

Background: Accurately and consistently assessing the financial health and viability of arts organizations in AFA operating grant programs requires an in-depth examination from both a quantitative and a qualitative perspective.

While narrative accounts of an organization's plans, successes and failures form an important part of any assessment, the AFA also requires a system of assessment that can be accurately measured and compared against both prior years and established benchmarks.

The financial health and viability of an arts organization are dependent upon several interrelated factors, which together or alone provide clear indications of sustainability.

The AFA, through its Fair Notice Policy, takes into account the range of internal and external factors and cycles that can lead to financial, artistic or organizational instability. The Fair Notice Policy is a four-step process that encourages organizations to work with the AFA and other funders to develop and implement strategies for recovery and capacity building.

Policy: When the AFA has concerns about the viability of an organization, it will advise the organization that it is on "Fair Notice" status. This will occur if the organization shows evidence of any of the following:

- Evidence of not being financially viable.
- A significantly reduced audience or sales base (if this differs from the organization's own stated intentions).
- Failure to achieve the defined activity plan submitted with the organization's grant application.
- Demonstrated inability to develop and implement organizational plans.
- Failure to meet contractual obligations or reporting requirements outlined in grant program guidelines.
- Management practices that do not conform to generally acceptable practices.

Definitions: *Current Liabilities*: The outstanding financial obligations of an organization that are due within 1 year, as declared by the organization's financial statements presented in the standard normally acceptable to the AFA.

Unrestricted Current Assets: The Cash and Cash Equivalents, such as Accounts Receivable, Inventory and Pre-paid expenses that are available to pay Current Liabilities, as declared by the organization's financial statements presented in the standard normally acceptable to the AFA.

Procedure: In cases of financial instability:

1. If the organization receives an unsatisfactory evaluation that demonstrates the organization's Current Liabilities exceed its Unrestricted Current Assets by over 10% over the previous two years:
 - a. The AFA will issue a Fair Notice letter together with a copy of the Fair Notice Policy.
 - b. The organization will be required to submit a three-year debt retirement plan with its next grant application. The plan must be approved by the organization's Board of Directors.
2. If the organization receives a second unsatisfactory evaluation:
 - a. The AFA will apply an immediate grant reduction of 10%.
 - b. The organization will be required to submit an updated version of the existing three-year debt retirement plan with its next application. The updated plan must be approved by the organization's Board of Directors.
3. If the organization receives a third unsatisfactory evaluation
 - a. The AFA will apply an immediate grant reduction of up to 25%.
 - b. The organization will be required to submit an updated version of the existing three-year debt retirement plan with its next application. The updated plan must be approved by the organization's Board of Directors.
4. If the organization receives a fourth unsatisfactory evaluation:
 - a. The organization will be removed from the operating grant program and will be ineligible to apply for operating funding.
 - b. The organization may be granted re-entry into an operating grant program for which it is eligible if it can provide two consecutive years of audited financial statements demonstrating an operating surplus.

In cases where any non-financial indicator(s) are viewed by the AFA to have a negative impact on the viability of the organization:

- a. Procedures 1- 4 will be applied in respect to the evaluation of applications and notification to the organization. As the issue is not financial, no debt retirement plan is required.
- b. The AFA will specify what other information, approved by the organization's Board of Directors, will be supplied with the organization's subsequent grant application.

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