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How to prepare for crowdfunding

Today's guest post is by Nicole Denny, a CPA with Miami-based Kaufman, Rossin & Co.

By Nicole Denny

Crowdfunding is an avenue for startups and small businesses to solicit capitalfrom non-accredited investors. The CROWDFUND provision of the JOBS Act allows companies to raise up to $1 million in capital per year via crowdfunding platforms from individual investors without registering with the Securities and Exchange Commission (SEC). Many investors will come from entrepreneurs' preexisting networks -- mentors, former colleagues, friends, and family.

There are many unknowns as the SEC has until January 2013 to regulate these crowdfunding platforms. However, there are many steps that small businesses can take to get ready.

Internal Research

First, entrepreneurs need to take a look inside their own businesses. Determine how much capital you are interested in raising and how you will utilize it. There are regulations on the types of financial statements that business will need to provide investors dependent on the amount of capital raised.

Level of Annual Crowdfunded Capital	Required Financial Statements
Less than $100,000	Internally Generated Financial Statements
From $100,000 to $500,000	Reviewed Financial Statements
From $500,000 to $1,000,000	Audited Financial Statements

Should your company be interested in raising enough capital to warrant reviewed or audited financial statements, now is the time to identify and engage a public accounting firm. By engaging early, you will be able to meet with your accountants to ensure that you're retaining the type of support that they will need in order to complete your review or audit, as well as fully understanding how much the review or audit will cost you, not only in engagement fees, but in time as well.

Develop a business plan

While there are many unknowns, it is evident that each company seeking to raise capital via crowdfunding will need a fully developed business plan. Take the time to create a business plan that concisely states your mission, defines your operations, details your marketing strategy, and includes financial projections based on past performance.

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Value your business

Business valuation is likely to be one of the most difficult hurtles that an entrepreneur will face in raising capital via crowdfunding. As the JOBS Act requires that a set price per share is communicated before selling any securities, it would be prudent for any company interested in raising capital to start valuing its equity.

A good starting point would be to research comparable businesses within your industry, on websites such as bizquest.com. There are also several methods a company can use to determine a valuation, such as the excess earning method, the cash flow method, and the balance sheet (asset valuation) method. After determining the value of your business, calculate your price per share based on the percentage of equity in each share.

Determining a target capital amount, writing a business plan, and valuing your business are just the beginning of the process for obtaining capital via crowdfunding;entrepreneurs that start now will be far more ready to take advantage of this new capital market than competitors that are not prepared.

Nicole Denny, CPA, MBA is a member of Kaufman, Rossin & Co.'s audit practice. Kaufman, Rossin & Co. is one of the top CPA firms in the country. She can be reached at ndenny@kaufmanrossin.com