's investments in the DIF, which are stated at NAV. This is a practical expedient for determining fair value. At December 31, 2019 and 2018, the endowment and net assets with donor restrictions of the Foundation had a fair value of \$1,472,888 and \$1,273,256, respectively, which is reported as beneficial interest in Foundation on the consolidated statement of financial position. Funds are distributed to the Cathedral as determined by the Foundation's Board of Directors. Distributions from the Foundation for the years ended December 31, 2019 and 2018, totaled \$52,609 and \$72,247, respectively, and are included on the consolidated statement of activities under St. Mark's Cathedral Foundation contribution.

Beneficial Interest in Perpetual Trust

The Organization is a beneficiary of an irrevocable perpetual trust administered by the Diocese of Olympia. The Organization's interest in the trust assets is stated at NAV, which is the fair value of the Cathedral's portion of the trust assets. Each year, the Organization receives a distribution of a portion of the trust's annual investment earnings. Distributions from the trust totaled \$19,104 and \$17,715 for the years ended December 31, 2019 and 2018, respectively. The Organization cannot redeem these investments, and there are no unfunded commitments.

Revenue Recognition

Contribution revenue is recognized when the unconditional promise to give is made or when conditions on the contribution are substantially met. During 2019 and 2018, members of the Vestry contributed \$81,704 and \$335,278, respectively.

Conditional pledges are not included as revenue until the conditions are substantially met. There were no conditional pledges outstanding as of December 31, 2019 or 2018.

The Cathedral holds outstanding intentions to give related to the capital campaign totaling approximately \$495,000 and \$656,000 at December 31, 2019 and 2018, respectively. These intentions to give have not been recognized in the consolidated financial statements, as they are not considered unconditional promises to give and may be changed by the donor at any time.

Annual fund and plate contributions are recognized when the cash is collected.

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Bequest revenue is recognized when (1) the bequest becomes an unconditional promise to give and (2) when the amount to be received can be estimated. This is usually when the will has gone through probate. The Cathedral received no bequests in 2019 or 2018.

Rental revenue is recognized when the revenue is earned.

Contributed Services and Materials

Many volunteers make significant contributions of their time to carry out programs and activities of the Organization. The value of these services is not recorded in the consolidated financial statements because such items do not meet the criteria for recording under GAAP.

In-kind donations in both 2019 and 2018 consist primarily of professional services. These in-kind donations are recognized as contribution revenue at fair value with a corresponding expense.

Operating Revenue and Support

The consolidated statement of activities includes a measure of operating revenue and support. Changes in net assets that are excluded from operating results include capital campaign activity, the change in fair value of the interest rate swap agreement, and beneficial interests in the Foundation and perpetual trust, and LLC expenses.

Federal Income Taxes

The Cathedral is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. No provision has been made for federal income taxes. The Cathedral is subject to taxes only on net unrelated business income. There was no tax accrued or paid during the years ended December 31, 2019 or 2018.

The LLC has no provision or benefit for income taxes included in these consolidated financial statements since taxable income or loss passes through to, and is reportable by, each member individually.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and functional expenses. Any expenses directly attributable to programs, management and general, or fundraising are charged directly to that function. Other costs, including office expenses, information technology, occupancy, insurance, and other, are allocated amongst the functions based on the estimated amount of time employees spend on each function.

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Prior-Year Summarized Information

For comparative purposes, the consolidated financial statements include certain prior-year summarized information. This summarized information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended December 31, 2018, from which the information was derived and for which generally accepted accounting principles were followed.

Recent Accounting Pronouncement Adopted

In June 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU was issued to standardize how grants and other contracts received and made are classified across the sector, as either an exchange transaction or a contribution. The standard provides guidance to assist in the determination of whether a transaction is a contribution or an exchange transaction. If the transaction is deemed to be a contribution the guidance provides factors to consider with regard to whether the contribution is conditional or unconditional. For contributions received, if determined to be an unconditional contribution, the determination will then need to be made as to whether the contribution is restricted. The ASU assists in the determination of the nature of the transaction, which then governs the revenue recognition methodology and timing of the transaction. The ASU is effective for contributions received by the Cathedral in periods beginning after December 15, 2018. The Cathedral adopted this update in 2019 under the modified prospective basis. The adoption of this update did not materially impact contribution revenue in the financial statements.

During the year ended December 31, 2019, the Organization adopted the provisions of ASU 2016-18, *Statement of Cash Flows, (Topic 230)*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash, and requires that restricted cash be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts presented on the statement of cash flows. The adoption of this ASU resulted in including cash restricted for the capital campaign in total cash for purposes of the statement of cash flows. The ASU has been applied retrospectively to all periods presented.

Subsequent Events

Management of the Organization has evaluated subsequent events through the date these consolidated financial statements were available to be issued, which was August 13, 2020.

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. While many businesses and nonprofits have been shut down, the Cathedral continues to operate during the COVID-19 outbreak and, as of this report date, has not experienced significant impacts to its financial condition or liquidity. However, given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Cathedral is not able to estimate the effects of the pandemic on its future operations, financial condition or liquidity for fiscal year 2020. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, supplies, industry, and workforce.

On March 27, 2020, President Trump signed into law the "Coronavirus Aid, Relief, and Economic Security (CARES) Act." The CARES Act, among other things, includes provision relating to refundable payroll tax credits, deferment of employer side social security payments, net operating loss carryback periods, alternative minimum tax credit refunds, modifications to the net interest deduction limitations, increased limitations on qualified charitable contributions, and technical corrections to the tax depreciation methods for qualified improvement property.

It also appropriated funds for the Small Business Administration Paycheck Protection Program ("PPP") loans that are forgivable in certain situations to promote continued employment, as well as Economic Injury Disaster Loans to provide liquidity to small business and nonprofits harmed by COVID-19. The Cathedral applied for and received a PPP loan in the amount of \$230,077.

Management continues to examine the impact that the CARES Act may have on the Cathedral. Currently, management is unable to determine the full impact the CARES Act will have on the Cathedral's financial condition, results from operations, or liquidity.

2. Liquidity and Availability of Resources

The Organization strives to maintain liquid financial assets sufficient to cover 90 days of general expenditures. Financial assets in excess of daily cash requirements are invested in money market funds and other short-term investments.

The following table reflects the Organization's financial assets as of December 31, 2019 and 2018, that could readily be made available within one year of the statement of financial position date to meet general expenditures:

	2019	2018
Cash and cash equivalents	\$ 830,416	\$ 792,039
Investments	508,065	505,948
Total Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	\$ 1,338,481	\$ 1,297,987

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

3. Investments

The specific investments underlying the Organization's investments with the DIF at December 31, 2019 and 2018, are not determinable. The DIF's total investments under management were as follows as of December 31:

	2019	2018
Common stock	51%	48%
U.S. government debt securities	13%	14%
Equity mutual funds	17%	17%
Short-term bond mutual funds	16%	19%
Money market funds	3%	2%
	100%	100%

Investment return consisted of the following during the years ended December 31:

	2019		2018
Interest and dividends	\$ 44,969	\$	64,706
Net realized and unrealized gain (loss) on investments	368,687		(82,050)
	\$ 413,656	\$	(17,344)

4. Property and Equipment

Property and equipment consist of the following as of December 31:

	Useful Lives	2019		2018
Buildings and improvements	5-40 years	\$ 25,368,462	\$	25,662,135
Deanery building	30 years	376,199		376,199
Musical instruments	5-40 years	461,360		461,360
Furniture and equipment	3-5 years	263,302		256,700
		26,469,323		26,756,394
Less: Accumulated depreciation		(11,053,949)		(10,424,405)
		15,415,374		16,331,989
Land - Deanery		523,000		523,000
Land - other		2,799,475		2,799,475
		\$ 18,737,849	\$	19,654,464

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Depreciation expense for the Cathedral totaled \$490,636 and \$418,799 for the years ended December 31, 2019 and 2018, respectively. Depreciation expense for the LLC totaled \$138,907 for both the years ended December 31, 2019 and 2018.

The Organization leases space in the St. Nicholas building to other organizations (see Note 8). Leased property consists of the following as of December 31:

	2019	2018
Buildings and improvements	\$ 5,556,268	\$ 5,556,268
Less: Accumulated depreciation	(2,400,591)	(2,261,685)
	3,155,677	3,294,583
Land	2,750,000	2,750,000
	\$ 5,905,677	\$ 6,044,583

5. Long-Term Debt

Long-term debt are as follows as of December 31:

	2019	2018
Note payable to the Diocese of Olympia with an annual interest rate of the Constant Maturing Treasury ("CMT") rate plus 3% with a minimum rate of 3.5% (resulting in a rate of 3.5% at December 31, 2019). Interest payable monthly with principal payable in full on December 1, 2020.	\$ 228,200	\$ 647,083
Note payable to a bank with an annual interest rate of three-month LIBOR plus 2.15% (resulting in a rate of 3.6% at December 31, 2019). Payable in quarterly installments of \$44,280 (including interest). Secured by a deed of trust on the St. Nicholas property. The loan matures in January 2023.	506,719	639,802
Line of credit payable to a bank with an initial annual interest rate of 4.21%. Principal and interest payments are due monthly at a fixed amount of \$5,361 assuming the line is fully drawn. The loan matures in September 2027, and the interest rate adjusts in October 2022 to the five-year FHLB rate plus 2%. Secured by a deed of trust on the Cathedral's property. Subject to a debt service coverage ratio covenant annually.	968,986	994,464
	1,703,905	2,281,349
Less: Current portion	(395,815)	(156,635)
	\$ 1,308,090	\$ 2,124,714

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Future minimum principal payments are as follows for the years ending December 31:

2020	\$	395,815
2021		179,814
2022		192,678
2023		71,250
2024		28,860
Thereafter		835,488
	\$	1,703,905

6. Interest Rate Swap

In January 2008, the Organization entered into an interest rate swap agreement as a cash flow hedge to reduce the impact of changes in the LLC's bank note described in Note 5. As of December 31, 2019 and 2018, this note had a principal balance of \$506,719 and \$639,802, respectively. The agreement effectively limits the Organization's interest rate exposure on the bank note to a fixed rate of 7.35%. The interest rate swap agreement expires on January 1, 2023.

The interest rate swap agreement is measured at fair value. The fair value is measured as the present value of the differential to be received or paid in future years compared to interest rates observed from actively quoted markets or nonproprietary pricing models, and the yearly net change in fair value is recognized in the change in net assets.

At December 31, 2019 and 2018, the value of the interest rate swap agreement was \$31,868 and \$39,070 and is included as a liability on the consolidated statement of financial position. For the year ended December 31, 2019, the Organization recorded an unrealized gain on the change in value of the interest rate swap agreement of \$7,202. For the year ended December 31, 2018, the Organization recorded an unrealized gain on the change in value of the interest rate swap agreement of \$29,394. The fair value of the interest rate swap agreement is affected by fluctuations in the floating interest rate and passage of time to the agreement's maturity.

7. Fair Value Measurements

Fair values of assets and liabilities measured on a recurring basis are as follows at December 31:

	Total	1	2	3
Investments	\$ 508,065	\$ 508,065	\$ -	\$ -
Interest rate swap agreement	(31,868)	-	(31,868)	-
Total as of December 31, 2019	476,197	508,065	(31,868)	-
Total as of December 31, 2018	\$ 476,554	\$ 505,948	\$ (29,394)	\$ -

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

8. Leases

The Organization leases space in the St. Nicholas building to the Gage Academy of Fine Arts and Bright Water School. The Gage Academy of Fine Arts lease expires in December 2022. The Bright Water School lease expires in July 2023. Total lease payments received were \$560,326 and \$544,001 for the years ended December 31, 2019 and 2018, respectively. Future minimum rental payments to be received are as follows for the years ended December 31:

2020	\$	581,834
2021		599,285
2022		617,262
2023		206,045
	\$	2,004,426

9. Employee Retirement Plan

The National Episcopal Church sponsors the Episcopal Church Pension Fund, a defined contribution retirement plan for clergy. The Organization makes contributions to the Plan for participants in accordance with the requirements specified by the Plan. The Organization's contributions to the Plan were \$108,671 and \$113,417 for the years ended December 31, 2019 and 2018, respectively.

10. Endowment

The Organization's endowment includes funds for the purpose of supporting the operations of the Cathedral and for supporting Cathedral programs, all of which are held as investments in the DIF at December 31, 2019 and 2018. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including quasi-endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Interpretation of Relevant Law

The Vestry has interpreted the State of Washington Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as endowment net assets (a) the original value of gifts donated to the endowment, plus (b) the original value of subsequent gifts to the endowment and accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

- The duration and preservation of the endowment fund
- The purposes of the Organization and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Organization
- The investment policies of the Organization

Endowment net assets consist of the following at December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds	\$ -	\$ 1,264,159	\$ 1,264,159
Unrestricted quasi-endowment funds	883,816		883,816
Total Endowment, net assets	\$ 883,816	\$ 1,264,159	\$ 2,147,975

Changes in endowment of net assets are as follows for the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment Net Assets, beginning of year	\$ 669,713	\$ 1,175,297	\$ 1,845,010
Investment Return			
Interest and dividends	47,361	6,458	53,819
Net gain (realized and unrealized) in investments	243,199	78,233	321,432
Total Investment Return	290,560	84,691	375,251
Contributions	-	4,171	4,171
Appropriation of endowment assets for expenditure	(76,457)	-	(76,457)
Endowment Net Assets, end of year	\$ 883,816	\$ 1,264,159	\$ 2,147,975

St. Mark's Cathedral Parish and Subsidiary

Notes to Consolidated Financial Statements

Return Objectives and Risk Parameters

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include the assets of donor-restricted funds that the Organization must hold in perpetuity or for donor-specified periods, as well as quasi-endowment funds. Under this policy, as approved by the Vestry, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return (nominal return less the Consumer Price Index) of approximately 2.5% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to the Spending Policy

The Organization has a policy of appropriating for distribution each year 4% of the endowment's 12-quarter moving average based on quarter-end fair values. This amount will be distributed directly for expenditure in accordance with the endowment agreement for each fund. Should earnings fall short of the spending policy in a given year, accumulations in each endowment's growth factor may be used to cover the spending allocation.

Supplemental Information

St. Mark's Cathedral Parish and Subsidiary

Consolidating Statement of Financial Position

<i>December 31, 2019</i>	St. Mark's Cathedral Parish	St. Mark's Properties LLC	Eliminating Entries	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 830,416	\$ 15,477	\$ -	\$ 845,893
Investments	508,065	-	-	508,065
Cash and investments held for capital campaign	1,338,515	-	-	1,338,515
Total Current Assets	2,676,996	15,477	-	2,692,473
Endowment investments	2,147,975	-	-	2,147,975
Property and equipment, net	12,832,172	5,905,677	-	18,737,849
Receivable from St. Mark's Cathedral Parish	-	506,659	(506,659)	-
Investment in St. Mark's Properties LLC	2,913,948	-	(2,913,948)	-
Beneficial interest in Foundation	1,472,888	-	-	1,472,888
Beneficial interest in perpetual trust	872,812	-	-	872,812
Total Assets	22,916,791	6,427,813	(3,420,607)	25,923,997
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	34,168	-	-	34,168
Accrued expenses	760,443	2,463	-	762,906
Deferred revenue	24,866	-	-	24,866
Current portion of long-term debt	252,633	143,182	-	395,815
Total Current Liabilities	1,072,110	145,645	-	1,217,755
Long-term debt, net of current portion	1,451,212	363,537	(506,659)	1,308,090
Fair value of interest rate swap agreement	-	31,868	-	31,868
Total Liabilities	2,523,322	541,050	(506,659)	2,557,713
Net Assets				
Without donor restrictions:				
Undesignated	14,672,393	-	-	14,672,393
Vestry-designated	1,108,906	-	-	1,108,906
Noncontrolling interest in St. Mark's Properties LLC	-	-	2,972,815	2,972,815
Members' equity in St. Mark's Properties LLC	-	5,886,763	(5,886,763)	-
With donor restrictions	4,612,170	-	-	4,612,170
Total Net Assets	20,393,469	5,886,763	(2,913,948)	23,366,284
Total Liabilities and Net Assets	\$22,916,791	\$ 6,427,813	\$ (3,420,607)	\$25,923,997

See accompanying independent accountant's review report.

St. Mark's Cathedral Parish and Subsidiary

Consolidating Statement of Activities

December 31, 2019	St. Mark's Cathedral Parish			St. Mark's Properties LLC	Eliminating Entries	Total
	Without Donor Restrictions	With Donor Restrictions	Total			
Operating Activities						
Support and Revenue						
Pledges and plate contributions	\$ 1,981,109	\$ 107,282	\$ 2,088,391	\$ -	\$ -	\$ 2,088,391
Rental revenue	560,326	-	560,326	-	-	560,326
Shop revenue	15,522	-	15,522	-	-	15,522
Diocesan support	57,861	-	57,861	-	-	57,861
In-kind contributions	171,930	-	171,930	-	-	171,930
Investment return	266,859	84,691	351,550	-	62,106	413,656
Hodges endowment distribution	19,104	-	19,104	-	-	19,104
St. Mark's Cathedral Foundation contribution	52,609	-	52,609	-	-	52,609
Other support and revenue	137,409	-	137,409	-	-	137,409
Net assets released from restrictions	105,276	(105,276)	-	-	-	-
Total Support and Revenue	3,368,005	86,697	3,454,702	-	62,106	3,516,808
Operating Expenses						
Cathedral programs	2,496,505	-	2,496,505	-	-	2,496,505
Management and general	702,349	-	702,349	-	(42,802)	659,547
Fundraising	215,808	-	215,808	-	-	215,808
Total Operating Expenses	3,414,662	-	3,414,662	-	(42,802)	3,371,860
Change in Net Assets from Operating Activities	(46,657)	86,697	40,040	-	104,908	144,948
Non-Operating Activities						
Contributions restricted for capital campaign	-	214,408	214,408	-	-	214,408
Capital campaign expenses	(753)	-	(753)	-	-	(753)
Change in fair value of interest rate swap agreement	7,202	-	7,202	-	-	7,202
Change in fair value of beneficial interest in Foundation	-	199,632	199,632	-	-	199,632
Change in fair value of beneficial interest in perpetual trust	-	131,121	131,121	-	-	131,121
St. Mark's Properties LLC interest revenue	-	-	-	42,802	(42,802)	-
St. Mark's Properties LLC expenses	-	-	-	(168,268)	-	(168,268)
Net assets released from restrictions	214,408	(214,408)	-	-	-	-
Change in Net Assets from Non-Operating Activities	220,857	330,753	551,610	(125,466)	(42,802)	383,342
Change in Net Assets, including noncontrolling interest	174,200	417,450	591,650	(125,466)	62,106	528,290
Noncontrolling Interest in Net Losses of St. Mark's Properties LLC	-	-	-	-	63,360	63,360
Change in Net Assets, excluding noncontrolling interest	\$ 174,200	\$ 417,450	\$ 591,650	\$ (125,466)	\$ 125,466	\$ 591,650

See accompanying independent accountant's review report.

August 13, 2020

Phil Lloyd
St. Mark's Cathedral Parish
1245 10th Avenue E
Seattle, WA 98102

Dear Phil:

We want to thank you and your staff for the time and effort given to helping us complete the review. Please find enclosed three bound copies of the reviewed financial statements of St. Mark's Cathedral Parish for the year ended December 31, 2019.

We appreciate the opportunity to work with you and, as always, we are available throughout the year if you have any questions.

Best regards,

Nathan Hartman

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Enclosures