2017 Cotton Board Annual Report
Mission Statement
The Cotton Board's mission is to serve U.S. producers and importers of cotton and cotton products by effectively and efficiently governing the Cotton Research & Promotion Program so that it leads to increased demand for and consumption of cotton.

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This annual report covers the 2017 calendar and fiscal year for The Cotton Board, the oversight and administrative arm of the Cotton Research and Promotion Program (the “Program”). The objectives of the Program are to strengthen cotton’s competitive position and to maintain and expand domestic and foreign markets and uses for cotton by developing, funding, and implementing a coordinated plan of research and promotion. The Cotton Board is responsible for providing strategic leadership and oversight of the economic resources devoted to the Program. The Board’s membership, consisting of key stakeholders - U.S. cotton producers and importers of cotton apparel and other cotton products - brings a broad range of industry experience and insight to the Program.

During 2017, the Cotton Board made available $74.23 million to Cotton Incorporated to carry out the research and promotion program. This was down slightly from $76 million in 2016, as decreased assessments necessitated a funding level that was more in line with revenue. After several years of revenue declines, the future looks brighter. I am confident funding levels will rebound quickly to around $80 million.

The leadership of the Cotton Board and Cotton Incorporated used the several years of declining revenue to sharpen our strategic planning, narrow the scope of our activities, and focus our resources in critical areas. Throughout this period, we prioritized two things – finding innovative, cost-effective ways to drive demand and maintaining the exceptional, professional staff at Cotton Incorporated despite smaller budgets. We place a high value on the professionals who work for Cotton Incorporated, and they will be there working for me, for cotton importers, and for every U.S. cotton producer as our funding strengthens and we turn the tables on synthetic fibers.

The Cotton Board maintains a strong collection rate, positive audit results, strong communication efforts, and effective reviews of Program activities. I am proud of the organization and its staff.

We have significant challenges ahead of us, and we have some great opportunities. Cottonseed value, contamination, Fusarium Wilt Race 4 are significant threats that the Program is prepared to help the industry tackle. We are now seeing opportunity in telling our industry’s sustainability story and driving home the fact that cotton is a truly renewable, natural resource. Cotton Incorporated and its leadership are paving the way for innovative answers to these issues and more. We have a great partnership with Cotton Incorporated and USDA’s Agricultural Marketing Service. We could not have a successful program without the sense of unity and purpose that guides our organizations.

Finally, I want to acknowledge The Cotton Board’s many dedicated Members and Alternates for their commitment and hard work throughout this past year. This ginner from Morganza, Louisiana, has learned many things from my fellow producers and from the representatives of brands and retailers that volunteer their time to help this program and our industry. The Cotton Board’s diverse membership helps separate the Cotton Research and Promotion Program from the pack. I can’t thank them enough for their insight and support.

Sincerely,
George LaCoul, Jr.
# Cotton Board Statements of Financial Position

**December 31, 2017 and 2016**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$23,079,402</td>
<td>$22,247,895</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>$35,301,348</td>
<td>$30,244,076</td>
</tr>
<tr>
<td>Assessments receivable, net</td>
<td>$16,790,254</td>
<td>$11,957,681</td>
</tr>
<tr>
<td>Due from Cotton Incorporated</td>
<td>$4,413,064</td>
<td>$4,471,843</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>$117,053</td>
<td>$53,083</td>
</tr>
<tr>
<td><strong>Total current assets:</strong></td>
<td>$80,501,121</td>
<td>$68,004,578</td>
</tr>
<tr>
<td><strong>Long-term investments:</strong></td>
<td>$21,231,000</td>
<td>$17,452,000</td>
</tr>
<tr>
<td><strong>Property and equipment, net:</strong></td>
<td>$10,228,857</td>
<td>$16,056,813</td>
</tr>
<tr>
<td><strong>Total assets:</strong></td>
<td>$111,057,781</td>
<td>$91,073,434</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND NET ASSETS</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>$214,638</td>
<td>$194,126</td>
</tr>
<tr>
<td>Due to Cotton Incorporated for research and promotion</td>
<td>$6,690,233</td>
<td>$4,127,129</td>
</tr>
<tr>
<td>State and import support funds carryover</td>
<td>$2,484,801</td>
<td>$2,493,730</td>
</tr>
<tr>
<td><strong>Total current liabilities:</strong></td>
<td>$9,561,372</td>
<td>$6,724,584</td>
</tr>
<tr>
<td><strong>Unrestricted net assets:</strong></td>
<td>$102,496,409</td>
<td>$94,348,850</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets:</strong></td>
<td>$111,057,781</td>
<td>$91,073,434</td>
</tr>
</tbody>
</table>

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# Cotton Board Statements of Cash Flows

**December 31, 2017 and 2016**

<table>
<thead>
<tr>
<th>Cash flows from operating activities:</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$12,057,390</td>
<td>$(3,759,964)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>474,059</td>
<td>468,564</td>
</tr>
<tr>
<td>Gain on sale and trade of automobiles</td>
<td>$(10,055)</td>
<td>$(27,562)</td>
</tr>
<tr>
<td>Provision for recovery of import assessments</td>
<td>131,306</td>
<td>(750)</td>
</tr>
<tr>
<td>Changes in operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>$(4,963,297)</td>
<td>$(227,421)</td>
</tr>
<tr>
<td>Due to Cotton Incorporated</td>
<td>2,621,884</td>
<td>$(2,314,954)</td>
</tr>
<tr>
<td>Prepaid expenses and other assets</td>
<td>$(50,382)</td>
<td>$(1,223)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>17,424</td>
<td>$(27,018)</td>
</tr>
<tr>
<td>State and import support funds carryover</td>
<td>242,771</td>
<td>697,798</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) operating activities:</strong></td>
<td>10,520,557</td>
<td>$(5,223,132)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities:</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from maturity of investments</td>
<td>$30,659,728</td>
<td>$31,264,065</td>
</tr>
<tr>
<td>Purchases of investments</td>
<td>$(39,468,000)</td>
<td>$(24,468,000)</td>
</tr>
<tr>
<td>Purchases of property and equipment</td>
<td>$(82,775)</td>
<td>$(49,296)</td>
</tr>
<tr>
<td>Proceeds from sale of automobile</td>
<td>-</td>
<td>15,000</td>
</tr>
<tr>
<td><strong>Net cash provided by (used in) investing activities:</strong></td>
<td>$(8,899,050)</td>
<td>6,701,769</td>
</tr>
</tbody>
</table>

| Change in cash | 1,831,507 | 1,496,637 |
| Cash, beginning of year | 22,247,896 | 20,778,258 |
| Cash, end of year | $23,079,402 | $22,247,895 |
Financial Narrative

Annually, The Cotton Board analyzes assessment collections and program funding needs to determine annual funding levels. At the same time, an appropriate reserve amount is also determined in order to provide funding continuity for ongoing research and promotion activities.

For the year ending December 31, 2017, The Cotton Board collected $84.7 million in total assessments comprised of $49.4 million in Producer assessments and $35.3 million in Importer assessments. The average assessment was $2.70 per bale. The Program’s compliance rate of 99.70% continues to be among the highest of all commodity research and promotion programs.

Looking forward to 2018 and beyond, The Cotton Board will continue to set funding levels that are fiscally responsible and fulfill the Program’s mission of increasing the demand for and profitability of cotton. For 2018, the funding level has been set at $74.2 million.
Guiding The Cotton Research and Promotion Program

Perhaps the most important function of The Cotton Board is to guide the direction of the Cotton Research and Promotion Program by providing strategic recommendations to Cotton Incorporated and setting its budget for the coming year. Each year, following its March session, The Cotton Board submits to Cotton Incorporated its estimated level of funding for the coming year and recommendations related to the direction of the research and promotion projects to be developed and implemented on behalf of the Program. The estimated level of funding for Program Year 2018 was 70 million dollars.

TOP LINE RECOMMENDATIONS FOR PROGRAM YEAR 2018
(Approved March 2017)

1. **Sustainability.** Continue, across all program areas, to build on and communicate cotton’s sustainability and environmental message throughout the supply chain. Cotton’s sustainability message should contribute to making cotton the preferred fiber of brands and retailers, and U.S. cotton their preferred cotton.

2. **Comparative Marketing - Cotton vs. Synthetics.** Champion cotton as the world’s preferred fiber. Aggressively communicate the advantages of cotton versus competing alternatives directly to consumers and throughout the supply chain.

3. **Innovation and New Markets.** Focus on development and deployment of innovative, new technologies, including products and tactics, in each Program area with specific attention on innovation that can deliver the most immediate market impact.

4. **Coordination of Industry Messaging and Strategy.** Continue and enhance efforts to amplify cotton’s message throughout the U.S. cotton industry in order to defend and promote the advantages of cotton across many fronts.
Leave Comfort to Clothes Consumer Campaign

Cotton Incorporated’s Consumer Marketing Division launched a new consumer campaign in 2017, Leave Comfort to Clothes. Leave Comfort to Clothes leverages the consumers’ strong connection between cotton and comfort but inspires them to rethink the way they view comfort. This comfort is courage which goes beyond the physical; it is inner strength. The message is for consumers to leave comfort to their cotton clothes, where the softness, durability, ease of care, and versatility go with them no matter where they go or what they do. The campaign aims to reach women and men 18-49 and extends beyond TV to custom digital content.

Cotton Vs Synthetics Video Bursts

Cotton Incorporated created a series of short, shareable video bursts to position cotton as a better alternative to synthetics. Meant to be shared on social media, these short animated videos are an engaging and competitive way to position cotton as a better alternative to synthetics, and remind consumers to check the label for cotton. One video points out that odor washes out of cotton better than synthetics, as a runner jogs by in stinky clothes causing the birds to fall from powerlines above. The animation then says “don’t say we didn’t warn you.” Three bursts were released in 2017, with topics including: odor retention in synthetics, the origins of polyester versus cotton, and getting a better sleep on cotton sheets.

Cotton Industry Sets Sustainability Goals

With the goal of helping cotton producers meet their current needs while making the world a better place for future generations, the U.S. cotton industry is setting goals aimed to build upon the strong environmental gains already achieved over the past 30 years. The National Cotton Council announced these goals via a press release on September 19, 2017. The Cotton Research and Promotion Program played a major role in the development of these goals and members of The Cotton Board and Cotton Incorporated’s staff and Board of Directors serve on a Sustainability Task Force that aims to make these industry goals a reality.

Cotton Incorporated Hires Chief Sustainability Officer

In 2017, Cotton Incorporated appointed Dr. Jesse Daystar as its first Chief Sustainability Officer. Daystar brings a wealth of experience and knowledge to this newly created role, which oversees and coordinates Cotton Incorporated’s internal and external sustainability efforts. As cotton’s sustainability programs continue to gain momentum, Dr. Daystar will be a valuable resource for the company and the cotton industry. Dr. Daystar’s experience includes sustainable chemical process development and efficiency management program development with the National Council for Air and Stream Improvement, Mead WestVaco, Pesco-Beam Environmental Solutions, and Kemira Chemical. Before joining Cotton Incorporated, he held the position of Assistant Director at the Duke Center for Sustainability and Commerce at Duke University, where he also taught. He earned a doctorate in forest biomaterials from North Carolina State University.
The 1996 Farm Bill requires the Cotton Research & Promotion Program (the Program) conduct an independent, third-party evaluation of the Program's effectiveness every five years. The most recently executed evaluation reflected very well on the Program’s effectiveness. In summary, the analysis found strong, positive returns to cotton producers and importers as a result of the Program. Some of the most significant findings from the preliminary report are listed below. Over the life of the Program --

- **Producer revenues are up $175 million annually, on average.**
- **Annual farm program costs have been reduced $168.4 million, on average.**
- **Program generates a benefit-cost ratio of 3.6 for Producers.**
- **Increase in Importer sales revenue as a percentage of historical retail revenue is 12%.**
- **Program generates a benefit-cost ratio of 14.0 for Importers.**
- **Importer after-tax profits increased by $732.9 million on average.**

The return on investment (ROI) for cotton producers and government is 7 to 1.

Source: Cotton Research and Promotion Program Economic Effectiveness Study - 2016 - By: Dr. Oral Capps, Jr., Dr. Gary W. Williams, and Dr. Darren Hudson
Economic Effectiveness of The Cotton Research & Promotion Program

The most recently executed USDA required evaluation of the Cotton Research and Promotion Program reflected very well on the Program’s effectiveness. Some of the most significant findings from the report are listed below.

Over the life of the Program:
- Producer revenues are up $175 million annually, on average.
- Annual farm program costs have been reduced $168.4 million, on average.
- Program generates a benefit-cost ratio of 3.6 for Producers.
- Increase in Importer sales revenue as a percentage of historical retail revenue is
- The return on investment (ROI) for cotton producers and government is 7 to 1.
- Program generates a benefit-cost ratio of 14.0 for Importers.
- Importer after-tax profits increased by $732.9 million on average.

Source: Cotton Research and Promotion Program Economic Effectiveness Study - 2016 - By: Dr. Oral Capps, Jr., Dr. Gary W. Williams, and Dr. Darren Hudson

Cotton Board
Producer Outreach

Renew Your Faith in Cotton – Producer Testimonials

In 2016, The Cotton Board launched a new multimedia campaign directed toward cotton producers with the hopes of giving them the confidence needed to renew their faith in cotton. The “Renew Your Faith in Cotton” campaign (renew.cottonboard.org) launched at a time when cotton was entering into new territory, a time when prices were low and market share was declining. The new campaign elicited a forward-looking rally-cry for the cotton industry, letting the cotton-growing community know that the Cotton Research and Promotion Program (the Program) was pressing on and that possibilities for cotton are limitless. In 2017, The Cotton Board extended the campaign to include testimonials from cotton producers who have a renewed faith in cotton. This testimonial phase of the campaign includes a series of four videos chronicling the story of two cotton producers throughout the growing season, Larry McClendon from Marianna, AR and Patrick Johnson from Tunica, MS.

Two New Regional Communication Managers Join The Cotton Board Staff

The Cotton Board hired two new Regional Communication Managers (RCMs) in 2017. Christi Chadwell (left) serves as the Southwest RCM, with a territory including east, central and south Texas, New Mexico, Arizona, and California. Shelley Heinrich (right) serves as the Southern Plains RCM, covering north Texas, Kansas, and Oklahoma. The new RCMs trained under previous Southwest RCM, Bob Stanley, who retired in October of 2017.
Producer Outreach Efforts

- Facebook Posts Reached: 562,280 Users
- 14 Print Advertisements Placed
- Overall Grand Champion and 12 Additional NAMA Awards for Renew Your Faith in Cotton Producer Campaign
- 19 Press Releases Issued
- 181 Producers Toured Cotton Incorporated
- 183 Radio Features
- 332 Gin Visits by Regional Communication Managers
- 464 New Twitter Followers
Importer Farm Tours

Since 2010, the Importer Support Program (ISP) of the Cotton Board has funded Cotton Incorporated’s annual farm tours for brands and retailers as part of a concentrated effort to educate decision makers in the supply chain about cotton production. This has now become a key program in the company’s sustainability initiative. When these key decision-makers actually see cotton in the field, meet the growers and witness firsthand the scope of the effort of continuous improvement in terms of sustainability, they often leave as ambassadors for U.S. cotton. The 2017 farm tours were held the first week in October. The format for both of the tours covered two full days, which allowed plenty of time for participants to meet with cotton producers, researchers and interact with staff. The 2017 event included over 60 attendees representing companies such as Target, Kohls, The North Face and Levi Strauss & Co. Every year, impressions and opinions are positively changed when key decision makers see the innovation, sustainability practices, and sophisticated technology that go into producing U.S. cotton. Overall, these tours help renew participant’s interest in cotton and leave them with the knowledge to feel good about using cotton, especially U.S. cotton, in their businesses.

Strategic Planning Session

In November 2017, The Cotton Board’s Importer Support Committee met in Chicago to set its strategic priorities for the coming years. There were 14 ISP committee members in attendance. Cotton Board officers, as well as some Cotton Board and Cotton Incorporated staff also attended. The committee heard a presentation on the future of sourcing from Ron Klein, Director PwC, and a presentation from Jason Morrison, President of the Pacific Institute on water security in the 21st century. The major takeaway from the session was the need for the ISP to host an offsite industry sustainability summit. Plans will be made in 2018 for a sustainability summit to be held in 2019.
2018 Cotton Board Roster

AL  Member  Walter L. Corcoran, Jr.  Alternate  Timothy J. Mullek
AZ  Member  Adam S. Hatley  Alternate  William B. Harrison
AR  Member  Pace Hindsley  Alternate  Rafe A. Banks
CA/NV  Member  Dustin J. Mancebo  Alternate  Aaron A. Barcellos
FL  Member  David J. DeFelix  Alternate  Alan J. Edwards
GA  Member  G. “Teel” Warbington  Alternate  Benjamin R. Grimsley
GA  Member  James L. Webb  Alternate  Jacon Dixon Ford
GA  Member  Benjamin O. Boyd  Alternate  James C. Robertson, Jr.
KS  Member  Suzanne R. Drouhard  Alternate  Thomas L. Lahey
LA  Member  George G. LaCour, Jr.  Alternate  K. “Rusty” G. Darby, Jr.
LA  Member  Rebecca E. Thom  Alternate  Patrick L. Johnson, Jr.
MS  Member  James C. Robertson, Jr.  Alternate  Albert R. James
MO  Member  Kim M. Mayberry-Holifield  Alternate  Nathan H. James
NC  Member  David M. Dunlow  Alternate  Kent Smith
OK  Member  Mark Nichols  Alternate  Clint D. Abernathy
SC  Member  F. “Rusty” G. Darby, Jr.  Alternate  Don B. Wakefield
TN/KY  Member  Willoe L. German, Jr.  Alternate  Catherine S. Via
TX  Member  Bryan K. Patterson  Alternate  Kody S. Bessent
TX  Member  Madison “Matt” Farmer  Alternate  R.N. Hopper, Jr.
TX  Member  Jeffrey T. Posey  Alternate  Randy L. Braden
VA  Member  Lance V. Everett  Alternate  Shelley S. Butler Barlow

2018 Cotton Board Executive Committee

George LaCour Jr. - Chairman
Peter McGrath - Vice Chairman
Jeff Posey - Secretary
James L. Webb - Treasurer
Janet Ydavoy - Immediate Past-Chair

Suzanne Drouhard - Chair, Governance
Arlene Eastwood - Chair, Operations
Jack Mathews - Chair, Strategic Assessment
Adam Hatley - At Large Member
Mark Nichols - At Large Member