



2018 Expenditure and Revenue Report

***A Report to the Governor and
the House Appropriations &
Senate Finance Committees***

August 2018





Southwest Virginia Cultural Heritage Foundation & Friends of Southwest Virginia

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On behalf of the Southwest Virginia Cultural Heritage Foundation, the following report is submitted to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees per Appropriation Act Item 106 K.2.

Overview and History:

The Southwest Virginia Cultural Heritage Foundation's purpose is to encourage economic development of a 19-county, four-city, and 54-town region through innovative expansion of cultural heritage and natural asset based development, supporting entrepreneurship, tourism, and overall business growth. Recognizing a transition in the economic structure of the region from the loss of extractive, agricultural and manufacturing industries, the Department of Housing and Community Development (DHCD) worked with regional partners in 2002 to envision a new future for Southwest Virginia that capitalizes on the region's cultural and natural assets to attract tourism and enhance quality of life.

The Southwest Virginia Cultural Heritage Commission, established in 2008 by the Virginia General Assembly, took the lead in developing a creative economy in Southwest Virginia. In 2011, the Commission became the Southwest Virginia Cultural Heritage Foundation, a community development and tourism marketing organization with administrative support from DHCD. Through a cooperative non-profit, Friends of Southwest Virginia (an incorporated 501(c)(3)), the dual organizations serve as the coordinating body to help communities, organizations, and individual entrepreneurs mobilize and succeed throughout the region.

Heartwood Overview and Mission:

Located in Abingdon, Virginia, Heartwood: Southwest Virginia's Artisan Gateway, offers visitors to Virginia a taste of the culture and heritage of Southwest Virginia. From the sounds of the region's distinctive Bluegrass to the sights of world renowned folk artists from around the mountains, one can find moments of discovery for the entire family. For art and craft lovers, Heartwood has four shopping galleries featuring juried craft from the 'Round the Mountain Artisan Network as a showcase of the individuals who have devoted their lives to interpreting SWVA through all forms of the arts. Of all the cultural moments shared by families in Southwest Virginia, none are more personal and important than family meals. Heartwood's restaurant recreates traditional southern moments through modern cuisine served in a relaxed atmosphere. Open daily, you will find an assortment of specialties crafted fresh from local, farm-sourced products. The



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restaurant is complemented by a coffee, wine, and beer bar with many regional offerings.

The 29,000 square foot artisan and performance center was completed and opened to the public in 2011 with an investment of approximately \$15 million dollars of public funding. Heartwood provides the following to the communities of Southwest Virginia:

- The centerpiece and heart of the creative economy movement for all communities, businesses, and entrepreneurs of Southwest Virginia.
- A home for the headquarters of the Southwest Virginia Cultural Heritage Foundation, Friends of Southwest Virginia, 'Round the Mountain: Southwest Virginia's Artisan Network, and The Crooked Road: Virginia's Music Heritage Trail.
- A Virginia Tourism Corporation Certified Tourist Information Center to serve as a gateway and showplace for the region's cultural and natural assets through numerous visual and interactive displays, an information desk, and direct customer assistance.
- An Artisan Marketplace for the region's artists to showcase and sell their work as they grow and train to become sustainable artisan entrepreneurs.
- A primary performance venue of The Crooked Road, supporting and showcasing local musicians from across the region.
- A restaurant and a coffee, wine, and beer bar serving regional fare to promote and sustain local farmers and producers.
- Meeting and conference facilities for regional and statewide entities.
- Outdoor event space for regional arts, music, food, wine, and outdoor recreation festivals and promotions.

Heartwood's commercial operations are operated through a contract with Guest Services Incorporated (GSI), a corporation headquartered in Fairfax, Virginia, which oversees approximately 250 properties across the United States. GSI is responsible for the management, staffing and operation of the restaurant, catering, artisan marketplace, visitor center, and facility housekeeping in conjunction with the leadership of Friends of Southwest Virginia and the Foundation.

While much of Heartwood's main floor is devoted to revenue generating activities such as events, retail, and food services, a significant portion of the building is focused on supporting regional economic development initiatives. A large amount of space at Heartwood is also dedicated to exhibiting the cultural assets of the region and its communities; the facility also serves as the focal point for the community development work of



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the Foundation and its aligned initiatives - The Crooked Road, 'Round the Mountain, and Southwest Virginia Outdoors.

2017-2018 Operations:

Outside of the direct operations of Heartwood, the Foundation and Friends of Southwest Virginia participated in numerous region-wide initiatives in 2017-2018 which are expected to bring long term benefits to the Foundation and to the region as whole. These activities include continued expansion of the Southwest Virginia Outdoors product development and marketing campaign, the continued expansion of the regionally supported Southwest Virginia brand, and continued expansion of the scope of the creative economy in Southwest Virginia. These activities are outside of the scope of Heartwood and are not included in the below financial and program reports; additional information on these activities can be found in the Friends of Southwest Virginia 2017 Annual Report issued in January of 2018: <http://friendsofswva.org/about/annualreport/>

Heartwood's 2017-2018 fiscal year operational budget is broken down in Figure 1. It should be noted that \$300,000 of the Foundation's \$875,000 appropriation in both FY 17 and FY 18 continues to be utilized for payroll and related costs associated with Foundation staff directly employed by DHCD and working on both regional initiatives and the continued development of Heartwood; the remainder was allocated to the Foundation and Friends of Southwest Virginia for organizational and Heartwood operations.

Figure 1: FY18 Operational Budget 2017-2018 Heartwood Revenue	
<i>DHCD</i>	\$575,000
<i>Heartwood: Retail</i>	\$250,568
<i>Heartwood: Catering</i>	\$93,964
<i>Heartwood: Restaurant</i>	\$190,014
<i>Event Revenues</i>	\$1,844
<i>Facility Rental Fees</i>	\$10,270
<i>Office Rental Fees</i>	\$21,222
<i>Interest Income</i>	\$1,172
Total Revenue	\$1,144,054



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2017-2018 Heartwood Expenses	
<i>Administration</i>	\$44,708
<i>Sales</i>	\$24,437
<i>Office Expenses</i>	\$33,189
<i>Technology</i>	\$48,542
<i>Utilities</i>	\$68,933
<i>Heartwood: Marketing</i>	\$21,562
<i>Guest Services Inc: Management Fee</i>	\$52,388
<i>Guest Services Inc: Retail</i>	\$255,582
<i>Guest Services Inc: Visitor Center</i>	\$32,176
<i>Guest Services Inc: Housekeeping</i>	\$19,985
<i>Guest Services Inc: Catering</i>	\$32,605
<i>Guest Services: Restaurant</i>	\$444,345
<i>Heartwood: Maintenance & Grounds</i>	\$82,785
<i>Heartwood: Events</i>	\$3,809
<i>Commissions: Round the Mountain and The Crooked Road</i>	\$20,539
Total Expenses	\$1,185,585

While the total operation lost \$41,531 in fiscal year 2018, the loss was 44% less than the previous year's loss of \$74,351. This loss also represents an amount less than the total cost of non-revenue generating services provides by the facility such as Visitor Center Services and Community Meeting Space Housekeeping (total of \$52,161). The fiscal year operating loss of \$41,531 from the operational budget of Heartwood was covered by reserves. This report focuses on Heartwood operations and revenues. It should be noted that the overall Foundation mission of serving the entire region through additional coordination of local, state and federal resources continues to be successful in leveraging funds that are producing tangible economic results across the region. The budgets and funds for these programs and initiatives are not included in the scope of this report.

Overall, visitation for Heartwood in FY 2018 was 34,493. This is a decline of 5.3% from FY 2017's visitation of 36,438. While the organization has become more sustainable compared to past years due to budget savings and expenditure cuts, visitation has declined due to a reduction in marketing, sales, and event operation expenditures.



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Figure 2: FY18 Visitation

	FY 2017	FY 2018
July 2017	4,128	3,740
August 2017	3,224	3,311
September 2017	2,703	3,209
October 2017	3,331	3,579
November 2017	3,192	3,361
December 2017	3,420	3,467
January 2018	1,557	1,017
February 2018	1,716	1,553
March 2018	2,767	2,464
April 2018	3,027	2,893
May 2018	3,929	3,413
June 2018	3,444	3,127
Total	36,438	34,493

Future Direction & Operations:

A new executive director of the Southwest Virginia Cultural Heritage Foundation and Friends of Southwest Virginia began on July 5, 2017, and has worked to conduct a full evaluation of the organization and operations at Heartwood. The Foundation has worked to refocus the business model of Heartwood from organizational efficiency towards business revenue development through sustainable retail, restaurant, and event growth.

The Board of Trustees for the Foundation and the Board of Directors have been reinvigorated with regular meetings and standing committees for all areas of the organization's function. Through a partnership with the Virginia Tobacco Region Revitalization Commission, the Foundation and Friends of Southwest Virginia has engaged with GENEDGE, a Commonwealth of Virginia public entity working to consult with Virginia businesses and build a stronger economy across the region. The consultants are currently working with the organization to identify gaps between the mission and values of Heartwood and the end product of the work within the facility and across the region. The consultants are looking at the overall business model for



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success in both the financial and mission service delivery success. Recommendations should be delivered to the organization in fall / winter of 2018 for implementation shortly thereafter.

Additionally, the Finance Committee of the Foundation had been granted greater responsibility to advise the Executive Director on the general oversight of the commercial operations of Heartwood. This committee will be reconvened to conduct budget reviews and provide assessments of operational issues. In conjunction, the Heartwood Committee has spent time examining the programs and operations of the organization to offer efficiency improvements while meeting the mission of the organization.

The contract with GSI expired in December of 2017. The contract is currently being reviewed thoroughly for renegotiation or reorganization and will be considered by the Board of Trustees and Board of Directors following the recommendations of GENEDGE and the experience of the boards.

The Heartwood budget for the 2018-2019 fiscal year, approved by the Friends of Southwest Virginia Board of Directors and the Southwest Virginia Cultural Heritage Foundation Board of Trustees, is shown in Figure 3 and 4.

Organizational Efficiency:

As both the foundation and Friends have worked to increase efficiency and improve programing, a historical partner of the organization, 'Round the Mountain: Southwest Virginia's Artisan Network, was looking to eliminate their high administrative costs and improve their reach throughout the region. Through a partnership effective July 1, 2018, Friends of Southwest Virginia assumed the programs of 'Round the Mountain through a programing contract. 'Round the Mountain has historically managed the jury selection and membership component of Heartwood and was allocated a guaranteed portion of revenue.

This transition to a single organization managing both regional programing and all programing within the Artisan Marketplace of Heartwood allows the organization to have a unified approach with both regional and Heartwood initiatives while reducing overall administrative costs for the initiatives. A new Program Manager has been hired through the non-profit arm to manage and provide oversight to all regional cultural heritage initiatives and the work within Heartwood. This synergy will increase collaborations and partnerships and result in a stronger Heartwood both organizationally and financially.



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Figure 3: FY19 Operational Budget: 2018-2019 Heartwood Revenue

FY2019 Budget : General Budget				<i>Actual</i>	<i>Actual</i>	<i>Proposed</i>
Version:	<i>Approved by Board of Trustees</i>			<i>FY 2017</i>	<i>FY 2018</i>	<i>FY 2019</i>
				<i>Budget</i>	<i>Budget</i>	<i>Budget</i>
REVENUE						
	General					
		DHCD - SWVA CHF		575,000	575,000	575,000
		Interest Income		1,290	1,172	500
		Donations		120	-	500
		Misc		13,327	-	
		Total General Revenue		589,737	576,172	576,000
	Heartwood					
		Heartwood - Restaurant (GSI)		263,138	190,014	180,000
		Heartwood - Catering (GSI)		18,433	93,964	125,000
		Heartwood - Retail (GSI)		268,152	250,568	290,000
		Heartwood - Facility Fee		19,509	10,269	20,000
		Heartwood - Office Rent		21,835	21,222	12,000
		Heartwood - Events Revenue		2,434	1,844	2,000
		Total Heartwood Revenue		593,501	567,882	629,000
	Total Revenue			1,183,238	1,144,054	1,205,000



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Figure 4: FY19 Operational Budget: 2018-2019 Heartwood Expenses

EXPENSES			FY17 Actual	FY18 Actual	FY19 Approved
Administration & Personnel					
		Accounting and Administration	74,129	44,708	50,000
		Personnel: Administrative	-	-	-
		Office Expenses	56,292	33,189	26,000
		Technology	30,026	48,542	8,000
		Workshops & Conferences	-	-	3,800
		Memberships & Subscriptions	-	-	1,500
		Misc	-	-	1,500
		Total Administration & Personnel Expenses	160,447	126,439	90,800
Heartwood					
		Heartwood: GSI Management Fees	53,129	52,388	59,500
		Heartwood: Restaurant (GSI)	458,825	444,345	303,000
		Heartwood: Catering (GSI)	-	32,605	47,000
		Heartwood: Retail (GSI)	364,428	255,582	313,000
		Heartwood: Visitor Center (GSI)	-	32,176	35,000
		Heartwood: Housekeeping (GSI)	-	19,985	15,000
		Heartwood: Commissions (RTM & TCR)	17,258	20,539	3,000
		Heartwood: Maintenance & Grounds	83,289	82,785	90,000
		Heartwood: Utilities	81,589	68,933	75,000
		Heartwood: Information Technology	-	-	32,000
		Heartwood: Office Supplies & Administration	-	-	6,000
		Heartwood: Non-GSI Payroll	-	24,437	42,000
		Heartwood: Events	382	3,809	1,500
		Heartwood: Marketing	38,242	21,562	38,000
		Total Heartwood Expenses	1,097,142	1,059,146	1,060,000
Total Expenses			\$ 1,257,589	\$ 1,185,585	\$ 1,150,800