



# **CROWDFUNDING RESOURCES**

**AUTHORED BY  
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CROWDFUNDING LEGAL TEAM**

**MADE POSSIBLE BY THE GENEROUS SUPPORT OF  
THE MICHIGAN STATE BAR FOUNDATION  
SEPTEMBER 2015**

FIND CROWDFUNDING GUIDES FOR THE ENTREPRENEUR, INVESTOR, OR NONPROFIT AT  
[WWW.MI-COMMUNITY.ORG](http://WWW.MI-COMMUNITY.ORG)



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THIS GUIDE PROVIDES BASIC INFORMATION ABOUT FEDERAL AND MICHIGAN LAWS AND TOPICS RELATED TO CROWDFUNDING. THIS GUIDE IS A BRIEF PRIMER ON THE TOPIC AND SHOULD BE USED FOR REFERENCE PURPOSES ONLY.

THIS GUIDE IS NOT LEGAL OR FINANCIAL ADVICE. IT IS MEANT TO BE FOR INFORMATIONAL PURPOSES ONLY. WE ENCOURAGE YOU TO DO YOUR OWN RESEARCH AND MEET WITH THE FINANCIAL AND LEGAL PROFESSIONAL OF YOUR CHOOSING PRIOR TO ENGAGING IN CROWDFUNDING.

IF YOUR NONPROFIT ORGANIZATION HAS A SPECIFIC QUESTION OR LEGAL NEED, PLEASE CONTACT MICHIGAN COMMUNITY RESOURCES OR CONSULT WITH YOUR ATTORNEY.

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# WHAT IS CROWDFUNDING?

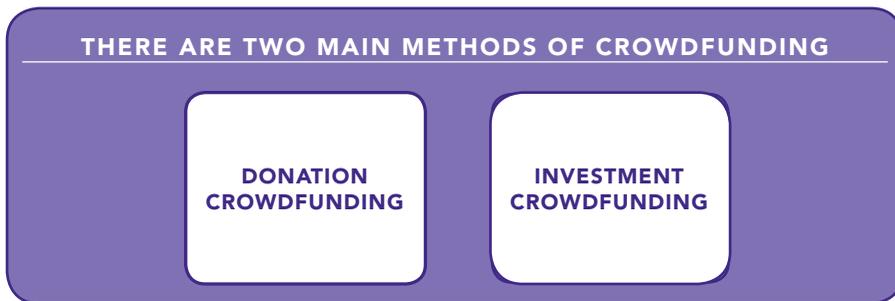
## WHAT IS CROWDFUNDING?

Crowdfunding is a capital-raising and fundraising tool that allows a group of people (the “crowd”) to gather small, individual contributions to build a larger pool of funds to support a cause, project, or business.

The main advantage of crowdfunding is that it lets you reach an unlimited number of potential investors or donors through the internet, social media, or other forms of marketing.

Crowdfunding is often conducted through an **online portal**. The portal helps by:

- Making it easier for potential investors or donors to find businesses or organizations looking to raise capital;
- Giving businesses and organizations a platform to provide information to many investors or donors at once; and
- Processing the investments or donations that a business or organization receives.



# CROWDFUNDING BASICS

<b>TYPE OF CROWDFUNDING</b>	<b>HOW DOES IT WORK?</b>	<b>WHO CAN CONTRIBUTE OR INVEST MONEY?</b>	<b>WHAT DO CONTRIBUTORS OR INVESTORS RECEIVE IN RETURN?</b>
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## **DONATION CROWDFUNDING**

Sponsoring organization solicits outright donations from the public for a particular cause, project, or business.

Any interested individual, business or organization.

The donor may receive a token product or reward, or receive nothing other than the benefit of donating to a project the donor supports.

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## **INVESTMENT CROWDFUNDING**

Business offers to sell an ownership stake in the company or borrow money from investors that will be repaid with interest.

Anyone can participate in Michigan and federal crowdfunding, but only accredited investors can participate in accredited investor crowdfunding as explained below.

Investors receive either an ownership stake in the business or the right to receive repayment of the money loaned to the business plus interest.

# CROWDFUNDING GLOSSARY

**Accredited Investor:** Individuals with a net worth of \$1 million, excluding his or her residence; officers and directors of the company or organization seeking investment and certain entities with more than \$5 million in assets; individuals with an income of \$200,000.

**Amortization:** The paying off of debt with a fixed repayment schedule in regular installments over a period of time.

**Capital:** Funds contributed by an individual, particularly an investor, for the purpose of maintaining or expanding a business enterprise.

**Collateral:** Something pledged as security for repayment of a loan, to be forfeited in the event of a default.

**Crowdfunding Platform:** Online system which provides information about projects seeking funding and possesses the ability to aggregate funds for investment into these projects.

**Debt Interest:** The right to repayment after a sum has been loaned, usually with a fixed or variable rate of interest.

**Disclosure:** Providing pertinent information, used for investment decision making, by a company to investors.

**Distribution:** An allocation of profits based on ownership percentage.

**Due Diligence:** Research performed on a business entity to evaluate its potential as an investment; “due diligence” includes reviewing financial statements, pending litigation, and discussions with management to assess the long-term viability of the business.

**Equity Interest:** A stock or any other security representing an ownership interest.

**Federal Crowdfunding:** Raising capital, typically small amounts from a large group of contributors, through either a registered broker-dealer or a registered funding portal, with corresponding limits on both the amount any individual investor can contribute and the amount a company can raise.

**Fixed Interest Rate:** An interest rate that is determined at the beginning of a transaction and does not change as opposed to a **variable interest rate** which changes based upon pre-determined economic triggers.



# CROWDFUNDING GLOSSARY

**Form D Notice Offering:** An SEC filing form to be used to file a notice of an exempt offering of securities under Regulation D of the U.S. Securities and Exchange Commission; Form D requires information about the issuer and offering.

**General Partner:** A person active in the day-to-day operations of a business who is allocated profits after the limited partners, investors in a fund who do not share in its operation, have been paid.

**Intermediary:** An electronic medium or individual which provides information on projects seeking funding and has the capability to collect and transfer investor funds to these projects; these intermediaries are registered broker-dealers or registered funding portals.

**Investment:** Funds allocated for a particular business purpose, particularly growth or expansion, with the expectation or hope that the funds will increase in value.

**Limited Partner:** Investors in a fund who received their distribution before the general partner, the one who manages the operations of the fund; limited partners do not participate in fund allocation decisions.

**LARA:** The Michigan Department of Licensing and Regulatory Affairs (LARA) oversees the licensing and regulation of individuals and entities in Michigan, including providing regulatory oversight of intrastate crowdfunding through MILE and state level securities registration.

**Michigan Crowdfunding:** Raising capital via the MILE Act from Michigan based investors for investment in a Michigan based company; the business must make filings and disclosures with the State of Michigan and there are limits on the amount of money a business or organization can raise in any 12-month period.

**MILE Act:** The Michigan Invests Locally Act or MILE is legislation that allows companies to raise capital if they meet certain criteria including: the business is incorporated in Michigan to sell securities in its business to Michigan investors, individuals who have a principal residence or business organizations with a principal office in Michigan, without having to register its securities. A business may accept up to \$10,000 from a single investor, unless the investor is an accredited investor and if so, the business may accept more than \$10,000 from the accredited investor and is able to raise up to \$1 million in 12 months without providing audited financial statements or reviewed financial statements to a prospective investor for the business's most recently completed fiscal year, prepared by a certified public accountant. A business may raise up to \$2 million in 12 months if it provides a prospective investor audited financial statements or reviewed financial statements for the business's most recently completed fiscal year prepared by a certified public accountant.

# CROWDFUNDING GLOSSARY

**Non Accredited Investor:** An investor who does not meet the requirements of being an Accredited Investor.

**Ownership Stake:** The proportion of a business owned by an investor which is usually accompanied by economic and other legal rights.

**Private Placement Memorandum (PPM):** A private placement memorandum (PPM) is a legal document provided to prospective investors when selling stock or another security in a business. The PPM describes the company selling the securities, the terms of the offering, and the risks of the investment, amongst other things. The disclosures included in the PPM vary depending on which exemption from registration is being used, the target investors, and the complexity of the terms of the offering.

**Registered Broker Dealer:** A person or firm in the business of buying and selling securities, operating as both a broker and a dealer, depending on the transaction. A brokerage acts as a broker (or agent) when it executes orders on behalf of clients, whereas it acts as a dealer (or principal) when it trades for its own account.

**Registered Online Portal:** An online medium for the purpose of crowdfunding registered with the appropriate state or federal authorities.

**Risk:** The possibility of economic loss attached to owning a security; “risk” also generally encompasses the pitfalls and challenges associated with running a business operation.

**Security:** A financial instrument that represents some type of financial value. Securities are typically divided into debt securities and equities. A debt security is a type of security that represents money that is borrowed that must be repaid. Equities represent ownership interest held by shareholders in a corporation.

**Shares:** Ownership interest by an investor in a business entity.

**USA JOBS Act:** Legislation passed in 2012 by the US Congress that permits the general solicitation of investment opportunities through crowdfunding internet portals and subsequently provides greater opportunities for non-accredited investors to participate in investment opportunities.

**U.S. Securities and Exchange Commission (SEC):** An agency of the United States federal government that holds primary responsibility for enforcing the federal securities laws, proposing securities rules, and regulating the securities industry.



# COMPARISON OF INVESTMENT CROWDFUNDING METHODS

	MICHIGAN CROWDFUNDING	FEDERAL CROWDFUNDING (NOT CURRENTLY AVAILABLE)	ACCREDITED INVESTOR CROWDFUNDING
<b>WHAT IS THE LIMIT ON THE AMOUNT OF CAPITAL RAISED?</b>	<ul style="list-style-type: none"> <li>• \$2 million every 12 months with audited or reviewed financial statements.</li> <li>• \$1 million every 12 months without audited or reviewed financial statements.</li> </ul>	<ul style="list-style-type: none"> <li>• \$1 million per 12 months with audited financial statements.</li> <li>• \$500,000 with reviewed financial statements.</li> <li>• \$100,000 if neither audited nor reviewed financial statements are provided.</li> </ul>	No limit.
<b>WHAT IS THE LIMIT ON THE NUMBER OF INVESTORS?</b>	No limit.	No limit.	No limit.
<b>WHAT IS THE LIMIT ON INVESTOR TYPE?</b>	Michigan resident only.	Any investor.	Accredited investor only.

# COMPARISON OF INVESTMENT CROWDFUNDING METHODS

	<b>MICHIGAN CROWD-FUNDING</b>	<b>FEDERAL CROWDFUNDING (NOT CURRENTLY AVAILABLE)</b>	<b>ACCREDITED INVESTOR CROWDFUNDING</b>
<b>WHAT IS THE LIMIT ON THE TYPE OF ISSUER (SPONSORING COMPANY/ ORGANIZATION)?</b>	Private Michigan entity.	<ul style="list-style-type: none"> <li>Private US entity.</li> </ul>	Any company.
<b>IS THERE AN INVESTMENT LIMIT?</b>	<ul style="list-style-type: none"> <li>Yes. Investment limit of \$10K for non-accredited investor.</li> </ul>	<ul style="list-style-type: none"> <li>Yes. If investor's income/ net worth is below \$100K, investment limit is the greater of \$2,000 or 5% of annual income/net worth.</li> <li>If investor's income/ net worth is above \$100K, 10% of income/ net worth up to \$100K.</li> </ul>	No limit.
<b>WHAT IS THE INFORMATION REQUIREMENT?</b>	Disclosure Statement with specific requirements filed with Michigan's Department of Licensing and Regulatory Affairs ("LARA") 10 days before offering.	<ul style="list-style-type: none"> <li>Offering Circular with specific requirements (including audited financials if greater than \$500K).</li> <li>Form C filed with SEC before commencement of offering and 21 days before first sale and provided to intermediary and investors; periodic updates required</li> </ul>	Form D notice of offering filed with SEC after first sale. Some disclosure to investors may be necessary to address market or liability concerns.

# COMPARISON OF INVESTMENT CROWDFUNDING METHODS

	<b>MICHIGAN CROWDFUNDING</b>	<b>FEDERAL CROWDFUNDING (NOT CURRENTLY AVAILABLE)</b>	<b>ACCREDITED INVESTOR CROWDFUNDING</b>
<b>IS STATE LAW COMPLIANCE REQUIRED?</b>	Yes. Filing with LARA is required as described above.	No.	No.
<b>IS ONGOING REPORTING REQUIRED?</b>	Yes. A quarterly report to investors including disclosure of directors' and officers' compensation, discussion of business operations and financial condition of issuer. Michigan resident only.	Yes. File Form C-AR annual report with SEC, including financials meeting requirements in last offering circular.	No .
<b>ARE THERE RESALE RESTRICTIONS?</b>	Investor cannot resell an investment to non-Michigan resident within 9 months after initial investment.	Yes. Resale is limited during the first year.	Yes. There is a 1-year restriction for resale by non-affiliates but no restriction for affiliates.

# COMPARISON OF INVESTMENT CROWDFUNDING METHODS

	<b>MICHIGAN CROWDFUNDING</b>	<b>FEDERAL CROWDFUNDING (NOT CURRENTLY AVAILABLE)</b>	<b>ACCREDITED INVESTOR CROWDFUNDING</b>
<b>ARE THERE RESTRICTIONS ON SOLICITATIONS?</b>	<p>General solicitation and advertising is permitted, but only to Michigan residents.</p> <p>Filings with LARA are required if offered via website, and ongoing conditions must be met.</p>	<p>Yes. The company cannot advertise the terms of the offering but may advertise the offering itself and direct investors to the intermediary.</p>	<p>General solicitation and advertising permitted if issuer reasonably verifies each investor is accredited or reasonably believes each investor is accredited.</p>
<b>IS AN INTERMEDIARY REQUIRED?</b>	<p>None required, but an internet platform often used.</p>	<p>Yes. The offering must be conducted through a single intermediary.</p>	<p>None required, but an internet platform is often used.</p>



# ONLINE CROWDFUNDING RESOURCES AND INFORMATION

*\*Listing of these sites does not constitute an endorsement of any of the content included within.*

## NATIONAL CROWDFUNDING PLATFORMS

### **Patronicity**

<https://www.patronicity.com/>

### **RocketHub**

<https://www.rockethub.com/>

### **CauseVox**

<http://www.causevox.com/>

### **Razoo**

<https://www.razoo.com/>

### **Kickstarter**

<https://www.kickstarter.com/>

### **Indiegogo**

<https://www.indiegogo.com/>

### **IOBY**

<https://www.ioby.org/>

## MICHIGAN-BASED CROWDFUNDING PLATFORMS

### **LocalStake**

<https://localstake.com/>

### **Michigan Funder**

<http://michiganfunders.com/>

### **Fundrise**

<https://fundrise.com/>

## MICHIGAN RESOURCES FOR LOCAL INVESTING

### **Local Investing.com**

[www.local-investing.com](http://www.local-investing.com)

### **Locavesting.com**

[www.locavesting.com](http://www.locavesting.com)

### **Revalue Investing**

[www.revalueinvesting.com](http://www.revalueinvesting.com)

### **Crowdfunding Michigan**

[www.crowdfundingMI.com](http://www.crowdfundingMI.com)

## DUE DILIGENCE CHECKLIST & REQUEST TEMPLATE

### **Go 4 Funding Due Diligence Checklist**

<http://www.go4funding.com/Articles/Angel-Investors/Due-Diligence-Checklist.aspx>

### **The Venture Alley Due Diligence Request Template**

<http://www.theventurealley.com/files/2013/08/Form-of-Due-Diligence-Request-short-form.pdf>

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## NATIONAL INVESTOR NETWORKS

### Slow Money

<https://www.slowmoney.org/>

## ANGEL INVESTOR NETWORKS FOR ACCREDITED INVESTORS ONLY

### Grand Angels (West Michigan)

<http://www.grandangels.com>

### Ann Arbor Angels

<https://www.annarborangels.org>

### Bluewater Angels (Midland)

<https://www.bluewaterangels.com>

### Michigan Women's Foundation

<https://www.miwf.org>

## RESOURCE LINKS TO FIND INVESTOR GROUPS

### Michigan Venture Capital Association

<http://www.michiganvca.org/>

### Angel Capital Association

<http://www.angelcapitalassociation.org/>

## STATE OF MICHIGAN RESOURCES (LARA)

### Issuing and Investing In Securities through Crowdfunding: Frequently Asked Questions

[http://www.michigan.gov/lara/0,4601,7-154-61343\\_32915\\_59944-289603--,00.html](http://www.michigan.gov/lara/0,4601,7-154-61343_32915_59944-289603--,00.html)

### LARA Tips on Intrastate Equity Crowdfunding

<http://www.michigan.gov/lara/0,4601,7-154--352390--,00.html>

### LARA Crowdfunding - Things to Keep In Mind

<http://www.michigan.gov/lara/0,4601,7-154--352390--,00.html>

## MICHIGAN INVEST LOCALLY EXEMPTION (MILE) RESOURCES

### Registered Crowdfunding Portals

[http://www.michigan.gov/lara/0,4601,7-154-61343\\_32915\\_59944-319233--,00.html](http://www.michigan.gov/lara/0,4601,7-154-61343_32915_59944-319233--,00.html)

### LARA Resources: Checking on a Company or Individual

[http://www.michigan.gov/lara/0,4601,7-154-61343\\_32915\\_59944-319233--,00.html](http://www.michigan.gov/lara/0,4601,7-154-61343_32915_59944-319233--,00.html)

### Business Entity Search

[http://www.dleg.state.mi.us/bcs\\_corp/sr\\_corp.asp](http://www.dleg.state.mi.us/bcs_corp/sr_corp.asp)







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