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Management Letter

August 18, 2018

To the Board of Directors
National Venture Capital Association

In planning and performing our audit of the financial statements of National Venture Capital Association (the Association) as of and for the year ended December 31, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the Association's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Association's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

We would like to take this opportunity to communicate an informational comment as well as to provide an update on the status of comments included in the prior year management letter.

CURRENT YEAR COMMENT

Revenue Recognition Accounting Standard (Informational Comment)

Observation: The Financial Accounting Standards Board (FASB) has issued a new standard ("Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers"). It affects entities that either enter into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g. insurance contracts or lease contracts). The ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Implementing this new standard will be required for the Association's fiscal year ending December 31, 2019.

Recommendation: We recommend that the Association review this standard and consider its impact as they prepare their financial statements in the future. We have provided newsletter articles and client seminars on these changes and will continue our educational efforts as the implementation date approaches. If we can be of any assistance to the Association, please let us know. For the entire standard, please visit www.fasb.org.

STATUS OF PRIOR YEAR COMMENTS

New Accounting Standards (Informational Comment)

Observation: The following accounting standards were issued in final form during 2016 and they may have a significant impact on the Association's future financial statements.

The Financial Accounting Standards Board (FASB) issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities, a new standard that focuses on improving the financial reporting of the following items:

- Net assets restrictions
- Liquidity
- Investment returns
- Expenses

Implementation of the new standard will be required for the Association's fiscal year ending December 31, 2018. The FASB has also issued ASU 2016-02, *Leases*, which may be downloaded directly from the FASB website. Under this standard, organizations will be required to present a liability equal to the present value of future anticipated operating lease payments. In addition, an offsetting "right-of-use" asset will also be recorded. Although the impact on the Association's reported change in net assets is likely to be minimal, the new standard could have an impact on financial ratios. Implementation of this new standard will be required for the Association's fiscal year ending December 31, 2020.

Recommendation: We recommended that the Association review the two new accounting standards, understand the standards' impact on the consolidated financial statements, and be prepared to implement them on or before the effective dates.

Current status: Management agrees with the recommendation and will be prepared to implement the new standards on or before the effective dates.

Unclaimed Property Filing Requirements (Best Practice Recommendation)

Observation: Over the past several months the District of Columbia Unclaimed Property Division (the Division) has been requiring select institutes to perform self-audit. The Division has been selecting District of Columbia (the District) based organizations who have not remitted an annual unclaimed property form over the past several years or entities where there have been gaps in the remittance of these forms. Organizations found to be noncompliant with reporting requirements may be subject to financial penalties. Because of the increase in audit activity by the Division, we want to remind you of the District's unclaimed property rules.

> In general, property is presumed reportable by the Division if it has been unclaimed for more than three years and the last known address of the intended property holder is in the District.

The District's annual unclaimed property forms (Form UP-1, Report of Unclaimed Property Verification and Checklist) as well as the itemized listing of unclaimed property (Form UP-2, Unclaimed Property Tangible Assets Inventory List) are reported as of June 30 of each year. The reports are due by November 1. These reports must be filed annually even if the organization has no unclaimed property to report.

Prior to turning over unclaimed property to the Division, the organization should make reasonable efforts to locate the property owner. Typically, uncashed checks and credit balances in receivable accounts are the most common forms of unclaimed property for non-profit organizations.

More details about maintaining compliance with this requirement can be found at https://cfo.dc.gov/page/how-report-unclaimed-property-reporting-instructions-and-forms.

All states have different rules regarding unclaimed property. If an organization has unclaimed property due to an individual or business in locales outside of the District, you should familiarize yourself with the applicable rules. For example, Maryland and Virginia only require a report of unclaimed property if you have amounts to report that have been unclaimed for 3 and 5 years respectively.

Recommendation: We recommended that the Association ensure compliance with the District's and other locales' unclaimed property rules. An annual review of all unclaimed property should be added as a component of your accounting policies and procedures to ensure compliance with these requirements.

Current status: Management agrees with this recommendation and is aware of its responsibility to ensure compliance with unclaimed property statutes.

This report is intended solely for the use of the Board of Directors and management of National Venture Capital Association and is not intended to be, and should not be, used by anyone other than these specified parties.

Tate & Tryon

Audited Financial Statements

NATIONAL VENTURE CAPITAL ASSOCIATION

December 31, 2017

Contents

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Independent Auditor's Report on the Financial Statements

To the Board of Directors
National Venture Capital Association

We have audited the accompanying financial statements of National Venture Capital Association (the Association), which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in 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 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association'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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of National Venture Capital Association as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tate & Tryon

Washington, DC
August 18, 2018

Statement of Financial Position

December 31,	**2017**	**2016**
Assets		
Cash and cash equivalents	**$ 1,482,290**	$ 1,840,545
Investments	**2,718,989**	2,718,070
Other receivables	**48,284**	27,446
Tax refund receivable	**24,466**	24,907
Prepaid expenses and other assets	**263,259**	109,591
Restricted cash	**241,018**	241,679
Property and equipment, net	**395,112**	436,945
Total assets	**$ 5,173,418**	$ 5,399,183
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	**$ 192,896**	$ 253,841
Deferred revenue	**1,788,201**	1,826,347
Deferred rent	**674,307**	728,136
Deferred compensation	**59,810**	-
Total liabilities	**2,715,214**	2,808,324
Net assets - Unrestricted		
Undesignated	**2,217,186**	2,349,180
Board designated	**241,018**	241,679
Total net assets	**2,458,204**	2,590,859
Total liabilities and net assets	**$ 5,173,418**	$ 5,399,183

Statement of Activities and Changes in Net Assets

Year Ended December 31,	2017	2016
Revenue		
Member dues	**$ 4,474,963**	$ 4,426,093
Meetings	**598,950**	737,745
Other income	**106,056**	22,103
Communications and marketing	**16,678**	4,333
Investment income	**8,941**	3,322
Research	**-**	142,668
Total revenue	**5,205,588**	5,336,264
Expense		
Program services		
Public policy	**2,139,246**	1,618,289
Communications and marketing	**570,023**	580,506
Membership	**511,134**	588,924
Meetings	**340,423**	619,880
Research	**13,425**	13,872
Foundation	**11,743**	1,125
Total program services	**3,585,994**	3,422,596
Supporting services		
Management and general	**1,752,249**	1,653,821
Total expense	**5,338,243**	5,076,417
Change in net assets	**(132,655)**	259,847
Net assets, beginning of year	**2,590,859**	2,331,012
Net assets, end of year	**$ 2,458,204**	**$ 2,590,859**

Statement of Cash Flows

Years Ended December 31,	**2017**	**2016**
Cash flows from operating activities		
Change in net assets	**$ (132,655)**	$ 259,847
Adjustments to reconcile change in net assets		
Depreciation and amortization	**64,737**	73,846
Net realized and unrealized gains on investments	**(919)**	(329)
Loss on disposal of fixed assets	**-**	1,780
Changes in assets and liabilities:		
Other receivbles	**(20,838)**	21,791
Tax refund receivable	**441**	34,247
Prepaid expenses and other assets	**(153,668)**	(5,312)
Accounts payable and accrued expenses	**(60,945)**	113,797
Deferred revenue	**(38,146)**	(148,064)
Deferred rent	**(53,829)**	(29,467)
Deferred compensation	**59,810**	-
Total adjustments	**(203,357)**	62,289
Net cash (used in) provided by operating activities	**(336,012)**	322,136
Cash flows from investing activities		
Purchases of property and equipment	**(22,904)**	(9,530)
Net (decrease) increase in cash and cash equivalents	**(358,916)**	312,606
Cash and cash equivalents and restricted cash, beginning of year	**2,082,224**	1,769,618
Cash and cash equivalents and restricted cash, end of year	**$ 1,723,308**	$ 2,082,224

See notes to the financial statements.

A. Organization and Summary of Significant Accounting Policies

Organization: The National Venture Capital Association (NVCA) was organized in January 1973 as a nonprofit organization. NVCA unites the U.S. entrepreneurial ecosystem to support the formation of high-growth companies and ensure the U.S. remains the most competitive environment in the world for entrepreneurs and innovation. Powered by our members, NVCA convenes venture capital investors, entrepreneurs, industry partners and other ecosystem participants to shape public policy, develop and lead industry initiatives, spearhead industry research, and facilitate professional development.

NVCA affiliate, the Venture Capital Foundation was organized in May 2015 with the primary purposes of ensuring the future of a thriving American economy by informing, educating and celebrating the positive and lasting impacts of entrepreneurship. Once financial resources are secured, the foundation will focus on education and other matters important to the industry, including supporting a diverse and inclusive work environment of venture capital investors. During the years ended December 31, 2017 and 2016, the Foundation did not engage in any significant financial transactions.

Income taxes: The Association is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code. The Foundation is exempt from the payment of income taxes on its exempt activities under Section 501(c)(3) of the Internal Revenue Code and has been classified as other than a private foundation under Section 509(a)(3).

Basis of accounting: The Association prepares its financial statements on the accrual basis of accounting. Accordingly, revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue recognition: Membership dues are recognized as income ratably over the applicable membership period. Dues collected or billed for the subsequent membership year are presented as deferred revenues. Revenues and expenses of annual meetings and educational programs are recognized in the fiscal year in which the meeting or program is held. Sales of directories and other publications are recognized when these products are shipped. Research income is comprised of an annual income license fee, which is recognized as income evenly over the year, and royalties, which are recognized as earned. Advertising revenue is recognized as earned.

Net assets: The following is a summary of the Association's net assets:

> *Undesignated*: Undesignated net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation.
>
> *Board designated:* Internally designated net assets include the portion of net assets set aside for the MeDic fund, which is a member-based program created to increase research specifically in the medical industry for existing NVCA Life Science members and their portfolio companies.

Cash and cash equivalents: Cash and cash equivalents include money market funds with original maturities of less than three months. Cash and cash equivalents managed by the Association's investment manager as part of its long-term investment strategy are included in investments.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Restricted cash: The Association has cash totaling $241,018 and $241,679 at December 31, 2017 and 2016, respectively, that has been internally designated for MeDic programs.

Investments: Investments consist of money market funds which are recorded at cost plus accrued interest.

Functional allocation of expense: The costs of providing various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefitted based on estimated level of effort.

Subsequent events: Subsequent events have been evaluated through August 18, 2018, which is the date the financial statements were available to be issued.

B. CONCENTRATION AND CREDIT RISK

The Association maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Association. The Association has not experienced such losses in the past, and does not believe it is exposed to any significant financial risk on these cash and money market balances.

C. PROPERTY AND EQUIPMENT

Acquisition of fixed assets equal to or greater than $1,000 are capitalized at cost. Computer equipment, equipment, furniture and fixtures, software and telephone are depreciated using the straight-line method over the estimated useful lives of five to seven years. Leasehold improvements are amortized over the lesser of the remaining lease term or the estimated useful lives of the improvements. Maintenance and repair costs are expensed as incurred.

Fixed assets consisted of the following at December 31,:

	2017	2016
Leasehold improvements	$ 409,942	$ 409,942
Computer equipment	30,498	30,498
Equipment	31,309	26,332
Furniture and fixtures	99,811	94,605
Software	29,239	22,485
Telephone	20,490	14,523
	621,289	598,385
Less accumulated depreciation and amortization	(226,177)	(161,440)
	$ 395,112	**$ 436,945**

Depreciation and amortization totaled $64,737 and $73,846 for the years ended December 31, 2017 and 2016, respectively.

D. Deferred Revenue

During each fiscal year, the Association bills members for the next fiscal year's membership dues and collects a portion of the dues before the end of the fiscal year. The statement of financial position as of December 31, 2017 and 2016 includes deferred membership dues revenue balances of $1,749,694 and $1,776,961, respectively. The remaining amounts included in the deferred revenue balances as of December 31, 2017 and 2016, are related to license fees, which have terms of one year, and meeting registrations received in advance of the event.

E. Political Action Committee (Unaudited)

The Association has established a Political Action Committee (PAC) for the purpose of making contributions to political candidates. The PAC functions as an entity separate from the Association and makes its own separate solicitation for funds. As the PAC represents less than 4% of the Association's total assets, the PAC's activities are not reflected within the Association's statements of financial position or activities. Unaudited capsule financial information of the PAC as reflected on the Federal Election Commission report is as follows for the years ended December 31,:

	2017	2016
Cash, beginning of year	$ 412,950	$ 363,439
Total receipts	379,728	271,369
Total disbursements	(223,156)	(221,858)
Cash, end of year	**$ 569,522**	**$ 412,950**

F. Lease Commitment

During December 2014, the Association entered into an 11-year lease agreement for office space in Washington, D.C that expires on December 31, 2025. Rent payments are subject to an annual escalation of 2.75%. The lease contains an abatement of the first twelve months' rent which has been reported in the deferred rent liability and is being amortized on a basis to achieve straight-line rent expense over the life of the lease. The lease also contains a tenant improvement allowance of approximately $485,000 which has been reported in the deferred rent liability and will be amortized on a straight-line basis over the life of the lease as a reduction of rent expense. The deferred rent liability totaled $674,307 and $728,136 at December 31, 2017 and 2016, respectively.

Rent expense is recognized on a straight-line basis and totaled $294,191 and $291,686 for the years ended December 31, 2017 and 2016, respectively. The future minimum cash basis lease payments, excluding increases in real estate taxes and operating expenses, are as follows:

Year Ending December 31,	Amount
2018	$ 237,053
2019	243,572
2020	250,270
2021	257,152
2022	264,224
Thereafter	837,074
	$ 2,089,345

G. Retirement Plans

Defined contribution plan: Effective January 1999, the Association adopted a defined contribution 401(k) plan. The plan generally covers all employees and provides for employee and employer contributions. Total contributions made by the Association to the plan totaled $92,801 and $67,057 during the years ended December 31, 2017 and 2016, respectively.

Deferred compensation plan: During 2017, the Association entered into an agreement whereby six annual contributions of $60,000 would be made to a nonqualified deferred compensation plan under section 457 of the Internal Revenue Code for a certain key employee. The Association's contribution to the deferred compensation was $60,000 for the year ended December 31, 2017. The assets of the plan are primarily invested in mutual funds measured using Level 1 inputs and are included with prepaid expenses and other assets. The corresponding liability is shown on a separate line in the accompanying statements of financial position. Both amounts totaled $59,810 at December 31, 2017.

H. In-Kind Contributions

During 2017, the Association received contributed services for legal services which are recorded at fair value when received. The estimated value of the contributed services for the year ended December 31, 2017 was $78,388 and is included in other income and public policy expense on the consolidated statements of activities.

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Required Communications Letter

August 18, 2018

To the Board of Directors
National Venture Capital Association

We have audited the financial statements of National Venture Capital Association (the Association) for the year ended December 31, 2017, and have issued our report thereon dated August 18, 2018. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 24, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Association are described in the notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2017. We noted no transactions entered into by the Association during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

> Management's estimate of useful lives for property and equipment is based on historical trends of lives for assets of similar type.
>
> Management's estimate of the allocation of costs to functional areas is based on employee effort.

We have evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was the disclosure of the Association's long-term lease commitment in Note F.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. During our audit, one adjustment was recorded to properly expense fixed assets that were previously capitalized. This adjustment decreased the change in net assets by $19,246.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 18, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Association's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Association's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Directors and management of the National Venture Capital Association and is not intended to be, and should not be, used by anyone other than these specified parties.

Tate & Tryon