



2019 Expenditure and Revenue Report

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

August 2019



SOUTHWEST
VIRGINIA
*Cultural Center
& MARKETPLACE*



'ROUND THE
MOUNTAIN
Southwest Virginia's Artisan Network





**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.

Organization 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 organizations to help communities, organizations, and individual entrepreneurs mobilize and succeed throughout the region. A third incorporated 501(c)(3) entity, 'Round the Mountain: Southwest Virginia's Artisan Network, was founded in 2004 and operated independently until June 2017 when management and programming was assumed by Friends of Southwest Virginia.

The creative economy movement is defined by innovative business development techniques. From the arts and music of the region, to cultural goods and services capitalized through tourism, to research and development, the joint work of the Foundation and the non-profit is revolutionizing the rural economic development system of Southwest Virginia and providing new jobs for the region.

This multifaceted plan identifies the cultural and natural assets of the region; coordinates initiatives, organizations and venues engaged in cultural and natural heritage toward more efficient operations for all partner organizations; and develops a comprehensive strategy and capital improvements plan to maximize the impact of state investments in this significant restructuring effort.



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Key initiatives include:

- Branding and marketing Southwest Virginia to the world as a distinct culture and tourism destination
- Developing and sustaining the Southwest Virginia Cultural Center & Marketplace (formerly Heartwood)
- Expanding outdoor recreation development initiatives and marketing throughout the region
- Planning and implementation of downtown revitalization throughout the region to instill a high quality of life within our communities and promote them to the world for a broad spectrum of economic development opportunities

The Friends of Southwest Virginia is supported through a regional partnership program of the 19 counties, four cities and 54 towns of Southwest Virginia; while funding from the many communities varies, support across the region for a single front in economic redevelopment is unified. Partners include the Virginia Department of Housing and Community Development, Virginia Tourism Corporation and the Virginia Department of Conservation and Recreation. Funding partners include the Commonwealth of Virginia, Virginia Tobacco Region Revitalization Commission, Appalachian Regional Commission, U.S. Economic Development Administration, several private foundations, and the communities of Southwest Virginia through the SWVA Partnership Program.

Heartwood: Southwest Virginia's Artisan Gateway Overview and Mission:

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. The center was conceived to showcase and sell the work of regional artisans and musicians and to interpret Southwest Virginia's history, heritage, outdoor recreation and scenic beauty via stories and first-person narratives to inspire travel to other parts of the region.



The facility was constructed by People Incorporated, a local community action, agency through funding sourced by 'Round the Mountain. The property for the development is under a long-term lease from Virginia Highlands Community College and the building is leased by Friends of Southwest Virginia from owner People Inc. The facility has been operated by three joint entities: Friends of Southwest Virginia, a 501c3 community development non-profit; the Southwest Virginia Cultural Heritage Foundation; and 'Round the Mountain, Southwest Virginia's 501c3 non-profit artisan network. Funding partners included the Tobacco Region Revitalization Commission and Appalachian Regional Commission (ARC). Partners include the Virginia



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Department of Housing and Community Development (DHCD), Virginia Tourism Corporation (VTC) and the Virginia Department of Conservation and Recreation (DCR).

Heartwood's commercial operations were 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 was responsible for the management, staffing, marketing, and operations of the restaurant, catering, artisan marketplace, visitor center, and facility housekeeping.

The original model of operation is four part: Retail, Restaurant, Music Venue and Visitor Center.

1. Retail: Over 180 artisans throughout SWVA have been juried into the facility over the past eight years. During the course of Heartwood's history over \$5.5 million dollars of art, craft, regional food products, wine and beer have been sold to support small business in SWVA.
2. Restaurant: The restaurant originally opened as a cafeteria style buffet. Within a year of operation, this was evolved into a full-service, fine-dining restaurant. The restaurant has continued to evolve and most recently featured an Appalachian style menu featuring 65% local products. Despite quality food and service, the restaurant struggled to sustain itself in the past.
3. Music Venue: Heartwood was designed with soaring architecture to be the most acoustically beautiful facility in the region. Regular music is held once per week on Thursday nights with occasional special events and rentals to the public.
4. Visitor Center: Originally conceived as the gateway to the region, the lobby of the facility is designed with brochure racks and numerous touch screens with information, websites, and slideshows.

Renewal, Renovations and Rebranding:

Despite initial operational projections, the operations of Heartwood required subsidy due to multiple issues within the operational structure. Sustainability is key and essential to the future sustainability of the entire organization as it has the potential to be the centerpiece of the regional mission.

In early 2018, the largest funder of the development of Heartwood, The Virginia Tobacco Region Revitalization Commission, offered Friends of SWVA the opportunity to contract with GENEDGE, a public resource to help large businesses and industries innovate, compete, and grow throughout the Commonwealth, to analyze the business and operational model of Heartwood through strategic facilitation. This process consisted of 9 facilitated sessions of staff, board members, stakeholders and other key individuals to work through a CoreValue identification and planning process. Leadership and stakeholders have invested roughly 32 hours



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of meetings to reach a new operational model. On December 13, 2018, the Friends of SWVA Board of Directors and the SWVA CHF unanimously approved eight (8) Bold Moves to reorganize the operations of Heartwood and reestablish the facility as a regional center for the creative economy.

Introducing the Southwest Virginia Cultural Center & Marketplace:

RENEWED VISION:

Showcase a comprehensive picture of Southwest Virginia and the creative economy as a gateway to the region and create new economic impact while sustaining financial stability as an organization.

Vision Points:

- Heartwood and Friends staff integrated and working toward a single mission.
- Visitors spending more money throughout region as a result of coming to Heartwood.
- Restaurant evolves into a limited service cafe operation to still provide essentials while meeting the bottom line financially.
- SWVA music experience available at all times of operation.
- Arts & Crafts resume primary focus of facility with events to support and engage artisans.
- Retail lines are successful and servicing both the needs of the general public and partners.
- A robust schedule of special events to further the mission and work of the overall organization.
- Heartwood incorporates outdoor recreation into retail and experiential portfolio.

Bold Moves:

1. Transition the full-service restaurant into a limited service café and grab and go operation.
2. Redevelop sales and events plan to focus on facility rentals (sales) and craft sales / promotion (events).
3. Evaluate structure of operations (contracted services) to improve management and operations while increasing financial efficiency.
4. Simplify facility brand and align with success of the SWVA brand for a renewed public image.
5. Overhaul visitors center to be an effective destination marketing tool for the region.
6. Partner with local outdoor organizations to show representation in Heartwood and provide an experience resulting in a booking new business for a regional partner.
7. Activate space and highlight local music through a series of new programming.
8. Examine current retail gift shop product lines for profitable segments and components for elimination.



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Renewal Components:

Heartwood closed its doors on December 31, 2018 to facilitate the transition into the Southwest Virginia Cultural Center & Marketplace. Renovations, rebranding, and the transition of operations from a third-party to internal management occurred from January 1, 2019 – March 15, 2019 with the following results:

- An expanded focus on the artisans and connecting the facility with them. This includes expanded space for retailing and exhibiting art and craft, increased attention to connecting the facility to other arts facilities through SWVA, and more opportunities for artisans to interact with the public through the facility.
- A commitment to quality service and experience for both artisans and customers. Under the new operational model, the facility, 'Round the Mountain, and Friends of Southwest Virginia is consolidated and managed by the same staff for the first time in history.
- An expanded visitor center with additional brochure and display space. The centerpiece of the visitor center is a new custom designed map with each city and county formed from historic wood from their communities. A companion guide book details the history of each piece of precious wood and encourages visitors to explore the region.





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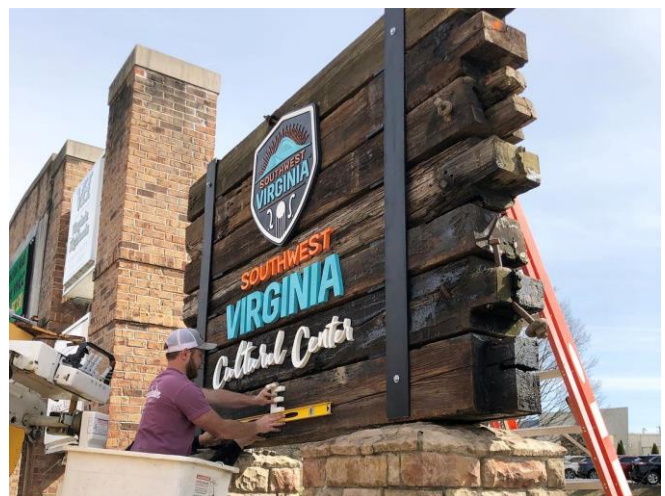
- An overhaul of The Crooked Road room with a new immersive video theatre that allows visitors to experience the music of SWVA any time the facility is open to the public. This space also features new exhibits and displays about music history.
- Incorporation of the Southwest Virginia Outdoors brand, outdoor anchor areas and businesses into the facility through eight new anchor area displays that will be debuting over the next two years.
- A reinvention of the restaurant to serve only from the SWVA Mountain Brew Bar and support regional restaurants, caterers, and food trucks at regular weekly events and special events. The new restaurant model is sourcing 85% of products from Southwest Virginia and retailing a wide selection of regionally made products, wines and beers.
- New hours! To better fit the needs of the traveling and local public, the facility is now be open Monday - Saturday from 11am - 7pm and Sundays from 11am - 3pm.



Branding:

Southwest Virginia Cultural Center & Marketplace was selected by the boards for the following reasons:

- **SOUTHWEST VIRGINIA:** The name leads with the region, this creates an immediate connection between the facility and the region which it serves.
- **CULTURAL CENTER:** The facility serves as the center of the creative economy and tells the story of the people of Southwest Virginia. With the refreshed focus on the complete story of music, arts, outdoor recreation, downtown development, and complete communities, this





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term reflects the center as a place for storytelling and conveying the need to further discover the culture of the region.

- MARKETPLACE: Previously, there was no indicator in the name that there is a retail component to Heartwood when the majority of space in the facility is dedicated to retailing artwork. This clarification simply and easily indicates to a traveler to bring their pocketbook as they visit the facility.

The SWVA Brand was developed by the organization and a regional stakeholder group (Marketing Committee) consisting of over 60 individuals and debuted in 2016. The SWVA Brand has value across the region, and its simplicity provides easy comprehension for the traveling public. The brand was designed to reflect and align with the Southwest Virginia master brand which has taken hold across the region, thus connecting the facility to the region's initiatives.

2018-2019 Operations:

Outside of the direct operations of Heartwood/Cultural Center, the Foundation and Friends of Southwest Virginia participated in numerous region-wide initiatives in 2018-2019 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/Cultural Center 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 2018-2019 Annual Report issued in January of 2018: <http://friendsofswva.org/about/annualreport/>

Heartwood/Cultural Center's 2018-2019 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 the Cultural Center; the remainder was allocated to the Foundation and Friends of Southwest Virginia for organizational and facility operations.

Note that in the chart, all numbers indicated in a line item labeled 'Heartwood' are for operations from July 1, 2018 to December 31, 2018. The operation was closed for renovations until March 15, 2019. The facility entered a soft opening state (with no consumer marketing) to facilitate the transition of a sustainable operating model until June 30, 2019 and these line items are indicated under 'Cultural Center'.



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Figure 1: FY19 Operational Budget 2018-2019 Heartwood / Cultural Center Revenue	
<i>DHCD – Operational (Does not include administrative allocation of \$300,000)</i>	\$575,000
<i>Heartwood: Retail</i>	\$130,103
<i>Heartwood: Catering</i>	\$39,085
<i>Heartwood: Restaurant</i>	\$60,680
<i>Heartwood: Event Revenues</i>	\$3,401
<i>Heartwood: Facility Rental Fees</i>	\$2,772
<i>Cultural Center: Marketplace</i>	\$44,826
<i>Cultural Center: Catering / Business Partnerships</i>	\$1,455
<i>Cultural Center: Cafe</i>	\$17,223
<i>Cultural Center: Events</i>	\$5,154
<i>Office Rental Fees</i>	\$17,324
<i>Interest Income</i>	\$761
<i>'Round the Mountain</i>	\$28,481
<i>Grants</i>	\$123,441
Total Revenue	\$1,049,706



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2018-2019 Heartwood / Cultural Center Expenses	
<i>Administration</i>	\$188,923
<i>Licenses and Fees</i>	\$3,596
<i>Technology</i>	\$37,096
<i>Utilities</i>	\$77,880
<i>Heartwood: Guest Services Inc: Management Fee</i>	\$17,852
<i>Heartwood: Guest Services Inc: Retail</i>	\$158,742
<i>Heartwood: Guest Services Inc: Visitor Center</i>	\$15,796
<i>Heartwood: Guest Services Inc: Housekeeping</i>	\$5,882
<i>Heartwood: Guest Services Inc: Catering</i>	\$20,908
<i>Heartwood: Guest Services: Restaurant</i>	\$192,001
<i>Heartwood: Events</i>	\$5,881
<i>Heartwood: Marketing</i>	\$1,508
<i>Heartwood: Sales</i>	\$33,404
<i>Cultural Center: Renovations</i>	\$59,317
<i>Cultural Center: Marketplace</i>	\$75,508
<i>Cultural Center: Visitor Center</i>	\$10,639
<i>Cultural Center: Housekeeping</i>	\$3,953
<i>Cultural Center: Cafe</i>	\$46,671
<i>Cultural Center: Catering and Business Partnerships</i>	\$2,173
<i>Cultural Center: Events</i>	\$3,716
<i>Cultural Center: Marketing</i>	\$23,646
<i>Cultural Center: Sales</i>	\$211
<i>Heartwood / Cultural Center: Maintenance & Grounds</i>	\$95,435
<i>Contract Settlement</i>	\$103,747
<i>Commission: The Crooked Road</i>	\$209
Total Expenses	\$1,184,694



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While the total operation lost \$134,988 in fiscal year 2019, the totality of this loss were costs related to the transformation of the facility and separation of operations from the previous third-party operator. Renovations accounted for \$59,317 and the Contract Settlement accounted for \$103,747.

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.

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 the Cultural Center 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 the Cultural Center. This synergy will increase collaborations and partnerships and result in a stronger Cultural Center both organizationally and financially.

Future Budget Projections:

The operational budget for the 2019-2020 fiscal year, approved by the Friends of Southwest Virginia Board of Directors and the Southwest Virginia Cultural Heritage Foundation Board of Trustees on June 13, 2019, is shown in Figure 2 and 3. Friends of Southwest Virginia and the Foundation expect operations to be profitable in FY 2020. The sustainability plan adopted by the Board has significantly reduced cost will increase revenues.



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Figure 2: FY19 Operational Budget: 2019-2020 Revenue

FY2020 Budget: Operational Budget			<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Approved</i>
Version:	<i>Approved by Board of Trustees</i>		<i>FY 2017</i>	<i>FY 2018</i>	<i>FY 2019</i>	<i>FY2020</i>
			<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>
REVENUE						
General						
		DHCD - SWVA CHF	575,000	575,000	575,000	575,000
		Interest Income	500	1,172	761	750
		'Round the Mountain	500	-	28,481	28,000
		Grants	-	-	123,441	20,000
		Total General Revenue	576,000	576,172	727,683	644,750
Heartwood / Cultural Center						
		Food Service	263,138	190,014	77,903	149,312
		Catering / Business Partnerships	18,433	93,964	40,540	28,189
		Retail / Marketplace	268,152	250,568	174,929	264,200
		Facility Rentals	19,509	10,270	2,772	19,000
		Office Rentals	21,835	21,222	17,324	12,000
		Events	2,434	1,844	8,555	3,500
		Total Heartwood / Cultural Center Revenue	593,501	567,882	322,023	467,201
	<i>Total Revenue</i>		\$1,169,501	\$1,144,054	\$1,049,706	\$1,099,951



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Figure 3: FY19 Operational Budget: 2019-2020 Expenses

EXPENSES		<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Approved</i>
		<i>FY 2017</i>	<i>FY 2018</i>	<i>FY 2019</i>	<i>FY2020</i>
		<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>
Administration & Personnel					
	Administration	130,421	195,876	74,069	108,200
	Cultural Heritage Programs	-	-	114,854	168,500
	Licenses and Fees	-	-	3,596	2,500
	Technology	30,026	48,542	37,096	34,000
	Total Administration & Personnel Expenses	160,447	244,418	229,615	313,200
Heartwood / Cultural Center					
	Heartwood: Management Fees	53,129	52,388	17,852	-
	Heartwood: Management Contract Settlement			103,747	12,000
	Food Service	458,825	444,345	238,672	137,781
	Catering	-	32,605	23,081	8,456
	Retail / Marketplace	364,428	255,582	234,250	255,500
	Visitor Center	-	32,176	26,435	33,000
	Housekeeping	-	19,985	9,835	17,400
	Commissions (RTM & TCR)	17,258	20,539	209	4,500
	Maintenance & Grounds	83,289	82,785	95,435	73,000
	Renovations	-	-	59,317	-
	Utilities	81,589	68,933	77,880	75,000
	Sales	-	24,437	33,404	39,500
	Events	382	3,809	9,597	1,500
	Marketing	38,242	21,562	25,154	61,000
	Total Heartwood / Cultural Center Expenses	1,097,142	1,059,146	919,150	718,637
	Total Expenses	\$1,257,589	\$1,303,564	\$1,184,942	\$1,031,837

NET PROFIT		<i>Actual</i>	<i>Actual</i>	<i>Actual</i>	<i>Approved</i>
		<i>FY 2017</i>	<i>FY 2018</i>	<i>FY 2019</i>	<i>FY2020</i>
		<i>Budget</i>	<i>Budget</i>	<i>Budget</i>	<i>Budget</i>
	Total Revenue	\$1,169,501	\$1,144,054	\$1,049,706	\$1,099,951
	Total Expenses	\$1,257,589	\$1,303,564	\$1,184,694	\$1,031,837
	Net	\$88,088	\$159,510	\$134,988	\$68,114